Opinion

FRIDAY, JULY 19, 2019

TARGETING THE 'SQUAD'
President of USA, Donald Trump

These left-wing ideologues see our nation as a force of evil. They want to demolish our constitution, weaken our military (and) eliminate the values that built this magnificent county

More clarity on financial creditors, at long last

It is unfortunate it took so long to clarify something as basic as the rights of financial creditors; up to courts now

THE GOVERNMENT HAS done extremely well to come up with amendments to the IBC (Insolvency and Bankruptcy Code) in quick time. The changes are a response to the NCLAT which ruled, in the Essar Steel case, that the Committee of Creditors (CoC) doesn't have the last word when it comes to distributing the recoveries between themselves and operational creditors. It pruned the financial creditors' share of the recoveries to 60% from 90%. The key change ratified by the Cabinet will give the CoC the final say on how the spoils would be shared after the resolution of a stressed asset; the CoC will keep in mind commercial considerations while weighing in on the quantum of funds to be given to operational creditors. Moreover, if the CoC believes a company cannot be revived, it can opt for liquidation immediately rather than wait out the entire resolution process.

Operational creditors will, at the very least, get an amount based on the liquidation value. This time around, the government must ensure the necessary safeguards are built in and that there is no room whatsoever for any ambiguity. This newspaper has argued, financial creditors must get top billing when it comes to sharing the recoveries, else the sanctity of secured debt would be seriously eroded. This is not to say the operational creditors should be done out of a fair share, but they can, by no means, get an equal share. Already, equating home buyers with financial creditors is likely to result in disagreements on various issues, thwarting the resolution process altogether.

Also, the recent NCLT decision to allow provident funds to recover their dues from IL&FS ahead of others violates the IBC. It is true the money belongs to small savers, but that cannot be a reason to dislodge secured lenders from their top position. Rulings cannot be coloured by socialist thinking, these are business and commercial decisions. After all, it can be argued, the health and strength of banks is crucial for the economy which, in turn, is important for the common man. Indeed, how badly the large loan losses of lenders have impacted credit flow these last few years is now well documented. If secured lenders are not sure of their ability to recover their dues, despite having the necessary collateral, they will be compelled to price loans irrationally by building in huge risk premia. That will make loans expensive and out of reach of borrowers large and small; indeed, businesses will become unviable. The world over, secured creditors rank ahead of unsecured creditors in the repayment hierarchy.

Hopefully, the Supreme Court will buy into the clarification on the status of lenders offered by the government and not insist the changes become law before they are applied. Should the apex court not rule in favour of the banks, when hearings in the Essar Steel case kick off early next week, it would be a big blow to the lenders—not just to their finances but also to their stature. Legal experts have pointed out the court can take cognisance of the clarifications and allow the financial creditors the bigger share of the recoveries, acknowledging the intent of the legislature. NCLAT's interpretation of the law has been somewhat socialist and whatever the compulsions of a developing economy, this view must not prevail. Else, it will deal a big blow to commerce and industry. The courts have been slow in disposing of cases which is why the 330-day deadline for closure of the process, inclusive of litigation, is a necessary rule.

Neutering dengue

India to include bacteria in its anti-dengue arsenal

INDIA HAS WOKEN up late to *Wolbachia* as a part of its anti-dengue/chikungunya arsenal, but the fact that the country is moving in the direction—the Indian Council of Medical Research (ICMR) is getting ready to conduct field testing of *Wolbachia*-infected mosquitoes—is itself quite promising. *Wolbachia* is a bacteria that is an obligate intercellular organisms of arthropods (the phylum in the animal kingdom to which insects, including mosquitoes, belong) that can help destabilise mosquito populations. Given *Aedes aegypti*—the main vector for dengue, and with *Aedes albopictus*, for chikungunya—is one of the few species of mosquitoes that are not naturally infected by *Wolbachia*, research in recent years has focused on introducing the bacteria to the mosquito in a manner that helps achieve a reduction of the vector population. It works on multiple fronts—inside the mosquito gut, the bacteria interferes in viral replication by shortening host life-span in *Aedes* sp., ensuring the viral load gets limited; it also causes cytoplasmic incompatibility in an unidirectional or bidirectional manner, i.e., if an *Wolbachia*-infected male *Aedes* mosquito mates with a female mosquito carrying a different strain of *Wolbachia* or is uninfected, then the resulting eggs will not be viable, that is, they will produce no offsprings. The Vector Control research Centre at Puducherry has developed a *Wolbachia*-infected variant for India in collaboration with Monash University in the US.

