Opinion

TUESDAY, FEBRUARY 12, 2019

JUDGING IN THE DIGITAL ERA

AK Sikri, judge of Supreme Court of India

"Even before [an issue] is taken up by the court, people start discussing what should be the outcome. Today, judging is under stress"

Education determines income levels, not caste

The evidence is crystal clear, but no politician wants to pay attention as vote-bank politics comes first

THANKS TO PRIME minister Narendra Modi's decision to implement a 10% quota for the upper-castes, subject to their incomes being below ₹8 lakh a year, as well as his plan to sub-categorise the OBC quota into that for various caste groups—this will prevent OBC quotas from being cornered by a few powerful castes—caste tensions have got a fresh fillip on the eve of the elections. The truth that most politicians are choosing to ignore, however, is that caste is no longer the determining factor of family well-being that it once was; indeed, the impact of caste is probably weakening as economic growth—and the opportunity associated with it—is rising.

Data from the People's Research on India's Consumer Economy (PRICE)'s latest all-India survey in 2015-16 confirms this trend that was first visible in the household income survey done by NCAER in 2004-05. NCAER's survey that tracked households by their caste as well as other characteristics found that family incomes were determined more by their educational background, by whether they were located in big or small cities, in high- or low-growth states, etc, than by their caste background. The PRICE survey of 2015-16 shows this trend has only strengthened. To begin with, the PRICE survey shows every caste group is better off in 2015-16 except for upper castes. So, the income of SC households (*bit.ly/2SA6Vn5*) was 89% of the all-India average in 2015-16 as compared to 71% in 2004-05; the same numbers were 84% and 63% for ST and 98% and 92% for OBCs but for upper castes, the numbers were 120% and 133%. Some will argue that while there has been an increase in the relative incomes of SC/ST/OBC households, this was the result of the policy of reservations in educational institutions as well as in government jobs.

This does not hold, however, for two reasons. Apart from the fact that government jobs are a small fraction of all jobs in the country, the fact is that income levels for SC/ST/OBC families are rising faster in high-growth states as compared to low-growth states; had caste groupings been the main determining factor, this would not have been the case. To take the case of SC households, for instance, their relative incomes grew much faster in Kerala (a high-growth state) as compared to, say, Uttar Pradesh (a low-growth state). The ratio of FY16 to FY05 incomes for SC families was 6.3 in Kerala versus just 3.7 in Uttar Pradesh; in the case of OBC households, FY16/FY05 incomes in Kerala were 4.8 versus just 3.1 in Uttar Pradesh. In absolute terms, in 2015-16, incomes for households headed by illiterates were ₹90,285 for SCs and this wasn't too different from the ₹93,756 when the house was headed by an upper caste. But when an SC household was headed by a graduate or above, the income rose to ₹303,680, or 3.36 times. It is true that an upper caste household headed by a graduate earned more, at ₹372,303, but this is less important given the sharp increase in the SC income levels.

Another study using NSS data finds that if a parent in rural India had studied till just Class V—this includes illiterates—there was a 58% chance his child also studied till this level in 1983; this fell to just 29% by 2009-10. And while there was a 1% chance the child of such a parent could have passed Class XII in 1983, this rose to 14% by 2009-10. In other words, with reservations now there for around 70 years, there is no reason to continue with them since, with time, the spread of education has risen manifold. It is unreasonable to expect politicians to rein in reservations at election time, but sooner rather than later, someone needs to examine what the data is telling us.

Essar saga still goes on

SC nixes operational creditor pleas, but Ruias file another case...

THE SUPREME COURT (SC) has done well to dismiss the pleas of operational creditors of Essar Steel; it ruled on Monday that these were not valid. However, even with this, there is no guarantee a decision on the bankrupt steel-maker's future will be arrived at soon. On Monday, the promoters of Essar Steel, the Ruias, appealed in the NCLAT (National Company Law Apellate Tribunal) against a January 29 decision by the Ahmedabad bench of NCLT (National Company Law Tribunal) which held that the ₹54,389 crore resolution plan put forward by the Ruias was not maintainable. This bid had been made last October.

