Opinion

WEDNESDAY, JUNE 12, 2019

ON PRESS FREEDOM

Indian National Congress President, Rahul Gandhi

If every journalist who files a false report or peddles fake, vicious RSS/BJP sponsored propaganda about me is put in jail, most newspapers/ news channels would face a severe staff shortage

India's growth mystery deepens even more

Former CEA Arvind Subramanian estimates India's GDP grew by just 4.5%, not the 7% that official data claim

INDIA'S OFFICIAL DATA, whether on jobs or GDP, has come in for severe criticism in the recent past, not just because there seemed to be a political angle to it—witness how NDA-2 growth trumped that in UPA-1 and UPA-2 as a result of the back-series—but also because the data seemed to fly in the face of common sense. How could jobs, for instance, be growing at the pace the government claimed if private consumption expenditure growth was slowing so fast? And how could GDP growth in NDA-2 average 7.7% as compared to UPA-2's 6.7% if bank credit grew at roughly half the pace (8.6% in NDA-2 vs 16.3% in UPA-2) and investment levels also fell to around 29% of GDP from around 33.2% in the same period? The latest blow to the integrity of India's data system comes from a study by former chief economic advisor Arvind Subramanian; the former CEA has argued that, as compared to the official estimates of around 7% per year, GDP is likely to have grown by just around 4.5% per year between 2011-12 and 2016-17.

Given how the period Subramanian has chosen spans both the UPA as well as the NDA, of course, his analysis cannot be seen as a critique of the statistical system only under the NDA though many will interpret it as such. Indeed, even the original rebasing exercise—this is what led to the first controversy over GDP estimates—was started during the UPA period and the methodology was finalised before the NDA came to power; the results may have benefitted the NDA, but that was coincidental. Subramanian comes to his conclusion by, first, establishing that the GDP estimates are not *kosher* and, having done that, he constructs several alternative indices—such as power consumption, vehicle sales, petroleum consumption etc.—and runs regressions with them to see how well they correlate with GDP. As Subramanian asks, how can GDP growth be roughly the same in 2001-02 to 2011-12 (7.5%) and 2012-13 to 2017-18 (6.9%) if other indices are so different? Exports of goods and services grew 14.5% before 2011 but just 3.4% thereafter, while the growth for imports were 15.6% and 2.5% respectively! Production of commercial vehicles, similarly, grew at 19.1% before 2011 and -0.1% after 2011; a host of such examples can be given.

The first concern for the re-elected government, then, has to be getting India's statistical system back in order; if the data is faulty, how can any government or RBI even conduct policy? If the government knew that, as Subramanian says, growth was doing so badly, it would have been faster to address both the farm stress, as well as NPA crisis with faster bank recapitalisation; RBI too would have been quicker to cut repo rates if economic distress was so palpable. On the flip side, while the numbers suggest monetary policy was too tight, it shows fiscal policy was too loose since, with a lower GDP number, the fiscal deficit will look even higher in relative terms. While part of the reason for the data being problematic has to do with the collapse in inflation, a larger reason could be due to the use of MCA-21 data in place of volume-based data like the IIP or proxying informal sector growth by formal sector activity. Though recent events make it look as if the statistical system has been undermined by the NDA, as Subramanian points out, the problem is more deep-seated.

A tax on cash is a bad idea

Govt has enough data on tax evaders to be able to track them

THE GOVERNMENT IS reportedly considering bringing back a banking cash transaction tax (BCTT), of the type introduced in 2005 when P Chidambaram was the finance minister. And, just as Chidambaram said the idea of the tax was not so much to generate revenue—it collected just ₹350 crore in FY06—as it was to establish 'remarkable tax trails' since a large part of the cash found its way into the black economy, the government's reported plan is also linked to trying to disincentivise the use of cash and crack down on evasion. The fact that there was no stunning increase in tax buoyancy after Chidambaram's cash tax suggests it wasn't very successful; besides, since the government has a lot more information on taxpayers than it did earlier, it is not clear what a tax on cash withdrawals—it is actually unfair to honest taxpayers—will achieve.

