Opinion

WEDNESDAY, FEBRUARY 6, 2019

SEEKING PEOPLE'S OPINIONS

Vijay Rupani, chief minister of Gujarat

Earlier, manifestos of all parties were prepared at the party headquarters. Now, we have decided to take this exercise a step further and invite direct suggestions from people

Why is no one talking about the elephant in the room?

PSUs are free to borrow, but if the borrowing is based on a sovereign guarantee, it has to be part of the govt debt

IN ALL THE din about the deficit, economist Sajjid Chinoy has drawn attention to the elephant in the room. This is the sharp unhealthy spike in the government's off-budgetary borrowings over the past few years. Unable to borrow beyond a point for fear of sending the yield soaring and unwilling to cut back on expenditure at a time when the private sector has been strapped for cash, the government has funded growth by enabling public sector units to borrow and guaranteeing their borrowings. Chinoy estimates the government's total deficit has climbed to an uncomfortably high level of 8.5% of GDP for 2018-19 and that is excluding the borrowings by the state PSUs.

To be sure, PSUs are entitled to borrow to run their businesses and it is no one's case that they shouldn't leverage their balance sheets. However, if the government is providing either an explicit or implicit guarantee, it cannot afford to leave the borrowings uncovered. That is simply not prudent. It is, therefore, somewhat surprising that Subhash Garg, the DEA secretary, believes the level of NHAI's borrowings don't matter because it is a sovereign surrogate and not borrowing on the strength of its own balance sheet. That may be so but, since the government is indeed guaranteeing NHAI's borrowings—else it could not have offered retail bonds at the rate that it does—there needs to be a provision in the budget. Merely disclosing the liabilities is not good enough and it is imprudent to think that these liabilities are not part of the fiscal deficit but the government's debt. The fact is it is the government—and the taxpayer—which will need to make good these borrowings in the event of a default by the PSU. NHAI's borrowings rose a sharp 66% to ₹75,384 crore at the end of March 2017 and are estimated to have risen further to ₹1.2 lakh crore in March 2018. Its finances are in a shambles given the combined loss in 2015-16 and 2016-17 was close to ₹500 crore. Moreover, the business is in a mess because the net cash generated from operating activities in the two years to 2016-17 was a negative ₹3,774 crore.

Indeed, the Comptroller and Auditor General (CAG) has pointed out that NHAI has not maintained proper books of accounts and other relevant records. It has pointed out that the fixed assets are overstated by ₹2.17 lakh crore since the assets are held on behalf of the government. Also, the CAG has noted that including borrowing costs of ₹4,068 crore for 2016-17 on completed projects is in contravention of generally accepted accounting practices. So it is not as though all PSUs are in fine fettle with modest debt-equity ratios as the DEA secretary Garg makes it out to be; many of them don't have the scope to borrow but are rated AAA simply because they are backed by the sovereign. There is no harm in the government providing a guarantee but it should build in these liabilities into its accounts. Downplaying off-budget borrowings such as those by Food Corporation of India (FCI), which borrowed 1.3% of GDP in 2017-18 and 1% of GDP in 2018-19, does not make for good public finances. Interestingly, the interim budget revised the EBRs via the FCI in FY19 to ₹1.96 lakh crore, 170% higher than the budget estimate. The total off-budgetary borrowings, according to the interim budget, stood at ₹2.74 lakh crore for 2018-19.

