Opinion

MONDAY, JANUARY 21, 2019

GIVING THE ECONOMY A PUSH

Narendra Modi, prime minister of India

From the start of business to its operation and closure, we have paid attention in building new institutions, processes and procedures. All this is important, not just for doing business but also for ease of life of our people

RationalExpectations

SUNIL JAIN

sunil.jain@expressindia.com
@thesuniljain

Lending nirvana via the fintechs

MSME- and Mudra-NPAs are rising, but a slew of fintechs promise the safest lending possible by using data to judge credit-worthiness

A MONTH AGO, the panel discussion at the Express IT Awards was on how, over the next 2-3 years, UPI payments—they rose from ₹13,144 crore in December 2017 to ₹102,595 crore in December 2018—offered by various fintechs would overtake those made by debit and credit cards; no mean feat given UPI has been around for less than two-and-a-half years. A week ago, at the FE Best Banks Awards, the discussion was on how banks would need to rework their business models to deal with the challenge from young fintech firms that offered not just UPI, but a host of other services as well.

To take an example, if UPI payments continue to grow by leaps and bounds, and primarily through apps like Google Pay, WhatsApp and PhonePe, they would have a big influence in how banking evolves even though the consumer's bank account remains the same, say, with an SBI or an HDFC Bank. The apps decide, for instance, which bank they will use as the back end for the transactions and, over time, can even start offering other services that traditional banks offer as users get hooked onto the app and start using it as the 'bank' for all practical purposes. Scripbox, for instance, one of the winners of the FE Best Banks Award, is a fintech that helps make investments in mutual funds less intimidating and, combined with, say, a WhatsApp or a Paytm can, over time, replace traditional banks selling mutual funds.

Fintechs are developing new loan processing models for SMEs based on GST filings or cash flow data of the type you can get from Amazon-Flipkart-UPI. One of the winners of the FE Best Banks Award this year, CreditVidya, helps lenders assess risk by using artificial intelligence to analyse various data such as the cash-flow ones. Once this catches on, not only are the fintechs in a position to drive the business to various banks—or away from some—significant chunks of bank lending can go to non-banks.

Right now, the numbers are small, and if banks retain the main business of giving loans, how does it matter if fintechs grab a bigger share of the front end? That may be true today, but a good way to think of this is to look at travel portals like MakeMyTrip and Goibibo—guests still stay at hotels, but the hotels are protesting against the travel portals since they are driving down prices by bringing in more players or by making the pricing more transparent.

> India is a global leader in digital banking thanks to the push given by, not just IndiaStack, but also UPI, DBT, Jan Dhan Yojana, DigiLocker, etc

Replace MakeMyTrip with a BankBazaar, a financial marketplace where you can compare various products offered across banks, and the potential impact becomes clearer. Such a marketplace drives down the spreads for banks and, over time, a BankBazaar can make recommendations and drive business to/away from banks in the same way a MakeMyTrip does for hotels and airlines. And this is just one such example.

It is precisely to meet such eventualities that, when she headed SBI, Arundhati Bhattacharya took her top team to the iSPIRT—iSPIRT is a think tank for the software products industry—office in Bangalore to chart out an appropriate SBI strategy to deal with the fintech challenge; that is also why, when she headed Axis Bank, Shikha Sharma bought wallet firm Freecharge even though many in the bank questioned the move since the bank had its own app.

What emerged at the FE Best Banks discussion (*goo.gl/RFCTXb*) was that, while various fintechs and banks will try and take away customers/business from one another, for now, both fintechs and banks will mostly be working together to serve the unbanked. As Shikha Sharma put it, a traditional bank's ability to give a ₹15,000 loan is very hard because the cost of that delivery is too high; so a bank needs a digital platform partner to lower costs. Also, it is a mindset issue because the compliance and risk teams in a bank are designed to think about risk in a particular way: "the way they will think of risk about a ₹25-crore loan is not very different from what they will think about a ₹15,000 loan".

PK Gupta, SBI's managing director, spoke of the new MSME-loans-in-59-minutes platform that has just been set up which pulls in data from various sources—GST, income tax, bank statements—and processes this in 59 minutes to see if the loan should be given. Banks, both Gupta and Sharma said, were increasingly hiring "data scientists" to help process data more intelligently and design better algorithms to compete with fintechs.

Adhil Shetty, founder and CEO of BankBazaar, talked of how, along with banks, they were trying to develop products for every consumer along the lines of the 15-second pre-approved loans banks already give today to their customers. As iSPIRT co-founder Sharad Sharma put it, if the poor in the country and farmers/MSMEs can get loans that, at the same time are safe from the banks' point of view given the data crunched to establish their viability, this is banking nirvana since governments will no longer have to categorise customers as 'priority sector' and then mandate banks to ensure a certain proportion of their lending to them. And such loans are cheaper than those from the informal sector.

