Opinion

FRIDAY, APRIL 5, 2019

HARD BREXIT ON THE CARDS

Jyrki Katainen, European Commission vice-president

You only know what Britain doesn't want, but you don't know what Britain wants, and, taking into account the limited number of days we have available, it is logical to think we are rushing towards a hard Brexit. But hopefully I am wrong

RationalExpectations

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RBI circular was to save PSU banks

Keep in mind that it was only because PSU banks were saddled with large defaults that RBI needed Feb 12 circular

ALL THOSE CELEBRATING the Supreme Court (SC) striking down RBI's February 12 circular are essentially arguing that since the government and/or the courts hit their business, why should the banks penalise them for this by trying to hand over their businesses to someone else via the Insolvency and Bankruptcy Code (IBC) route? In the case of the power sector, for instance, electricity boards owe private power plants ₹36,000 crore, including 'regulatory dues'; similarly, a large gas-based power capacity is lying idle because of the policy change that denied them low-cost natural gas. In the case of roads, NHAI has pending arbitration cases running into tens of thousands of crore rupees; and the Supreme Court has worsened matters for another set of firms by cancelling their iron and coal blocks.

Second, they argue, even if there is a problem with the loans not being serviced, RBI cannot issue a '*fatwa*', to quote a top industrialist, forcing banks to take the cases to the insolvency courts under the IBC law; let the banks decide on their own as in the past. Under the February 12 circular, if there is even a one-day default, this needs to be fixed and, if there is no solution in 180 days, the case automatically goes to the IBC.

It is not just industrialists, the government also seems to be of the same view. You would think it would be worried about the surge in NPAs of PSU banks and would be happy to see RBI pushing resolutions through the IBC; estimates are banks have got back ₹300,000 crore through IBC already. A seventh of all PSU bank loans till March 2018 were NPAs, up from 4.4% in March 2014; in absolute terms, the NPAs for PSU banks were ₹895,600 crore in March 2018 which is 85-90% of all NPAs. Yet, in SC, Solicitor General Tushar Mehta argued for not using the circular for all defaulters such as in the power sector. As he put it, "there ought to be a sector-wise contingency analysis by the RBI before exercising power" and that "so far as the power sector is concerned... RBI ought to have treated it differently from all other sectors in view of the steps that the Central government is taking in order to bring back the power sector on its feet".

To understand this better, forget RBI and the banks, just assume individual A takes a ₹100 crore loan from individual B for a project being done for the government. Is anyone, including SC, arguing that A doesn't need to repay B if the government doesn't pay A on time? Since the answer is no, surely this logic should apply to banks? Just because the government is the majority owner of most banks doesn't make them a proxy for the government.

Public sector banks

Gross NPA (₹ lakh cr); % of gross advances (RHS)

	2013	2014	2015	2016	2017	2018
Gross NPA (₹ lakh cr)	1.6	2.3	2.8	5.4	6.8	9

% of gross advances (RHS): 5 (2013), 14.6 (2018)

Private sector banks

	2013	2014	2015	2016	2017	2018
Gross NPA (₹ lakh cr)	0.2	0.2	0.3	0.6	0.9	1.3

% of gross advances (RHS): 1.8 (2013), 4.6 (2018)

All banks

	2013	2014	2015	2016	2017	2018
Gross NPA (₹ lakh cr)	1.9	2.6	3.2	6.1	8	10.4

% of gross advances (RHS): 3.2 (2013), 11.2 (2018)

This is not to say the government doesn't have to ensure its policy don't hurt industry—as they clearly are in sugar and telecom—or that its arms like SEBs or NHAI don't need to pay their dues on time. Of course it does. Perhaps the Supreme Court should consider entertaining petitions to impose debilitating penalties on these arms. A 10% penalty per month on a SEB would surely ensure it paid all dues on time.

Essentially, if a delayed government clearance or a bad policy is excuse enough not to repay loans (or salaries to workers?), no loans will ever get repaid. And while many may have argued the February 12 circular is the surest way of ensuring that all industry shuts down, when banks don't get their loans back in time, they stop lending and industry shuts down anyway. NPAs can surge again since all of telecom's ₹325,000 crore of bank debt is to firms with an interest cover (IC) of less than one according to Credit Suisse; around 45% of the power sector's ₹400,000 crore is to such firms, as is a large power of real estate's ₹500,000 crore debt.

But what about the RBI's *fatwa*, to get back to the earlier question, why should RBI tell banks what to do? Ideally, the regulator should just lay down guidelines for classifying loans and, if the banks don't have enough capital since they need to provide against NPAs, they have a choice of going after defaulters (via IBC) or bringing in fresh capital while continuing to give defaulters time for God or the government to set policy right.