Making Swachh Bharat better

Govt must work on water supply, safe fecal waste disposal

WHILE THE UNION government claims the Swachh Bharat Mission (SBM) success is a resounding success—in terms of improving sanitation coverage, or the number of households with toilet ownership, it definitely is—more needs to be done to realise its vision. Recently, in his speech in Parliament while presenting the Interim Budget 2019, finance minister Piyush Goyal claimed that the NDA-2 government at the Centre "initiated the world's largest behavioural change movement with the Swachh Bharat Mission.... (SBM) has succeeded in changing the mindset of our people." However, a recent study by the Research Institute for Compassionate Economics (R.I.C.E.) finds, even though toilet coverage is significantly up, it is still far from being universal—the SBM portal suggests 98.6% of Indian households have access to toilets—and nearly 44% of the rural population in Bihar, Madhya Pradesh (MP), Uttar Pradesh (UP) and Rajasthan still defecate in the open. As per the official SBM database MP, UP and Rajasthan have achieved 100% sanitation coverage of rural households, i.e., households with toilets. But the R.I.C.E. study found that, while rural sanitation coverage has drastically improved in these four states—it is up from 37% in 2015-16 (NFHS data) to 71%—it is still some distance away from universal coverage. The jump in sanitation coverage is certainly attributable to SBM—while 57% of the rural households without a toilet in 2014 had one by 2018, 42% of these got it with government support. But, in effecting behavioural change, SBM has still a long way to go.

To be sure, improving household sanitation coverage is an important goal for a country like India, where ODF levels are the highest across the world, and to that end, SBM has more than just plugged the implementation gaps left by the precursor scheme, Nirmal Bharat Abhiyan. But, a focus on just toilet-building reflects a rather blinkered approach. While the R.I.C.E. survey finds that open defecation levels have come down in all four states, around 23% of rural households that owned a latrine in these states still defecated in the open—the number remains unchanged from 2014; worse, the number of toilet-owning households defecating in the open has increased in Rajasthan and Uttar Pradesh. So, clearly, curbing open defecation needs more than just mere access to toilets. There are many factors why SBM, despite improving sanitation coverage, hasn't managed to spur toilet usage. However, the most important factor, many experts point out, is that SBM doesn't take an integrated sanitation route, one that includes access to water supply to villages, running water in toilets and waste management. The last is indeed an acute need, given the R.I.C.E. study found that, of the toilets constructed with government-support in the four states, nearly 60% weren't twin-pit latrines—this model, of having two pits for fecal sludge to allow for greater decomposition of the waste and pathogen reduction, is recommended by the government. Given the massive positive returns for health and productivity SBM can have—simply by reducing contamination of water, it can bring down childhood malnourishment levels, infectious disease burden, lost man-hours due to disease—the government must make water supply and safe fecal matter disposal the prime features of SBM 2.0. Else, the SBM vision will remain stunted.

WarmingWarning

Two studies on ice-melts, in the Hindu Kush and in the Arctic, foretell the danger the world will soon face

THE HINDU KUSH Himalayan region—spread over 3,500 square kilometres across eight countries including India, Nepal and China—is warming faster than the global average. The HKH region supports the lives and livelihoods of over 210 million people and, as the source of 10 major Asian rivers, the HKH also provides essential resources, especially water, to over a billion people and feeds the grain baskets of Asia. What is unfortunate is that, even if carbon emissions are dramatically and rapidly cut, succeeding in limiting global warming to 1.5ºC, 36% of the glaciers in the HKH will be gone by 2100. If emissions are not cut, the loss soars to two-thirds, a newly released report found. Glacier melting at the HKH region accompanies the retreat of Arctic glaciers, exposing surfaces that haven't seen the sun for at least 40,000 years. A team of researchers from University of Colorado used radiocarbon dating measures and found that the vegetation they were testing in Canada were at least as old as the oldest age that radiocarbon dating can detect: 40,000 years. The melting of glaciers increases river flows, pushing up the risk of high-altitude reservoirs engulfing communities.

The International Centre for Integrated Mountain Development's (ICIMOD's) Hindu Kush Himalaya Assessment Report is the first-ever assessment of impacts of climate change on the ecologically important but fragile region. This region is a heat sink in summer and a heat source in winter, and this influences the Indian summer monsoon. So, any changes in this region would have a bearing on the monsoon itself that already shows signs of changes in spread and distribution and, in turn, on the livelihoods and ecological systems dependent on it. The need, following the report's warning, is now for informed science-driven advocacy for urgent climate action and immediate conservation efforts. The disastrous impact of glacier-melting will leave the world at large reeling.