Whether digital payments or delivery developed because of demonetisation is not clear—debit/credit card payments were growing fast even before demonetisation—but there can be little doubt they got a big push. And while the development of Aadhaar pushed innovations like the IndiaStack long before demonetisation, the country's digital architecture got a big boost from the government pushing UPI, the Jan Dhan Yojana that ensured every household had a bank account, Aadhaar-based Direct Benefit Transfers that ensured these accounts had money—a quasi-Universal Basic Income will boost this further—and other platforms such as DigiLocker that allowed users to pull digitally signed documents from various government departments; you can, over time, apply for a home loan online and give the bank your digitally-signed ownership records and tax and bank statements; and because they are digitally signed, the chances of fraud are that much lower.

If, despite the digital revolution, there is no clarity on the future of fintechs *vs* banks, it is because, as Sharad Sharma puts it, India is so ahead of other countries in developing a world-class payments/digital infrastructure, there is no western or Chinese experience from where parallels can be drawn. To be a world-leader, needless to say, is a great place to be.

PunitiveMEASURE

India new assertiveness against infractions by foreign MNCs are an important fallout of the reforms path it has taken

The National Green Tribunal (NGT) last week slammed auto major Volkswagen (VW) for not depositing ₹100 crore that the tribunal had ordered it to pay for causing "serious environmental damage" by using its engineering genius to fake emission reporting. In 2015, when VW's "Dieselgate" broke—the company was found guilty of fixing "cheat devices" in its diesel engines to meet US emission standards—the US extracted a heavy penalty. Last year, the NGT had ruled that Volkswagen's "cheat device" caused environmental damage conservatively estimated at ₹100 crore. A company spokesperson has now said that even though VW cars in India meet the country's emission norms, it will still comply with the NGT order. The VW order, and the Centre pushing for Johnson & Johnson paying larger compensations to Indian patients who received its faulty hip implants show India has come a long way from the days of the Union Carbide fiasco.

India standing up to MNC-might today—decades after Union Carbide strong-armed the government into accepting a $470 million out-of-court settlement, against the $3.3 billion that India had sought, for exposing 500,000 to a toxic gas leak from its facilities that left 8,000 dead—reflects an assertiveness the country has perhaps acquired with growing economic strength. Post the 1991 reforms, India's attractiveness as both a market and an investment destination has grown phenomenally. The strength to hold MNCs accountable in a degree commensurate with the action against them in developed jurisdictions may be an ancillary gain, but is nevertheless an important one.

FROM PLATE TO PLOUGH

ACCORDING TO AN ICRIER-OECD STUDY, FARMERS GOT 14% LESS INCOME— AND THAT IS AN EFFECTIVE TAX—BY NOT BEING ALLOWED TO SELL AT MARKET PRICES BETWEEN 2001 AND 2017

Over ₹45 lakh crore plundered from farmers

ASHOK GULATI

Infosys chair professor for agriculture at ICRIER

THE MODI GOVERNMENT is entering its proverbial phase of the 'last ten overs' before the Election code of conduct kicks in. All plugs are being pulled off to win over the targetted segments of society who could potentially bring BJP/NDA back to power.

One important segment, perhaps the largest one, is that of farmers. Attempts to woo them by announcing higher minimum support prices (MSPs) based on 50% margins over paid out costs plus imputed value of family labour (cost A_2+FL) have fallen flat on its face as market prices of most of those commodities remain 20-30% below MSPs. Procurement by government agencies has been limited as they already have overflowing stocks that they cannot offload without incurring massive losses. The meagre budgetary provisions under PM's AASHA scheme to lift market prices have therefore failed to erase farmers' *nirasha* (gloom). In any case, as highlighted in my last piece (*bit.ly/2HiWcJg*), MSP policy cannot reach more than 20% of peasantry even with augmented procurement of pulses and oilseeds and, therefore, cannot be a solution to farmers' distress.

The loan waiver, which the Congress president is promising, will also not benefit more than 30% of peasantry, who have access to institutional credit. Already, the bill of loan waivers for the state governments that have announced loan waivers is touching about ₹1.8 trillion (lakh crore). The policy of zero interest on loans, too, is fraught with loopholes leading to a massive diversion of funds out of agriculture.

So, now, many state governments are trying to innovate with new ways of reaching the largest number of farmers. The Rythu Bandhu scheme of Telangana that involves the giving of ₹4,000/acre to land owning farmers for two seasons in a year is costing roughly ₹12,000 crore per annum to the state exchequer. It seems to have reached more than 90% of farmers, and has given good political outcomes. Many experts have criticised it saying that it is for big farmers and neglects tenants.

