

Telcos need help, govt will decide on penalties first!

With Trai not lowering ₹3,050-cr fine, telecom panel must decide penalty; it should have been totally focused on a relief package

IT MAY HAVE been nothing but a coincidence, but at a time when the government needed to be finalising a relief package for an industry bleeding from excessive government levies, one of the first things the Digital Communications Commission—DCC includes finance and industry secretaries apart from the telecom one—did after the new government came to power was to decide, last month, on Trai’s ₹3,050-crore penalty recommendation for the older telcos like Bharti Airtel, Vodafone and Idea (BVI). For context, keep in mind the DCC had been sitting on Trai’s recommendation for over two-and-a-half years—presumably because it thought it made little sense, so it could have continued to ignore it after the NDA came to power again. As it happened, while DCC disagreed with Trai on the quantum of the penalty—Trai wanted the maximum of ₹50 crore per telecom circle—it didn’t want to actually decide the amount; any decision it took would open it up to criticism of being pro- or anti- the older telcos. So, it (incorrectly) agreed with Trai on the need for a penalty, but asked it to relook the amount. Not surprisingly, Trai has stuck to its original recommendation, so it should be interesting to see what DCC does.

In this particular case, Rjio wanted Points of Interconnection (PoI) from BVI to run its network in June 2016. BVI, however, argued that the number of Pols that Rjio wanted were excessive for a network that was in a test phase; later, when Rjio announced a launch date, BVI argued that Rjio’s free services meant customers were flocking to its network and this, in turn, created a need for more Pols. While BVI raised these issues, including that of predatory pricing, the government never really gave a reply; even so, BVI gave Rjio the Pols within the specified time period. So, it is not too clear as to what the penalty was for. Indeed, Trai later even had a consultation on whether the time allowed for providing Pols was too excessive! While both SC and TDSAT have used terms like “manifestly arbitrary and unreasonable” and “arbitrary without any deliberation and effective consultation” to describe other Trai recommendations, even the DCC had asked Trai to justify its spectrum pricing recommendations—on many occasions, Trai has used the bid of the previous auction round as the base price for the next round—but Trai refused to provide this.

DCC can choose to rubber-stamp what Trai is saying, knowing full well the final decision will be taken by the courts since the telcos will petition them on the penalty; if that happens, it will be unfortunate since, as this newspaper has consistently argued, Trai was not just wrong on the penalty, it has consistently been wrong on many important issues and it has been pulled up by even the Supreme Court and the TDSAT in the past. In any case, the job of the DCC is not just to go along with Trai’s recommendations, it is to modify them if the need arises. So far, sadly, DCC hasn’t really done too much to temper Trai’s suggestions which is a pity since, apart from the government’s unconscionably high annual levies, Trai’s high reserve prices for various auction rounds has played a big role in bankrupting the industry. In the bargain, the government has also lost out because large amounts of spectrum have remained unused.

Just free up producers

Too many curbs in single-brand retail kept out serious investors

WHILE FINANCE MINISTER Nirmala Sitharaman has said in her Budget speech that sourcing norms for single-brand retail will be eased, media reports suggest the government is planning to allow exports by a single-brand retailer out of India to be set off against the local sourcing norms. The current policy allows a single brand trading entity (SBRT) to set off its incremental sourcing of goods from India for global operations during the initial five years against the mandatory 30% sourcing requirement. From the looks of it, the policy is being re-framed to accommodate the likes of Apple, which has, for long, resisted local sourcing rules on the grounds that there is little it can buy locally right now; it can procure locally only after a vendor base is established, and that will take time. It is not just Apple, which makes very high technology products, that is finding it difficult to comply with these rules; any global brand wanting to maintain certain production standards would not find it easy.

Imposing onerous local-sourcing conditions on global corporations sounds tempting, but it does not really help. Single-brand retailers may be tempted by the large Indian market, but they are not going to be willing to compromise on production standards. Instead, let MNCs set up businesses here without any restrictions. Over time, since it is always better to have local suppliers—to be able to lower costs, to shorten the time-to-market, etc—the vendor ecosystem will develop, a supply chain will get built and exports will also get a boost. A look at how Suzuki’s operations have grown in India is testimony to this. Indeed, encouraging single-brand retailers can also help boost India’s exports. Once big companies start operating out of India, and find it easy and cost-effective to do so, they will also work towards developing vendors, creating business opportunities for locals and jobs.

Rules that compel companies to buy from artisans, cottage industries and so on are stifling, and should be altogether scrapped. It is no surprise that the investment in India by single-brand retailers over the last five or six years is negligible. In fact, apart from Ikea, most of the single-brand players—like a Marks & Spencers—that have set up shop in India have done so via the joint venture route with Indian companies. Had the sourcing norms not been so onerous, they might have brought in more capital. It is not just the single-brand retail sector, rules for other sectors too need to be eased. With global growth slowing, it will not be easy to attract FDI except perhaps in the e-commerce sector. At just over \$44 billion, FDI flows into India were stagnant. Tweaking the norms every six months doesn’t help, the controls must go.