Indeed, the resolution of Essar Steel, under the CIRP (corporate insolvency resolution process) has taken way too long, more than 500 days since it was initiated. Even the deadline for resolution of cases solved till end-December 2018 was a fairly high 313 days. Even though the SC had asked the Ahmedabad bench of NCLT to deliver a verdict on Essar Steel by end-January, the several appeals—by operational creditors and now the promoters—are delaying the process. To be sure, the CIRP is in its early days and with precedents being set, the next lot of cases will see speedy resolutions. The law, too, must be amended if necessary to clearly state that promoters—or other applicants for that matter—cannot put in late bids. The Ruia bid was made after the CoC (Committee of Creditors) had approved the ArcelorMittal proposal. Lenders to Bhushan Power and Steel (BPSL) had last Friday rejected a bid from the erstwhile promoters to repay the financial creditors. Even before this, the courts had allowed late bids for the company, after Tata Steel had been declared the preferred bidder.

Indeed, the Essar Steel delay has cost the banks dearly, with daily losses at about ₹17 crore. The good news is that the SC has upheld the Insolvency and Bankruptcy Code (IBC) in its entirety, saying that a person unable to service the debt beyond the grace period is unfit to be eligible to become a resolution applicant. However, the process should not be torpedoed by promoters looking to regain control of their businesses. Indeed, there have been differences in the manner in which the judges have ruled and the sooner these decisions are standardised the better for the system. The NDA government has taken the initiative to help lenders recover their money and preserve costly assets. It is up to the judiciary to ensure that banks get back their money at the earliest.

DigitalDetox

Fighting digital addiction needs an institutional push now; else, digitech-induced alienation will only grow

THE WORLD IS more 'connected'—strictly in the digital sense—and yet the disconnect/alienation digital devices (a proxy for staying 'connected') foster in the real world is impossible to ignore. While all this 'connectedness', per se, may not be 'evil'—it saves time, money, and energy—how the world has taken to digital technology, reflected in the growing screen times across countries, there has been unpleasant, indeed, damaging fallout. Research shows that social media may well be making many of us unhappy, depressed and—paradoxically—antisocial. Even Facebook gets it. A study that Facebook cited in a blog post revealed that when people spend a lot of time passively consuming information, they wind up feeling worse. Excessive users and readers of online media have also reported feeling isolated, a lack of sleep, stress, inability to focus and addiction. In India, a door-to-door survey of 2,750 people funded by the Indian Council of Medical Research (ICMR) revealed 5-9% in the 15-50 age group were addicted.

In a bid to tackle this phenomenon and spread awareness of the dangers of becoming over-reliant on technology in the country, the Service for Healthy Use of Technology (SHUT) clinic at the National Institute of Mental Health and Neurosciences (NIMHANS) in Bengaluru, since 2014, has been devising strategies to treat "technology addiction". Bengaluru's schools have a digital detox day on which the Wi-Fi is switched off, as are mobile phones, tablets, computers and other gadgets, both in the school and home, by pushing for parents to spend more time with their children at home. Restaurants are now offering discounts to patrons for "logging out"—by depositing their gadgets with the restaurant for the duration of the meal. This is indeed a healthy way to impose a curb on screen-time. But, an institutional push towards educating the masses about the dangers of digital addiction is what is badly needed—given tech addiction has become widespread.

RENEWABLES OUTLOOK

DOMESTIC SUPPORT FOR WIND POWER HAS ENABLED INDIA TO BECOME THE FOURTH LARGEST IN THE WORLD WITH AN INSTALLED CAPACITY OF OVER 34 GW AS OF JUNE 2018

Tailwinds for a renewables future

HL BAJAJ

Former chairperson of CEA and ex technical member of Appellate Tribunal for Electricity

INDIA'S ECONOMY IS the world's sixth-largest by nominal GDP and the third-largest by Purchasing Power Parity (PPP). It is the world's fastest growing major economy, as well. India is the third largest energy consumer in the world and is the backbone of the economy. Access to cheap energy is essential to India's sustained accelerated growth. As per International Energy Agency (IEA), India's aggregate energy consumption will more than double by 2040. This growing demand for energy has been traditionally dependent on imports of conventional energy like coal, oil and natural gas which poses a threat to India's energy security. Strategically, it is important that a country is energy independent or it meets the requirements of energy security which means 'the uninterrupted availability of energy sources at an affordable price'.

India has a high potential for generation of renewable energy from various sources—wind, solar, biomass, small hydro and the cogeneration of bagasse. The total potential for renewable power generation in the country as on March 31, 2017, is estimated to be at 1001 GW which includes a solar potential of 650 GW, 302 GW of wind power potential at 100 m hub height, small hydro potential of 21 GW, biomass power of 18 GW, 7 GW from bagasse based cogeneration in sugar mills and 2.5 GW from waste to energy.

