Opinion

FRIDAY, JANUARY 18, 2019

GUIDED LEARNING

Prakash Javadekar, Union HRD minister

"We have decided that IITs, IISERs, large and good universities will mentor 10-15 nearby schools and ensure that students in those schools are given proper training in science and maths so they do not lag behind [in these subjects]"

Devil in the details continues to trip Angels

The angel-funding notification doesn't help much; in any case, it only applies to cases where tax orders haven't been passed

WHEN OVER A third of India's 39,000 start-ups have received a notice from the taxman asking them to pay taxes on the angel investment they have received, it is obvious there is a serious problem. More so given the fact that the government takes start-ups seriously, even has a Start-up India policy to encourage start-ups and also a fund dedicated to them; that the fund hasn't really taken off, though, is testimony to how long it takes for government intent to translate into action. These startups, according to Inc42—a media platform dedicated to the start-up ecosystem—have got a total funding of $38.5 billion since January 2014 and are, today, valued at around $130 billion, making it clear that the value they are creating is quite large. That, in turn, reflects the investors' view that these startups are going to disrupt various markets with the new solutions they offer, whether it is fintech or healthtech or some other area.

While, in principle, investments received by companies are not taxed, in the case of angel investors—their investment in start-ups is likely to be around $5-6 billion so far—the taxman has apprehensions that this may be black money being routed into start-ups as a way to launder it; investments made by Sebi-registered funds, on the other hand, are not taxed. Taxing angel funding never made sense since, once the money comes in through a bank—no start-ups are accepting large sums in cash—the money is traceable with the PAN and other such details are available; indeed, start-ups could also be asked to put down the PAN number of investors again. To the extent the money is sought to be laundered, this can only be done if the start-up gives most of this back to various front firms of the investor; since all payments will be by cheque, this too is easily traceable, so it is not clear why the taxman is making life difficult for start-ups.

Despite this, however, the tax notices were sent out. However, once the industry raised the issue forcefully, the government said it would set up a panel of IIT/IIM experts to deliberate the matter and, on Wednesday, clarifications were issued by the government—no tax would be levied on start-ups with a capital of less than ₹10 crore if the investor has an income of over ₹50 lakh and a net worth of more than ₹2 crore. This is a step in the right direction, but a grudging one. Why should a start-up pay taxes if it gets more than ₹10 crore in angel investment through its lifetime, and will this apply to just the amount in excess of ₹10 crore or to the total? And, since at least a fifth of all angel funding is from friends and family, the ₹50 lakh/₹2 crore criterion is a stiff one; worse, each time an investment is made by someone who is not registered with Sebi, the investor has to apply for an exemption for the firm he/she is investing in. Theoretically, all investors—including corporates, since the tax exemption doesn't apply to them if they are investing directly—can register with Sebi to solve the problem, but the idea is to make investment simple, not tough. Most interestingly, while the idea behind the clarification was to provide relief to the start-up industry, the circular is clear that this doesn't apply if the taxman has already passed an order. If the government truly wants to help start-ups it needs to do a lot more, not in terms of giving them money, but in terms of getting out of the way.

ASER lessons for govt schools

Link funding to improvement in learning outcomes

THE ANNUAL STATUS of Education Report (ASER) 2018, even as it highlights a slow but steady improvement in the learning outcomes of students at the elementary education level, rings many alarm bells. Learning outcomes in the later years seem to be a particular area of concern. While a slightly larger proportion of Class III and V students in government schools were able to read Class II level texts in 2018 over 2012, the proportion of Class VIII students who could read Class II level texts has declined over the period—nearly half of class V and over a quarter of Class VIII students in the country can't read a Class II level text. Reading ability has taken a hit across government and private schools for Class VIII students. On arithmetic learning outcomes, too, a similar trend is noticed—while the proportion of Class III students who could do subtraction went up from 26.4% in 2012 to 28.2% in 2018, the proportion of Class V students who could do division has increased from 24.9% to 27.9% over 2012-18. For class VIII students, this has fallen from 48.1% to 44.1% over 2012-18. Even though standards of learning are improving in government schools, they have fallen below 2008 levels, and the gap with private school learning outcomes is getting wider. In 2008, 53% of Class V students in government schools could read Class II level texts vis-a-vis 68% in private schools, a gap of 15 percentage points; by 2018, this gap had widened to 21 percentage points.