PLEASE ALL

WHILE ₹18,500 CRORE WOULD BE LOST AS TAX REVENUE, IT WILL BE MADE UP BY HIGHER CONSUMPTION, LEADING TO INCREASED COLLECTIONS, THUS MAKING THE FISCAL ARITHMETIC STRONG

The sweetest Budget of them all

MADAN SABNAVIS

Chief economist, CARE Ratings
Views are personal

THE INTERIM BUDGET for FY20 will go down as the 'sweetest fiscal document' because it is truly what, in economics, is called a Pareto optimal state, where several people are better off and no one is worse off. Rarely do we have a Budget that gives and never takes. As this Budget typifies this phenomenon, it is quite remarkable. In fact, if the assumptions made here are workable in all future years, it is great times for taxpayers as well as beneficiaries because we will continue to pay the same if not less tax and still get more from the government. Just how has this alchemy been made possible?

The Budget speech has made it clear that tax collections, be it direct or GST, have been very buoyant mainly because the tax base has increased. Therefore, lower GST rates have worked wonders and brought in the goodies as we pay lower prices and the government still collects its revenue. The direct tax base has widened sharply due to two measures which the government has taken in the last two years in the form of demonetisation and GST. The revised GDP numbers show that demonetisation did not stifle growth but actually fostered higher income which is seen also in the budgetary tax collection numbers. Therefore, the FM thought it fair to start rewarding taxpayers and the best way to do so is to start from the bottom and, while ₹18,500 crore would be lost as tax revenue, it will be more than made up by higher consumption which would automatically increase collections thus making the fiscal arithmetic strong. Will inflation increase on this score? To a certain extent, if people spend more on consumer goods, the industry will benefit. But given excess capacity, this should not translate into inflation. The same holds for food where prices have come down due to excess supply. If consumers spend more, then the surpluses should be consumed without any inflationary implications.

To buttress this point, the government has projected growth of 11.5% in GDP which looks fair enough and reasonable as it is a combination of 7.5-8% growth in real GDP and inflation of 3.5-4%, which few can contest. The size of the Budget has increased by 13.5% in FY20 which is lower than the 14.7% growth in last year's. This still gives space to distribute the goodies. While earlier Budgets spoke of rechristened health, cleanliness, education, and insurance schemes, this one does plain speaking with cash transfers. If NREGA has been a success over the years, giving ₹6,000/annum under an income support scheme to the smallest farmers is similar in scope and wider in coverage. NREGA gives wages of ₹170-200 a day for 100 days which is up to ₹20,000 per annum as against the ₹6,000 announced under the income transfer scheme. But these rates can improve over time and, hence, rather than not having a scheme, it is a good start.

There are higher allocations for NREGA and, if one adds the other central programmes, the poor are definitely better off

While critics have argued that even non-farmers should be covered, this can be considered to be a beginning which can be more inclusive in the course of time. There are higher allocations for NREGA and, if one adds the pension schemes and other central programmes like interest subvention, etc, the poor are definitely better off and these allocations cannot be grudged.

Economists always tend to play spoilsport and ask as to from where does the money come from. Here, the final deficit number remains unchanged and the net borrowing programme is higher by just ₹50,000 crore which can be absorbed well by the system. Therefore, from the point of view of prudence, there can be no quarrel. RBI is to pay an interim dividend this year to support the FY19 Budget which will probably also increase next year. This is critical. Also the decision on how to monetise the reserves of RBI will offer a lot of comfort to the government as this can actually fund several programmes, including the farmer payouts as well as bank recapitalisation. Interestingly, the latter has not found mention in the Budget which means it will come from outside. This will be a major source of funding for the Budget as the spectrum sale component has ceased to be of interest to players given their financial situation today.

The final weapon which has been fired to ensure fiscal prudence is disinvestment. Even for FY19, the amount has not been changed and is at ₹80,000 crore which will go up to ₹90,000 crore next year. But disinvestment now has become a routine exercise and while economists and analysts keep analysing how it will take place, the process has been really straight forward and assuring. Either one PSU buys another or the LIC steps in and buys shares or the existing company buys back its shares. In all these processes, surpluses with PSUs get transferred to the government. A small part goes to the government as dividend and the larger one as disinvestment. Therefore, one should actually stop debating on whether this target will or will not be met because axiomatically targets are always met as the route is well defined and institutionalised. The stock market should get used to the fact that disinvestment does not mean more stocks in the market and hence should stop guessing the quantum that will enter the fray.