Renewable energy offers significant potential to contribute towards the growth and development of India's power sector without impacting the fuel reserves or greenhouse gas emissions. It is essential that India deploys all available energy resources including renewables to ensure energy security. According to the International Renewable Energy Agency (IRENA), wind power has emerged as one of the fastest-growing clean energy sources in the world.

Considered much cheaper than solar, wind energy is globally emerging as a favourite option, especially when energy is a major expense. It is now being deployed and is operational in many countries. This change is purely driven by improved economics of wind energy and a shift from dependence on fiscal benefits. National concerns and leadership thrust on energy security, emissions reduction and cost-effective generation also makes wind energy the preferred choice.

Wind power development, which started in India in the 1990s, has significantly increased in the last few years. India plans to add 60 GW of wind power installed capacity by the year 2022. Although a relative newcomer to the wind industry as compared to Denmark or the US, domestic policy support for wind power has enabled India to become the fourth largest in the world with an installed capacity of over 34 GW as of June 2018. The total installed capacity of renewable power, which was 43 GW as on March 2016, had gone up to 57 GW as on March 2017. Of this, wind power alone accounted for 56% of renewable power capacity.

> Next-generation wind turbines can deliver around 35-40% plant load factor (PLF) in high wind states, about twice the PLF compared to solar

According to Global Data's Wind Power Market Update 2018, the size of the global wind power market increased from \$21.4 billion in 2006 to \$94.5 billion in 2017, at a CAGR of 14.4%. The global cumulative installed capacity for wind power grew from 74.6 GW in 2006 to 547.3 GW in 2017, at a CAGR of 19.9%. There was a total addition of 52.3 GW in 2017. During 2018–2025, the wind power market size is expected to increase from \$94.9 billion to \$98.9 billion.

The boost is primarily driven by robust government policies, and an increase in capacity, led by India, China, the US, Germany and other emerging countries. The need for cleaner, reliable, and affordable power is further stimulating this growth. Interestingly, wind power is more popular than solar in the US. Out of all the renewable energy produced in the US in 2017, 21% came from wind, while just 7% came from solar power. Utilities and large-scale operations prefer heavily utilised wind energy while homeowners prefer solar energy. India is no exception. The nation produced 102 billion units of power from renewable sources, or close to 8% of the total, in the year ended March 2018. With wind energy leading the growth, it contributed 52.7 billion units, solar contributed about 25.9 billion, 11.8 billion from bagasse (sugarcane) and 7.7 billion units from small hydro power.

With the right steps, India's wind industry is poised to meet the government's revised target of 67 GW ahead of 2022. Moreover, wind is riding strong on the competitive bidding regime and an increased demand for green energy that is reliable, affordable and a mainstream source of energy. The wind Industry is regaining momentum, considering there is a clear visibility of 10-12 GW with a plan of further bids by the ministry of new and renewable energy (MNRE). Some Indian states have also come up with novel schemes by identifying areas where agriculture is not very intensive and remunerative. Such initiatives do not involve the process of land acquisition, while making use of the land for a fixed annual payment carried through a partnership between the government and farmers. Piloting technologies such as the wind-solar hybrid, where both windmills and solar panels are put up on the same piece of land, are also paying off well.

India's renewable energy sector has attracted investments of over \$42 billion over the past four years and green energy projects have created over 10 million man-days of employment per annum over this period. As per the power ministry's study to meet energy requirements for the year 2026-27, India will need to build 275 GW of renewable energy capacity by the end of 2026-27.

The nation's strategy to decarbonise its electricity supply industry has been augmented by advanced technologies, cost reduction, and a growing interest from global renewable players, utilities and investors. It offers a sustainable solution to the country's growing energy requirement and climate change issues, whilst also reducing its excessive reliance on imported and expensive fossil fuels, provides an opportunity to create jobs and boosts the government's 'Make in India' program with manufacturing potential in the entire energy efficiency value chain.

Certainly, at the current rate, India's wind industry is on course to add 30 GW of new capacity in the next three years, taking the cumulative total capacity to over 64 GW. This brings an edge of scale at the project level and cost optimisation. With an improvement in technology, the next-generation turbines can deliver around 35-40% plant load factor (PLF) in high wind states, about twice the PLF compared to solar.