It is hard to ignore the correlation between the implementation of the Right to Education (RTE) Act and the falling levels of learning at both government and private schools. Under RTE's no-detention till Class VIII' regime, poor reading ability is likely to have become a bigger handicap for students in later years as the curriculum got more complex and texts became more demanding. To that end, the Centre managing to get Parliament sanction to scrap 'no detention' earlier this month is a much-needed fillip. With private school enrollment stagnating over the last few years, it is clear that a chunk of the population will continue to depend on government schools. In such a scenario, the only way to ensure that significant productivity potential isn't squandered is to get government schools to deliver—whether through linking funding to learning-outcome improvement targets or a radical change in pedagogy. The significant Centre/state spending on elementary education should seem wasteful if, despite the higher salaries for government-school teachers vis-a-vis private-school peers, learning gaps worsen or remain as they are. Tying funding and teacher evaluation to improved learning outcomes—that would demonstrate greater understanding and application by students—rather than high pass percentages (which mask deficiencies through myriad ways, from rote-learning to 'liberal' marking) could prod government the right way. The Centre making it compulsory for states to codify expected learning outcomes is a step in this direction. And if government schools still don't deliver, the government will be serving the students' interest best if it lets the private sector take over and directs its education spend at supporting the latter.

NameChanger

Prithvi vigyan mantralaya simply won't do when Bharat Mata means the world to minister Vardhan

SHAKESPEARE FOXED THE world with a simple question: What, indeed, is in a name? Depends, on who is asking and who is expected to do the answering. But, Union minister Harsh Vardhan believes there's not much, and yet a lot. Hence, his "unpretentious" proposal that the Earth Sciences ministry, which he heads, be renamed *Bharat Mata Mantralaya* in Hindi instead of *Prithvi Vigyan Mantralaya*. While he believes there is no "harm" in renaming the ministry thus, and there is nothing really to think about and there is no need for any "pretension"—whatever that means—and, basically, it is an innocuous name-changing, nothing to it really, the choice of the new name gives away much. It is true that it isn't only the BJP that is in love with a personification of India—a feminine deity, Bharat Mata—nor is it India that has a quasi-divine, anthropomorphous identity. There is Mother Russia, Marriane (France), Bangamata (Bangladesh), even Brittania (Britain), Europa (EU), Uncle Sam (US) and Little Boy from Manly (Australia). But, *Bharat Mata* as a politico-ideological mooring, with strong associations with one particular brand of nationalism, is uniquely the BJP's.

Revering India as Bharat Mata is not a problem at all—that is, if you are not being forced to do this and are doing it out of your own volition; one is, after all, free to imagine the nation as she pleases when the objective is to profess allegiance to it. But to conflate the 'entire' Earth Sciences with Bharat Mata is, simply put, a bit presumptuous and a whole lot more absurd. But, when has absurdity stopped politicians, more so, from renaming cities, railway stations, bridges and roads to tip hat to their brand of politics? If minister Vardhan goes ahead with renaming the Earth Sciences ministry, he would do well to know no amount of chest-thumping patriotism will gloss over the politicisation of nationalism his party has mastered.

PUBLIC EXPENDITURE

WEIGHED DOWN BY LOWER TAX REVENUES, EMPTY NON-TAX REVENUE COFFERS AND EXPENDITURE COMPRESSION, THE FISCAL FALLOUT COULD HURT PRIVATE INVESTMENT AND GROWTH

The fiscal situation is worrying

RENU KOHLI

New Delhi-based macroeconomist

IN AUGUST 2018, we had pointed out (*bit.ly/2T4U3SZ*) how the Central government had been cornering much of the financial savings through off-balance sheet borrowings, thus pushing up long-term yields, and possibly 'crowding-out' private investment. The recent CAG audit report for FY17 of the FRBM Act, 2003, reveals more—it documents three known case studies of off-budget financing of revenue expenditure. Subsidy-related liabilities totalled to ₹1.29 trillion or 0.85% of GDP in FY17 on dues to Food Corporation of India (FCI), private fertiliser companies and NABARD-funded irrigation scheme. Such off-budget financing isn't new. The previous UPA government did the same. Only the amounts snowballed gradually. However, what is important to note is that the Central government collected enormous oil tax revenues of ₹2.73 trillion in FY17, nearly ₹1.47 trillion more than the ₹1.26 trillion collected in FY15. These additional oil revenues could easily have paid for the above dues, had there been intent!

This apart, the current NDA government has also been particularly aggressive in off-budget capex financing to boost infrastructure investment. The CAG report documents two more case studies on off-budgetary capex financing by Indian Railway Finance Corporation (IRFC) and Power Finance Corporation (PFC). Here, the total liabilities aggregated ₹3.05 trillion or 2% of GDP in FY17. And few more such entities could be borrowing as aggressively, especially the National Highway Authority of India (NHAI). It is an easy guess that such unpaid arrears and off-budget capex funded by fresh borrowings from the NSSF, LIC, banks or bond market have further increased in FY18 and FY19, gobbling up scarce financial resources, and crowding out private investment.