Kalia (Krushak Assistance for Livelihood and Income Augmentation) scheme of Odisha attempts to respond to this criticism, and accordingly promises to include not only land owning farmers (up to 5 acres) but also tenants and agri-labourers. While land owning small and marginal farmers, 30.17 lakh in number, accounting for 92% of farming households in Odisha, will get ₹5,000 per family for 5 seasons, the tenants and agri-labourers (estimated to be 10 lakh in number) who have no land records will get a one time payment of ₹12,500 per family, and vulnerable families (another 10 lakh) will get a one time payment of ₹10,000 per family. With some support for life insurance and interest free loans of up to ₹50,000, the scheme is likely to cost about ₹10,180 crore over three years. There is a major challenge of identifying who is a tenant and who is an agri-labourer, as tenancy is not legally allowed in Odisha. So, no legal records exist. Only time will tell how efficiently this identification is done. But given that it is just a one time payment for them, it will have a limited impact only. Efforts are on to ensure that the first payment is made in January 2019 itself.

> Until India structurally reforms its agri-economy, a stable income policy for farmers is required, for at least the next five years

It is important to track and evaluate the performance of these two schemes (Rythu Bandhu and Kalia) as they have not only important budgetary implications, but are also a pointer towards a new policy innovation. West Bengal and Jharkhand are also moving in this direction, and media reports suggest that the Centre, too, is contemplating some variant of the scheme. If indeed it does so, it would indicate a tectonic shift in policy from promising higher MSPs or loan waivers to direct income/investment support to farmers. This shift will be better for the country as it is more predictable and less market distorting.

Macroeconomists and investors, however, are worried how much it would cost. Will it be fiscally sustainable? What impact will it have on investments in due course? In brief, will these election time 'doles' do more harm in the medium- to long-term? Is India not becoming a welfare state even before generating enough wealth? All these concerns are very legitimate and need some discussion. Let me elaborate.

In several pieces in this newspaper in recent months, I have indicated these are not 'doles' but atonement for not reforming the agriculture sector, especially its marketing and trade policies, which remain highly distorted, restrictive and pro-consumer, often at the cost of farmers. One of the key findings of a mega ICRIER-OECD study on agricultural policies in India (2018), which I co-lead with Carmel Cahill for more than two years, is that the producer support estimate (PSE) for India was minus (-) 14% of gross farm receipts, on an average, for the years 2000-01 to 2016-17. What this implies is that Indian farmers have been 'implicitly taxed' through restrictive marketing and trade policies that have an in-built consumer bias of controlling agri-prices. If one calculates the sums involved of this 'implicit taxation', it amounts to ₹2.65 trillion (lakh crore) per annum, at 2017-18 prices, for 2000-01 to 2016-17. Cumulatively, for 17 years, this comes to roughly ₹45 trillion at 2017-18 prices. No country in the world has taxed its farmers so heavily as India has done during this period. This is nothing short of plundering of the farmers' incomes by ₹45 trillion! Until India reforms its agri-marketing laws, and frees agri-markets, it is time to atone through a structured and stable income policy for farmers for at least the next five years.

It may be worth noting that the PSE methodology is a standard one that OECD adopts for 52 major countries that produce more than three-fourths of global agri-output. And these numbers have gone through a rigorous review by OECD members and others at the global level and are now very much in public domain.

Brexit is a lesson in democracy

The UK Parliament has taken power back in its hands. If the UK is to exit the EU, it will be only with the support of a majority of the House of Commons

MEGHNAD DESAI

The author is a prominent economist and Labour peer

THE NEW YEAR has been tumultuous for the UK. The Brexit decision is imminent as the deadline of March 29 is approaching. The political system has been obsessively waiting for a decision. The referendum was way back in June of 2016. It shocked David Cameron, the then PM. He resigned and Theresa May took his place in July 2016. Since then, there have been negotiations between the UK and the 27 remaining members of the EU.

The details of leaving were never specified in detail. The basic complaint was about free movement of labour within the single market of the EU. After the 2008 crash in the UK, austerity had followed. People could not tolerate Romanians and Bulgarians, the latest members of the EU, coming to UK and competing for jobs and sharing in the health facilities and free schools for their children. The leaders of Brexit were the Eton and Oxford elite, and not deprived people. They were confident that exit would be easy. The UK would not have to pay towards the EU budget—£350 million a week for the NHS was the slogan. Remaining within the customs union meant that UK was not free to negotiate free trade treaties unilaterally. Once out, UK will be able negotiate free trade treaties with everyone.

These two issues were the key ones in negotiating the withdrawal deal. The hard Brexiteers, all in the Conservative Party, want out of both. They would be happy to exit without a deal if necessary. But no deal would mean that all trade between the EU and UK—10,000 lorries a day into Dover—would be stopped, inspected, and charged tariffs on; hence, inordinate delays would arrive, compared to the smooth passage now. With no deal, UK citizens would not be able to travel to EU visa free.

Apart from the minority hard Brexiteers—all dreaming of an old imperial Britain—the rest are divided between moderate Brexiteers, who want out but with a deal which will not harm trade. This means some form of customs union but without a single market. There are Remainers who want to stay in the a single market and customs union, with no Brexit at all. They want a second referendum in the hope of reversing the earlier decision.