What complicates things, however, is the fact that public sector banks accounted for 66% of lending and 86% of NPAs in March 2018; it was a more equal 72% and 73%, respectively, in 2008. If RBI didn't insist on a quick resolution, the political class could persuade banks to not pursue the defaulters with great vigour; the beauty of the February 12 circular was that it removed the bank's discretion to go slow, it made this automatic. When NPAs balloon, the government has to bring in more capital to ensure the banks meet regulatory requirements. The problem, however, is that the government doesn't have unlimited sums of capital to pump into banks, yet it is unwilling to let them freely tap markets for equity since this will result in de facto privatisation; nor is it clear that anyone would want to invest in banks with such high NPAs and bloated workforces. In other words, if RBI is issuing *fatwas*, it is to ensure the PSU-dominated banking system doesn't collapse; if India didn't have PSU banks, RBI wouldn't need to come up with such a circular, it just needed to enforce its NPA-classifications. And in ensuring PSU banks took defaulters to IBC courts, RBI wasn't just protecting the banking system, it was protecting the few crore honest taxpayers in the country since, ultimately, it is their taxes that recapitalise banks when industrialists don't repay their loans.

Postscript: Instead of batting for defaulting promoters in sectors like power, the government would do well to fix its policies; and this mess wouldn't have taken place if citizens—and courts—realised that in scrapping RBI's circular, SC handed a huge bill to hapless taxpayers. RBI Governor Shaktikanta Das has said a solution is in the works; let's hope it fixes the problem of defaulting promoters laughing all the way to the bank.

DirtyMoney

Electoral bonds, however flawed, bring some accountability to political funding. What about accountability on political spending?

THE UPCOMING GENERAL and (four) state elections are the backdrop to a rather stark dichotomy. These will be the first elections funded by electoral bonds that, no matter how flawed they otherwise are, bring some manner of accountability to funding of political parties. On Monday, income tax officials raided a warehouse belonging to a DMK member said to be close to party treasurer Durai Murugan and found over ₹11 crore in gunny bags and cartons, neatly packed in bundles and labelled ward-wise for distribution among voters. If cash can buy votes, then so be it—this has been the guiding principle for parties for decades now. As the DMK instance shows, funds collected by parties are deployed for many dishonest ends.

According to a report by the Association for Democratic Reforms, for the six national parties, excluding the Communist Party of India (Marxist), 53% of funding in 2017-18, or ₹689.44 crore, was from unknown sources. If parties are channelling funds to bribe voters, the democratic exercise of polls is undermined, regardless of accountability or no accountability in funding. In Arunachal Pradesh as well, ₹1.8 crore was seized from a BJP candidate's son. With money and muscle—bombs, guns and explosive material were seized from the houses of Sangh Parivar affiliates in Kerala and Madhya Pradesh—very much a part of polls, the criminalisation of Indian politics is a reality that the electorate is forced to swallow.

DISRUPTIVE INNOVATION

IN AUTOMOBILES, PROFITS WILL SHIFT DRAMATICALLY AND COME FROM ELECTRIFICATION & SOFTWARE, FROM MOBILITY SERVICES AND VALUE PROPOSITIONS BUILT AROUND DATA & CONNECTIVITY

Tomorrow's profit pools mean radically new type of industry

ARINDAM BHATTACHARYA

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Views are personal

RECENTLY, I WAS part of a discussion with a senior leader of a global automotive company on how the industry will evolve as four great forces—growing role of geopolitics and economic nationalism, digital technologies, China's rise as the second economic pole shaping global rules, and the globally connected customer transcending national boundaries—collide to transform, perhaps, the most visible and global industry. The discussion was intense and eye-opening with important implications for countries like India which are at the cusp of the big push from low- to medium-income and are struggling for sustainable strategies to drive growth and jobs.

A significant part of the discussion centred around one slide in our presentation that showed how the profit pools will shift between now and 2035. Today, pretty much the entire profit in the industry comes from what we call the classic profit pools, consisting of components, sales of cars, after-sales activities, financing and insurance. By 2035, the share of classic pools could go down from 99% to about 60% as new profit pools emerge, driven by three major shifts in the industry. The first is electrification of cars. New components' software and fully built electric vehicles (EVs) can grow to contribute 10-12% of the total industry profits. The second is the growth of mobility services, the fastest-growing profit pool which could grow from a near zero to close to 20%. The third pool of profit will come from offering services leveraging data and connectivity to the owners and drivers which again could grow from nothing to 7-8%. A caveat around these numbers: They are projections done by my colleagues in BCG based on specific assumptions around both economics and penetration of new technologies and their customer acceptance, but also on the government policies that can accelerate or slow down such shifts. So the exact figures could change but they are directionally correct for the conclusions I have drawn below.

This kind of radical shift in the profit pools over the next few decades is not restricted to the automotive sector—it is happening in industry after industry. The financial sector is ripe for this transformation. For example, digital payments services by companies with no presence in the sector is growing very rapidly globally and, depending on how fast the regulators move, profit pools in financial services will perhaps undergo an even more dramatic change than the automotive industry.