Market analysts largely ignored such concerns in the last three years as inflation declined while private investment remained subdued. But with early signs of private investment turning around, this would be hard to overlook. It could hurt the government's claim on reasonable fiscal consolidation; raise doubts on the new debt consolidation road map. The immediate policy concern is to find ways to pull back, since rising interest rates with falling inflation could regenerate debt sustainability concerns.

Where is the fiscal space, however? On the revenue side, waning GST collections are alarming: December 2018 collections fell to ₹94,726 crore, way below the government's anticipated ₹100,000 crore or more. The monthly average (April-December 2018) in FY19 is ₹96,782 crore and this is unlikely to improve in the last quarter considering projected economic activities are tapering off and GST rates on several items have been reduced, while exemption and composition scheme turnover thresholds have been raised to ₹40 lakh and ₹1.5 crore respectively.

The broader picture looks ominous. By current showing, average monthly growth in GST revenues in FY19 could be just 7.7% over the ₹89,885 crore collected on average each month from August 2017 to March 2018. The comparison is certainly not alike as the GST Council has been reducing tax rates on several items, which would overstate the base somewhat. GST revenue growth rate may thus be slightly more, around 8%, which is still worrying when seen in relation to CSO's advance estimate of 12.3% nominal GDP growth. It is not clear if initial GDP projections are over-optimistic and may later be revised down sharply, but the concern ahead ought to be how the Central government meets the 14% SGST revenue growth promised to all state governments for the next three years!

It is perplexing that, even after a year and a half, policymakers and analysts still escape/evade any serious scrutiny of the current GST regime. The optimism around GST to be a revenue spinner has come a cropper. In the event, a disproportionate burden could shift to direct taxes, collections of which, too, display early fade-out signs despite the record tax-return filings. Additionally, declining non-tax revenues—especially PSU dividends—could stretch the fiscal situation further. The sharp escalation in both scale and pace of PSU dividend payouts—an average of 29% growth in FY15-FY17, in which FY17 amounts doubled over FY14 levels—has emptied out this resource; in FY18, PSU dividend growth slowed to 5.7% against the projected 30%, as have ingenious disinvestments through convenient share buybacks of some public entities. It is no surprise in this light that the fiscal eye is now fixed upon higher dividend payouts by RBI as well as surplus capital transfers for which a committee has been appointed to draw a framework.

> **It is no surprise in this light that the fiscal eye is now fixed upon higher dividend payouts by RBI as well as surplus capital transfers**

Topping all this are election-related populist expenditures such as loan waivers announced by newly elected state governments in Rajasthan, Madhya Pradesh and Chhattisgarh; cash payment schemes such as Kalia in Odisha; increased urea subsidy in Uttar Pradesh, and so one. These will have unpleasant side-effects of squeezing most fiscal spaces at states' level. At the Central level, too, impending announcements of election giveaways for farmers are awaited.

So what has suddenly unfolded is a serious fiscal situation. A substantial revenue shortfall is anticipated this year which is not just confined to tax revenues but extends to non-tax revenues as well. PSU dividends have been largely extracted and dried out; spectrum and telecom revenues are affected by financial stress. Planned revenue and capital spending could collapse this year as election-related revenue expenditures are propped up and more subsidy expenses are passed over to FY20. Markets already expect these trends, including the damaging impact of reduced public expenditure upon economic growth.

The medium-term implications of prolonged, borrowing-financed revenue and capital spending by the Central government in conjunction with declining tax revenues and the emptied coffers of non-tax revenues are just as serious. Two effects are already visible. Firstly, the expected stimulation from the public investment multiplier has not materialised—growth has instead decelerated, while private investment hasn't revived. Two, the adverse fallout of a borrowings-financed fiscal expansion amidst deceleration in financial savings, viz. crowding-out and higher borrowing costs have begun to emerge. Going forward, private investments will face higher cost of capital and a hike in the effective tax rate as the government is constrained by wider revenue deficits from the draining out of resources as explained above.

The unfortunate part is that this deterioration in the fiscal profile has come about despite an exceptional, positive terms-of-trade shock which fetched windfall oil revenues of ₹10.3 trillion over the last four and half years. With such a bounty, it truly astonishes that spending quality could not be genuinely improved by freeing resources assigned for discretionary or subsidy expenditures to raise public capex levels. Such reorientation of public expenditure has yet to be achieved. This would not only have limited government borrowings, on- or off-budget, but provided the exact environment for eliciting the intended, positive effects of the public capex stimulus. What has unfolded instead is an alarming situation—lower tax revenues, empty non-tax revenue coffers, and expenditure compression that will, of course, weigh upon growth. It is hard to see how higher borrowing costs and effective taxes can be avoided.