Wolbachia has been demonstrated, in laboratory conditions, to be effective in malaria control also since the bacteria competes with malarial parasite in the gut of the *Anopheles* mosquito for nutrients, prohibiting the parasite from developing to a stage where it can cause malaria in humans once transmitted. Considering *Wolbachia* research has thrown up promising findings for at least a decade and a half now, it took India considerably long to wake up to its potential. Brazil, which was hit by a Zika epidemic a few years back, ran *Wolbachia*-mediated mosquito control tests—approved by its regulator, CTNBio—as far back as 2014, with a reported 90% fall in local wild *Aedes* population. *Wolbachia* tests are on in Colombia and Indonesia as well while the American state of Florida also sanctioned this. Given how India saw the highest number of dengue cases in 2017 and some 9.6 million malaria cases, with over 16,000 malarial deaths, going forward with *Wolbachia*-mediated vector control seems a great step forward, especially since a cure or vaccine for either disease is yet to be formally announced. This becomes all the more important in light of the fact that climate change effects will cause a surge in the populations of both tropical vectors and their associated pathogens. India should also perhaps look at other vector control solutions like Oxitec's transgenic male mosquitoes—because of the modification, offsprings from a mating of transgenic male (males are non-biting) and a wild female are unable to survive beyond the larval stage.

JustVERDICT

The favourable verdict at ICJ gives India a strong hand in the face-off with Pak over Kulbhushan Jadhav

THE INTERNATIONAL COURT of Justice (ICJ) gave India much reason to cheer on Wednesday—hearing India's appeal against Pakistan's imprisonment of Commander Kulbhushan Jadhav, the ICJ stayed Jadhav's execution in a 15:1 ruling. It declared that the conditions of his detention were in violation of the Vienna Convention, and ordered Pakistan to hold an effective review and reconsideration of Jadhav's conviction, and allow him consular access. Not only does this signal a significant diplomatic win for India and a resounding triumph for justice but also creates ideal conditions for reopening channels of dialogue between India and Pakistan.

The ICJ-mandated provision of consular access to Jadhav means that diplomatic negotiation between the two countries will begin anew, and, given Pakistan's recent reopening of its airspace to Indian aircraft and Pakistani PM Imran Khan's stated interest in establishing friendly ties with India, this ruling could not have come at a better time. Even though Pakistan claims the ICJ verdict is one in its favour—to the extent that its contention of the military court that tried Jadhav was itself illegal—former finance minister, quoting sections from the ICJ judgement, says that this is patently false and that the judgement doesn't pronounce on the legality of the military courts, but strongly hints that an effective review of Jadhav's conviction will mean that the trial by the military court stands invalidated. Now, Pakistan may or may not choose to implement the ICJ verdict. But, Pakistan can't be sure of its ally China's help now, if the matter reaches the UN Security Council, that is mandated to act if an ICJ verdict is not executed, since a Chinese judge was part of the 15 that upheld India's stand. So, the ICJ verdict may not compel the two neighbours, forever locked in acrimony, to talk peace, but given the relative economic positions of two countries and their global political standing diplomatic channels should be be revived.

GROWTH FORMULA

INDIA MUST TAKE A CUE FROM SILICON VALLEY'S INNOVATION LEADERSHIP, AND CHINA SUCCESSFULLY EMULATING THIS, IF IT IS TO BECOME A $5 TRILLION ECONOMY

An AI innovation engine for New India

TV MOHANDAS PAI & UMAKANT SONI

Pai is chairman, Aarin CapitaL & Soni is co-founder, AI Foundry

Views are personal

LAST MONTH, A friend pointed out that the Silicon Valley now hosts more than 15,000 top-end engineers from IITs. What this means is we are still exporting our top talent (raw material) and buying back innovations (Google, Facebook, Amazon). Such is the power of the innovation engine built over the last 70 years in the Silicon Valley that it is the dominant source of tech innovation for the entire world. China learnt the innovation engine model that the Silicon Valley had pioneered; today, its economy is 5x that of India and has already surpassed that of the US in purchasing power parity. China is poised to get $8 trillion gains out of the massive AI wave that is slated to deliver $16 trillion of new economic value (as per Accenture Research). How did they manage to recreate the Silicon Valley magic?