ClassMONITOR

The Delhi govt's proposal to instal CCTV cameras in classrooms for parents to monitor teachers is misguided and counter-productive

THE AAP GOVERNMENT in Delhi has undeniably done a commendable job of rebuilding the national capital’s broken public education system—infrastructure has been modernised, capacity of teaching staff increased, and learning outcomes improved. However, the government’s latest endeavour, of installing CCTV cameras in every classroom in a thousand government schools and allowing parents to monitor footage in real-time, has divagated into the territory of extremes. Even if one keeps privacy aside—chief minister Arvind Kejriwal insists it is not a valid concern for school-going students in comparison to their primary goals of gaining education and learning discipline—the adverse impacts of the panopticism it would foster cannot be disregarded. Kejriwal’s dependence on technology as the one-stop solution to systemic problems is not only misguided but also counter-productive in more ways than one.

The decision to install CCTV cameras in classrooms is perhaps informed by the desire to increase accountability of both teachers and students, with regard to whether and how well they dispense of their respective duties. Yet, it fails to take into account the sheer logistical burden of continually monitoring the goings-on of each classroom. Even with the DGS Live app, which allows parents to monitor only those classes in which their children study, it is absurd to expect that all parents will be equipped to judge pedagogy and performance or to be glued to their mobile screens for as long as the school-day lasts. And, if this is the expectation, the government is encouraging behaviour that would end up stifling students’ personality development—a critical component of holistic education. Further, it neglects the notion of creative and personal teaching and learning styles, thereby cramping the space available for young minds to be critical, explorative and truly nurtured. To the contrary, in fact, it encourages dry pedagogy and rote learning, resulting neither in improved outcomes on standardised testing nor in the development of any love for learning.

GLOBAL TRADE

A PLURILATERAL APPROACH FOR LIBERALISATION AGREEMENTS IS THE WAY FORWARD, EVEN IN THE ABSENCE OF CONSENSUS, IN THE NEGOTIATION OF LIBERALISATION AGREEMENTS

Making a start for WTO reforms

THERE IS A sense around the world that the WTO is deep in trouble. The last round of multilateral trade negotiations, the Doha Development

Agenda, sponsored by the members in 2001, was virtually abandoned in 2015. And, now, the dispute settlement function has been put in jeopardy by the action of one member in refusing to allow vacancies to be filled up in the Appellate Body (AB). The AB will become dysfunctional after December 10, 2019, when the next retirements occur and it ceases to have the required quorum of three members. This would mean that dispute resolution would not progress beyond the panel process and there would be no final decision in disputes raised before the body. If disputes cannot be settled in the WTO, enforcement of existing rules will be difficult and negotiation of new rules pointless.

The language used in the Osaka Summit Declaration on June 28-29, 2019, does not reflect deep anxiety at the troubled state of the multilateral trading system and the leaders merely affirm support for ‘the necessary reform’ of the WTO. The muted language of the G20 declaration probably reflects the fact that the aim of the current presidency in the US is to weaken the system and not strengthen it. Fortunately, most, if not all, other WTO members hold a different view and want to strengthen the multilateral trading system. They have made proposals for reform, some as formal submissions in the WTO, and others outside formal meetings.

In the contentious environment that has prevailed in the WTO Agreement from the outset, it is not going to be easy to agree on WTO reform. So, members must focus on selected issues on which deficiencies strike deep at the functioning of the WTO. Two issues need attention as a matter of priority. First, steps need to be taken to keep alive the appellate process. Second, a new life must be breathed into the negotiating process, whereby new areas can be taken up for liberalisation without fear of deadlock because of lack of consensus. In this context, we explore how we can make progress on these two issues.

We take up the Appellate Body issue first. The US has raised some legitimate points on the working of the AB and a



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number of members, including India, have proposed credible solutions to the issues raised. But the problem is that the US has refused to engage on the matter. The not-so-hidden agenda of the US appears to be to overturn the quasi-judicial format of the WTO and revive the structure of the GATT (1947) days when negotiation was the norm for resolving differences. This enabled the member with economic strength and political clout to prevail, and while rules existed, they did not help clinch decisions.

One way out that is being discussed informally among delegations is a proposal to use Article 25 of the Dispute Settlement Understanding (DSU) of the WTO Agreement, which provides for arbitration as an alternative means of dispute settlement. The idea behind the proposal is that members desirous of preventing disruption of the appellate process in WTO disputes would enter into a plurilateral accord providing for appeal arbitration in all cases of appeal from a final panel report. It would be an interim arrangement that would apply during the period in which the AB is unable to function due to non-appointment to vacancies in it. The agreement would clone the provisions of the DSU on appeals and incorporate the agreed working procedures for appellate review. The Director General of the WTO will be authorised to select the arbitrators from among former AB members. Such a plurilateral agreement would not be a perfect substitute for the existing arrangement and would not apply to members, like the US, that are not willing to sign on to it. Nevertheless, it would still be invaluable in helping to maintain continuity in the functioning of the dispute settlement system in respect of members that agree to the interim solution.