After GST, the government has a mine of information on people's incomes and revenues which needs to be mined assiduously. Then, there is the data the taxman gets from Operation Insight which is a linking of various databases—on the purchases of jewellery, automobiles, property, credit card payments, airline tickets, etc—and with each bank account in the country mandatorily linked to a PAN, the government can always ask the banks to generate a list of cash withdrawals beyond a certain amount from banks. There are, it is true, a large number of fake PAN cards; but since each PAN card has to be linked to an Aadhaar number, bank managers can be asked to conduct periodic scans to weed out fake PANs. More important, the government claimed that, as a result of demonetisation, it had collected a wealth of information on people; so why isn't this being used to track tax evaders? At the time of demonetisation, the government claimed it had identified 23.5 lakh PANs that appeared suspicious—the cash deposited wasn't in keeping with their known sources of income; two years down the line, if just around ₹6,600 crore of taxes has been collected from these people, it doesn't suggest the exercise was very effective. With just around ₹6,900 crore of *benami* property attached so far, it is clear the government hasn't been able to unearth serious amounts of black money; so, what is to be achieved with yet another information source when not enough is being done with the existing information?

Indeed, the sharp slowing of personal income tax collections in FY19 shows the demonetisation bump has also exhausted itself despite all the information this gave the taxman. An *FE* analysis by Sumit Jha showed that, for every taxpayer reporting an income of ₹5+ crore, 13 others outwit the taxman; while there are likely to be around 68,000 Indians who earn more than ₹5 crore a year, the official tax data shows just 5,000 people in this income bracket; indeed, in most cases of people earning more than ₹20 lakh, just around 10-15% of potential taxpayers are in the tax net. The taxman has more than enough tools to catch these evaders; a banking cash transaction tax is not going to materially add to the wealth of information the government either already has or has access to.

FirePOWER

Govt does well to fire corrupt and inefficient tax officials, move signals transparent conduct and performance matter

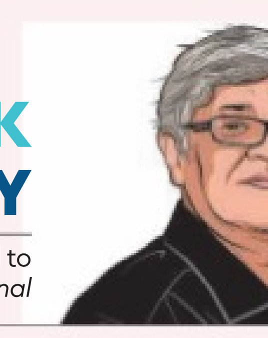
THE UNION GOVERNMENT forcing 12 senior tax officials to retire because of misconduct and inefficiency is a step towards clean and effective bureaucracy. However, that the action comes almost a decade after the instances of misconduct were first reported is disappointing—especially given how serious the charges were, ranging from corruption and extortion to sexual harassment. Indeed, one of the 12, a top-ranking official, had allegedly acquired ₹12 crore of unaccounted-for assets and had remained suspended from 1999 to 2014. In the interim, he had initiated over 40 legal cases to thwart action against him and had, most recently, moved a High Court to force the Centre to appoint him as a member of the Central Board of Direct Taxation. Quite a few of the sacked tax officials had engaged high-profile lawyers who charged fat fees—contrast this with the case of former coal secretary HC Gupta, who had once submitted that he would have to fight his case in the coal-block allocation scam from jail as he couldn't afford the advocate's fee; he later withdrew the submission, reportedly with friends and well-wishers pitching in to help.

Delays in acting against tainted officials erodes administrative accountability and efficiency. That said, by firing a senior tax official for not having proved effective in a supervisory role, since he failed to assign high-tax-implication cases to seasoned officers, the government has set a new benchmark for efficiency. By the same logic, officers who habitually levy large penalties that don't get upheld in courts should also be shown the door. If the government were to adopt a similar 'perform or get ousted' rule for other departments as well, it would signal a premium on bureaucratic efficiency and get rid of the rust that has beset India's steel frame. In the longer run, to ensure that only upright and efficient officers comprise India's executive, the government must exit functions that the private sector can execute competently and areas that are best left to the market to regulate. If, for instance, the government were to appoint a bureau to keep tabs on price arbitrage in the civil aviation sector—where competition can do a much better job—chances are there will be officials willing to look the other way, in exchange for some old-school palm greasing.