Theresa May has negotiated a deal which will let the UK leave without disrupting trade and then negotiate a free trade treaty with the EU. The EU were happy with this. The procedure required that the European Parliament would have to approve the deal as well as the 27 separate members of the EU. At this revelation, the Parliament insisted that whatever deal was negotiated had to be put before Parliament for 'a meaningful vote'. Thus, the executive was not free to settle the issue unilaterally.

> Theresa May could establish a majority if she can attract the support of the Remainers with a compromise solution, isolating the hard Brexiteers

But the deal has hit a snag. Since the Irish Republic is a member of the EU, the problem is that it shares a border with Northern Ireland which is part of the UK. The border was guaranteed to be free as part of an international treaty signed in 1998 to restore peace in Northern Ireland after thirty years of 'troubles'. The border cannot be free with one part in the customs union and one part out. The solution is that Northern Ireland could have freedom to fix its own customs regime. But Northern Ireland is firmly against any independence from the UK since its Protestant majority fears that devolution would lead to a reunion of North and South Ireland, a prospect against which the majority fought in 1920. The whole of UK has to be in or out.

The compromise fixed was that, for a temporary period, Northern Ireland would remain in the customs union till a free trade treaty is worked out between EU and UK. This is the back stop. But how long will the back stop last? No one can say. The Brexiteers and the Democratic Unionist Party of Northern Ireland want a fixed time limit to the back stop. The EU says it cannot allow this.

This is why the deal, negotiated by Theresa May, was voted out by the largest vote ever in the House of Commons last Tuesday. She has survived a no-confidence motion. She has to come back to Parliament on Monday with plan B. If she can come back with a deal which accepts the customs union but no single market (known as the Norway option), it would get a majority. Of course, it has to be accepted by the EU which has said the deal is not susceptible to amendment, so a new formulation of the back stop is the best bet. But the hard Brexiteers' dream of negotiating free trade treaties with everyone would not be satisfied. (In fact, any such treaty would take a minimum five years to negotiate. The Eton and Oxford elite are not burdened by facts). It could be that Theresa May could isolate the hard Brexiteers, about one-third of the Conservative Party, if she can attract the support of the Remainers with a compromise solution. This will give her a majority.

Parliament has taken power back in its hands. If UK is to exit the EU, it will be only with the support of a majority of the House of Commons. The executive has been properly humbled.

LETTERS TO THE EDITOR

Guarding angel?

To offer flexibility and reduce long-term debt for corporates, it is important to regulate alternative channels to raise capital, including investments by angels/VCs. Transparency demands that fund-raising channels, in addition to the listing route of IPOs/QIPs, comply with market regulations. Allowing a start-up to pick/choose the source of funding would facilitate quality investments and allow the firm to break-even quickly by attaining an optimal capital structure. Timely and extensive private equity funding can reduce the overheads for a firm in distress, improve the overall technical/business expertise and initiate a complete operational turnaround. Incentives of significant cost-savings, improved branding/goodwill and tax benefits, associated with a private equity buyout, can promote long-term holdings and certainty among stakeholders

— Girish Lalwani, Delhi

Peace prize should be announced every year

It refers to the Central government announcing the prestigious Gandhi Peace prize instituted on the 125th birth-anniversary of MK Gandhi together for four years from 2015 to 2018. It is a wrong practice to accumulate such prizes and awards together for so many years. It is noteworthy that even the Best Parliamentarian Award, to be given annually, is also usually clubbed for three years in a bid to please all by giving this honour to one Parliamentarian each from the ruling party, largest Opposition party and remaining other small parties. System should be for only one prize or award to be announced at a time, that too only for the year for which announcements are made, thus auto-cancelling the lapsed awards for earlier years. This will make governance much more accountable

— Subhash Agrawal, Delhi

● Write to us at feletters@expressindia.com

Regd. No: DL-21048/03-05. R.N.I. No.26750/74. Printed and Published by R.C. Malhotra on behalf of The Indian Express (P) Limited and printed at The Indian Express (P) Limited Press, A-8, Sector-7, Noida - 201301 and published at The Indian Express (P) Limited, Mezzanine Floor, Express Building, 9 & 10, Bahadur Shah Zafar Marg, New Delhi-110002. Phone: 0120-6651500, Fax: 0120-4367933. (Cover price: Patna: Mon-Fri ₹6, Sat ₹9, Sun ₹11; Raipur: Mon-Fri ₹7, Sat ₹10, Sun ₹10)
Chairman of the Board: Viveck Goenka, Managing Editor: Sunil Jain, Deputy Managing Editor : Shobhana Subramanian* (*Responsible for selection of News under the PRB Act) ©Copyright: The Indian Express (P) Limited. All rights reserved. Reproduction in any manner, electronic or otherwise, in whole or in part, without prior written permission is prohibited. The Financial Express®