> Are we ready to reform the way we have structured our governance and policymaking to align with this new reality?

As I came out of the meeting with the automotive industry leader, I started reflecting on what such an industry transformation will mean for India where the industry is one of the more successful industries and where the country is globally competitive. It is important to do this 'thought experiment' given the intense debate around India's GDP growth and number of jobs created in recent years as these wholesale shifts in industry structure have huge implications for our future industrial growth and jobs strategy. It also left me wondering if we are missing the wood for the tree—the fast evolving future while we bicker about the past.

The challenge facing the automotive company we were meeting is that many of the potential winners in the new profit pools are non-traditional players of the sector. The war for the EV profit pool seems to be going China's way, like it did in solar. China saw the industry shift early, as the country made the critical strategic bet in their industrial policy to build a dominant global position and orchestrated policy measures cutting across ministries and states to support this goal. Global OEMs, even very large ones, recognise the challenges they face, and intense competitors like BMW and Daimler recently announced a collaboration to join hands and share resources and skills to be able to develop a competitive offer in this evolving market. In the mobility business, the big players (and investors) are all non-Indian, and even India players like Ola have large overseas investors. The picture in the global digital services from data and connectivity value pools is even more stark with 'digital hegemonists' from US and China (the top 20 digital companies in the world are from these two countries) being in the best position to win.

So, what does it mean for India? Clearly, the homegrown automotive companies face the same challenges that global companies, BMW and Daimler, face which made them enter into the path-breaking partnership. And if they are unable to find competitive solutions, thousands of jobs will be at stake in the coming decades. But more important are the implications for our industrial policy which is being debated within the government, and, more broadly, the economic growth strategy of the country. I have drawn three specific implications which I pose as questions for our policymakers.

India's industrial policy has generally been developed along industrial 'verticals' but the new 'horizontal' technologies that will determine the winners (both countries and companies), like electrification, digital technologies, nanotechnology or smart materials, are shaping the new profit pools and transforming all industries. India cannot be leaders in all of them. So the first question is whether we are ready to make strategic choices in placing bets in building a globally competitive position in one or more of these new horizontal technologies? And if yes, what are the comprehensive set of policy interventions from partnership with countries, negotiations at WTO, setting standards which will support domestic development, research funding, investment support, and inclusion on college curriculum to tax breaks that are required to make it happen?

The second implication I have drawn is the importance of data (and skills to process it, interoperability across sectors, etc) and digital infrastructure in driving the industrial growth and jobs in the 21st century in the same way hard infrastructure, like roads and ports and rules for the physical flow of goods, did in the 20th. We seem to take pride in building new infrastructure only after the demand has overtaken the existing capacities. My second question is—can we afford to follow the same approach to data and digital infrastructure (both hard and soft, including the critically important regulatory regimes) in a piecemeal and reactive manner or do we do it strategically and proactively, even ahead of the curve, for our industry to become a leader and not a late follower?

My third implication is for our governance and policymaking model. If we look at the automotive example, the future value pools cut across many industries and topics—manufacturing, financial services, electrification, digital services, consumers, data and IT infra. The players are from different sectors as per today's definition. So, which ministry should be responsible for policymaking in the automotive industry of the future? And this applies to every sector and topic today. Here is my third and last question: are we ready to reform the way we have structured our governance and policymaking to align with this reality? We lost the opportunity to build a world-leading solar industry despite having the home advantage of one of the highest intensities of 'sun power' in the world. The next-generation technologies offer us the same game-changing opportunities. Whether we grab them and learn from our past experience, or we let the solar story play out again, only time will tell.

India's leadership deficit

Perhaps it is fair to say that competition for political leadership is more robust at the regional level. Therefore, one systemic way to deal with India's national leadership deficit is to give subnational governments more policy space

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WITH THE GENERAL elections just around the corner, opinion polls suggest that some of the suspense about the outcome has dissipated. Of course, as the US presidential election illustrates, nothing is certain until the votes are cast and counted. But India's ruling coalition seems very well placed to retain its position. Its main constituent, the BJP, has a relatively robust organisation and national presence, and the government it has led has done enough to compare favourably to its predecessor in perceived economic performance. It also has a leader with experience and credibility, nationally and internationally. There are subnational political leaders among the Opposition, of course, but they lead political parties that are firmly regional, and their national profiles tend to be limited. The main Opposition party, the Congress, is, of course, led by someone whose main qualification is based on genealogy, and it is not very clear what the party he leads stands for.

Leadership matters. One does not have to use basket cases such as Zimbabwe and Venezuela to see the damage that poor leadership can cause. Just look at the United Kingdom, where poor leadership from David Cameron resulted in a Brexit referendum that was manipulated by the racist UK Independence Party, with scare-mongering and falsehoods that were almost certainly the determining factor in the shocking outcome. Cameron's poor leadership has caused, and will continue to cause, his country significant economic harm.