China did three things right that yielded strong results:

1. Creating a risk-taking capital pool: As of December 2018, the Chinese government claimed it has accumulated $1.8 trillion in state money across thousands of venture capital funds in order to achieve its goal of tech dominance by 2025 (Made in China initiative). Some of the companies that came out of that experiment are Didi Chuxing ($56 billion), SenseTime ($4.5 billion) and ByteDance ($75 billion).

2. Infrastructure investments: China undertook massive infrastructure investments to drive rapid job growth. The rise in service economy in both digital and physical economy led to quick job and economic output creation, allowing quick and more distributed economic growth.

3. 'Idea to impact' network creation: China invested close to $5 billion in creating a massive 'idea to impact network', where universities, research parks and companies worked in tandem to create next-generation AI tech. The Chinese government hand-picked top researchers in AI, offering them relocation and free housing benefits, besides hefty research grants. Today, Tsinghua University is ranked sixth in the SCImago Institutions Rankings. Chinese deep learning research papers surpassed that of US researchers in 2014, and it is ahead of the US in publishing AI research papers, filing AI patents and in the number of leading AI companies created. It is well on its way to its goal of becoming the sole AI superpower by 2030. This will allow it to dominate not only technologically, but also geopolitically. While its social rating systems and AI-powered surveillance systems are justifiably controversial in a democratic setup, there is no denying that it is leading the AI pack globally.

While the new Indian government is undertaking big investments in infra to unlock jobs in the short run, we need to learn from China and augment it with three major steps to kick-start our innovation engine. These can propel it to not only a $5 trillion economy but also a $10 trillion economy by 2030, by creating long-term value in and for India.

1. Create a large domestic risk capital pool to attract ideas and talent globally: To generate additional $2.5 trillion assuming capital multiplier of 10, India would need $250 billion in high-return tech investments. Today, LIC is a $400 billion giant, and if it allocates 5% of the asset base ($20 billion, or ₹1,30,000 crore) towards investing in high-end tech like AI, it will be a game changer. We can truly engage with 6 billion people globally with this innovation engine, as AI built for India will work everywhere, given the data diversity in India. In addition, for global talent, rolling out an attractive start-up visa programme will allow us to attract the best and brightest.

2. 'Idea to impact' ecosystem funded with CSR: While Israel and Canada focused on 'idea to impact' ecosystem to kick-start innovation, we can do the same for creating deep tech companies out of India. Today, CSR money (2.5% of the profit) goes to NGOs, which work on alleviating the effect, not the cause. If we can divert some of that towards creating CSR-grant-driven 'idea to impact' ecosystem for Indian problems, we can fund the creation of:

(a) Strong universities focused on research and not just teaching—this means infusing universities with research-driven faculty;

(b) Research translation parks that take validated research and convert it into prototypes. Examples include Stanford Research Park (grew the core technology behind SIRI) and MILA (Canada);

(c) Foundry or venture studios that create deep tech companies carry high risk and need high upfront capital, in addition to high-end talent. It is difficult to initiate and fund these companies out of angel investments in a 'lean model'. Globally, smart VCs are increasingly creating foundry-like structures—Playground Global started by the android creator Andy Rubin, Tandem Research (Canada), Sinnovation Labs (China)—to kick-start such conversion of deep technology into leading product companies.

(d) Government-owned fund for start-ups: Not many many have heard about In-Q-Tel, an interestingly named evergreen fund (with naming convention from Bond films) funded by the CIA. For every dollar invested by In-Q-Tel, companies receive $9 investment by other investors. While India has taken the welcome step of funding start-ups through two FoF (Fund of Funds), this step would allow funding of companies for vital areas in defence and nationally important technologies like AI. An interesting source of such funds can be the close to $10 billion of offset amount due from foreign companies via defence procurement.