Technological advancement in the wind sector is also making it possible to harness wind at sites which were earlier unviable. Going by these trends, India seems to be on track to double its wind capacity. While Karnataka and Tamil Nadu currently lead the way in renewables, other states of India are also poised to harness wind energy.

Further, conducive policies such as exemption of interstate transmission charges and losses on solar and wind power projects up to March 31, 2022, are giving impetus to expand the reach of renewables. As available supply and market demand continues to grow in an increasingly healthy market, wind energy is set to become more important across the globe. This would place India amongst the leading wind energy producers in the world. The future looks green and bright for wind. This trend will greatly enhance India's energy security.

NDA's corruption experience

The fact that 53% of Indians believe that the government is doing well in fighting corruption may well be PM Modi's greatest achievement in the fight against corruption so far

SUVRAJYOTI GUPTA

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RECENTLY, THE TRANSPARENCY International's Corruption Perception Index (CPI) 2018 was released where India's ranking rose by three points, giving the Central government a much-needed boost in an election year. This is the most appropriate time to revisit the BJP government's corruption performance between 2014-2018. In 2018, India stood at 78, while China ranked 87 and Pakistan 117 in the CPI Index. Since 2015, India's average CPI has been 78.5. The CPI is based on the opinions of business people and country analysts. It can be seen as an important indicator of business/investor sentiment that effects foreign direct investment. For example AT Kearney's Foreign Direct Investment Confidence Index shows that investors rank "regulatory transparency and lack of corruption" as the most important factor influencing their decision to invest. So when a legal counsel is asked to advise about the business risk associated with corruption in a given jurisdiction, the CPI is what he might look into. The CPI ranks can be attributed to the fact that the NDA has been disciplined, and has so far managed to avoid mega corruption scandals that rocked the UPA II.

The CPI, however, do not capture the everyday experiences with corruption of people. For that, we have to look to the Global Corruption Barometer (GCB) released by Transparency in 2017 (GCB for short). GCB found that the experience of corruption is much higher in India with nearly 69% of Indians having paid bribes compared to 40% Pakistanis and 26% Chinese. The government has tried to address this corruption experience by rationalising corruption sources through key economic initiatives.

For example, the improvement in India's ranking under "Ease of Doing Business" has come because of radical improvement in just two parameters, namely 'trading across borders' and 'issuance of building permits', both of which have been digitised and been taken to single window clearance. Similarly, the introduction of the Goods and Services Tax (GST), instead of myriad state taxes, would hopefully reduce impediments to interstate commerce, introduce transparency and reduce tax evasion. Aadhaar gives people a reliable identity document. Tax evasion, inter-state trade, building permits and procurement of identity documents have been traditional rent-generating areas. The NDA, however, failed to reform other public services that are prone to bribery, namely public schools, public hospitals, courts and the police (GCB).

When it comes to black money, the NDA's inflated rhetoric undermines its solid achievements. It was never possible to put ₹15 lakh in every account. However, the NDA did manage to get declarations worth approximately ₹76,000 crore under its three flagship 'black money projects', namely Income Declaration Scheme (IDS) in 2016, Pradhan Mantri Garib Kalyan Yojana (PMGKY) 2017 and under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

The NDA updated the anti-corruption laws in the country. It enacted the Prevention of Corruption (Amendment) Act 16 of 2018 (criminalises bribe giving, creates corporate criminal liability, extends the definition of criminal conduct), and the Benami Transactions (Prohibition) Amendment Act, 2016 (provides for expedited procedures to deal with property held for a beneficial owner where the same is fictitious or untraceable), amongst others. These legislations bring the Indian law closer to the UN Convention on Corruption 2003. There has been increased prosecution under these legislations in the last few years, leading to perhaps some deterrence against corruption.

The jury is still out on demonetisation though. It was seemingly targetted at the destruction of accumulated black money. Critics point out that 99.3% of the demonetised notes are back with RBI and India's cash to GDP ratio remains almost the same, so, apparently, the exercise has failed. They also point to the collateral damage to the economy in terms of growth and jobs. The BJP, on the other hand, points to the tax compliance, as evidenced through rising income and corporate taxes collection, as a positive effect. Thus, even if demonetisation has failed to destroy black money, it might have slowed down its formation.