The Budget is hence an ideal one which can be scaled up over time assuming the growth numbers work out right. In fact, curiously, the GDP number used for FY18 and FY19 are the first advance estimates for FY19. With the revised estimate for FY18 being upped significantly one day before the Budget was announced, if the nominal GDP growth rates for FY19 and FY20 are recalculated then the fiscal deficit ratio for FY19 would be 3.3% (as GDP would be ₹191.98 lakh crore as against the assumed ₹188.40 lakh crore) while that for FY20 would be 3.3% (as GDP would go up to ₹214.05 lakh crore instead of ₹210.07 lakh crore)!

Also, the moment it is accepted that a lot of public sector money, which includes RBI, can be used for financing the Budget, then nothing is impossible. This can be combined dexterously with deferred payments which are rollovers and off budgetary borrowings to reach the target. Meanwhile, when revised GDP growth numbers point upwards, automatically the denominator increases and the fiscal target is maintained. But as all this has been done without causing pain and there should be no complaints as such, even from the economist.

Reimagining the Davos conference

Year after year, the focus of the conference has ended up more backward-looking than forward-looking and the delegates should, instead, collect and discuss best practices for dealing with usual levels of uncertainty

MOHAMED A EL-ERIAN

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I DO NOT attend the annual meeting of the World Economic Forum in Davos. But my sense is that, as in previous years, this year's participants ended up extrapolating more from the recent past than genuinely looking into the future for pivots and tipping points. This was true both at the macro level and in terms of the key individual issues that attracted the most attention, according to multiple media reports (and the media are extremely well represented at this event). As a result, this globally renowned gathering of influential government and corporate leaders appears to have missed, once again, an opportunity fully to realise its considerable potential. There is a reason why Davos tends to be backward-looking. Leaders naturally come to it focused on what they have experienced most recently. If others have experienced the same thing, the Davos echo chamber amplifies the themes so that they dominate conversations about both recent developments and future prospects.

The two meetings before the 2008 global financial crisis had a rather optimistic tone, dismissing the warnings of the few who sensed that the "great moderation" and the era of unfettered finance were likely to come to a painful end. The January 2009 meeting was the complete opposite, projecting crisis and global recession well into the future. Such misreadings of what lies ahead haven't been limited to periods surrounding crises. Just consider what happened at the previous gathering, in January 2018, and compare it to this year. A year ago, most leaders had just come off the strongest quarter of global growth in years. What is more, activity was picking up in virtually every country around the world. As they heard about one another's experiences, the Davos delegates embraced the notion that the world had entered a period of synchronised growth in which positive feedback loops would turbocharge the process. They gave little attention to the fact that, with the notable exception of the United States, most countries were experiencing largely one-off growth drivers.

At this year's Davos meeting, by contrast, the macro mood is said to have been much gloomier. The consensus was that we are heading for a synchronised slowdown in global growth, with a heightened risk of self-feeding vicious cycles. But again, this fails to distinguish between one-off factors whose impact is temporary and largely reversible—such as the partial US government shutdown and an episode of miscommunication by the Federal reserve—and the sort of secular weakness that Europe is experiencing. Most of the issue-specific discussions this year focused on China-US trade tensions and Brexit. Here again, the temptation was to extrapolate future developments based excessively on what had just happened. The Davos consensus seemed to be that China-US trade disputes would intensify during 2019. But the likelier scenario is that tensions diminish as China realises what South Korea, Mexico, and Canada already did in dealing with the US administration: rather than a tit-for-tat tariff escalation, the best approach for a country's short-term growth and longer-term development is to make concessions to the US on issues of genuine grievance. These include rules that force technology transfers—such as joint-venture requirements—and the theft of intellectual property.