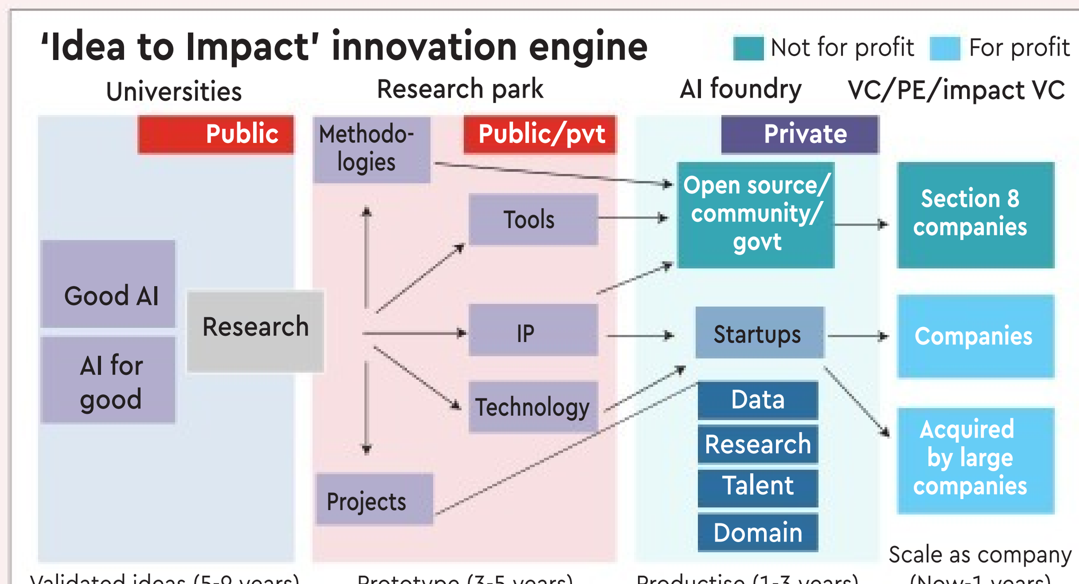
(e) State-owned debt fund for AI and hardware companies and tax incentive: AI and robotics companies that have large hardware components are globally encouraged with low interest rates by state-owned debt funds and access to tax incentive policies. The IT sector grew to be a massive value-creation engine with the STPI model that created tax-free zones. We need a similar value structure for growing these companies in India.

3. Easier norms for listing deep tech companies: The Toronto Stock Exchange allows for listing deep tech companies with just $5 million in revenue or investment. Deep-end tech companies take time to get to revenue, but once they do, they can quickly overtake well-entrenched legacy companies. We are seeing these kinds of AI-first companies in China and the US. SenseTime took just four years to hit $4.5 billion in valuation. Such rapid value creation should be accessible for public markets as well, which will also allow for these companies to tap into a different kind of capital pool for quick growth.

India has a large number of start-ups and the entrepreneurial potential to be a major player globally, but it needs a strong innovation engine to build deep companies of substance. The AI age is going to see really large companies, of the order of $10-trillion-plus valuation. We can be the hub building AI for the whole world if we take the above steps.

Not many know that, in the 1600s, when the Taj Mahal was created, India used to contribute 26% of global GDP. It is possible again to reach there. We need a massive effort and willingness to create the required innovation engine from this forward-thinking government; shortcuts won't do. If China can do it, why not India? Imagine if we can attract back not only our trained 15,000 IIT graduates but also the best in the world to come here and solve our problems—that would then truly be a New India, the rightful legacy for Modi 2.0. Otherwise, the risk of India becoming a massive 'data farm' for the whole world, where we export cheap data and import expensive AI solutions, is very much a possibility.

'Idea to Impact' innovation engine



Source : Chapter.ai Research 2019

Essar ruling hurts India's debt market

Many twists and turns taken in the Essar bankruptcy has led to India attracting foreign distressed-debt specialists to help clean up its $200 billion-plus of bad loans

ANDY MUKHERJEE

Bloomberg

INDIA'S INSOLVENCY TRIBUNAL has made a dangerous decision. Unless its judgment is quashed, credit costs for India Inc will surge, shares of state-run banks will swoon and foreign investors will flee.

The case concerns the country's most high-profile bankruptcy, Essar Steel India Ltd Insolvency, judges recently ruled that creditors whose claims are backed by collateral won't get preferential treatment in the $6 billion sale of the company's plant to ArcelorMittal. Secured creditors will stand in line with unsecured creditors.

This isn't how it works anywhere in the world, and for good reason. In loans backed by collateral, the lender expects to be paid first out of bankruptcy proceeds. That's why they accept a lower interest rate than unsecured creditors in the first place. For unsecured lenders to receive any of their money back, there must be something left over after paying the secured creditors.