The second issue of dealing with the need for consensus among 164 WTO members in initiating new liberalisation



negotiations and successfully concluding them is also challenging. In 2017, at the Buenos Aires ministerial meeting of the WTO, different groups of members adopted joint ministerial statements, calling for negotiations on a motley group of four subjects, viz., domestic regulation on services, electronic commerce, investment facilitation for development and micro, small and medium-sized enterprises. Members are divided not only on whether the time is ripe for an agreement on these subjects but also on the disciplines that should go into them. At any rate, out of the four, there has been a groundswell of support only on electronic commerce. On January 25, 2019, at Davos, 76 WTO members decided to launch talks to establish a comprehensive set of rules on the subject. Subsequently, the Osaka G20 Summit gave a significant push to the negotiation of an international agreement on e-commerce by launching talks on free cross-border flow of data. G20 remains divided on the issue and three members—India, Indonesia and South Africa—did not support the free data flow initiative at Osaka.

There is no need to despair here. If certain governments do not see any advantage in participating in negotiations for an international agreement on e-commerce at this stage, it is their sovereign choice. If they have policies for data localisation and restriction of cross-border movement of data, their hesitancy is understandable. However, two past plurilateral initiatives for the liberalisation of trade—the information technology agreement in 1996 and declaration on the expansion of trade in information technology products—in

2015 show us the way in situations in which there is disagreement on liberalisation initiatives. They were both negotiated on an open-ended basis, that is, those who wanted to participate in the negotiations did so and those who did not want to participate did not. At the end of the negotiations, there was another opportunity for participants to become a signatory or to withdraw if they were not satisfied with the result. An important feature of these agreements is that they entered into effect when participants with a predefined critical mass of share of world trade (90%) accepted the outcome. An even more important feature of these agreements was that their benefits were extended on an MFN

basis to all WTO members, whether or not they participated in the negotiations or accepted the agreement. This attribute is imperative for such plurilateral agreements to be consistent with the requirements of the Marrakesh Agreement establishing the World Trade Organisation. The advantage of such plurilateral initiatives is that they can go forward even in the

absence of consensus, provided the critical mass of trade shares is achieved. The two plurilateral agreements of 1996 and 2015 provide the template for the negotiations of future agreements as well, on e-commerce, for instance. There seems no need for a formal decision in a WTO body for this model to be followed in future. Members can just move resolutely forward, negotiate an agreement and adopt it at the next ministerial meeting.

The suggestions for WTO reform that we make here are not ideal outcomes. The objective of the interim appeal arbitration arrangement is rather to defend the multilateral trading system from an onslaught that is designed to bring about its downfall. The intention behind advocating a plurilateral approach for liberalisation agreements is to find the way forward, even in the absence of consensus, in cases in which the negotiation of liberalisation agreements takes place on an open-ended basis and the benefits are extended to all WTO members.

LETTERS TO THE EDITOR

Foreign borrowings

Foreign borrowings to cover a part of deficit has its own advantages. Interest rates are lower abroad, thus borrowing cost is less. Also it overcomes the 'crowding-out' effect of budgetary deficit, whereby private investments are discouraged due to fund shortage created by massive government borrowing domestically. But it's quite dangerous becoming indebted to other countries, as experienced by some nations in recent past. To overcome the potential vulnerability problem, we must diversify borrowing from more countries than just one. Secondly, the FRBM body and the Reserve Bank must monitor and regulate the proportion of deficit we borrow from abroad, even if it is by selling sovereign bonds in the open market.
— Shubhada Sabade, Pune

Tightening noose

The Special Investigation Team (SIT) probing the multi-crore IMA Ponzi scam in Bengaluru appears to be making good headway. Close on the heels of the arrest of Village Accountant Manjunath and Bengaluru-North Assistant Commissioner L C Nagaraj, Deputy Commissioner of Bengaluru District (Urban) B M Vijay Kumar has also fallen into the SIT dragnet on charges of accepting ₹1.5 crore cash from Mohammed Mansoor Khan, the founder of IMA, through an intermediary. With the SIT making searches and raids and the Enforcement Directorate attaching assets worth ₹209 crore, the noose is tightening around IMA's neck.
— NJ Ravi Chander, Bengaluru

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Greece is Europe’s good news story

Greek resilience through crisis demonstrates that reports of democracy’s demise are exaggerated

IF YOU ARE looking for an optimistic story in Europe, try Greece. Yes, you read that right. Having lost a quarter of its economy in a devastating recession, Greece has turned the corner, its democracy intact, its extremist temptations defeated and its anti-Americanism defunct. The landslide election on Sunday of Kyriakos Mitsotakis, the dynamic leader of the center-right New Democracy party, marked the end of a chapter. Greece rejected Alexis Tsipras, the leftist leader who took the country to the brink of ruin in 2015 before discovering a pragmatic streak. It also voted the neo-Nazi Golden Dawn out of Parliament. At the height of the crisis, Golden Dawn had become the country’s third-largest party.