On Brexit, the central scenarios at Davos focused on either a continuation of the current no-peace-no-war process or, alternatively, a hard exit for the United Kingdom from the European Union. Yet, because this has already proved to be a very "slow Brexit" process, with Britain's Parliament repeatedly unable to agree on a replacement for the current EU-UK relationship, the probability of a soft Brexit is materially increasing. So is the probability, albeit lower, of a second referendum, which was once thought an unlikely, if not unthinkable outcome. Simply extrapolating the future from what has just occurred usually leads Davos delegates down false trails. Davos—both its organisers and its participants—would do a much better job by making three changes to the way the event is managed.

Firstly, the meeting should actively propose alternative scenarios for serious discussion. This year's agenda, for example, should have included a possible return in 2019 to divergent growth and the associated risks and opportunities. In addition, Davos should collect and discuss best practices for dealing with usual levels of uncertainty for both businesses and government policy-making. Finally, when it comes to short-term prospects, the event needs to spend a lot more time on other themes that I suspect will prove more important than either Brexit or China-US trade tensions in the period ahead. These include the changing attitude toward regionalism, central bank policy challenges, and the scope for more government-policy coordination among advanced economies. The annual Davos gathering is too big an opportunity not to be exploited properly. Yet, year after year, the focus has ended up more backward-looking than forward-looking, and the just-concluded iteration appears to have been no exception. A revamp would play an important role in fulfilling the stated objective of Davos: engaging "the foremost political, business and other leaders of society to shape global, regional and industry agendas". And it would ensure that more of the participants go looking for actionable, substantive content rather than ending up being there primarily to see and be seen.

LETTERS TO THE EDITOR

Brexit, what is the deal?

Uncertainty and public unrest continue to aggravate as the geo-political environment in the UK and EU regions remains largely complicated. Tough opposition by political entities and rising speculations over availability/pricing of goods, including basic necessities, on account of a no-deal Brexit have further dampened the business sentiment. Despite a favourable outcome of the trust vote and the consent to re-negotiate a deal with the EU, the overall public confidence is significantly diminished, in the absence of crystal-clear exit terms and prevailing ambiguity over the fulfillment of the referendum. Capital markets are defensive and fairly range-bound, as the potential turbulence in the near-term poses a risk to the growth of emerging economies. Political stability in the immediate future is impeded by challenges of meeting the stipulated timeline, executing a viable/acceptable deal and collaboration with the opposition
— Girish Lalwani, Delhi

A win-win verdict

The Supreme Court pronounced a 'balanced judgment' for both the Central and West Bengal governments to claim 'moral victory'. That the Kolkata police commissioner Rajeev Kumar should appear before CBI in the neutral venue of Shillong and co-operate with the investigation was victory for the Centre. That he cannot be arrested was victory for the state government. Rajeev Kumar is a witness and not an accused in the case. Seldom is a witness arrested. The mistimed gunning for the Kolkata police chief by the CBI was self-defeating. It precipitated the state into a crisis. It is ingenuous to suppose that BJP alone is 'clean' and all other parties are 'corrupt'
— G David Milton, Maruthancode

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INTERIM BUDGET

Structurally strengthening farm sector

Elections are round the corner and waivers are the hot topic, but they merely address the symptoms around farm distress, not cure the disease. The Budget, thankfully, unveiled fundamental measures for long-term stability of the farm sector. But a key area of concern remains lack of measures to address falling crop prices. MSP was earlier sharply hiked for 22 crops, but there are no takers at the support price

THE SUSPENSE HAS been unveiled. Most of us were aware that agriculture will get the top billing, and the focus of this year's Budget will be on addressing key issues pertaining to farm distress, as elections 2019 will be fought on the farmland. But the form in which it will be done has been unveiled in the spends. The finance minister, while presenting the Interim Budget, launched a number of measures focused around major issues surrounding the economics of the granaries of the country.