Of the many twists and turns taken in the Essar bankruptcy, this is the most damaging. India has been attracting foreign distressed-debt specialists to help clean up its $200 billion-plus of bad loans. The ruling, if it survives, may kill that trend.

Under an agreement with the Essar creditors' committee, ArcelorMittal's offer would have made secured financial lenders more than 90% whole. While that's a good recovery rate, it is less than 100%, meaning unsecured operational lenders should have had to go empty-handed. In the insolvency judges' view, though, the committee has no role to play in distributing the sale proceeds. While collateral gives seniority in a liquidation, everyone's equal in a bankruptcy resolution. Or so the judgment says. As a result, financial creditors will see their take shrivel to 60.7% of claims, while that of the operational creditors will swell to the same level.

Those who can expect a bigger share include Standard Chartered Plc, which was complaining about being offered less than 2% of its claim after lending to an Essar Steel subsidiary. Energy companies, power utilities, and even the state tax officer will have the same rank. All operational creditors, who were going to get nothing, will be on a par with State Bank of India and other financial creditors.

Consider the implications for future Indian deals. If a secured creditor sells to a distressed-debt specialist, the investor will have overpaid thinking its claim would get settled first and that it would make, say, 40 cents on a 20-cent investment. That won't happen if the bounty is to be shared much more widely, restricting the payout to, say, 10 cents.

State Bank of India, which was expecting full recovery of its ₹110 billion ($1.6 billion) debt just a few months ago, has approached India's Supreme Court to overturn the ruling. Hong Kong-based investor SC Lowy also wants to appeal the decision. If the verdict isn't quashed, credit costs will skyrocket at a time when Indian real-estate developers can't even borrow at 20%.

Borrowers will be willing to pledge assets, but which creditor will be able to put any value on them? Banks will steer most bankruptcies toward liquidation, leading to unnecessary job losses and higher loan-loss provisions in a capital-starved financial system. Global distressed-debt investors have been placing small bets in India, often by standing behind asset reconstruction firms. Now they'll be unable to price the Indian opportunity.

The Essar saga has already gone on for more than 600 days, when the original legal limit was 270 days. Since the billionaire Ruia family that founded Essar didn't want to cede its crown jewel to ArcelorMittal, an intense legal skirmish was unavoidable. But if India's 2016 bankruptcy law ends up making matters worse, then the signature reform of Prime Minister Narendra Modi needs an urgent overhaul.

The Modi government, now in its second five-year term, is so desperate to ease the country's financing crunch that it's even willing to sell sovereign dollar debt, something India has always avoided. To seek capital from risk-averse pension funds while simultaneously repelling risk-loving private equity and vulture funds is an unfortunate distortion of priorities.

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LETTERS TO THE EDITOR

SC's Karnataka error

The Supreme Court's interim order that dissident MLAs cannot be compelled to attend the Karnataka Assembly session convened for the sole purpose of floor test goes to defeat the very object of the anti-defection law. Obviously, the exemption to 'rebel' MLAs from participating in the session gives BJP an undue numerical advantage in the House. Law means law and it must be applicable to one and all. Differential treatment based on the political decisions made by an individual goes against the principle of equality before the law. The judiciary cannot let itself be seen to aid in the process of dislodging a government and installing another government. By granting the dissident lawmakers the freedom to attend or not to attend the session, the apex court has 'fettered' the Speaker and rendered him powerless to deal with the legislators playing truant. In a way, the blanket protection to the 'rebel' MLAs legitimises their turning against the government run by their parties. Individual elected representatives cannot be put above the parties they represent in this manner. Characteristically the BJP sees the verdict as a 'moral victory' for the 'rebel' MLAs. Inscrutably, the country's top court has found nothing wrong in the tactical resignations of the turncoats holed up in a Mumbai hotel, though they are tantamount to disguised defection.

— G David Milton, Maruthancode

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Behind the Budget numbers

Finance minister Nirmala Sitharaman's Budget speech did not evaluate the extant overall macroeconomic environment, but the Budget numbers only confirm data from other sources that economic growth has slowed down

THE UNION BUDGET is the annual financial statement of receipts and expenditure of the central government. The numbers for the year gone by are for the information of Parliament. And estimates made for the year ahead are for its approval. This should ordinarily be a boring exercise, of little interest to anybody besides subject experts and economists, and market participants looking to the deficits numbers that can move financial markets. The Indian Budget has, however, attracted wider interest on account of the outsized public sector, wide fluctuations in tax rates from year to year that affect both the middle class and the corporates, and the practice of announcing policy intent, which, strictly speaking, is not part of the budgeting exercise.