First into populism, Greece is now first out. For a country in free fall, the anchors of the European Union and NATO are not so negligible after all. Europe is not simply a story of growing nationalism and xenophobia. It’s a continent in violent flux, torn between liberal democratic and nativist currents.

Despite unemployment that reached almost 30%, a chaotic near-exit from the euro, huge bailouts to save it from bankruptcy, mandated austerity programs and a wave of desperate refugees from Syria, Greece stabilised itself. It is a reminder that reports of democracy’s demise are exaggerated.

The kolotoumpa, or “somersault,” is the term used for Greece’s volte-face in 2015 when it voted in a referendum to reject the terms for an international bailout, only for Tsipras, the leader of the far-left Syriza party, to ignore the results and conclude a bailout on even tougher terms. Yes, Britain, democracies do change their minds from time to time when they make disastrous decisions.

That somersault is now completed. Mitsotakis is a Harvard- and Stanford-

educated former McKinsey man from one of Greece’s pre-eminent political families. To be elected, he had to overcome perceptions that he was too “American” and too technocratic.

Through a hard-driving campaign in which he promised to cut corporate taxes, unblock privatisation, deliver a digital transformation of the economy, attract investment and bring efficiency to the public sector, Mitsotakis convinced Greeks he was the man to turn glimmerings of recovery into sustainable growth. With an absolute majority in Parliament, he has the means to fast-forward his programme.

It won’t be easy. Although unemployment has fallen to about 18% and modest growth has been achieved, Greece is still bound by the fiscal constraints imposed by Germany and other creditors that oblige it to produce a primary budget surplus. Mitsotakis will need to perform a delicate balancing act to deliver on his promise of spurring growth and investment by slashing corporate taxes.

He will have to rein in New Democracy’s legacy forces of cronyism and prioritise entrepreneurship and innovation. The old model won’t work.

The new prime minister is used to such challenges. Back in 2013, when he was minister of administrative reform and I met him in a building besieged by protesters opposed to the cuts in public employees demanded by Greece’s creditors, Mitsotakis told me, “The country has been stretched to its limits.” It could have crumpled, like the Weimar Republic. If Greece did not, it was because of European institutions built to resist nationalism and avert catastrophe.

By helping Greece through its agony, the United States nullified resentments that went back to its support for the military junta between 1967 and 1974.

ROGER COHEN

NYT

The Obama administration won Tsipras over and so dragged him toward the center. Joe Biden, as vice president, told the then-prime minister not to take rash decisions—such as leaving the euro—that would be irreversible. A breakup of the eurozone, with other countries possibly following Greece, was avoided.

Greek anti-Americanism has now largely died, buried by a leftist government. It once took violent form in the November 17 group, responsible for a number of assassinations. But several factors—Germany replacing the United States as the Greek boogymen with its austerity demands, new tensions with Turkey that have reminded Greece of the importance of American support, the fading into history of the junta era, a strong sense of American solidarity through the crisis—have altered Greek views. The election of Mitsotakis is consistent with this shift.

Mitsotakis will take office with Turkey and the Greek Cypriot government embroiled in conflict over offshore oil and gas in the eastern Mediterranean. In May, the state department said it was “deeply concerned” by Turkish plans to begin drilling in an area claimed by Cyprus, calling the step “highly provocative” and urging Turkish authorities to “halt these operations.”

The new prime minister will want to keep things calm in the region. He is a man who believes deeply in the trans-Atlantic bond that president Trump has often belittled. Tourism has been surging and is vital to the Greek economy. Greece wants a Turkey anchored in the West, not a Turkey veering toward Vladimir Putin’s Russia and acting bellicose.

It is a new day in Greece. Now all that’s needed for the European Union is a British somersault on Brexit.