INCOME LEVEL

NOTHING IS GAINED BY MUDDYING WATERS THROUGH EXPRESSIONS THAT SOUND PROFOUND, WITHOUT CONVEYING ANYTHING OF IMPORT

Understanding India's middle-income trap



BIBEK DEBROY

Chairman of the Economic Advisory Council to the PM. *Views are personal*

IS THERE A MIDDLE income trap? Words have multiple meanings. The word "trap" has three major meanings—Trap(1), a situation one can't get out of (trap shooting comes from that); Trap(2), mouth; and Trap(3), a horse-drawn carriage. Outside literature (often old), I have not come across Trap(3) being used for a long time, certainly not in India. Trap(2), as in, "shut your trap" is colloquial and also rare in India. There certainly is a middle income trap, interpreted as Trap(2), though people who use the expression mean it in the sense of Trap(1). Economists are usually known for their precision. When they use the expression "middle-income trap", they should define what they mean by "middle income", "trap" having hopefully been defined. I said economists should be precise. They aren't always and presume, like "Khan market consensus", there is a "middle-income trap consensus". World Bank has a definition of middle income; it is a range of per capita income between \$996 and \$12,055, with \$996 to \$3,895 defined as lower middle income, and \$3,895 to \$12,055 defined as upper middle income. (The thresholds are often changed, these are 2019 levels). With a per capita income of around \$2,000, India is still lower middle income. \$12,055 is a long way off and with a per capita income of \$12,055 India's economy and society will be vastly transformed. Nevertheless, like *Vitalstatistix*, we must worry about these vital statistics. What happens when we cross that threshold? What happens if the sky falls on our head tomorrow?

These numbers are based on official exchange rates, the so-called nominal per capita GDP or Atlas method figures. But a country's per capita income is in local currency, that is, rupees. For purposes of cross-country comparisons, they have been converted through a common numeraire, the US dollar. For the sake of sheer perversity, just before 1991 reforms, there were roughly 20 rupees to a dollar and right now, there are roughly 70 rupees to a dollar. Had that exchange rate continued, under an economist's favourite expression of *ceteris paribus* (everything else remaining unchanged), the per capita income would have been around \$7,000 now—closer to the threshold and perhaps a reason to worry even more. Typically, when economists use the trap idea, they mean purchasing power parity (PPP) dollars, using PPP exchange rates, not official exchange rates. India's PPP per capita income is now around \$7,000. Through sheer coincidence, it is identical to the number obtained by using 20 rupees to a dollar as the exchange rate. Do countries get stuck in the middle income range, PPP or otherwise? Might India get stuck?

The grist to the mill is usually provided by empirical research, documenting development experience of a diverse range of countries. I know of two such recent surveys of literature on the middle income trap proposition. The first was by Fernando Gabriel Im and David Rosenblatt, published as a World Bank Policy Paper in 2013. The second was in, 2017-18 Economic Survey. Both found no evidence. Economic Survey also said, "But, recently doubts about the convergence process have been articulated around the notion of a "middle-income trap." Definitions can themselves be traps so it is important to be careful about them." Who pays attention to such advice when Trap(2) beckons? Survey added, "The reasons for the trap/stall were supposed to be two-fold, operating as a kind of pincer. On the one hand, as countries attained middle income status, they would be squeezed out of manufacturing and other dynamic sectors by poorer, lower-cost competitors. On the other hand, they would lack the institutional, human, and technological capital to carve out niches higher up the value-added chain. Thus, pushed from below and unable to grasp the top, they would find themselves doomed to, well, middle income status. As it turned out, there was neither a middle income trap nor stall. Middle-income countries as a group continued to grow as fast or faster than the convergence standard demanded."

Even if one uses this relative notion, the case of a middle income trap existing is not proven. Does that mean there are no issues with the Indian economy? Certainly not

In this quote, conceptual arguments behind the middle-income trap are also mentioned. The burden of empirical evidence is that there is no such trap. Note two further points. First, a trap cannot be defined without referring to a time-frame. Time series on PPP per capita is a bit more difficult to get than official exchange rate per capita. With that caveat, take a look at the time series of any relatively more advanced country. Until a few decades ago (a cut-off in 1960 or 1970 will suffice), all these countries were stuck in middle-income traps. Second, middle-income trap is sometimes defined not with respect to an absolute threshold level of per capita income, but with per capita income expressed as a share of US per capita income. Even if one uses this relative notion, the case of a middle-income trap existing is not proven. Does that mean there are no issues with the Indian economy? Certainly not. After the elections, with a new government in place, plenty of people have come up with agendas for reform. In most instances, these are not short-term quick fixes, but medium-term changes in structure. Therefore, they can rightly be called structural reforms and the suggestions should be debated, accepted and implemented. Having granted that, the limited point is that nothing is gained by muddying waters through expressions that sound profound, without conveying anything of import.