The Budget numbers, nevertheless, throw light on the priorities of the government, and also on the state of the wider macroeconomy, since fiscal policy is one of the two well-established policy tools for stabilising the economy. Growth below trend tends to worsen the fiscal deficit on account of, first, revenue compression arising out of lower growth, and second, expenditure growth arising from the need to stimulate the economy by substituting for the decline in private demand and crowding in private investment. In addition, governments tend to window dress the numbers, leaving it to the subject experts to go beyond the colourful window display to the shelves inside.

The fiscal deficit for 2018-19 works out to 3.3% of GDP, as against 3.4% in the Budget document, on account of the lower GDP base in the Budget document

So, what do the numbers over the two-year period between 2017-18 (actual) and the forward-looking Budget proposals for 2019-20 reveal?

To begin with, corrections in two critical macro-aggregates contained in the Budget document are warranted.

First, while the government's Economy Survey of 2018-19 has taken the GDP estimates from the CSO's Press Note of 31.5.2019, the Budget document has, however, worked with an earlier estimate of GDP at current prices for 2018-19 (₹1,88,40,731 crore), instead of the CSO's latest provisional estimate of ₹1,90,10,164 crore.

Second, the Budget has worked with the higher revised revenue estimates for 2018-19 contained in the Interim Budget for 2019-20 presented in Parliament prior to the general elections, and not the latest and more accurate, but lower, provisional actuals of the Controller General of Accounts (CGA), contained in the Economic Survey. Although the past practice has been to use the Interim Budget figures, this time around CGA's figures were available. The difference is non-trivial, as the Budget figure has overestimated revenues by ₹1,66,512 crore. Such a shortfall in revenue collection is indicative of a weakening economy. Consequently, the revenue projected for 2019-20 is taken at ₹17,73,811 crore, in lieu of the Budget figure of ₹19,62,761 crore. The calculations below use the CSO's Press Note of 31.5.2019, and the CGA's revenue estimates for 2018-19 contained in the Economic Survey 2018-19 as the base, for the calculations that follow, as these approximate closer to reality. The revenue projection for 2019-20 assumes a growth rate of 13.48% over 2018-19, the same rate as projected in the Budget. The forward-looking GDP estimate used for 2019-20 is what is in the Budget document.

In addition, ten outstanding features stand out from the Budget document.

◗ One, there is a continuing decline in the outlays on health and education (soft infrastructure), both in relation to the overall expenditure (from 6.2% to 5.7%), as well as in proportion to the national income (from 0.8% to 0.7%).

◗ Two, the outlays on hard infrastructure—comprising of information technology (IT), telecommunications, transport and urban development—have increased marginally from 0.9% of GDP and 7.9% of total expenditure, to 1% and 8.2%, respectively.

◗ Three, the outlay on agriculture has more than doubled from 0.3% of GDP, and 2.5% of total expenditure, to 0.7% and 5.4%, respectively, mostly for the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-KISAN). During this period, the outlay on rural development, however, declined from 0.8% of GDP and 6.3% of total expenditure, to 0.7% and 5.1%, respectively.

◗ Four, the transfer of funds to the states for centrally-sponsored schemes has declined from 13.3% of the Centre's budgetary expenditure to 11.9%. On the other hand, the Centre's own outlay under central sector schemes has risen from 27.4% to 31.3%.

◗ Five, the outlay on major subsidies comprising food, fertilisers and petroleum has increased from 1.1% of GDP to 1.5%, and from 8.9% of total expenditure to 10.8%. The increase is mostly on account of food subsidy.

◗ Six, capital expenditure, including grants-in-aid by the Union government for creation of capital assets, has remained constant at 2.6% of GDP. It, however, declined from 21.2% of total expenditure to 19.6%.

◗ Seven, the decline in the outlay on defence is both palpable and surprising. This has declined from 1.6% of GDP to 1.4%, and from 12.9% of total expenditure to 11%. In addition, the outlays on armament acquisitions for the three services have not kept pace with GDP growth.

◗ Eight, the total central government expenditure as a percentage of GDP has climbed from 12.5% to 13.2%. Read with the seventh point above, it can be deduced that the entire increase is on the revenue rather than the capital side.