The UK is an interesting case, because it is an advanced economy with a well-established parliamentary system. It is an example of what Douglas North, John Wallis and Barry Weingast have called an "open access order", in which there is competition for political and economic leadership positions that is relatively free of the biases of circumstances of birth. It is true that the current political leadership in the UK is not a good advertisement for this theory, but on average, well-functioning competition is more likely to lead to better leaders, even if there are counterexamples. Indeed, this seems to be true for economics as well as politics: family firms in India may be less well-managed on average than other companies.

As far as I know, Ashok Kotwal and Arka Roy Choudhuri in *What Will Improve Governance*, published in *India Review*, were the first to explore political leadership competition in the context of India. They offer a lucid summary of how the Congress party fell victim to dynastic politics. It seems uncontroversial to suggest that this is a major reason for that party's inability to serve as a true opposition party, with an identity based on policies and not personality. Kotwal and Roy Choudhuri do note the dangers of the BJP falling victim to a personality cult and the concentration of power in the Prime Minister's Office: these are also steps that can damage competition in different ways than dynastic succession. Yet, on the whole, the BJP seems to operate in a manner that merges ideology and internal organisation, unlike the individual- or family-dependent parties that dominate India's political landscape.

Kotwal and Roy Choudhuri do not analyse the various regional parties, and doing so adds considerable complexity to the story of Indian politics. Regional leaders will always matter because of India's scale and diversity, in ways that they will not in a country like the UK. These leaders can operate within the boundaries of national parties, or outside them. Sometimes they go back and forth between those two modes of operation, but the broad tendency has been for them to go out on their own, simply because there are few opportunities for rising to national leadership through party hierarchies. The current prime minister is a good example of an exception to this constraint, and one can speculate that overcoming India's leadership deficit requires more such examples, until they are no longer exceptions.

I am not aware of a systematic study of regional political leaders in India, and how they came to power. There are those who led farmers' organisations, those who represent caste groupings, many who succeeded a parent, and some who have simply made their way up the political ladder, going back and forth between national and regional roles. Perhaps it is fair to say that competition for political leadership is more robust at the regional level. In that case, one might get better leaders on average, and one systemic way to deal with India's national leadership deficit is to give subnational governments more policy space, both in terms of revenue raising and spending authority.

If that is the case, the centralising tendencies of the current ruling coalition could hold India back economically, if it is returned to power in the national election. It would be ironic if a national leadership deficit, depriving India's voters of a robust choice in the general election, leads to a stifling of leadership and political competition at the subnational level. There are separate worries about suppression of cultural diversity and weakening of national government institutions that provide checks and balances. All of this makes it sad that dynastic ambitions have attenuated democratic options in India's upcoming election.

LETTERS TO THE EDITOR

A tall order for Nikhil

With Independent candidate Sumalatha Ambareesh getting support from unexpected quarters, it will be a tall order for JD(S) candidate Nikhil Kumaraswamy to emerge triumphant in Mandya. Sumalatha not only has the backing of the film fraternity but even the BJP and some disgruntled elements in the Congress have also thrown their weight firmly behind the former actress. Congress Legislature Party (CLP) leader Siddaramaiah's efforts to mend fences with agitated party leaders and garner support for Nikhil have also proved futile. The tiff within the coalition could work wonders for the BJP

— Ravi Chander, Bengaluru

Realistic revival?

Rigid, inconsistent and lop-sided regulations that mandate premature disclosures usually affect the viability of a business. De-prioritised shareholder interests and opacity in the price discovery mechanism tend to enhance the business risks. An economy where healthy competition for distressed assets is still developing and small and medium creditors are compelled to accept large haircuts, it is important to promote instruments that favour the going-concern concept. For example, DVR shares can be a useful tool for start-ups and new-age tech-intensive firms to raise capital at a low cost with a higher flexibility and retain superior voting rights and control. On the other hand, retail holdings at low/discounted valuations offer a higher RoE and paybacks and dividends in the longer-run, thus compensating the investors for the loss of control