Donald and the delusion discount

Not having a destructive trade war is a good thing. But what the world learned from this climbdown is that Trump's threats are as empty as his promises

PAUL KRUGMAN

NYT

THE EVENTS OF the past few weeks destroyed whatever credibility Donald Trump may still have had on economic policy. And investors are celebrating. At this point, evidences that Trump tweets are sound and fury signifying nothing is, in effect, good news.

Let's review what happened. First, having gone to great lengths to get a new trade agreement with Mexico and Canada—an agreement that was very similar to the existing agreement, but one he could slap his own name on—Trump basically blew up his position by threatening to impose new tariffs unless Mexico did something about border issues that have nothing to do with trade.

This obviously weakens if it doesn't destroy Trump's ability to negotiate future agreements, on trade or anything else. After all, what's the point of making deals with an administration that reneges on its promises whenever it feels like it?

But then, barely a week later, Trump called the whole thing off in return for a statement by Mexico that it would do... things it had already agreed to months earlier.

We don't know exactly what caused Trump to back down, but a good guess is that the warnings of U.S. manufacturers—horrified at the possibility that Trump's tariff tantrum would disrupt their supply chains—finally made it through to the Oval Office, or the golf course, or wherever he was when they finally got his ear.

Now, not having a destructive trade war is a good thing. But what the world learned from this climbdown is that Trump's threats are as empty as his promises.

An aside: Recent events have surely reduced the chances that Congress will ever approve the U.S.M.C.A., the Trump-negotiated replacement for Nafta.

Democrats in the House were already reluctant to pass enabling legislation, giving Trump something to boast about, unless they got some serious concessions on issues that matter to them, like labour rights.

Trump's counter was a threat to withdraw from Nafta with no replacement. But this would have catastrophic economic effects, leading into an election year. After last week's climbdown, who believes that he would carry through on that threat?

Trump was, of course, unhappy at news reports that accurately described his deal with Mexico over migrants as the nothingburger (nothingtaco?) it actually was. So in addition to lashing out at "fake news," he introduced a whole new claim: "MEXICO HAS AGREED TO IMMEDIATELY BEGIN BUYING LARGE QUANTITIES OF AGRICULTURAL PRODUCT FROM OUR GREAT PATRIOT FARMERS!"

There were a few peculiar things about that claim, despite the extra persuasiveness that always comes when YOU MAKE YOUR ASSERTIONS IN CAPITAL LETTERS.

Like many Trump tweets, it reads like a clumsy translation from the original Russian ("great patriot farmers"?). More to the point, there was nothing at all about agriculture in the official agreement. And at the most basic level, that's just not something the Mexican government could deliver, even if it wanted to.

Some readers may recall that a few months ago China tried to avert trade conflict by promising to buy 10 million tons of U.S. soybeans. The ploy didn't work, but it was at least feasible: State-owned enterprises make up a large part of the Chinese economy, and Beijing can just order them to buy stuff. Mexico, however, is a market economy, in which the private sector, not the government, decides how much Iowa corn to import.

So was Trump confusing Mexico with China? Did he forget that the China deal he was touting months ago actually fell through? Who knows?

What's clear, however, is that on trade policy—his signature issue—the president of the United States is seriously out to lunch. And you might think that this would worry investors.

But as I said, markets appear to be celebrating: As I write this, stock markets are up, while long-term interest rates—a better barometer of investor views about economic prospects—are off their recent lows. What's going on?

The answer, I'd suggest, is that financial markets are basically discounting Trump's rants; they've stopped treating evidence of his unfitness for office as news.

What investors want to know instead, is the extent to which his character flaws will actually lead to destructive economic policy

Yes, he's deeply ignorant about policy. Yes, his rage-tweets constantly remind us of his egomania and insecurity. But we've known all that for a while; Trump's personality is, in effect, already priced in.

What investors want to know instead, is the extent to which his character flaws will actually lead to destructive economic policy. Legally, Trump faces remarkably few constraints: U.S. trade law gives the president enormous discretion to impose tariffs at will, and given a spineless Senate, there are a lot of other things he can do in the name of national security.

But as of right now, markets appear to be betting that he tweets loudly but carries a small stick.

Is this a good bet? I have my doubts. The trade war with China still seems to be on, and Europe may be next. More generally, when you have an attention-seeking president, ignoring his antics could well provoke him into even more extreme behaviour. But for now, investors are effectively treating Trump as crazy but harmless. Is America great, or what?