In one area where even the NDA has failed to make any difference is in building appropriate enforcement institutions, or anti-corruption infrastructure. The dysfunction in CBI is typical of this failure. Not only has the agency's image suffered due to infighting but it remains severely understaffed (a problem noted by the parliamentary standing committee). There have been no serious efforts at building capacity at CBI or any other agency. It also has a large backlog of cases. Enlightened laws and good intentions are to no avail if the enforcement does not match up. In the end, the GCB finds that 53% of Indians believe that the government is doing well in fighting corruption. This level of public confidence may well be PM Modi's greatest achievement in the fight against corruption so far.

LETTERS TO THE EDITOR

Virtual coin, gone for a toss

It is important to expedite the launch of an alternative crypto-format digital currency, with improved transparency and norms on asset categorisation, valuation and end-use. The underlying blockchain technology has found application in management of treasury and working capital, settlement among subsidiaries and payment to vendors/suppliers. Although the restrictive/stringent regulatory stance ought to be retained in order to mitigate risks of money laundering, opaque pricing and high market volatility still prevail. That said, some of the bullish brokerages speculate the likes of bitcoin to create newer all-time highs and emerge as the new gold standard, even as the India story outrightly rejects an unregulated crypto-currency as a potential solution to the debt problem

— Girish Lalwani, Delhi

Exemplary punishment

Pope Francis deserves praise for his open admission that some of his priests and even Bishops have sexually assaulted nuns and for owning responsibility for such crimes committed by his prelates. We regularly come across serious crimes, including murders, committed by some of the so-called fake gurus, priests, *swamijis* and *sadhus*. Most of them escape punishment thanks to their money power and the clout they have with the top politicians of the country. It is paramount that punishments are meted out to such fake 'God men' and religious 'gurus' who are a real threat to the society and the religion they belong to

— Anna Mary Yvonne, Chennai

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DBT more efficient, effective than input subsidies

The prerequisites for implementation of DBT are proper land records, appropriate strategy to target farmers by issuing 'cultivator cards', along with a criterion to cap the size of landholdings for receiving subsidy

THE ISSUE OF AGRICULTURAL subsidies in India has been a hot potato for long. The government subsidises agriculture in a number of ways. It provides direct subsidy through fixation of minimum support price for essential crops and purchase of machinery, drip and sprinkler irrigation under various centrally-sponsored schemes. The indirect subsidy is extended through provision of inputs such as irrigation, fertiliser and power at prices much below their cost of production. Short-term institutional loans are also advanced to farmers at lower rates of interest compared to the prevailing market rate. As of today, even the waiving off of institutional loans is becoming a norm. Input subsidies—though these aim to incentivise farmers to accelerate investment and output—have mostly been provided to compensate them for the loss owing to a deliberate policy to keep output prices low for consumers.

It goes without saying that the price-based support has been a catalyst in increasing the acreage and output of foodgrains and making India self-sufficient and food secure. But it has become a central concern of every policy discourse in India that the misconceived policy framework has made farming non-remunerative and squeezed farmers' income mainly due to manifold increase in the price of inputs vis-à-vis output. The efficacy of input subsidies is, therefore, questioned on grounds of enormous fiscal burden on the exchequer, lower marginal returns from the additional expenditure, price distortions in input and output markets, and excessive use of inputs and their adverse impact on natural resources. Small farmers hardly benefit from subsidies due to prevailing corruption, leakages, lack of ownership of pumpsets and land titles.

The flow of subsidy has increased manifold over time. The subsidy estimated for fertiliser, power, irrigation (canal) and credit (interest) across 20 major states has grown from ₹127 billion in 1983-84 to ₹1,050 billion in 2013-14 (at 2004-05 prices)—at an annual rate of 6.2%. During 2013-14, per-hectare subsidy was ₹7,891, with a high percentage share of fertiliser (36), followed by power (31.9), credit (19.5) and irrigation (12.6), respectively (according to IFPRI, 2017). Its share is almost 19% in the average net income of farmer estimated at ₹42,000 per hectare.

Pulling out subsidies, as has been argued in various fora, is feared to increase input prices, especially of fertilisers that may adversely affect their application and consequently productivity and income. It may also be not a sound proposition in view of high volatility in output prices due to vagaries of nature and large uncertainties that farmers face in the disposal of the produce. The process of price discovery of commodities in the regulated markets (*mandis*) is still opaque, with hardly any policy intervention to support farmers in a situation of plunge in prices.