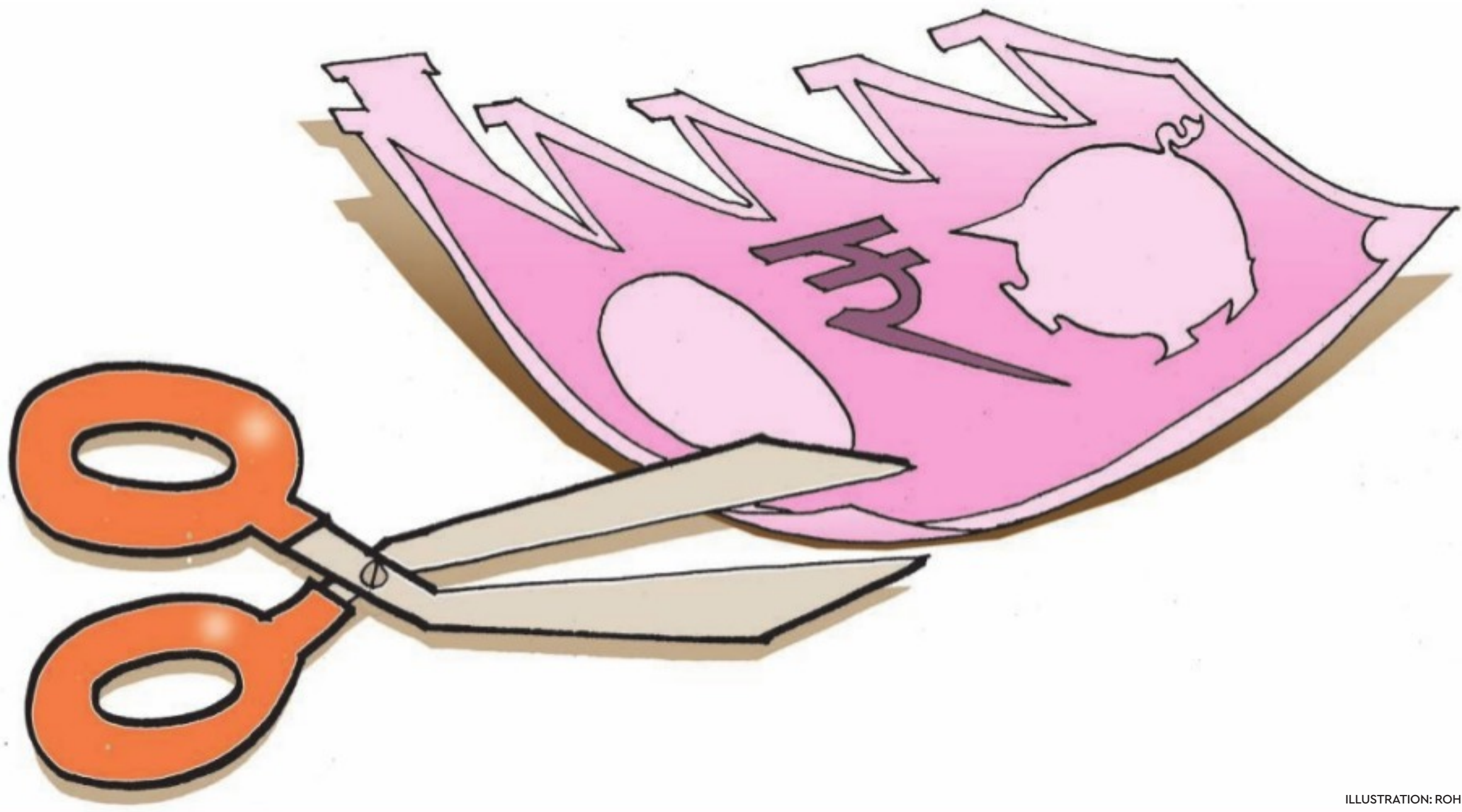


ILLUSTRATION: ROHNIT PHORE

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BUDGET 2019

The missing reforms

On divestments of PSUs, it is disappointing to seeing continued incrementalism. The proposed divestment of ₹1.05 lakh crore is less than 15% of the government's annual interest costs

TRYING TO RAISE resources to achieve its very ambitious social intervention, the government is taking taxes to too high a level, which is impeding entrepreneurship, investment growth and jobs. It is making the classical mistake of first delineating its spending list and then looking for resources, instead of defining the optimally available resources and then prioritising allocations.

The good intention of doing the maximum for the most and, consequently, living beyond its means—this leads to desperation and irrationality in raising resources.

Taxing dividend distribution is damaging. It is not a tax on income, but an impediment to capital mobility. It curtails the proclivity to move capital from an inefficient allocator to an efficient

one. When you have a problem of transmission from M1 to M3 in the economy, not abrogating it was a big miss.

Introducing a tax on buybacks from listed companies compounds the harm as it makes a bad extortion charge more comprehensive. It is difficult to understand how such an economically harmful and distorting charge can pass through the in-house economists within the system.

Another miss in the capital gains tax regime correcting the capital gains tax regime. That too should not be distorting capital mobility. To the extent capital gains is reinvested, it should attract a zero tax rate, else, it should simply be added to the investors' income and attract the tax rate depending on the assessee's slab. The tax on dividends in the hands of investors should have been similarly treated.

When trying to revive private investment that has been declining since 2013, the taxation philosophy guiding these actions is incredibly retrograde as it impedes domestic capital formation.