LETTERS TO THE EDITOR

Girish Karnad's demise

With the loss of Girish Karnad, the country has lost an extraordinary playwright who never shied away from embracing progressive ideas, and produced path- breaking plays in the language of Kannada; besides speaking up boldly against the pernicious trend of stifling dissent and climate of intolerance till the end. Starting from his early plays such as *Tughlaq* and *Yayati*, which were considered as powerful commentaries on contemporary India; Karnad drew heavily on history and mythology to speak the unspeakable truth. Karnad used his mother tongue Kannada for creative pursuits. The void left by him will be difficult to fill.

— M Jeyaram, Sholavandan

RBI relaxes norm

This refers to news regarding RBI relaxes norms for basic account holders. Since time memorial savings bank account is attached with having a pass book and cheque book in general public perception. The importance of cheque book cannot be undermined. It makes saving account holder entitled and motivates account holder to use it to settle his dealings. It works as an additional tool for senior villagers and traders with limited crops trading for selling merchandises and crops and adjust their dues be it Further it will encourage rural folk to visit banks to deposit cheques and boost financial literacy movement. Women folk owning a cheque book will be prompted to keep more balance in their BSBD accounts. BSBD accounts will become more popular as these facilities already include four withdrawals from ATMs in a month, deposit of cash at bank branch, and ATM Card or ATM-cum-Debit Card. Also there is no limit on number and value of deposits that can be made in a month in BSBDA. Good business deals will positively scale up balances in saving bank accounts and pave the way for other financial products including current account and fixed deposits.

— NK Bakshi, Vadodara

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Towards a skilled nation by 2030

The skill development ecosystem is at a crossroads. While the foundations for a sustainable skill development ecosystem have been laid over last five years, it's time to build on it to create a skilled nation by 2030. Anything less than that would be a grave injustice to the potential of the youth of this nation

AS THE NEW GOVERNMENT settles in, one of its early agendas would be to get the skill development roadmap for the next five years right. It is an opportune moment to conduct an assessment of the past decade of skill development and contribute to discussion for future policy initiatives. The first National Policy on Skill Development launched in 2009 marked the beginning of competency-based skill development in the country. The initiative is based on the twin pillars of short-term modular training and involvement of the private sector in training delivery. The first was necessitated as India had 250-300 million youth in the 'not in employment, education or training' (NEET) category in 2009, with 8-9 million being added every year (with 12 million entering the workforce every year and an annual training capacity of 3-4 million, the NEET segment keeps growing at a rate of 8-9 million every year). This was ironically in a fast-growing economy that reported skill shortages. Since long-term training was not a viable solution for this ballooning problem, the short-term modular training system where youth would be trained enough to be provided jobs in industry as semi-skilled workers was envisaged. The youth could then pick up further skills on the job and, through an effective work-based learning mechanism, become fully skilled. Similarly, it was practically impossible for the government to set up these training capacities in a short span of time. Hence policies and schemes were designed to incentivise the private sector to do so swiftly.

Much has happened since then—the setting up of the ministry of skill development and entrepreneurship (MSDE) in 2014, adoption of National Skills Qualification Framework (NSQF), strengthening of the fledgling National Skill Development Corporation (NSDC) and its enabling ecosystem of training partners and Sector Skill Councils (SSCs), the establishment of State Skill Development Missions (SSDMs), the launch of the National Skill Development Mission (NSDM) in 2015, and training of over 35 million people through various central- and state-sponsored skilling schemes.

Even though the macro socio-economic context for skill development remains largely the same as in 2009, there is renewed urgency to respond to four key trends.

First, India is racing against time to become rich before it gets old. We are paradoxically both a nation of young and old. There would more old Indians than young beyond 2035. We need to grow our per capita incomes before we age. Second, we are a young nation in an ageing world. This provides an opportunity to be a global source for skilled manpower for nations with skill shortages. Third, India's economy is growing fast, but as it becomes more efficient, much of the output growth cannot be expected to be accompanied by job creation due to falling elasticity of labour to output. Fostering entrepreneurship amongst the youth becomes imperative for creating gainful employment opportunities for many. Lastly, the Indian economy needs to accelerate its transition to a technology-led, knowledge and innovation economy, if per capita incomes are to rise rather than stagnate at current levels. There is need for skilling, reskilling and upskilling of persons to participate in the global knowledge economy driven by emerging technologies like artificial intelligence and data analytics.