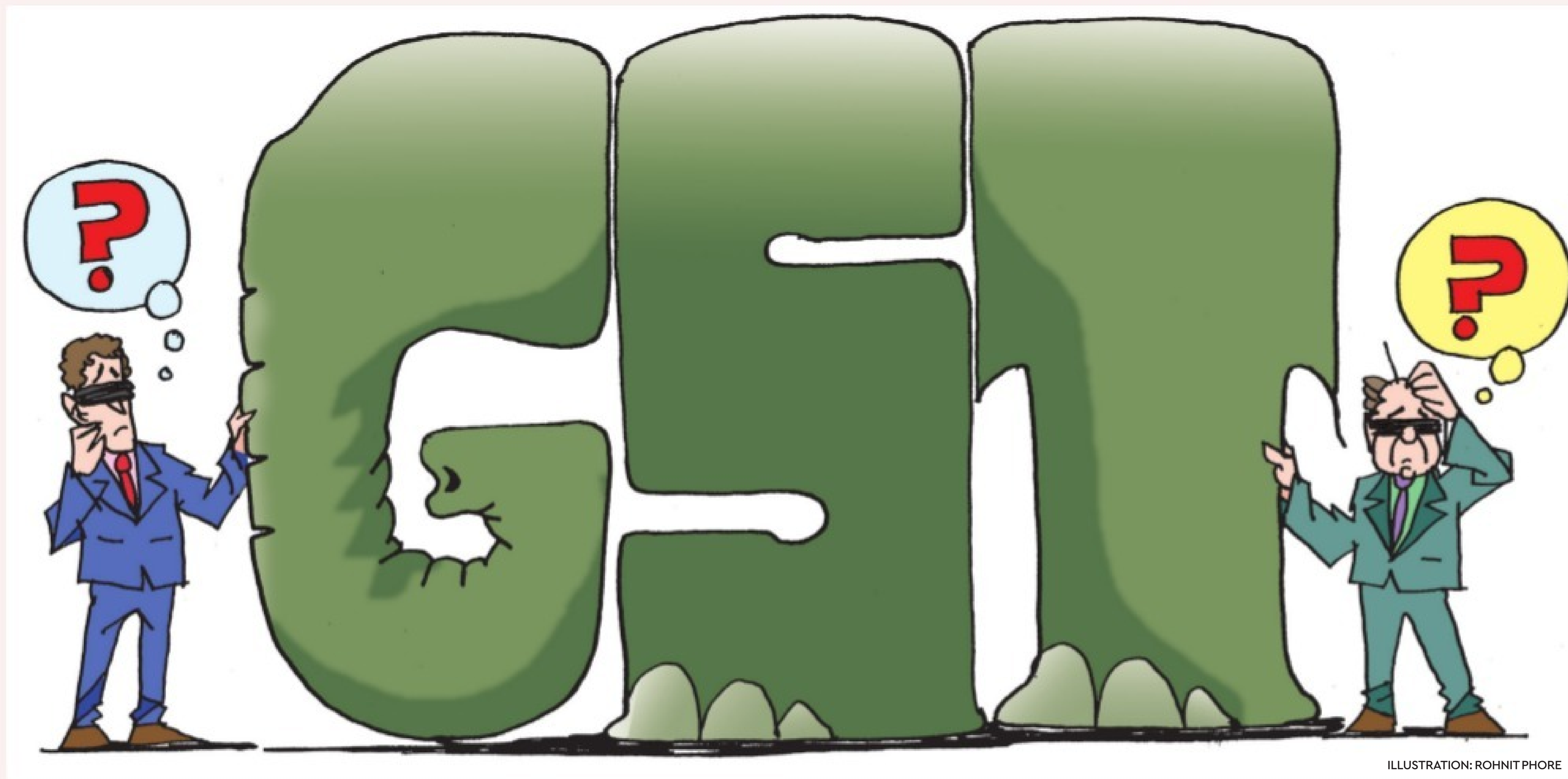

ILLUSTRATION: ROHNIT PHORE

RAHUL RENAVIKAR

Managing Director, Acuris Advisors Pvt. Ltd, Views are personal

Chaotic GST ahead

The writing's on the wall. In the run up to the general elections, there could be many changes to the very structure of GST

THE 32ND MEETING of the GST Council held recently will go down in history for paving the way for the GST to transition back to the chaotic state VAT era. The very purpose of having GST in the first place was to remove the non-uniformity in tax rates, regulations, procedures which were in force in the states' VAT laws. Also, at the Central level, excise duty levied on manufacture of goods and service tax levied on provision of services was combined into "supply of goods and/or services", and one common law was enacted which was uniformly applied on supply of goods and/or services.