The government launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-KISAN) that will offer direct income support of ₹6,000 per year to small and marginal farmers having landholding of less than 2 hectares, and will address the problems of indebtedness that prevented them access to funds once and for all in its own way. It is a known fact that land fragmentation on account of repeated divisions has contributed to rural distress. Landholdings have doubled in the past 45 years, from 7.1 crore in 1970-71 to 14.57 crore in 2015-16, resulting in decline in the average size of farms by more than 50%, at 1.08 hectares. As per provisional estimates of the Agriculture Census 2015-16, there are 12.56 crore marginal and small farmers having less than 2 hectare holdings and together constitute 86.21% in 2015-16 against 84.97% in 2010-11. The PM-KISAN will address discontent among such small farmers as the sum will meet the input cost for cultivation and, most importantly, will be delinked from crop prices. The good news to eligible farmers is that the scheme would be made effective from December 1, 2018, and the first instalment for the period up to March 31, 2019, would be paid soon. This scheme is in line with the Rythu Bandhu scheme of Telangana, which transfers ₹4,000 per acre per crop on per-acre basis without a holding size limit. For two crops in a year, it makes up to ₹8,000 per year. The KALIA scheme of Odisha provides direct benefits to *krushaks* (farmers).

There have been no dearth of schemes, but the policies for elevating the rural economy always have had a lag and effectiveness in implementation is an area of concern. The current move seems to address this lag by directly monetising farmers.

In other measures to support the rural economy, ₹60,000 crore has been set aside for MGNREGA. Also, there is now ₹19,000 crore for the Pradhan Mantri Gram Sadak Yojana as against ₹15,500 crore in the previous year—to provide alternative employment opportunities. However, care should be taken in implementation at the granular level, in such a way not to wean away labour from peak season farming activities. The government has announced to build 1 lakh digital villages in the next five years. In order to promote fisheries, the government has proposed a separate department of fisheries and extended the benefit of 2% interest subvention to farmers pursuing animal husbandry and fisheries, for those who avail loans through the Kisan Credit Card. Diversification of farms will ameliorate the problems surrounding dependence on a single economic activity of farming. In all, the ministry of agriculture & farmers' welfare could corner ₹1,40,764 crore as BE in 2019-20 (a large sum for PM-KISAN) as compared to RE of ₹79,025.74 crore, but a very less proportion totalling only ₹8,078 crore (65% is administrative and logistics expense) has been allocated to agricultural R&D in 2019-20, which is almost the same as the current fiscal RE. This warrants an increase in the agricultural R&D spending as the payoffs have been quite significant in the past and will grease the wheels of sustainable economic development.

A key area of concern remains lack of measures to address falling crop prices. MSP has been sharply hiked for 22 crops, but there are no takers at the support price. The fall in prices has been attributed to record production and decline in global crop prices. As per the Fourth Advance Estimates, foodgrain production during 2017-18 has been at a record 284.8 million tonnes, higher by 3.5% against previous year. The task of protecting farm incomes from price instability remains to be fulfilled by the policymakers in the coming years.

Thankfully, the government preferred to monetise farmers instead of waiving off farm loans. Elections are round the corner and, obviously, farm loan waiver remains the hot topic addressing the symptoms around farm distress, but not curing the disease. The Budget has unveiled some fundamental measures for long-term stability of the farm sector. Let us sincerely hope that budgeted measures will ameliorate the economics of small and marginal farms, and go a long way in structurally building up the farm sector.

Moving the needle on agriculture

Reforms and structural changes are a continuous process and more needs to be done

AJAY S SHRIRAM

Chairman & senior managing director, DCM Shriram

THE EXPECTATION OF a big announcement for rural India was high, and the Budget did not disappoint. Before getting into the specifics, a positive trend that may have gone unnoticed is the conversation has moved from farm output to farm income. Having achieved self-sufficiency plus surplus in production, the country need not worry about "where will food come from?" With farmers having delivered, it is incumbent on us to ensure they earn adequate income to support family and meet aspirational goals.

Providing assured income support to small and marginal farmers under PM-KISAN is historic. First, it will provide relief from distress on account of low prices. Second, such a transfer leaves the choice of how to use the money to the farmer. Third, an unintended benefit would be that all land records will get fully streamlined once and for all. A sop that was expected by some was a loan waiver. It's encouraging the government didn't choose that route, as it results in poor credit discipline and lowering credit rating, which eventually hurt the farmer.