Over the last few years, we have responded to these trends with mixed results. To begin with, there is denying that the skill development agenda has been successful on three counts—institution building, increasing the training capacity and improving access, and creating awareness for the need to be skilled. No sector can be expected to have long-term sustenance unless the policies, operations and monitoring are institutionalised. As noted previously, the last decade has seen the setting up of various institutions and this phase continues with the restructuring of some of them and reconfiguring of roles between them. There has also been a 3-4 fold increase in training capacity with widespread geographic access—600 model training centres called the Pradhan Mantri Kaushal Kendras (PMKK) and over 5,000 scheme-based training centres have been established—as over 10 million people get trained annually under various skill development initiatives. Finally, there is growing awareness of the need for skilling amongst the youth and employers, and skills is a buzzword today that none can ignore.

Notwithstanding these positives, there are major performance outcome challenges. Some of the key ones are less than desirable quality of skills training, low participation of women and marginalised groups, need for higher industry engagement and higher trainee motivation, and less dependence on grant funding.

These performance outcome challenges stem principally from two factors. The first is related to the inherent behaviours of both the trainee and industry. Vocational training is perceived as training for the less educated and for those who have not fared well in the education system. Also, industry's willingness to skill or pay a premium for a skilled person is absent as it perceives no marketplace benefits for the costs incurred. The second is related to policy design issues that have been less than successful in breaking the impedance of these stakeholder behavioural motivations. The design problem on the policy level must be resolved so that the key stakeholders see more value in skill development.

To begin with, a new policy design needs to first focus on transforming the current push system into a pull-based one. This would call for the following:

■ Empower the trainee, so that she makes an informed choice about the programme she wishes to pursue, through counselling support and making payment through skill vouchers;

■ Conduct a rigorous quality-grading of skill training institutions to weed out undesirable ones to support the empowered trainee in making this choice;

■ Strengthen the assessment and certification system to make it robust and hence credible;

■ Find ways and means to incentivise industry through a light-touch approach to participate in the skill development agenda especially through apprenticeships;

■ Decentralise the skill development initiative by building capacity at the district and state level for planning and monitoring the implementation of schemes; and

There is need for skilling, reskilling and upskilling of persons to participate in the global knowledge economy driven by emerging technologies like artificial intelligence and data analytics

■ Provide enabling support for embedding skills in education and lifelong learning. This calls for initiatives focused on vocationalisation of school and college curricula. There is also a need to operationalise NSQF as a framework for lifelong learning and developing pathways between the skill development system and the current academic system.

Second, to address the challenge of low pace of job creation, the policy has to focus on:

■ Skilling and providing enabling support for entrepreneurship; and

■ Recognition of Prior Learning (RPL) of the skilled but uncertified persons for transitioning them from the unorganised to the organised sector.

Third, to address the overseas opportunity for skilled Indians, the policy needs to build on its current initiatives for placements in Japan with similar government-to-government (G2G) approaches to other overseas markets like the EU. For traditional overseas markets like GCC countries, creating capacities to assess competencies of the emigrants is imperative.

Finally, the policy should focus on skilling in emerging technologies to enable India to transition into a global knowledge economy and support mission mode initiatives like Make in India, Smart Cities, doubling farmers' incomes, etc.

The skill development ecosystem is at a crossroads. While the foundations for a sustainable skill development ecosystem have been laid over last five years, the time has come to build on it and work over the current decade to create a skilled nation by 2030. Anything less than that would be a grave injustice to the potential of the youth of this nation.

Deepening of digital payments

ARUNA SHARMA

Former secretary, ministry of steel and MeITY, Government of India, and member, RBI committee on digital payments

The thought-process behind Nilekani Committee recommendations

THE RESERVE BANK of India has taken a major step to boost digital transactions by scrapping the charges on fund transfers through RTGS and NEFT. The removal of transaction fee on digital payments was one of the recommendations of the high-level committee constituted by the RBI for deepening of digital payment. The five-member committee chaired by Nandan Nilekani was set up in January to study the level of digitisation of payments in the country, identify problems in the payments ecosystem and recommend ways to resolve them.

The Modi government's focus on Digital India was not just about digitising the system of governance, but also for developing technologies and efficiencies in the payment system. The committee deliberated on the existing reports on the issue and discussed with all stakeholders to understand the hurdles faced in digital payment modes.