— Girish Lalwani, Delhi

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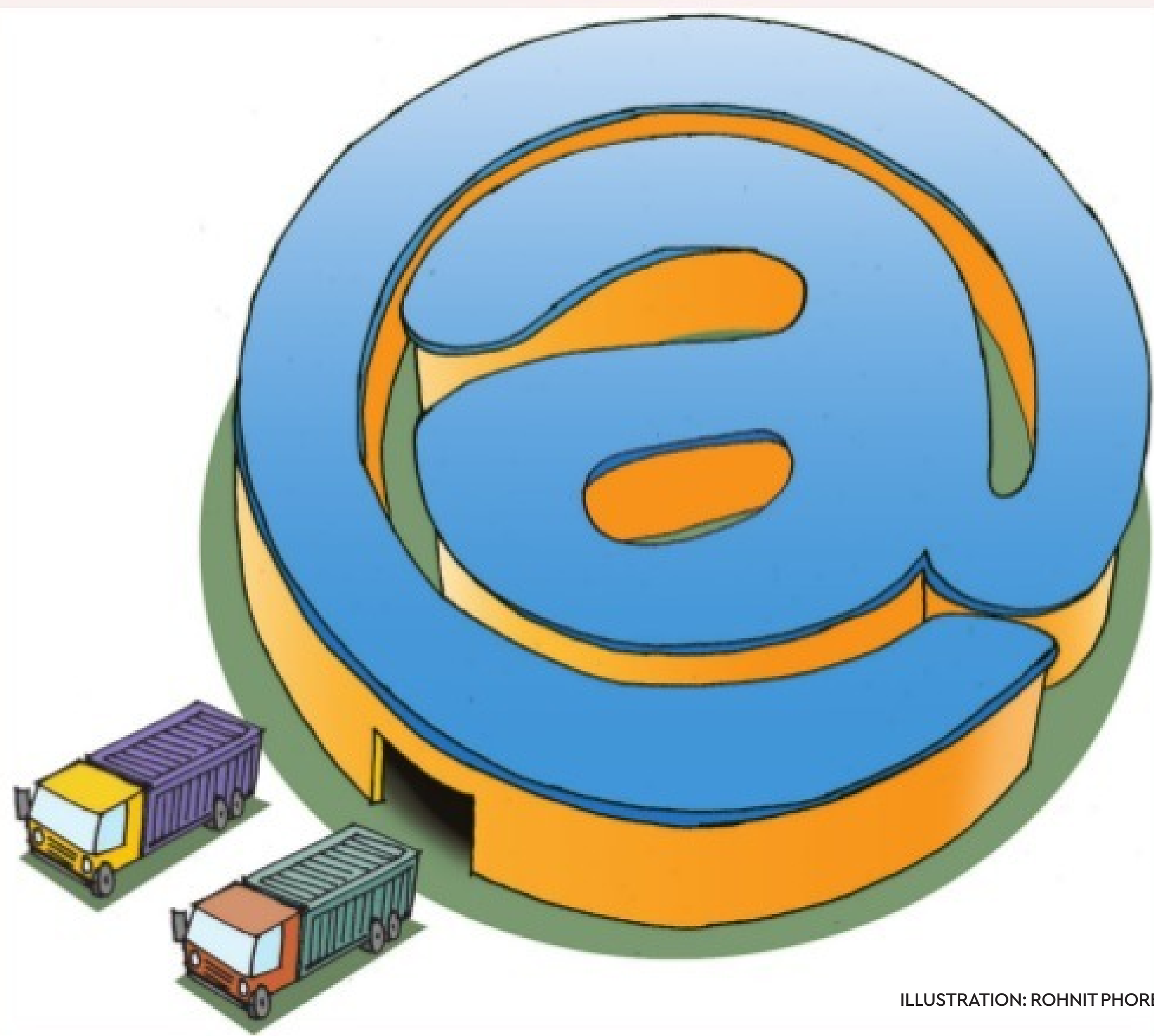

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DIGITAL INDIA

March of digitisation will create 65 million jobs

By 2025, digitisation will mean core digital businesses could double their contribution to the GDP

AS INDIA'S DIGITAL TRANSFORMATION unfolds, it could create significant economic value for consumers, businesses, microenterprises, farmers, government, workers, and other stakeholders. Digital adoption by India's businesses has so far been uneven, but new digital business models could proliferate across most sectors. Core digital sectors such as IT and business process management (IT-BPM), digital communication services, and electronics manufacturing could double their GDP level to $355 billion to $435 billion by 2025, while newly digitising sectors (including agriculture, education, energy, financial services, healthcare, logistics, and retail) as well as digital applications in government services and labour markets could each create $10 billion to $150 billion of incremental economic value in the same period. Some 60-65 million jobs could be created by the productivity surge by 2025, although redeployment will be essential to help the 40 million to 45 million workers whose jobs will likely be displaced or transformed by digital technologies, based on our estimates.

In India's new and emerging digital ecosystems of the future—already visible in areas such as precision agriculture, digital logistics management, and digital healthcare consultations—business will have to find a new way to engage with customers. All Indian stakeholders will need to gear up to capture the opportunities and manage the challenges of being a connected nation.