Setting up of a department of fisheries is welcome, as it needed focus. The FM rightly emphasised its importance by pointing out we are the second-largest producer in the world, plus it provides employment to 1.5 crore people. With significant change in food consumption patterns and the shift towards high-value proteins, fisheries will fill this gap.

Farming is risky business, often not understood by urban dwellers. Uncontrollable factors are many, from fall in commodity prices to natural calamities. The proposal to extend interest subvention for farmers affected by severe natural calamities, for the entire period of rescheduelment of their loans, is welcome. A unique feature was articulation of a 10-year vision. The goals set were stretching and give a clear direction to the nation. Expectedly, rural India and sustainable agriculture found a prominent place, as India races to become a $10-trillion economy.

Will the Budget solve all woes of farmers? Certainly not. Reforms and structural changes are a continuous process and more needs to be done. Freeing agriculture markets from licensing, land leasing, stable trade policy, encouraging food processing/linking farmers with modern trade, allowing use of biotech, growth in non-agricultural jobs, etc, are work in progress and will certainly be on the radar of policymakers. Finally, the question is: Where will the money come from? Fortunately, India is sitting in a sweet spot. With a rapidly growing economy and buoyancy in tax collection along with low inflation rates, the downside is indeed very low.

An anonymous assessing officer?

NAVEEN AGGARWAL

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E-assessments are here to stay

WHEN THE ROBERT Zemeckis blockbuster '*Back to the Future*' hit cinemas in 1985, critical success apart, sceptics and viewers alike were baffled at the idea of autonomous cars and virtual reality. Enter 2019, these concepts seem closer to reality. So, when the Interim FM signalled his government's intent of making the tax assessment process swifter, stronger, predictable and 'anonymous', delivered through a virtual interface, I would not yet discount this ambition in disbelief.

Picture this, the next time you go through a process of e-assessment and instead of interacting with a single officer through the e-filing portal, you now have access to a cross-sectoral and geographically-dispersed team to carry out the assessment, equipped with the domain understanding and nuances of your specific industry to better appreciate the business practices you operate within. Enter the anonymous assessing officer—a radical and path-breaking idea, indeed.

In 2015, the government launched a pilot project on voluntary basis to conduct an email-based assessment in five metros, which was extended to two more in 2016. Taxpayers were given an option to undergo email-based assessment. In 2017, this facility was incorporated into the e-filing portal being used by taxpayers. And finally in 2018, the CBDT, vide Instruction 1/2018 dated February 12, 2018, directed that all cases barring certain exceptions shall be subjected to e-assessments. The Finance Act, 2018, introduced amendments to create a framework and lay down operational guidelines for e-assessments.

While the progress has been good, the procedures have thrown up some challenges that need to be addressed to make this idea work.

Getting the technology right—size and spec: A critical aspect that will determine the success of this idea is the government's IT infrastructure. Specifically, the ability to handle data traffic (a) in terms of size and (b) in terms of volume would be key. If we peep into the not-so-dated past, government servers have often crashed when they experienced high volumes of data traffic, especially closer to filing deadlines. Given the sensitive nature of the assessment proceedings, the government can ill-afford similar crashes. Therefore, the importance of a robust IT infrastructure cannot be overestimated.

> While the transformation from age-old archaic practices is inevitable, this change needs to impact the entire process and make assessments more taxpayer-friendly and transparent

Removing legal loops: From a legal perspective, a valid service of notice is a critical prerequisite to constitute a valid assessment proceeding. While necessary amendments have been made in the income-tax law to constitute email communication as a valid mode of service, there are instances where notices are uploaded on the portal but a corresponding email is not sent to the taxpayer. Anomalies like these could lead to litigation and potentially render the proceedings void. Therefore, either the law must be amended to explicitly state that uploading a notice on the online portal constitutes a valid service or IT systems must be streamlined to ensure that emails are automatically sent, without exception, as and when notices get uploaded.

Achieve process perfections: While practice makes perfect, revolutionary ideas do not normally give you a large incubation buffer. Therefore, from a procedural perspective, the government needs an 'ace' before the bets are called. For example, the current system does not have any provision for granting adjournments. In case a taxpayer uploads a submission seeking more time, the e-assessment portal neither accepts nor rejects the request, leading to uncertainty for the taxpayer on the next date for filing submissions.