Having already compromised on the global best practice of having one national GST where only a single GST is levied across the country rather than a dual GST, it was a natural expectation that the structure of the dual GST be kept simple and uniform across the country. In fact, the states were promised a compensation of the likely loss, subject to them maintaining the uniformity in SGST rates, procedures, rules, etc. While the Centre may succeed in doing so in the first five years of the GST implementation, and thus keep its promise, there is no guarantee that the states won't resort to making changes to their respective state GST laws and regulations. What transpired at the 32nd GST Council meeting was unbelievable. The threshold for registration (in case of non-special-category states), currently at ₹20 lakh and common for supply of goods and/or services, has been proposed to be doubled to ₹40 lakh—that too only in case of supply of goods. While the changes required to the CGST Act and the State GST Acts are awaited, it would be interesting to see how a person supplying both goods and services is subject to the new threshold. It is exasperating to note that some states have been given an option to decide the registration threshold for supply of goods in their jurisdictions, ranging from ₹20 lakh to ₹40 lakh. We might end up in a situation where, in state A, the limit is ₹40 lakh, while it's neighbouring State B has a ₹25-lakh threshold.

The next decision of the GST Council was to approve a levy of calamity cess of upto 1% on intra-state supplies made in Kerala for a period not exceeding two years. While the entire nation has sympathies for the people of Kerala, rather than resorting to a levy of calamity cess, the Centre should facilitate a direct relief package where every state can contribute according to its ability and willingness. Contribution by individual states should be matched by equal contribution by the Centre. If this such a precedent is set, it will further boost co-operative federalism, and our states would be convinced fully for raising of funds for any future unprecedented calamities. Levying a cess on intra-state supplies only in the calamity-struck state itself is a calamity!

The GST Council also proposed changes to the GST composition schemes. The GST composition scheme that was hitherto restricted only to suppliers of goods has now been extended to service-providers. The suppliers of services (or mixed supplies) having a turnover of up to ₹50 lakh in the previous year will have an option to pay tax under composition scheme @ 6%. This was never the case in the erstwhile service tax regime. The service-providers, small and big, were more than happy to comply with the service tax law. What made the smaller service-providers ask for a composition scheme? The answer lies in the fact that the tax compliance requirement was relatively easy in the erstwhile service tax regime wherein a registered service provider had to file only two bi-annual returns, although payment of tax was done on a monthly/quarterly basis depending on the threshold limits. The complex GST-returns structure and procedure has led to these demands from the smaller service providers and, hence, to the GST Councils' decisions that further add to the complexity of the GST structure.

On the revenue front, the GST Council has decided to keep further rationalisation of the GST rates in abeyance till such time the GST revenues rise. It is a universal truth that simpler the tax structure, better the compliance and hence better the tax revenues. Of late, GST revenues have not been upto the expectations of the policy-makers as they have been constantly falling short of the target. It seems that introduction of e-way bills, TCS and TDS mechanisms and other complexities haven't helped much the cause of revenue augmentation. Detecting tax evasion and realising the tax due would take some time, and it is imperative that till such time, the GST Council stays patient and does not further complicate the GST structure.

The GST Council seems to be moving away from the simplicity canon of GST, and the pressure from the state representatives in the GST Council ruled by different parties is shaking the very foundation of the GST. With parliamentary elections scheduled in a couple of months, the writing on the wall is clear. Brace for many such tweaks to the very design of the GST that took over a decade to see the light of the day!

Nothing to lose but their laptops!

Newton's third law is that every action has an equal and opposite reaction. The titans of technology have amassed great wealth but, like investment bankers before them, they have discovered that this doesn't bring them popularity. The past few years have witnessed a "techlash" on a wide range of issues, including the way tech invades citizens' privacy. With *Lab Rats: Why Modern Work Makes People Miserable*, Dan Lyons, a journalist who worked in the industry, has written an entertaining, if scattergun, attack on one aspect of technology's influence—the effect it has had on everybody's working lives. He argues that the industry has reduced real wages, made workers feel dehumanised and less secure, and exposed them to constant, stress-inducing change. Tellingly, the proportion of Americans happy with their jobs dropped from 61% in 1987 to 51% in 2016.

A particular target for his ire is the tech start-up. With their sweet-dispensers and ping-pong tables, they may give the appearance of friendliness. But in Lyons's experience, such firms are associated with very high staff turnover, especially in sales and marketing. They tend to be marked by a brutal management style; Lyons was told not only that he was failing, but that his fellow workers didn't like him. "Most startups," he writes, "are terribly managed, half-assed outfits run by buffoons and bozos and frat boys." Worse, they offer little job security because of the way they operate. "All they have is a not-very-innovative business model; they sell dollar bills for 75 cents and take credit for how fast they're growing."