Not an 'angel tax', it's a tax on Indians!

The tax actively taxes investment purely on the basis of this being from Indian sources

SIDDARTH PAI

Founding partner at 3one4 Capital

THE ANGEL TAX issue has been an albatross around the neck of Indian start-ups ever since this UPA-era law began being used to target them by the tax department. While the government has made great strides in improving the lot of start-ups on many fronts—corporate compliance, fund raising, FDI, etc, the singular issue that still remains unaddressed has been taxation. While section 56(2)(viib) has been labelled the "Angel Tax", make no mistake that it discriminates against all Indian investors, whether you're an individual, public listed company, mutual fund or even LIC! No other country in the world has a policy in this vein against its own citizens.

The latest circular has been touted on social media as a major sigh of relief to all Indian start-ups, but it leaves a lot to be desired for. The major points are that it covers only companies who have raised up to ₹10 crore throughout their lives, only people of a certain financial pedigree—above ₹50 lakh in income and having a net worth of ₹2 crore can freely invest into start-ups and it specifically excludes all start-ups who have received assessments orders from succour under this circular.

The circular is well intentioned, make no mistake about it. It has introduced the concept of an accredited investor—a perennial ask of Indian investors, albeit in a rigid fashion. Accredited investor is a globally accepted practice of allowing financially sophisticated investors to invest into risky asset classes sans the protection offered to retail investors. But nowhere has it been used as a mandatory requirement, sans which the entire investment may be liable to tax. Furthermore, the threshold in place worldwide is disjunctive—either a minimum income stream or a minimum net worth, not both.

The clause is especially harsh against people from the middle class and other walks and prevents them from beginning their entrepreneurial dreams. Prime minister Modi in June 2018 stated that start-ups are no longer confined to big cities, with smaller towns and villages emerging as exciting hubs of innovation. "Adequate capital, courage and connecting with people are required for excelling in the start-up sector", he's been quoted saying. Nowhere did he mention an economic threshold for following your dreams or supporting family members eager to take the entrepreneurial plunge. This clause will exclude family and friends of entrepreneurs from supporting their wards just because they don't meet these criteria. The clause also places a glass ceiling on the size of companies by limiting their capital raises to only ₹10 crore throughout their lifetime. A sum of $1.4 million barely qualifies as a seed round in the US or Singapore, but is supposed to sustain an Indian start-up till they IPO.

The finance minister Arun Jaitley has gone on record to state, "entrepreneurs need freedom from the state, the sector should be less regulated. India's IT sector grew because we had no laws restraining them". So why is the tax department working so hard to regulate domestic capital flows to Indian start-ups? Out of the $38.5 billion raised by Indian start-ups from 2014 to 2018, barely 10% of it came from domestic sources. Placing artificial barriers like the ones stated in the circular will erode this even further. It seems like the tax department will only be satisfied gaining 20% from capital gains and seeing the other 80% leave the country, instead of looking to incentivise domestic investment so that 100% of the proceeds remain in the country.

If the government seeks to provide relief to aggrieved start-ups, they should amend the circular to state that the angel tax should not apply to any investment below ₹10 crore received in a start-upper year from Indian investors provided that the start-up has the PAN of the investors, to investors who have registered themselves with DIPP as accredited investors, regardless of the quantum of investment. The threshold stated should also be either a minimum income of ₹25 lakh or a net worth of at least ₹1 crore and any start-up who has received an assessment order should be able to seek recourse under this circular during their appeal.

A tax on investments is counterproductive. All investments go towards the creation of assets to generate income, which in turn is taxed. Hence the name "income tax", not "investment tax". The notion of funding start-ups through high premia to launder unaccounted funds has been addressed by the current Company's Act, which states that all investments need to come through banking channels accompanied by the investor's PAN. Nobody will seek to launder funds when the paper trail is this blatant. Roundtripping of funds is another argument preferred, which falls flat as the "angel tax" section doesn't apply to foreign funds anyway! Getting any money out of the country requires a litany of forms to be filed, as does receiving money from foreign sources. This anti-abuse measure has now become a tax farming tool and needs to be stopped.

We should stop using the term "angel tax" and instead call it what it is—an "Indian tax". It actively taxes your investment purely on the basis of it being from Indian sources. Why are Indian investors treated as children of a lesser god in their own country? Are they children of a lesser god? We need PM Modi to step in and address this, lest India becomes a digital colony.

LETTERS TO THE EDITOR

Artificial intelligence, real improvement?