One feasible policy change that merits its attention for the larger benefit of farmers is to opt for direct benefit transfer (DBT). Telangana has taken the lead by providing an investment support at ₹20,000 per hectare (₹8,000 per acre) irrespective of the size of the landholding, crops grown and inputs used. Lately, Jharkhand and West Bengal have also announced cash assistance of ₹5,000 per acre to farmers. Without deliberating into the rationale of fixation of this amount and modus operandi, we deliberate on the amount of cash transfer to farmers in lieu of the current practice of providing subsidised inputs.

One simple way is to transfer the amount that the government incurs on subsidy. For 2013-14, our estimates for 20 major states indicate a total expenditure on input subsidy at ₹1,970 billion (at current prices). Taking the net sown area of 138 million hectares, the average expenditure of ₹14,000 per hectare can be directly transferred to farmers' bank accounts. This amount tantamount to ₹2,044 billion if the government decides to transfer cash as per total 145.7 million operational holdings across the country. It would considerably be lower at ₹1,760 billion and save money if support is restricted to marginal and small farmers representing 86% holdings (Agriculture Census 2015-16). The second approach is to estimate the percentage increase in expenditure on input equals per-hectare subsidy/actual expenditure*100. Multiplying this percentage change (increase) with elasticity of production with respect to input price (i.e. cross price elasticity) provides an estimate on the impact of subsidy withdrawal on percentage loss in the value of output per hectare.

The third approach, which we have used for quantifying DBT in fertiliser, is to multiply the percentage increase in input price in a situation of subsidy removal with estimated cross price elasticity. It indicates a percentage reduction in the value of output, which is taken to represent loss in net farm income due to consumption of inputs at market price. It provides a case that the same amount be directed towards cash transfers in the form of income support. Our calculation based on NSS-AIDIS 2012-13 shows that keeping changes in demand, price of output and other factors constant, a complete withdrawal of fertiliser subsidy would result in an increase in price and hence a 12% decline in output, which can be prevented through cash transfer of ₹5,180 per hectare, very close to ₹5,100 per hectare estimated under the first approach. The DBT for fertiliser varies from ₹1,300 per hectare in Chhattisgarh to almost ₹10,000 per hectare in Haryana, contingent upon its consumption and response to own price and output in each state.

> DBT should exclude large farmers and enable small, marginal, tenant and women cultivators, who are large in number, and are generally indebted and devoid of land titles

A DBT to the end-users, i.e. farmers, seems to be more cost effective. In case of fertiliser subsidy, the government doles out nearly ₹730 billion each year. This year, an additional amount of ₹700 billion is allocated towards a pilot project initiated in 14 states on sale to farmers, duly verified through e-machines installed at input dealers. The fertiliser companies will get a subsidy amount on receipt of sale records submitted by each dealer. Owning to high digital infrastructure requirements, errors in operating Aadhaar card and transaction costs of DBT to companies, it would barely save money. In contrast, the benefit of DBT to farmers at ₹14,000 per hectare is a guaranteed delivery to their accounts, which has never been the case due to rampant leakages and forced share of middlemen. It will also enable farmers in taking independent decisions on use of inputs. The cash transfer can be revised based on the rate of inflation, use of inputs and their respective prices.

The prerequisites for implementation of DBT are proper land records, appropriate strategy to target farmers by issuing 'cultivator cards', along with a criterion to cap the size of landholdings for receiving subsidy. This move should essentially exclude large farmers and enable small, marginal, tenant and women cultivators, who are large in number, generally indebted and devoid of land titles to receive the monetary benefits and come out of the agrarian crisis.

INTERIM BUDGET

Past, present and the 'future'

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Laying out a vision on the 10 most important dimensions, going up to the year 2030, is thoughtful move

THE BUILD-UP TO the Interim Budget was interesting, with the announcement of farm loan waivers by some state governments, different expectations from the Budget, concerns about the fiscal deficit being contained, and the parliamentary nod for not tinkering with the Income-tax Act.

Amidst this, the finance minister stood up and presented on the past, the present and the future—summarising the achievements of the present government over its term, announcing benefits to farmers, workers in the unorganised sector and income-tax payers, all in the lower strata of their respective groups, and laying out a vision on the 10 most important dimensions, going up to the year 2030.

While this, along with the shortfall in collection of GST revenues, has resulted in the fiscal deficit slipping to 3.4% in the current year, the glide path to containing the fiscal deficit to 3% by 2020-21 was simultaneously laid out.

Physical infrastructure is important to business, and the Budget speech brought out the accomplishments in this regard. Regulatory infrastructure is as important to business as physical infrastructure, and does get factored in as the goalposts of the state of maturity of an economy.