Some tech pioneers promote a new compact with workers which holds that firms owe them neither loyalty nor job security. Workers should expect to move on as frequently as singletons at a speed-dating evening. Patty McCord, HR director at Netflix, was astonished when a woman burst into tears when she was fired. She wrote a book saying that employees should no longer expect their company to help them with career development or acquiring new skills. The chapter about sacking workers had the title "People Very Rarely Sue". Tech cos cover up their hard edges with a wide range of dubious management techniques. At the start of the book, Lyons attends a Lego Serious Play session where he is asked to build a duck out of bricks. Lego-building is embraced by those who believe in "agile" work, one of the most popular management fads, whereby staff are organised into ad hoc teams to complete a specific task. All this approach produces, he argues, is another set of meetings for employees. Another fad is for open-plan offices where workers lose all privacy. The main advantage accrues to the management, since the design saves money by cramming workers into a smaller space. (When Apple engineers found out that they were going to be housed in an open-plan set up, they rebelled and were given a separate site.) In the last section of the book, Lyons cites examples from the alternative school of management that is built around treating people well. Nurturing a reputation as a good place to work helps recruit better employees. Instead of obsessing about unicorns (start-ups worth more than $1bn), Lyons thinks the world should look for "zebras", which can turn a profit and improve society at the same time. Many modern workers will agree.

THE ECONOMIST

Powering the economy

CHANDRAJIT BANERJEE

Director General, Confederation of Indian Industry

Permit short-term coal linkages and allow allotment of coal to power plants

THE INDIAN POWER sector has witnessed many achievements in recent times. In a huge push, each and every village in the country stands electrified today, a truly landmark achievement. Under the Saubhagya scheme, power to all rural households and poor urban households is envisaged, with just 6.5 lakh targeted households remaining to be electrified. Power supply has improved and energy deficit has reduced substantially from a negative 4.2% in 2013-14 to just 0.6% in April-October 2018-19. The UDAY scheme, launched to safeguard the distribution companies (discoms), led to significant reduction in losses and an increase in their energy billing by 9% in 2017.

The most notable turnaround in the power sector has been the strong impetus to renewable energy (RE) with an ambitious capacity target of 175 GW by 2022. Today, RE accounts for as much as a fifth of total capacity with a doubling of the sector from 35 GW to 70 GW between FY14 and FY18. To ensure continued progress in the power sector, private investments can be built up through a beneficial policy ecosystem. The industry faces challenges relating to power purchase agreements, delayed payments, dispute resolution and pricing issues.

Coal shortage is a recurring issue in the absence of power purchase agreements (PPAs). States are reluctant to enter into long term PPAs due to price fluctuations as pass-through for increased costs on purchase of coal is pending. Lack of sustainable coal linkages lead to increased risks of projects, making them financially unviable. As short-term coal linkage is not permitted, this leads to tariffs as high as ₹12 per kilowatt hour, increasing consumer burden. Permitting short-term coal linkages for PPAs and removal of restrictions in allotment of coal to merchant power plants would help stressed plants to meet their debt obligations. To tackle the issue of high tariffs, a provision could be made in the amendments to the tariff policy.

The second issue is of delayed payments by discoms to generating companies, often going up to 7-8 months. This has significantly affected the conventional power sector, making companies unable to service their bank debts. Despite pressure on states for ensuring timely payments, the reform pace is slow.

Due to the severe liquidity crunch, power companies are unable to expand investments or participate in new projects. In addition, delays in revenue also put pressure on lending banks as investors cannot service loans, affecting bank performance. By May 2018, total unpaid dues by discoms to 23 power producers stood at ₹44,195 crore. An institutional arrangement may be considered through which investors can be protected from uncertainties over such delayed payments. "Bill discounting" should be introduced, which a bank or financial institution such as Rural Electrification Corporation (REC) or Power Finance Corporation (PFC) takes from a seller to release funds before the credit period ends. The power company's bill will then be presented to the discom and the full amount will be collected. This would enable liquidity and timely release of funds to investing companies. This mechanism can be supported by the state governments and the central government could step in if PFC and RFC are not paid.

Three, substantial amounts of money are stuck in several stages of arbitration and litigation. Arbitration proceedings take several years for resolution, adding to the woes of the power companies. Disputes and resolutions cost both time and money, while lenders turn averse to companies involved in litigation. In 2015, the Cabinet decided that 75% of the disputed amount could be paid to construction companies, if adjudication is in their favor. This decision could be extended to the power sector as well. A bank guarantee could be provided by the private company on the amount, so that liquidity and cash flow are not held up in courts.

Four, in the renewable energy sector, low tariff caps in tenders offered by central and state governments are discouraging bidders from participating. RE companies are facing higher costs from interest rates, currency volatility and import duties, and caps on tariffs reduce their risk appetite. Several bids have been cancelled recently, impacting investor confidence.

In this context, industry recommends that tariff caps be removed as soon as the market picks up. To enable more realistic caps, an open and transparent mechanism in the interim is recommended, through which consultations can take place with the industry before a cap is fixed for a certain project.