When entrepreneurs are migrating out of your country in droves annually, increasing taxation at the top level makes no sense from a signalling perspective, even though it is the cleanest, least-distorting tax. Investing more in data mining and AI analytics to curtail avoidance and broadening the tax base was a preferable way to go at this juncture.

An impediment in reviving the private sector investment cycle is the credibility- problem of government as a counter-party. Permitting the oil-and-gas sector access to market prices—the regime that they were promised when they invested matters—is yet to happen in the true measure. The long-festering Vodaphone, Cairn, Telenor, Nokia issues need settling. An empowered committee to settle all disputes with vendors and taxpayers was an urgent need that was bypassed.

This government had promised to end tax terrorism. Sadly, because of the extreme pressure to raise resources, it has been unable to do anything. However, this is truly being penny-wise and pound-foolish

This government had promised to end tax terrorism. Sadly, because of the extreme pressure to raise resources, it has been unable to do anything. However, this is truly being penny-wise and pound-foolish

After such a strong mandate, a government which has had the political will to bring in the bankruptcy code, GST, RERA, DBT, and the wisdom to abrogate Octroi, etc, should have been more decisive on divestments of PSUs. It is disappointing to see continued incrementalism. The proposed divestment of ₹1.05 lakh crore is less than 15% of the government's annual interest costs.

The temptation to borrow in foreign currencies at low rates is deceptively benign. The government should only resort to it if the currency swapped cost is attractive and/or if it is used to facilitate export growth. Not facilitating the participation of the corporate sector into agriculture and thereby facilitating technology adoption diffusion is a huge miss. Not migrating the government accounting to an accrual basis is a large reform miss. This would have killed the problem of perpetually delayed payments and refunds to all vendors and tax assesses.

Rectifying the badly drafted Act meant to inhibit money laundering that ended up inhibiting startup funding is a positive. Making Aadhaar and pan interchangeable is a positive, too. It would have been even better if a path had been laid out to subsume all other IDs (voter ID, driving licence, etc) into Aadhaar. Allowing tax deferment for uncertainty created by delayed repayments to NBFCs is a positive, but there was no logic in discriminating between the large and small NBFCs, especially since the smaller ones are more vulnerable. The first- loss guarantee to banks to incentivise purchase of assets from NBFCs is creative and apposite for the situation.

The merging of NRI portfolio investments with FPI is positive. The proposed steps taken to increase India's weight in the MSCIs, is another positive. Increasing the tax deducted to 150,000 for the interest paid on affordable housing loans is good and germane to helping revive real estate demand. The tax clarification on AIF category 2 is a positive. Not doing the same for category 3 is a miss. Streamlining and automating tax interface is a welcome move. Consolidating the many labour laws into four is a step in the right direction.

The government's intent to incentivise electronic, EV, semiconductor and other technology industries is a positive, but to succeed in engendering these industries, we need a comprehensive policy to create clusters. Introducing one card to pay for all public transportation is a big plus. The spending priorities on ubiquitous sanitation and harvesting rain water access is excellent. In healthcare, social spending on capacity creation in vaccination and treatment of infectious diseases is the right step forward; however, nutrition, education and access should be facilitated ahead of comprehensive coverage for lifestyle and old-age diseases.

One wishes one saw more capital outlays and initiatives in reforming the institutional architecture to facilitate planned urban growth under the smart city initiative.

Ultimately, the budgeting exercise has been a sincere work-in-progress, but it needs to tilt the balance back to encouraging income and wealth generation back from the sharp focus on redistributive allocations. The government's track record in efficient execution and in cleaning the system, and sincerity of purpose gives hope that the necessary course corrections will be taken.

UNION BUDGET

Stage set for \$5-trn economy

AJAY ROTTI

Partner, Dhruva Advisors LLP



The key to sustaining the reforms proposed will be revenue mobilisation

ACKNOWLEDGED by the finance minister, the Union Budget 2019 was presented on the back of an unprecedented large mandate granted by the Indian electorate. The expectation was for announcement of big reforms leading to employment generation and growth of the economy. The FM set the tone by announcing that the economy was on course to be a \$3 trillion economy this year and \$5 trillion economy in a few years.

The FM made some significant announcements relating to the Foreign Direct Investment (FDI) regime, including a proposal to consider relaxation of FDI in sectors such as aviation, media and insurance. There was a clear thrust on moving towards a cashless economy.

From a tax perspective, while the headline income-tax rates and the slabs for individuals are proposed to be retained, high net-worth individuals earning more than ₹5 crore will now have to pay a tax in excess of 42% in light of a proposed increased surcharge of 37%. While progressive taxation is one way to tax varying income-groups, especially in a country like India, the rate of 42.74% is exceptionally high and comparable to countries like Belgium and Germany. This rate of tax coupled with changes like bringing in LTCG (for shares sold on the stock exchange) and dividend tax on dividends of more than ₹10 lakh per annum brought in the last couple of years will lead to significant changes in the cash tax outflows for high net-worth individuals.