Notwithstanding teething issues, the rolling out of the insolvency law and GST have indeed been big and bold developments on this front, and should hopefully bring in the full benefits in the years to come.

Digital and technology spanned across many of the 10 most important dimensions stated up to the year 2030. At a more granular level, the proposal to process income-tax returns in 24 hours along with a simultaneous issue of refunds is a very specific and laudable goal. And the plan to verify and assess almost all returns electronically by both tax experts and tax officials is another big one.

> At a more granular level, the proposal to process income-tax returns in 24 hours along with a simultaneous issue of refunds is a very specific and laudable goal

Two tax proposals were very targeted in their approach and wide in their coverage. One was that of increasing the TDS free receipt of interest from banks and post offices from ₹10,000 to ₹40,000, and the other pertained to benefiting individual resident taxpayers having a total income of up to ₹5 lakh. The latter would ensure that while taxpayers in the income range of ₹3.5 lakh to ₹5 lakh get the tax benefit, they continue in the tax database by filing a simple tax return electronically. And, of course, there is the small benefit for the salaried class beyond ₹5 lakh, in the form of a hike of ₹10,000 in the standard deduction.

Given the vast employment opportunity that the real estate sector generates, and the impact that demonetisation, RERA and GST have collectively had on this sector, industry and investors will indeed welcome the direct and indirect benefits spanning across various fronts, including removal of the notional tax on the second self-occupied property, extending the tax exemption on stock-in-trade to two years, extending the approval time for affordable housing projects by another year to March 2020, permitting the capital gains benefit for investment in two houses for gains up to ₹2 crore, and hiking the TDS free receipt of rent income from ₹1.8 lakh to ₹2.4 lakh. Of course, home-buyers would also be keenly awaiting recommendations from the GST Council.

Various reasons have led to a steep downward revision of ₹1 lakh crore in the GST collection estimates for the current fiscal, and it is heartening to note that corporate tax collections estimates are encouraging and the revised numbers are expected to make up about half of this shortfall.

Last, but certainly not the least, a big thank you to the finance minister, for thanking taxpayers and noting their valuable contribution towards nation building and providing a better life to others. In the din and noise, this piece gets lost out more often than not.

INDEPENDENT DIRECTORS

A tightrope walk

The critical success factor is the ability to balance well

PANKAJ ARORA

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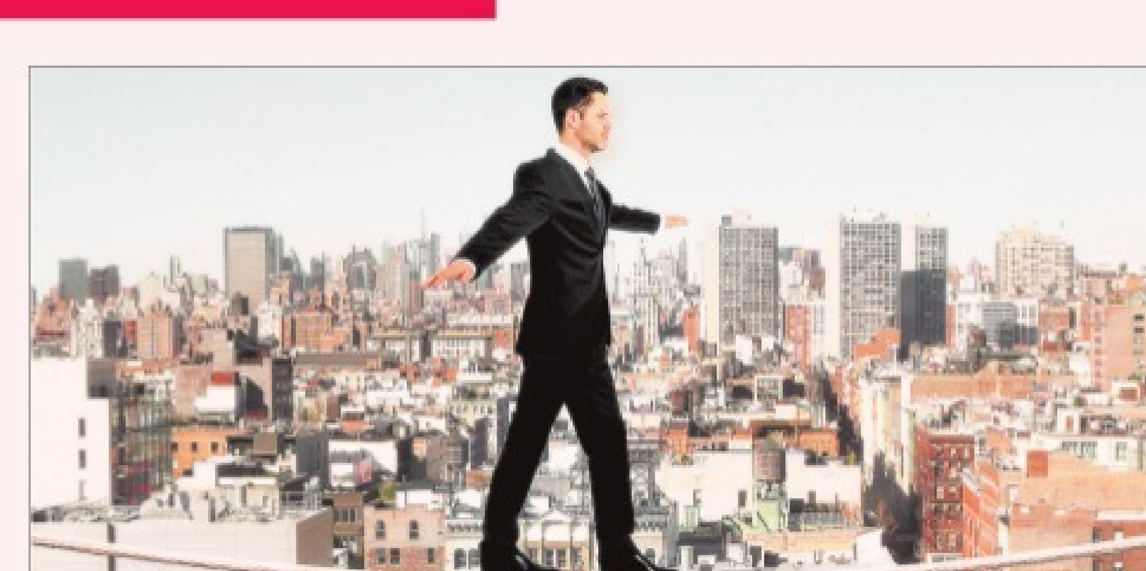