It is a welcome initiative by the technology giant to train/upskill a large section of the young workforce in AI/robotics in the near future and establish the required infrastructure to promote the design and R&D of advanced systems. Rule-based and deep-learning mechanisms are required to mirror the cognitive and comprehensive aspects in order to achieve sophistication. Acceptance of AI systems is impeded by complex training needs, high investment, large effort towards integration with legacy solutions, low availability of subject matter experts, rising turnover and uncertainty/fear on account of over-specialisation. For a higher productivity/throughput, low downtime and reduced errors, total operational automation in areas of analytics, research, engineering and medicine ought to viably substitute the requirement of natural intelligence, exploration and understanding

— Girish Lalwani, Delhi

BJP draws a blank

The BJP's efforts to wean away MLAs from the Congress fold has drawn a blank with the latter successfully thwarting the former's bid to grab power. This is the BJP's second failed attempt in the past seven months to form the government in Karnataka. The saffron party had housed 95 MLAs and two MPs in 60 rooms at the ITC Grand Bharat in Gurugram but its grand designs were foiled in the nick of time by the Congress-JD(S) think-tank. The development once again brought to the fore the abilities of former chief minister Siddaramaiah as a crisis manager

— Ravi Chander, Bengaluru

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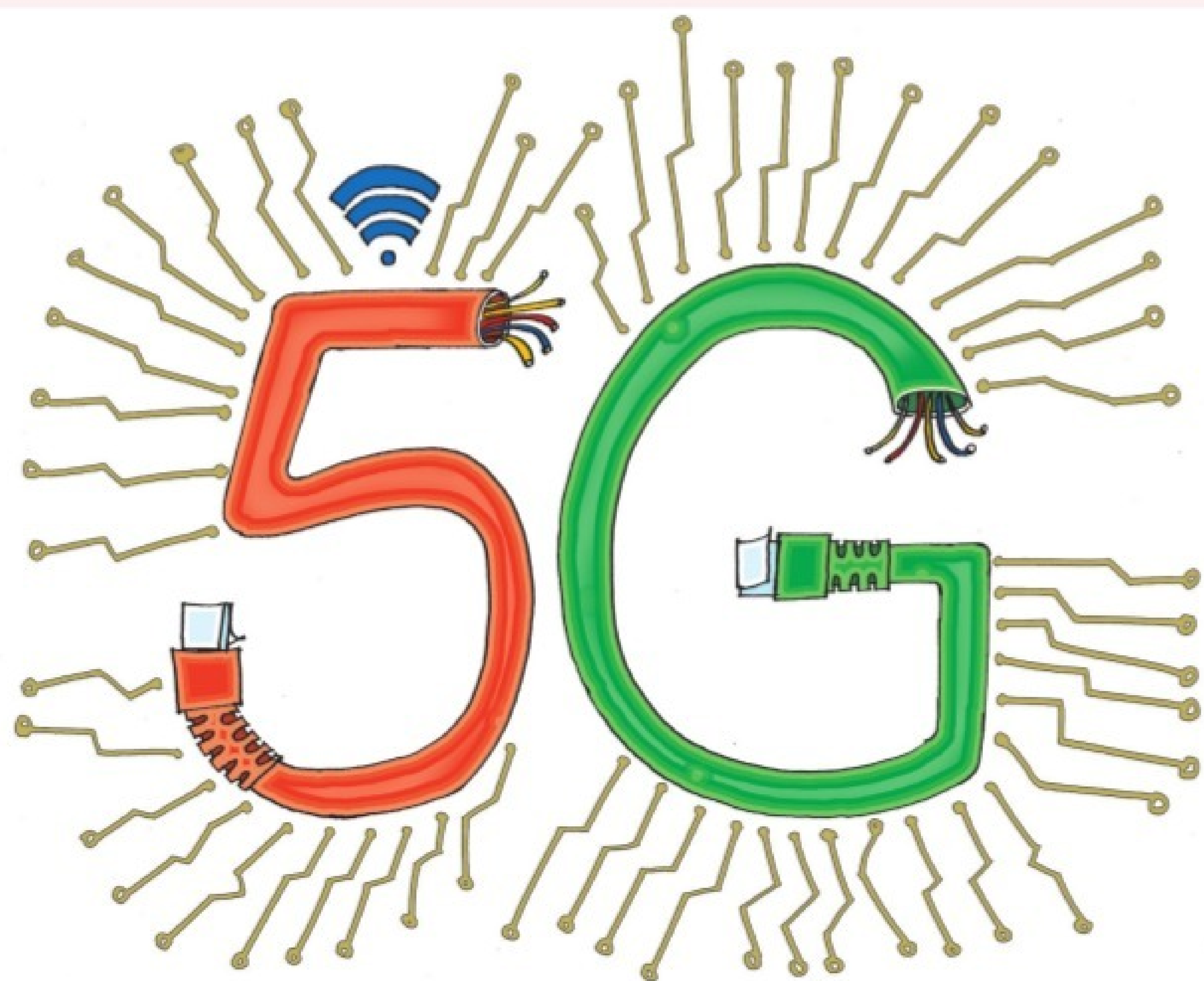

ILLUSTRATION: ROHNIT PHORE

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Why we aren't talking about the quality of digital infra?