The Union Budget also focussed on measures for promoting a cashless economy to reduce generation/circulation of black money. Furnishing of returns by individuals have been made mandatory under certain circumstances even in absence of taxable income. Further, banks will now have to deduct a tax of 2% on cash withdrawals exceeding ₹1 crore per annum. This will lead to greater compliance and disclosures by taxpayers.

For companies, the tax rate of 25% has now been extended to companies with turnover or gross receipts of upto ₹400 crore in FY18. Faceless e-assessments will also be launched [in phases]. Further, much-needed clarity has also been provided in the context of disallowances for non-deduction of taxes on payments to non-residents and no disallowance would be required if the non-resident recipient has offered such income to tax while furnishing return of income.

Measures have also been proposed to boost the Make-in-India initiative by providing investment linked income-tax deductions. Further significant benefits have been proposed to IFSCs to promote development of world-class financial infrastructure in India. The finance minister spoke of resolving the 'angel tax' issue with the ultimate objective that startups will not be subjected to scrutiny in respect of valuations. These proposals, though spoken about extensively in the Budget, do not reflect in the fine print and would possibly be brought in by way of administrative measures.

For corporates facing transfer pricing disputes leading to secondary adjustments, it has been clarified that monies shall be repatriated to India by the taxpayer from any of its overseas associated enterprises. In addition to the above, taxpayers shall have the option of paying a one-time additional income-tax of 18% on the primary adjustment or part thereof that was not repatriated from the affiliates within the prescribed time frame. This aligns our laws to the internationally followed practice.

From a GST perspective, the National Appellate Authority has been introduced which will apply in situations where conflicting advance rulings are given by appellate authorities of two or more states. A Legacy Dispute Resolution Scheme has also been introduced which will facilitate quick closure of all past disputes, prior to the introduction of GST.

The key to sustaining the reforms proposed and notable growth and development plans will be revenue mobilisation.

FM spoke of resolving the 'angel tax' issue. These proposals, though spoken about extensively in the Budget, do not reflect in the fine print

THIS CONTINUES OUR previous attempt to model a non-market intervention where in an alternate price support model that is both fiscally prudent and administratively feasible is proposed. The alternate model focuses on connecting farmers/farmer collectives (FPOs) with institutions that provide storage and finance. Our analysis of select crops and their prices during the arrival and lean season clearly indicates that improving the holding power will help farm incomes go up by 9-11% assuming that there is a policy support to carry this forward.

Under the proposed alternative, farmers are enabled to hold produce in regulated warehouses with financial support from the government covering costs of holding them for a minimum of four months. Farmers are expected to be connected to formal financial institutions through electronic negotiable warehouse receipts (eNWRs) issued by the Warehousing Development and Regulatory Authority (WDRA) regulated warehouses to meet immediate spending requirements by linking e-NWRs to Kisan credit card (KCC) accounts. This process, apart from enabling farmers to fulfil timely financial necessities, can be a potential step forward in the direction of digital payments and cashless economy. In terms of costs and fiscal burden, the proposed financial support from the government covering all costs involved in holding the crop output for four months is much lower compared to the

Rethinking agri support

Working to increase farmers' holding power for produce works better than price support