Our analysis of 17 mature and emerging economies across 30 dimensions of digital adoption since 2014 finds that India is digitising faster than all but one other country in the study, Indonesia. Our Country Digital Adoption Index covers three elements: digital foundation, or the cost, speed, and reliability of internet connections; digital reach, or the number of mobile devices, app downloads, and data consumption; and digital value, the extent to which consumers engage online by chatting, tweeting, shopping, or streaming. India's score rose by 90% between 2014 and 2017, second only to Indonesia's improvement, at 99%, over the same period. In absolute terms, India's score is low, at 32 out of a maximum 100, comparable to Indonesia's at 40, but significantly lagging behind the four most digitised economies of the 17: South Korea, Sweden, Singapore, and the United Kingdom.

The public sector has been a strong catalyst for India's rapid digitisation. The government's effort to ramp up Aadhaar, the national biometric digital identity programme, has played a major role. The Goods and Services Tax Network, established in 2013, brings all transactions involving about 10.3 million indirect taxpaying businesses onto one digital platform, creating a powerful incentive for businesses to digitise their operations.

At the same time, private-sector innovation has helped bring internet-enabled services to millions of consumers and made online usage more accessible. For example, Reliance Jio's strategy of bundling virtually free smartphones with subscriptions to its mobile service has spurred innovation and competitive pricing across the sector. Overall, data costs have dropped by more than 95% since 2013: the cost of one gigabyte fell from 9.8% of per capita monthly GDP in 2013 (roughly $12.45) to 0.37 percent in 2017 (the equivalent of a few cents). Average fixed-line download speed quadrupled between 2014 and 2017. As a result, monthly mobile data consumption per user is growing at 152% annually—more than twice the rates in the United States and China.

While low and moderate-income states as a group accounted for 43% of all base tower stations in India in 2013, they accounted for 52% of the incremental towers installed between 2013 and 2017. Uttar Pradesh, Madhya Pradesh and Jharkhand were among the five fastest-growing states in internet penetration between 2014 and 2018; Uttar Pradesh alone added more than 36 million internet subscribers in that period.

Even after these advances, India still has plenty of room to grow in digital terms. Just over 40% of the populace has an internet subscription. Despite the growth of digital financial services, close to 90 percent of all retail transactions, by number, are still in cash. Only 5% of trade is transacted online, compared with 15% in China in 2015. Looking ahead, India's digital consumers are poised for robust growth. By our estimates, India could add as many as 350 million smartphones by 2023.

We surveyed more than 600 firms to determine the level of digitisation. We used each company's answers to score its level of digitisation on a scale of 0 to 100 and created the MGI India Firm Digitisation Index. Companies in the top quartile, which we characterise as digital leaders, had an average score of 58.2, while those in the bottom quartile, the digital laggards, averaged 33.2. The median score was 46.2.

A higher score indicates a company uses digital more extensively in day-to-day operations (such as implementing customer relationship management systems or accepting digital payments) and in a more organised manner (for example, by having a separate analytics team or centralised digital organisation) than companies with lower scores. Our survey found that, on average, digital leader firms outscored other firms by 70% on strategy dimensions (for example, responsiveness to disruption and investment in digital technologies), by 40% on organisation dimensions (such as level of executive support and use of key performance indicators), and by 31% on capability dimensions (including use of technologies such as CRM and enterprise resource planning solutions, and adoption of digital payments).

We consider economic impact of increasing digitisation across three types of sectors. First are core digital sectors, such as IT-BPM; digital communication services, including telecom services; and electronics manufacturing. Second are newly digitising sectors that are not traditionally considered part of India's digital economy but have the potential to innovate and adopt digital rapidly, such as financial services, agriculture, healthcare, logistics, and retailing. Third are activities related to government services and labour markets, which can be intermediated using digital technologies in new ways.

India's core digital sectors accounted for about $170 billion—or 7%—of GDP in 2017–18. This comprises value added from sectors that already provide digital products and services at scale, such as IT-BPM ($115 billion), digital communication services ($45 billion), and electronics manufacturing ($10 billion). We estimate that these sectors could grow significantly faster than GDP, and their value-added contribution could range from $205 billion to $250 billion for IT-BPM, $100 billion to $130 billion for electronics manufacturing, and $50 billion to $55 billion for digital communication services, totalling between $355 billion and $435 billion and accounting for 8-10% of GDP in 2025.

Alongside these already digitised sectors and activities, India stands to create more value if it succeeds in nurturing new and emerging digital ecosystems in sectors such as agriculture, education, energy, financial services, healthcare, and logistics. The benefits of digital applications to productivity and efficiency in each of these newly digitising sectors are already visible. For example, in logistics, tracking vehicles in real time has enabled shippers to reduce fleet turnaround time by 50-70%. Similarly, digitising supply chains allows companies to reduce their inventory by up to 20%. Farmers can cut the cost of growing rice by 15-20% using data on soil conditions that enables them to minimise the use of fertilisers and other inputs.