If India invests in high-quality new optical fibre network, upgrade or replace existing defective cables, and lay bend- and pressure-resistant fibre cables to increase FTTH (fibre to the home) capabilities, we will go a long way towards becoming a world leader

INFRASTRUCTURE IS THE need of the hour...we've all heard the battle cry. We all tend to agree that more infrastructure in India is key to our development. However, not much discussion has been given to the importance of the quality of said infrastructure. While this need applies to various sectors, it is a guiding force in the digital communications space. All great communication begins with connection, and the quality of communication matters.

So, how do we define quality infrastructure? The APEC (Asia-Pacific Economic Cooperation) 2014 guidebook for quality infrastructure in emerging nations focused on three main areas—life-cycle costs, safety assurance, and environmental and other impacts.

In three years, however, the APEC revised its guidelines to include the comprehensive elements of alignment with development strategy for each nation, economical and financial soundness, local development including job-creation and knowledge transfer, as well as the impact of infrastructure projects on social and environmental sustainability.

All Indians are awarded the right to access the internet as a fundamental right by the Supreme Court. Talking about the visionary Digital India mission, Prime Minister Narendra Modi stated: "India has seen a dream of Digital India. From the latest science to the latest technology, everything should be available at the tip of one's finger." Our data-hungry citizens have certainly grown to expect it.

To achieve the vision of providing broadband for all, and leverage technological advances such as 5G and Internet of Things (IoT) in India, we will need to rely heavily on high-quality infrastructure. A World Bank study found that the growth of a developing country's economy is directly proportional to the quality of its infrastructure. The World Bank defines quality infrastructure as "...the ecosystem of public and private institutions as well as legal and regulatory frameworks and practices that establish and implement standardisation, accreditation, metrology, and conformity assessment."

Better quality infrastructure is also related to reduction of diseases, and improved access to education and healthcare. Incorporating quality as an integral part of our growth plans ensures we are inclusive, enables sustainability, and environment-friendly projects (Japan International Cooperation Agency). Additionally, greater quality allows us to minimise damage from natural disasters.

> **To achieve the vision of Broadband for All, and leverage technological advances such as 5G and Internet of Things in India, we will need to rely heavily on high-quality infrastructure**

In developing nations, it is often attractive for public officials to focus on lower-cost goods to meet their immediate needs, but establishing a stringent policy of evaluating life-cycle costs and adhering to international safety standards is essential to our country's success and quality of communication. Failure to do so could result in higher costs down the road, safety issues, significant project delays, and damage to the environment.

High count, bend- and pressure-resistant optical fibre networks, quality towers, and Wi-Fi hotspots are significant contributors towards future-proofing our country. Indians have demonstrated a voracious appetite for data consumption, and with 65% of the country yet to get online (EY, 2017), there has been a strong push towards expanding connectivity throughout the country. However, there has been little discussion about the importance of setting quality standards for our infrastructure while we continue to expand our reach.

Another innovation that could be considered is the 5G wireless tower technology. Globally, countries are beginning to utilise 5G wireless towers that support faster downloads and large amounts of data. As with any technology, it is not without challenges—more numbers of them will have to be installed around the country—but they are smaller and more compact versus traditional towers. Additionally, these towers are more energy-efficient, and aesthetically pleasing. Introducing 5G technology in the country will then allow the government to fully realise the mission of developing and sustaining 100 smart cities that run on interconnected IoT devices.

The National Digital Communications Policy (NDCP, 2018) outlines the goal of introducing 5 million Wi-Fi hotspots by 2020 and 10 million by 2022. While this is a good start, we will need rapid acceleration of the speed of installation, and an exponential increase in the number of hotspots being introduced. A streamlined and less bureaucratic process for Wi-Fi providers is required to grow the numbers quickly.

Another benefit of investing in quality infrastructure projects across the country is to advance the 'Make in India' mission to grow the use of homegrown technology and improve local employment opportunities. While we certainly enjoyed a boost in economy, we still have 18.6 million unemployed in India (International Labour Organisation). A boost in large-scale infrastructure projects will create employment for a vast ecosystem of products, services and resources, while a focus on quality products and offerings will ensure the safety of our citizens.

Let's look at some real-world examples where investing in quality infrastructure led to better results, beginning with the Delhi Metro project. Built in three phases, and relying on Japanese expertise, this system now serves over 2.5 million passengers per day, delivers greater safety (through women-only carriages, among other things), and the Delhi corporation staff can obtain timely technical assistance from Japanese experts. During the construction, care was also taken to ensure the safety of construction workers.