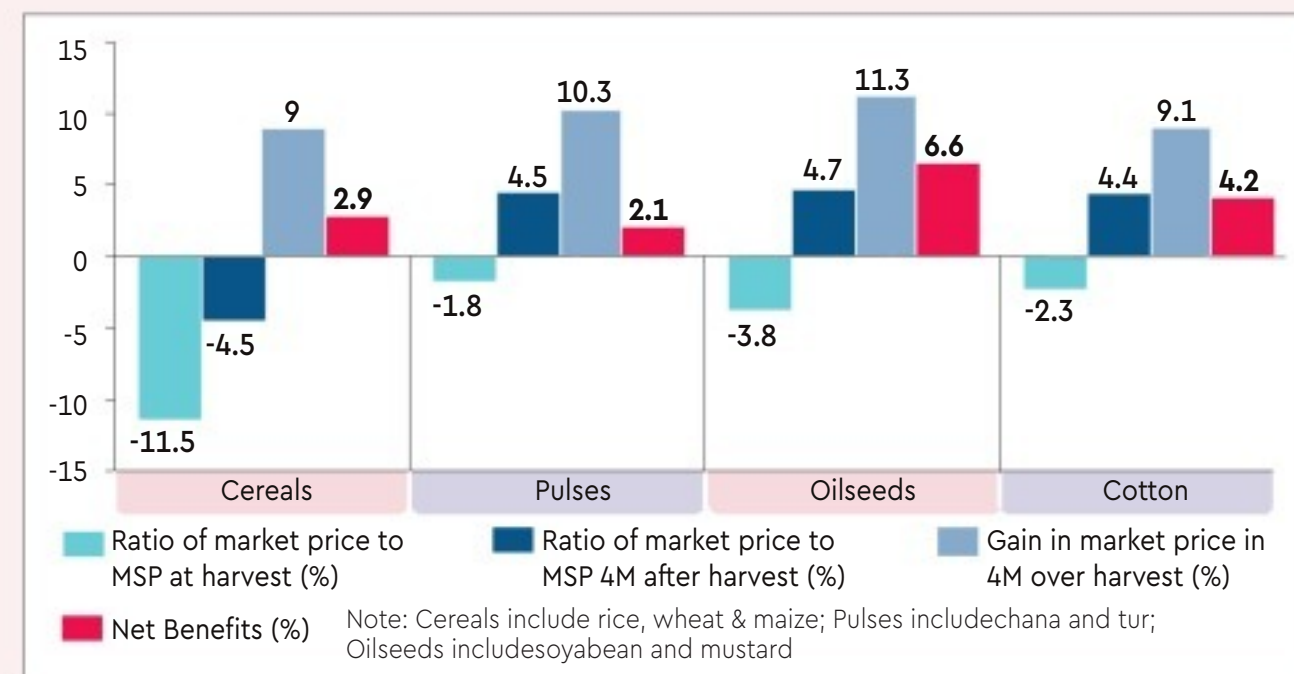
V SHUNMUGAM & TULSI LINGAREDDY

Shunmugam is head (research), and Lingareddy is senior analyst, MCX Views are personal

spend in the existing price support model. Based on our indicative cost analysis, the rough estimate of financial support for holding the crop produce for four months is ₹45,000 crore for select crops and about ₹55,000-66,000 crore for all crops produced in the country assuming a marketed surplus of about 80%. On the other hand, the cost of current support stands at around ₹1.52 lakh crore even if it covers about 80% of rice and wheat. With this alternate model, the Food Corporation of India (FCI) can limit its procurement operations, limiting storage needs and storage losses. In addition, FCI can make extra storage space available for enhancing the holding power of the farmers, earning rent in the bargain.

However, while the alternate model has

the potential to bring down government support, there are two major challenges to effective implementation. The first is to bring in adequate storage capacity under WDRA norms so that the warehousing services providers, public or private, can issue eNWRs. The existing warehousing capacity in the country, at 158.5 million metric tons (mmt), is significantly lower than the required capacity of 252 mmt (@80% of 315 mmt of foodgrains and oilseeds produced annually). More than half of the existing storage capacity is used by FCI for storing foodgrain stocks in the central pool, leaving very limited space for other storage. Efforts to enhance storage capacity started about two decades ago with the Grameen Bhandaran Yojana (2001). But, the progress



is limited, with addition of just about 57.6 mmt till the end of March 2018. The number of WDRA-registered warehouses is quite low, at 697, with an aggregate capacity of 7.91 mmt, concentrated in six states (MP, Rajasthan, Tamil Nadu, Gujarat, Maharashtra and Andhra Pradesh). Thus, efforts to expand storage capacity and bring all warehouses under WDRA are needed. It will also connect stored commodities to the formal financial institutions through eNWRs. It should happen simultaneously with development of quality-testing and certification agencies.

The second important challenge is ensuring the outreach of institutional financial services to rural areas so that the objective of connecting farmers to financial sys-

tem is met. In this regard, it is disheartening to note that despite constant policy efforts, the outreach of formal banking services in rural areas remained low, with only 19% of total ATMs in the country located in the rural areas that serve 19,561 residents per ATM as against 2,104 residents per ATM in urban areas (RBI and Census Reports). Banking and regulatory efforts must also focus on enhancing other additional proven modes of connectivity to the farmers in remote rural areas such as business correspondents, mobile banking branches, etc. Existing bank branches may extend banking services to the rural areas, leveraging facilities and infrastructural assistance that may be provided by the local government institutions.

While we argue for holding power aug-

mentation, it should be synced with farmers being empowered to take sowing decisions based on best possible market information about best possible prices. It is essential to augment efforts to collect authentic and exhaustive crop sowing, and growth status reports to feed the derivative markets and strengthen price discovery to provide advance guidance to the farmers on what to sow. Hence, agricultural market information services must be streamlined with provision of comprehensive and authentic information covering demand, supply and prices of all the crops. Public efforts shall also be focused on taking the market discovered crop prices to the farmers, leveraging current developments in ICT, besides strengthening the price discovery process through appropriate market-friendly and transparent policy regime.

This proposed model will be a win-win for all the stakeholders including the government. Besides, initiative such as Jan-Dhan can be leveraged under the proposed support model. The storage ecosystem development, if stimulated under this model, will generate additional employment opportunities for the rural workforce in construction and maintenance of warehousing, quality testing and grading/standardisation, and expansion of financial services. Further efforts, if taken to increase the POS availability at all rural commercial establishments, will provide an impetus to the efforts towards formalisation of rural economy.