The committee was tasked with segregating payment modes—government to merchant, government to people and vice versa from people to people and people to merchant interfaces. As far as the transactions involving the government are concerned, the system is in place to an extent after the spread of Jan Dhan accounts, RuPay cards and direct benefit transfers. However, the last mile connectivity needs some fine-tuning. Thus, payments to and from the government can be fully digitised in a two-year timeline.

Payments to and from the government can be fully digitised in a two-year timeline with the spread of Jan Dhan, DBT & RuPay cards

In the case of other categories of payments—people to people and people to merchant—the supply-side is ready, but there are some impediments to digital payments, viz., interchange charges, taxes, connectivity issues, time bands for digital windows and amount restrictions. By scrapping fees on few modes of digital transactions, RBI has signaled the removal major irritants. It will be easier to popularise PoS and UPI platforms if these issues are addressed effectively.

The committee also flagged the need for an improvement in financial literacy by making user understand that how digital payment history enhances their credit worthiness. The role of state-level banking committees and district- and block-level committees was also deliberated in detail. The SLBCs are the right forum to plan and monitor deepening of digital payment structures.

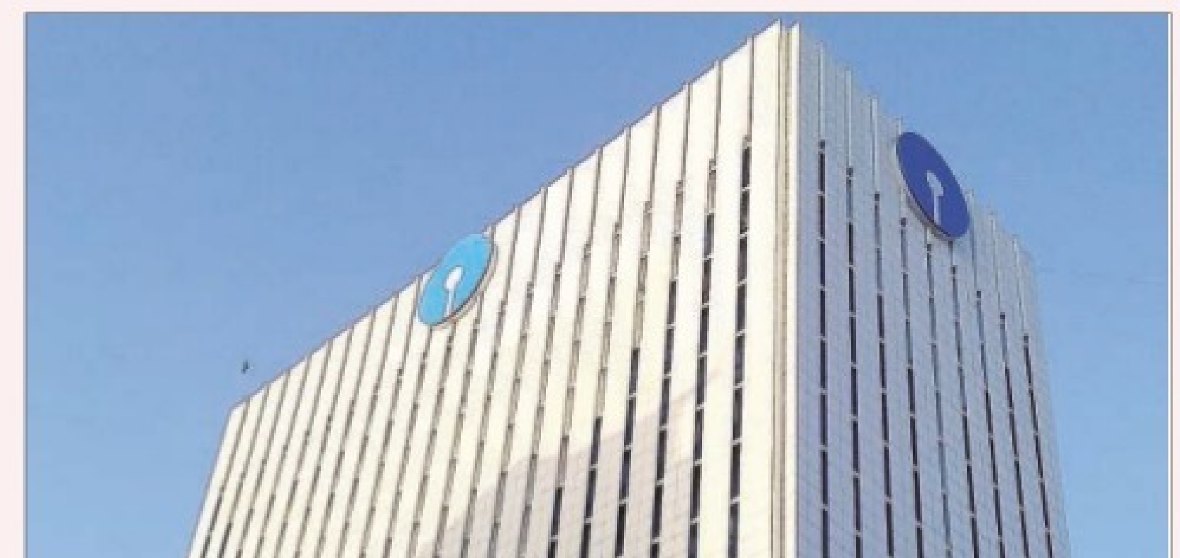
The Nilekani Commitee, of which I was a member, also had Harun Khan, former director at the RBI, Kishore Sansi, former CMD of Vijaya Bank, and Sanjay Jain of IIM-Ahmedabad. The committee made recommendations in the areas of increasing digital payments, easing KYC norms, providing solutions to feature phone users, grievance redresses and connectivity. The card and phone payment modes were deliberated separately. The report has not only recommended solutions, but also has explained the modalities and even suggested some medium-term strategies for achieving the goals.

Towards good HR practices in PSBs

How poor people management is adding to India's banking woes

RITESH KUMAR SINGH

CEO of Indonomics Consulting *Views are personal*



AN ASPECT OF INDIAN banking crisis that hasn't gotten much attention is HR mismanagement in state-owned banks. Poor people management is equally responsible, if not more, for the lack of customer focus, operational inefficiency and, in turn, low profitability of government banks vis-a-vis their private sector counterparts. Unless it is addressed, things will not improve, whether we recapitalise these banks or reduce government stakes in them, or not.