Similarly, the Japanese government is assisting other Asian countries achieve their individual development goals through quality infrastructure, including the Philippines, Vietnam and Bangladesh, apart from their own country of Japan. This is being done through the adoption of leading international quality standards for infrastructure, including the APEC guidebook on quality of infrastructure development and investment (2017). Other standards involve G7 Ise-Shima principles for promoting quality infrastructure investment (2016), G20 Hangzhou MDBs Joint Declaration of Aspirations on Actions to Support Infrastructure Investment (2016), and the United Nations 2030 Agenda for Sustainable Development Goals (2015).

Other world organisations such as the Global Procurement Initiative (GPI) train public officials in emerging economies to learn the evaluation of total cost of ownership for goods that involve large-scale infrastructure projects. In India, officials from the state of Maharashtra have been trained on advanced life-cycle cost analysis training from the GPI, and officials from other states and the Centre could leverage this as well.

The price of not investing in high-quality digital infrastructure is real, and the success of such undertakings usually rides on alignment and cooperation between all the stakeholders that are required to execute such a mission.

Eminent Japanese engineer and statistician Genichi Taguchi eloquently put it: "Cost is more important than quality, but quality is the best way to reduce cost." In a succinct sentence, Taguchi San stressed upon the importance of investing in quality to reap longer-term rewards and sustainability. If India invests in high-quality new optical fibre network, upgrade or replace existing defective cables, and lay bend- and pressure-resistant fibre cables to increase FTTH (fibre to the home) capabilities, we will go a long way towards becoming a world leader.

(Research inputs by Chandana Bala)

FINANCIAL EDUCATION

Needs a paradigm shift

MANAVENDRA PRASAD

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Financial awareness has assumed greater importance as markets are more complex

OUR APPROACH TO personal financial solutions has seen a sea change. Fixed or guaranteed return products have reduced as a proportion of our savings, and market-related returns are not arcane any more. The mutual fund industry has grown from ₹5 lakh crore in March 2008 to more than ₹23 lakh crore. There are over 2.52 crore systematic investment accounts, adding up to ₹8,000 crore of monthly contribution. Life insurance is being bought for its primary purpose, i.e. protection. Health insurance is in the consideration set of most in urban India. Insurance density or premium per head stood at $73 for FY18 as against $11.5 in 2001. Credit is more easily available.

All this has been achieved as a result of awareness programmes and workshops held in schools and colleges, housing societies, investor forums, social clubs, citizen forums. Literacy materials are available in regional languages, and print and electronic media have been used for advertising. RBI's financial literacy and counselling centres, set up by banks, offer credit counselling and debt management.

There has been much activity in investor awareness space. RBI, PFRDA, stock exchanges, insurance and mutual fund industry have used the media to spread the word. Insurance industry's 'Bima Bemisaal' and mutual fund industry's 'Mutual Funds Sahi Hai' campaigns have been popular.

But all of this, for the country as a whole, is barely the tip of the iceberg. Surveys such as the S&P Global FinLit point out that over 75% Indians fare badly in financial literacy. The absence of financial competence is widespread because financial awareness programmes are impersonal, one-time activities. These initiatives are product-specific and fragmented across regulators, industry bodies. For a layperson, there is no single source of independent/unbiased information related to personal finance. In the absence of any entity harmonising conflicts between financial products, there is no comprehensive solution.

> **We should learn from UK's Money Advice Service and Singapore's MoneySense**

Financial awareness has assumed greater importance as financial markets have become complex. There is massive information asymmetry between markets and the citizen, and between the rich and the poor, leading to the latter finding it difficult to make informed choices. Mis-selling is rampant. This right, not to be mis-sold a financial service, is difficult to implement, hence the need for a comprehensive, independent and unbiased source of information.

The solution lies in going beyond providing information to imparting knowledge that will help a layperson plan long-term financial goals. The paradigm shift will happen by providing application-oriented solutions and by being available for multiple consultations. A citizen is going to need help at hand when buying a financial product and for financial goals linked to different life stages.

Leveraging smartphones and setting up multilingual phone-based helpline will allow citizens opportunities for repeat consultation and expand the scale of operations. Smartphones are a platform for promoting financial awareness, and can provide a one-stop solution to the end user. The service can span across availability of basic information to financial planning and investment knowhow. It can cover skills that will help a layperson improve financial well-being—budgeting, savings and investments, responsible use of credit, planning for long-term—and can impart knowledge about different investment and insurance products. Prevention of mis-selling is the most apt form of investor protection and the government is duty-bound to act on it. Given the structure and regulatory ecosphere, it will require a government body to take up this task. Only an empowered government entity will be suitably placed to overcome divisions of jurisdiction of different regulators.