Rhetoric no salve for farm distress

We must increase farmers' incomes on a permanent basis, so they don't fall into frequent debt traps

PP SANGAL

Former ISS, UN consultant and director, CSO, GOI

FARMERS IN INDIA (also in undivided India) have generally been poor, and it has not been only the phenomenon of post-reforms period in Independent India, as believed by some. Yes, now it is becoming worse day by day. Farmers' distress over the past few years has taken a new dimension so much so that political parties, without exception, are now using it as an opportunity to win elections by promising farm loan waivers if they come to power. This has already happened in 11 states since 2014-15 when the BJP-led NDA-2 came to power at the Centre. These states are Andhra Pradesh, Telangana, Chhattisgarh, Tamil Nadu, Jammu and Kashmir, Uttar Pradesh, Punjab, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan. Of these, the two states of Chhattisgarh and Rajasthan (under both Congress and BJP regimes) have offered two waivers each.

However, after the results of the recently-held elections in the three states of Madhya Pradesh, Rajasthan and Chhattisgarh, a question is being asked whether farm loan waivers are the right strategy to combat farmers' poverty? It has now been realised, by all rightly thinking persons, that loan waivers are only an election stunt and not a solution to alleviate farmers' poverty on a permanent basis. There are two main reasons for this:

- One, loan waivers do not benefit small and marginal farmers (who are the main suffers) because they normally borrow from non-formal sources such as private moneylenders, which constitute 40% of total loans, and not from any formal institutions like banks, etc. Thus, nearly 60-85% of farmer households, varying from state to state, do not benefit from loan waivers, which come with a lot of riders, too.
- Two, and importantly, loan waivers limit the government's resources for further development work, disrupt the credit cycle, and cripple the fiscal health of an economy because a huge amount is spent on loan waivers and which goes down the drain. Currently, the total agricultural loans amount to Rs 10.5 lakh crore, while only 23% of this has been waived since 2014-15. Can the states afford this?

After episodes of loan waivers, a new plan has been thought over to placate farmers. Telangana is the first case in point, which is paying ₹4,000 per acre per sowing season to all farmers without any upper cap. West Bengal has announced ₹5,000 per acre yearly to 72 lakh peasant families, but restricting only to small/marginal families, unlike Telangana. Odisha, too, under its initiative called the Krushak Assistance for Livelihood and Income Augmentation (KALIA), announced a special package of ₹10,180 crore, in which 60 lakh small, marginal and landless farmers each would get ₹10,000 in two instalments for rabi and kharif crops for three years. Lately, Maharashtra is also mulling with a similar idea. It should be understood that these direct cash transfers would entail large amounts like loan waivers. Will it be sustainable or not?

For benefiting farmers, the Centre, in conjunction with states, has fixed the minimum support price (MSP) for several major crops. This scheme is not working satisfactorily because of insufficient funds and inefficient management, resulting in distress selling by farmers at a price much lower than MSP. Further, it has been observed that crop insurance is not benefiting farmers due to its tardy implementation.

In the above scenario, it appears that neither loan waivers nor the recent experiments by some states for direct cash transfer will eventually help poor farmers. Here, what is required is to increase farmers' incomes on a permanent basis, so that they don't fall into frequent debt traps. From all considerations, I think MSP, along with other measures as described in my two earlier articles ('Wither Jai Kisan?', February 1, 2018, *goo.gl/b2E1SB*, and 'Making agriculture climate resilient', May 18, 2018, *goo.gl/sJd47g*), can provide an answer to farmers' distress, provided the following steps are taken by the Centre and states:

- Re-examine carefully if MSP can be revised upwards to ensure better prices to farmers;
- Ensure sufficient funds so that the farm produce (including minor forest produce of tribals) can be purchased by governments in large quantities, especially when there is a glut in production and a consequent decline in prices in the open market;
- Create proper and adequate storage/cold storage facilities for perishable crops such as vegetables and fruits, so that distress selling is not resorted to by farmers;
- Develop food processing industry in rural areas in large measure, especially for short-life commodities, to avoid wastage. Do we know that while in India only 7% of food crops are processed, in China, the Philippines and the US, it is 23%, 78% and 65%, respectively?
- Provide some additional/alternative sources of income to farmers as mentioned in the Indian Council of Agricultural Research's programme called the National Innovations in Climate Resilient Agriculture (NICRA);
- Empower farmers to enable them to sell their produce directly to the consumers and bulk buyers, through the use of technology, for ensuring remunerative prices.

I must also add some new thinking to meet the challenge of farmers' distress. Besides what has been said above, it is thought that more Indians than what it should be are employed in agriculture. According to the World Bank, while the global average of such people is 27% (in 2017), these figures for India, China, Brazil, Russia and South Africa (BRICS nations) are 43%, 18%, 10%, 7% and 6%, respectively. Looking at the figure of 43% of our country, which is the highest, it seems that, perhaps, we need to divert some people from farming and engage them in sectors such as services and manufacturing by developing appropriate skills in them and providing the necessary infrastructure for the establishment of micro, small and medium enterprises (MSMEs) across the country.

To conclude, we must take urgent and sincere action in a focused manner. Mere slogans and rhetorical statements would not end farmers' poverty.