In cross-cutting areas such as government services and the markets for jobs and skills, digital technologies can also create significant value. For example, shifting government transactions, including subsidy transfers and procurement, online can enhance public-sector efficiency and productivity, and creating online marketplaces that bring together workers and employers could considerably improve the performance of India's fragmented and largely informal job market. Unlocking this value will require widespread adoption and implementation. The economic value will be proportionate to the extent that digital processes permeate organisations and their marketing and service delivery channels, shop floors, and supply chains. Our estimates of potential economic value for each sector vary depending on adoption rates by 2025; for example, in areas where the readiness of India's firms and government agencies is low and considerable effort will be required to catalyse broad digitisation, adoption may be as low as 20%. Where private-sector readiness is relatively high and government policy is already supportive of large-scale digitisation, adoption could be as high as 80%.

In all, we estimate that India has the potential to create considerable economic value by 2025: $130-170 billion in financial services (including digital payments); $50-65 billion in agriculture; $25-35 billion in retail and e-commerce (including supply chain); $25-30 billion in logistics and transportation; and roughly $10 billion in areas such as energy and healthcare. Greater digitisation of government services and benefits transfers could yield economic value of $20 billion to $40 billion combined and up to $70 billion from more efficient skill training and job market matching using digital platforms. The economic value is estimated as a range. While these estimates underscore large potential value, realisation of this value is not guaranteed: losing momentum on the government policies that enable the digital economy would mean India could realise less than half of the potential value by 2025.

Prior MGI research on the effects of automation and other technologies on work has found that while some jobs will be displaced, and others created, most occupations will change as machines complement humans in the workplace. That in turn will require a new focus on retraining. For India, we estimate that the new digital economy may render obsolete all or parts of 40-45 million existing jobs by 2025, particularly those in highly predictable, non-physical activities, such as the work of data-entry operators, bank tellers, clerks, and insurance claims- and policy-processing staff. Consequently, many millions who currently hold these jobs will need to be retrained and redeployed. At the same time, heightened productivity and increased demand generated by digital technology applications may create enough new jobs to offset that substitution and employ more workers if the requisite training and investments are made. We estimate that 60-65 million could be created through the direct impact of productivity boosting digital applications.

Edited excerpts from **Digital India: Technology to transform a connected nation**, *a report by the McKinsey Global Institute*

GST

Heed economics over politics

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The government should start assessing tax commissionerates by the 'tax throughput' concept

MODERATE THE TAX RATE and broaden the tax base' is the mantra for behind any robust tax system. In the poll season, government actions will be linked to politics. The time has come to move beyond politics, and understand long-term economics. Implementation of GST was a herculean task, and, globally, ruling dispensations have generally not won elections after implementing GST. Yet, the present government was bold enough to implement GST in the larger public interest. Before concluding, it becomes imperative to analyse how the country has progressed in the last 21 months before commenting on the collections of March 2019.

Let us start with the statutory provisions. The courts throughout the country witnessed large number of interesting writs filed by petitioners all over the country to challenge the constitutional validity of various provisions. However, it should be noted that the GST Council has frequently come out with various amendments to address the needs of industry in such a dynamic environment. With the strong judicial system in the country, the courts were faster than the amendments proposed by the GST Council. As a corollary, the issues faced by industry witnessed pragmatic results. Another related aspect was of better compliance, and the GST Council did not hesitate to make procedural changes related to compliance, extend deadlines and increase threshold limits, thereby addressing the needs and popular demands of the taxpayer. The third aspect was with respect to rate rationalisation and the new taxation system witnessed large number of rate changes.

The moot point, based on the above three factors, is whether GST was implemented in haste and whether more thought should have gone into it before implementation. For any taxation system, such a large number of changes may not be a good sign, but we can't ignore the diversity that our country has and, accordingly, timely benefit to the industry can't be ignored inspite of the hardship caused by multiple changes. As every action has an equal and opposite reaction, the rate reduction was followed by anti-profiteering scrutinise but again in the larger public interest.

Moving on to the numbers—the collection of March 2019 is estimated to be at the record high of around ₹106,000 crore. There is not even an iota of doubt that this number is low by any standard. However, an important angle is whether this collection figure includes the tax credit which the businesses have at the year end. There could have been instances wherein due to the change prescribed for the sequencing of credit utilisation, there is large balance of SGST/ CGST credit which remains unutilised and the output tax of March has been paid in cash. In such a scenario, the collections for the subsequent tax periods would reduce and, hence, the numbers of the subsequent period will be the real reflection of the improved tax collection.

It is generally observed that there is tax collection pressure on the tax authorities even in the month of March, and there is a possibility that the collection number has gone up due to reduced sanction of refunds or payment of taxes by cash upon sincere request from the tax authorities. The delay in sanctioning of refunds is never a good sign for any economy and, hence, the government should start the concept of assessing the commissionerates by the 'tax throughput' concept. This concept recognises the efforts of the officers by not only tax collected but also refunds sanctioned. The government should think of amnesty schemes so that the genuine tax defaulters can come forward and clear the dues. Besides, the high direct and indirect tax payers should be given acknowledgement and priority—perhaps something like silver, gold, platinum and titanium status with various time saving priorities. This will certainly encourage willingness for tax payment.