Many countries, especially OECD, have made strides in spreading financial education. We should learn from the UK's Money Advice Service and Singapore's MoneySense. These initiatives, and many more, aim to enable citizens become self-reliant in financial affairs. Such services will also enable individuals to take effective action to improve overall well-being and avoid distress in matters that are financial. Such an initiative could be another tool towards the welfare of citizens, especially those on the margins.

RYTHU BANDHU SCHEME

RBS as a panacea to loan waivers?

An RBS-like scheme at the national level, if planned, can be effective if FPCs are targeted to identify beneficiaries

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WITH THE 2019 Lok Sabha elections approaching, the government plans to offer a stimulus package in the form of agricultural investment support scheme and group insurance to farmers, which could otherwise subsume the fumes of the farm loan waiver burden.

Can the government consider Telangana's Rythu Bandhu Scheme (RBS) on a scaled down version? RBS has a grant component of ₹4,000 per acre per farmer for one season (kharif/rabi). So, in a year, an eligible farmer will receive ₹8,000 of grant for crop production that includes purchasing of critical inputs, irrigation and hiring of farm labour. The fiscal burden of the scheme can strain the Centre to the tune of ₹600-700 billion per year, and the Telangana government has allocated about ₹120 billion to target 5.83 million farmers under RBS in 2018-19.

The scheme ostensibly spells out farmers, who have land records, are to be covered for intended benefits. As tenant farmers are not be able to furnish land records, they will be left aside and their tyranny will continue. Therefore, there should be some alternative mechanism to cover tenant farmers. Further, RBS has some shortcomings that need to be addressed.

First, identification of the 'right' beneficiary could be a daunting task to roll out the scheme, as 90-110 million smallholder farmers in India have joint land records or they are yet to digitise their land records on a centralised land revenue management information system. So, land record modernisation across India, especially in eastern and north-east regions, entails a huge spending on account of state governments.

Second, monitoring of the scheme needs a fool-proof execution plan. Since agriculture is a state subject, implementing states for RBS need to come out with an execution plan. Checks and balances should plug the loopholes on whether the beneficiaries actually use the grant amount for cultivation or divert the funds to other activities? Although RBS is viewed as quasi-universal basic income (QUBI) support to farmers, the grant support is targeted for investment support in agriculture. Unless farmers' produce is not covered under the price support scheme or fetched a reasonable market price, RBS cannot be seen as QUBI support on social and agriculture policy template.

Third, how can the Centre, in consultation with concerned states, approach and cover farm families under group life insurance scheme along with crop and livestock insurance schemes? The Centre and concerned states have to bear the insurance premium that will further increase the fiscal burden, besides the grant amount for agricultural investment support. Cost-sharing between the Centre and states should be in place before rolling out RBS. It is estimated that the cost to cover only small and marginal farmers would be to the tune of ₹1.4 trillion per year based on net sown area in India. The average cost of production and cropping intensity across the implementing states will give a clearer picture of budget estimate for RBS.

Fourth, the government's policy think tank, the NITI Aayog, needs to execute RBS effectively. The think tank needs to devise a mechanism on how can RBS tie-up the existing market infrastructures and eventually function in unison. Some notable innovations in agricultural marketing and directed credit to agriculture include the eNAM (electronic National Agriculture Market), National Bank for Agriculture and Rural Development promoted grant-cum-loan based agri-business, electronic procurement system and Direct Benefits Transfer, and revamped crop and weather insurance schemes, among others.

Fifth, farmer producer companies (FPCs) can be an effective channel of implementing RBS since there has been a big push to FPC promotion since 2012-13 under the auspices of the Small Farmers' Agribusiness Consortium to improve farmer livelihood, income generation, asset creation and well-being.

From economic rationality viewpoint, farmers need to utilise agricultural inputs (land, water, crop-protection chemicals) efficiently, and allocate capital and farm labours to demand-based production, and access market to realise a reasonable price of their produce. Promotion of FPCs and associated market and credit infrastructures can tackle all entangling issues of smallholder farmers, from crop production to marketing, integrating the factor market and the commodity or product market. Hence, RBS implementation can be effective if FPCs can be targeted to identify the beneficiaries and channelise the stipulated grant support to farmers via FPCs. Improved technology support can augment the identification process with the help of domain expert and supporting resource institutions.

To sum up, execution of RBS at the national level, if planned, should be a concerted effort and converge existing government programmes, schemes and infrastructures essential to mitigate agrarian distress. Else, it won't be a panacea to farmer distress or farm loan waivers.