A winning team: While not so much of a challenge at the planning stage, it could be a critical lever to determine failure or success of this initiative. On-boarding the right skills with a credible sector, domain expertise, and ensuring mechanisms to facilitate collaborative working free from bias would be a core area for the government to focus on as it moves into the advanced stages of implementation.

'You cannot stop an idea whose time has come'. In my view, the time for e-assessments is here, and here to stay. While the transformation from age-old archaic practices is inevitable, this change cannot be at the periphery and needs to impact the entire process and make assessments more taxpayer-friendly and transparent. As long as this focus and commitment stays with both the government and taxpayers, there is little doubt the Indian tax ecosystem will be cruising ahead in its journey to autonomous success.

Making India more open to business

A conclusion to Cairn dispute would send a message to investors that India is a stable investment destination

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THE NARENDRA MODI government has cracked the code to put India among world's top-100 most business-friendly nations. At number 77 on the World Bank's 2018 global ranking of 190 countries, India made drastic improvements to its reputation for global business in a few short years. India is now the most highly ranked country in South Asia, and the World Bank attributes its progress to sustained business reforms, which are transforming the country into a sought-after investment destination. India is one of the top-10 improvers and the only large country in South Asia to have achieved such a significant shift. The jump is a result of the government's consistent efforts to revive growth. This report is a barometer of competitiveness that businesses consider while making investment decisions.

While there has been progress, India lags in some key best practice measures for its regulatory framework. Plans to remake India's economy and efforts to sell India as an investment destination are practical, but if the government is to be successful in attracting more global investors, it needs to create a more stable and predictable fiscal and regulatory regime.

Retrospective taxation: This issue continues to concern investors. The government's retrospective tax claim against Cairn Energy and the resulting dispute has perpetuated concerns among investors about the transparency and stability of the Indian tax regime. For instance, the law imposing tax on indirect transfer of assets in India may have been enacted in 2012, but the tax is applicable to all transactions that took place from 1962 onwards.

The controversy surrounding this issue is whether it is fair to impose a tax with retrospective effect whereby a company's business decisions are based upon the tax situation that exists today? It is difficult for a business to organise its activities today based on a future law that will be made applicable from today. An ideal tax system should be predictable, clear and stable. While the Modi government has categorically stated that it will not issue any new retrospective actions, there are several high-profile cases throughout the BJP's reign, which are yet to be resolved. Now that a final resolution of this dispute is expected shortly under the UK-India Bilateral Investment Treaty, we believe a commitment by the government of India to swiftly respect/adhere to the terms of the Treaty ruling on this matter would offer assurance to global investors.

Oil & gas industry: Ironically, one such case is in the oil & gas industry where the government has initiated a number of positive reforms over the last four years, including open acreage policy, pricing reforms and liberalised licensing policy.

In 2015, the PM set a target of reducing India's oil dependence by 10% over the next five years, but imports have actually risen. India imported 77% of its crude oil requirements in 2014 and this has increased to over 83% in 2018, according to the Petroleum Planning & Analysis Cell Report—India spent more than $87 billion on crude oil imports in FY18, which represents 25%-plus increase from last year.

The government continues to seek private investment to raise domestic oil & gas production, which has stagnated in recent years, while fuel demand has risen annually. A change in domestic production would be of significance in view of India's rapid economic growth, which could be impacted due to expanding gaps between energy demand and supply.

Current oil prices allow India an opportunity to attract serious investments in the oil & gas industry. In fact, Cairn Energy is leading the charge, contributing about 25% to the country's domestic crude oil production in FY18. Investment in energy is critical to achieving India's development ambitions—to support an expanding economy, to bring power to those who remain without it, to fuel the demand for greater mobility, and to develop infrastructure to serve what would soon be the world's most populous nation.

Top-50: We applaud improvements in ease of doing business made by the government, and believe that expediting a conclusion to the long-running Cairn dispute by respecting the Treaty ruling would strengthen the message that the business environment in India is predictable, stable and attractive to global investors.