Overall, the credit for the improved GST collection and better compliance should certainly go to the GST Council, and each of the stakeholder, including the revenue officers who have worked tirelessly for the improved taxation system. While the journey has been bumpy for both the taxpayers and the tax collectors, the generations of business ahead will certainly gain from the gutsy approach of the government and the GST Council.

Falling PPA tariffs & renewables funding

Effectively interpreting data from operating projects and communicating it to investors is what will drive future capital raises

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DESPITE THE ADDITIONAL overhangs of safeguard duty, GST and a depreciated currency, the first renewable auctions of 2019 have produced PPA tariffs that are almost on a par with the record lows seen in 2017 and 2018. Low renewable tariffs are not unique to India. This trend becomes irreversible wherever reverse auction replaces feed-in tariff as a method of price discovery. How will capital be raised under this new normal? Evaluating the experience of various classes of capital providers to the sector holds the key.

Given its history of extending credit to renewables, let's consider the example of IREDA as a proxy for project lenders. The following figures are based on a 180-day NPA classification (versus 90 days for banks), but it is remarkable that IREDA's ₹3,830cr solar loan book has zero gross NPAs (September 2017). Its ₹5,226cr wind loan book is not far behind, with NPAs of only 1.3%. Barring projects exposed to habitually errant off-takers, evidence from other lenders is also promising. Moreover, many renewable project loans are moving into A credit-rating territory, placing them within striking distance of the domestic bond market with its pricing benefits. Additionally, attributing a higher probability of default to lower PPA tariffs in a business with practically zero variable costs is debatable. It is more likely to result in downsized loans and heightened lender monitoring of capital expenditure rather than heightened default risk.

If lenders are getting repaid, how is project equity faring? The principal risks to project equity are curtailment of power generation, and delays in payments once it's generated. The former risk manifests itself in the form of lower than estimated or eroding plant load factors (PLF), while ballooning receivables are indicative of the latter. Interestingly, an examination of a cross section of developer's points to PLF's matching estimates or holding steady year on year in an overwhelming number of cases. The receivables situation also doesn't appear to be deteriorating materially. So what explains the outpouring of concern among developers each time PPA tariffs fall? Digging deeper into the origins of project equity provides answers.

Project equity can be traced to funding raised at parent company level as common equity, debentures, or convertible debt, often a mix of all three. The latter two carry an explicit cost, in the form of a coupon for debentures, and in the form of dilution on common equity shareholders for the convertible. On the other hand, while common equity carries no explicit cost, it carries implicit return expectations. What all three sources share is an assumed level of returns expected upon their investment into projects. So what happens when funding is priced and raised, but PPA tariffs decline rapidly and continuously, outpacing even declines in capital expenditure? Seniority ensures the protection of economics for debenture and convertible holders. However, common equity shareholders pay the price as the assumed positive carry on debentures begins evaporating and conversion starts looking prohibitively dilutive. Even in cases with predominantly common equity based parent capital structures, cash generated turns out to be a fraction of what was expected.

There are a couple of options available to tackle this predicament. Ceasing further investment and winding up capital structures via sales of underlying portfolios is one option. The market has witnessed several such transactions, with some observers misinterpreting them as permanent exits. In reality, many of these sellers will return with fresh capital stacks more attuned to actual risk and return realities. This option has an added advantage. Beyond a point, it is unwieldy to achieve a balance between successive generations of capital with recourse to a common pool of project level cash flow streams with incrementally diminishing return profiles.

Pressing for higher PPA tariffs by citing system wide risk is another option. However, this can be counterproductive if they do not trend upwards in response. After all, if risk supposedly increases with each progressive decline, a refinance exposed to cash flows generated from projects with stubbornly low tariffs should be forthcoming on even more expensive terms than the original financing. This can also have a contagion effect, unfairly punishing shareholders of other developers. Finally, the system wide risk argument doesn't seem to hold good as it appears just one class of capital, namely parent level common equity, is paying the price for a misjudgment in trajectory of PPA tariff decline.

This brings us to the subject of capital required to achieve India's target of 500GW of renewables capacity within the next decade. The first generation of capital was raised without the benefit of much operating history, resulting in an overestimation of project level risk and return. Negligible barriers to entry then came into play and ensured tariffs hit one low after another. In contrast, the next generation has the advantage of data points being generated by hundreds of operating projects. Effectively interpreting this data and communicating it to investors is what will drive future capital raises. And if PPA tariffs remain low in the bargain, it may not be such a bad thing because anticipating and delivering moderate project level returns can result in a far better value creation outcome for common equity shareholders than anticipating high returns, but delivering only moderate ones.