Like many things in government banks, HR is one of the most mismanaged. Post bank nationalisation, hiring of personnel was done through banking service recruitment boards (BSRBs), which brought in a national cadre of competent people. Foreign banks having presence in India as well banks in the Gulf region used to lure away employees of state-owned banks to work for them. Yet public sector banks were not short of quality staff. However, with the full-fledged entry of private banks in the 1990s, things started to change, with talent moving on to better paying private banks.

With declining quality, HR in government banks is no longer about merit, but about bureaucracy and its inherent flaws. A culture of pleasing one-up the hierarchical ladder prevails. So, rather than focusing on business growth, a branch manager (BM) tries to keep his regional manager (RM) in good humour, an RM his GM, and the GM tries his best to manage executive directors (ED) or chairperson for improving his promotional prospects, says an industry veteran. Similarly, a typical bank chairman is often appointed because of right connection rather than right competencies. Hence, he tries to keep those people (who got him the job in the first place) happy by being useful.

In a thriving culture of sycophancy and nepotism, personnels are transferred on whims and fancies of top bosses or influenced by bank unions or on recommendations from bureaucrats or politicians, but not often on merit. And certainly not after any serious deliberation about the suitability of transferees to specific roles. There is more emphasis on matching the hierarchical ranks. Thus, when an assistant general manager (AGM) leaves or is transferred, another AGM is asked to replace him irrespective of the gentleman's specific profile or previous work. Thus, an HR or legal specialist with no experience in commercial banking can be asked to head a bank branch. Once appointed as the branch head, he or she at once becomes a jack of all trade and is expected to lead every function from sales and marketing to credit appraisal and loan sanction. The result is mis-employment and under-employment. In such a scenario, intended (or unintended) sub-prime lending is bound to happen. Directed lending, and/or loans to politically connected cronies, adds to the problem.

The system of promotion and career progression in government banks is good only in theory. A person who has got a bad rating (which are often assigned arbitrarily with no detailing of justification) or reprimand for poor performance this year, can be promoted the next year if he or she is able to manage the right people. Though there are sales targets such as number of accounts to be opened, deposits accumulated or number of mudra and other loans sold in a month or quarter, they are not strictly enforced unless an employee is really in the bad book of top bosses. Variable pay or monetary rewards based on performance are given only to ED and chairpersons. For the rest, there's no performance-linked pay, so in practice performance is not incentivised.

To make matters worse, a typical low to mid-level bank employee can't be transferred if he or she doesn't want promotion or career growth. Sadly, there could be many employees who are fine with that as they might not be looking for promotion but local posting nearer to their hometowns so they could take care of family business from the side. Thus, for such non-performers, no promotion combined with no transfer is not actually a punishment, but this is how it is.

Sincere hard work doesn't pay well in government banks—one is not punished for inaction, but even for simple mistakes, punishments could be harsh. On a day-to-day basis, when any wrong happens, the priority is to find a scapegoat rather than fixing accountability through proper investigation or introducing preventive reforms, in an environment of uninspiring leadership. This promotes risk-avoidance rather than risk-management among bank employees.

Each state-owned bank has its own training institute where employees are imparted minimal training by insiders. Outside voices or experiences are not shared. Forget private banks, deputation to other government banks or government departments or PSUs is strongly discouraged. As a result, a typical government banker doesn't know what's happening outside (in other Indian banks or foreign banks, for that matter). Jobs become monotonous and employees demotivated.

The way forward

It's time to introduce 360-degree appraisal for managerial staff including compulsory feedback from top customers. That will discourage complacency and lead to focus on improving customer service. Further, to infuse a culture of performance, the use of carrot-and-stick policy is urgently called for. Thus, introduction of a measurable performance-based reward and recognition system including the provision for monetary incentives for all performing employees could improve motivation and customer focus. Similarly, non-performers should compulsorily be transferred out of their preferred branch or region while top performers should be given choice postings. Deputation to all kinds of organisations should be encouraged by doing away with the need for any official approval. That will bring fresh ideas into the near-closed state-owned banking system.

To ensure employee buy-in, big-picture financial targets and major organisational plans should be shared with all employees on a regular basis. Training by both internal and external experts including motivational speakers will help improve employee morale and performance. Again, any transfer and posting must be based on right fit—matching position with suitably-skilled employees, and not based on whims and fancies of top bosses or under influence from vested interests. These changes can help transform the work environment in state-owned banks, aid efficiency and improve profitability.