A FEW DECADES AGO, the typical director of a company would conjure an image of a person with lots of grey hair, socially-networked men who spend their time in closed-door boardroom meetings over tea/coffee with their agendas as enigmatic as them. Life has changed significantly for and around them, and it seems like the closed door is now quite open. Anxiety is a word that now resonates more than enigma, and the presumption of grey-haired men is also undergoing a change, both in terms of gender and colour of hair. Power is getting overshadowed by responsibility and accountability, and risk has become a bigger word than reward in recent times. The pace of change, its impact/consequences and media scrutiny has exceeded the expectations of most people, including lawmakers and regulators.

The first dimension of change has been the business ecosystem itself. Volatility and disruption have become constant companions of businesses, and technology has been a significant catalyst along with changing demographics and government policies, especially in the Indian context. Businesses have become more complex, and economies have been more interrelated and interdependent, thereby disproportionately increasing variables that may cause seismic shifts. Staying ahead of the curve when the ground under your feet is always moving is no mean feat.

The second dimension of change has been the regulatory environment that has constantly been on the move, trying to push towards international standards and to keep pace with the dynamic business ecosystem. The Companies Act, 2013, and Kotak Committee amendments just by themselves have significantly altered the roles, responsibilities and liabilities of independent directors, and some recent cases have significantly altered the 'what can go wrong' scenario for them. The constantly changing goalposts have been a test of mental agility, even for the most seasoned professionals.

The third dimension of change has been increasing expectations of and accountability to a plethora of stakeholders. Independent directors are expected to bear a fiduciary responsibility towards all stakeholders, which is a broad spectrum, including minority shareholders, retail investors, community at large, etc. While this theoretically that was always the case, what has changed is increased shareholder activism, increase in voice of institutional investors, increased PE/VC investor activity, emerging role of proxy advisers and the persistent media scrutiny.

The impact of these change dimensions has been exponential due to the playing out of one scandal after another. A lot of ire has been directed towards independent directors, some justified, some not. It is important to recognise that independent directors are part of the cast, and there are more actors that play their part. Putting the entire onus on them, without adequate empowerment, protection and support from the ecosystem, will be counterproductive. Having strong independent directors on a board is a competitive advantage, but if they are focused only on defence and not offence—to use a sports terminology—their edge will get blunted.

Being an effective independent director has essentially become a tightrope walk and, therefore, the critical success factor is the ability to balance well. This balance is of multiple types, some of which are mentioned below:

■ **Balance between governance and management:** A board's primary responsibility is governance, and a typical knee-jerk reaction to scandals can be to dig deep and crossing the line into management function. Governing effectively without interfering in management matters may sound elementary, but is a fine line.

■ **Balance between strategic and compliance matters:** An overtly compliance-focused board, which may be a reflection of liabilities playing out on the minds of directors, is underutilisation of the skills and experience of independent directors. Also, only looking at strategic matters may lead to missing out the obvious non-compliances and related consequences.

■ **Balance between participative and disruptive:** There is no script to get this balance right. However, this is a significant balance to get right. There is a clear difference between being disruptive and speaking one's mind. Similarly, there is a difference between being a team player and being a yes man. Constructive challenging is the key to being effective, and demonstrating independence of mind for an independent director.

■ **Balance between breadth and depth:** The breadth of topics that enter the boardroom is extremely diverse, but the knowledge of independent directors may be deep in certain pockets. Unfortunately, the liabilities of independent directors are uniform regardless of their educational or professional background. Hence, where to use external experts and where to rely on the management is an important balance to strike. Also, how deep to go into what matter is an important judgement call.

■ **Balance between theory and practice:** While this balance is imperative for success in all fields, more so as an independent director as practicalities of business may force sometimes to lean away from textbook approach, but too much leaning away may topple the balance.

■ **Balance between being prepared and being spontaneous:** Being well prepared for every meeting is a hygiene factor, but being too scripted can impair spontaneity in the boardroom. With the range of topics, the moment may just pass to object, raise dissent, ask some tough questions, etc, and hence being instinctive is as important as being prepared.

Independent directors need to strike the right balance in every meeting, on every board, every time, to navigate this maze of regulations, expectations and liabilities that are akin to mines in a minefield. Every scandal teaches lessons, and those should be used to be more assured, confident and independent. This art of balancing is more complicated than the science, and while some of it comes with instinct, a lot of it comes with experience.