◗ Nine, the fiscal deficit for 2018-19 works out to 3.3% of GDP, as against 3.4% in the Budget document, on account of the lower GDP base in the Budget document. However, the fiscal deficit for 2019-20 works out to 4.3%, since the revenue estimates have been revised downward—as indicated above—while the expenditure estimates remain unchanged.

◗ Ten, while central government expenditure grew at 14.7% in 2018-19, it is projected to grow at a lower rate of 13.4% in 2019-20. This is indicative of a cyclical, rather than countercyclical fiscal policy, as the sharp fall in revenue collections and the spike in the fiscal deficit for the current year is indicative of an economy in retreat. Finance minister Nirmala Sitharaman's Budget speech did not evaluate the extant overall macroeconomic environment, but the Budget numbers only confirm data from other sources that economic growth has slowed down.

Telcos' woes just wouldn't end

VS AILAWADI

The author is a former power sector regulator

TRAI is oblivious to both the poor financial health of the sector and ensuring critical telecom infrastructure

AT THE WORLD Economic Forum in January, former RBI Governor Raghuram Rajan observed that while India's economic numbers are celebrated at different fora, critical infrastructure sectors are facing financial stress and liquidation. Power and telecom, in particular, are unquestionably highly stressed. In fact, ICRIER and CRISIL have released reports showing how debt-ridden telecom companies are—their EBITDA is not sufficient even to service their interest liabilities, with their gross revenues declining to ₹57,827 crore in September 2018 (a drop of 12% year-on-year), as also government revenues declining by 11% and 16% in licence fees and spectrum usage charges, respectively.

Telcos are facing serious financial crisis. While much has been said about the merits and demerits of the policy approach on the allocation of spectrum and on administrative prices, the fact remains that there has been an exponential growth in the number of wireless subscribers—the subscriber base doubled from about 26 crore in 2008 to about 58 crore in 2010. In the next seven years, it doubled.

An ICRIER study showed that, during the same period, government revenues also increased—no doubt, through auctions, because the government realised about ₹1.76 lakh crore between 2010 and 2016. But the industry got exposed to a debt burden of ₹5 lakh crore or more. Somewhere, the enthusiasm was found misplaced. Industry health being unstable, the high prices for the next round of auctions for 5G would show little appetite for the existing market players with the exception of one.

In the interest of achieving its policy objectives pledged in the NDCP, the government can differ with the TRAI recommendations on the valuation of reserve price

TRAI's refusal to review its recommendations on spectrum reserve price for auctions in August 2018 defies a holistic approach. TRAI is not oblivious to the poor financial health of the sector—for which it is as much responsible as for its growth—when revenues are declining. On all accounts, it is undisputed that a high reserve price for 5G spectrum would have a debilitating effect, leaving little for the capex for laying out 5G services. Then why is it that TRAI has stuck to the base price recommended in August 2018? It is not mere unconscionable indifference to the poor health of the sector, because it sees its development from the prism of growth happening on account of one player, and is fascinated by the Darwin theory of 'survival of the fittest'. It appears it is also unmindful in ensuring telecom infrastructure as critical to economic growth. Even unbiased analyses of noted research bodies and press editorials—such as the *FE* editorial 'Telcos need help, govt will decide on penalties first!' (July 10, 2019, *http://bit.ly/2LXPJUI*)—have simply been brushed aside. The authority dismisses the review asked for by the Digital Communications Commission (formerly Telecom Commission) with ingenious explanation that "its methodology, assumptions and developments in the intervening period after the last auction in 2016 and August 2018 have been well considered." In response to the DoT's view that TRAI also shared concerns about the sector's financial health, its disavowal is laconic—it was not its view but "expressed by a section of stakeholders" (para 8 of July 8, 2019, recommendations).

What, then, is the option for the government? In its own wisdom, and in the interest of achieving its policy objectives pledged in the National Digital Communications Policy, it can differ with the TRAI recommendations on the valuation of reserve price. The government would be justified in doing so because, firstly, TRAI's approach is manifestly short of reasoned conclusions and, secondly, it has not shared the facts and grounds in public space in effectively elaborating its conclusions in its recent communication to the government.

The high-powered commission (DCC) would be competent to deliberate on the TRAI recommendations and arrive at a different reserve price, which would be reasonable and fair in order to revive interest and create effective participation in the forthcoming auctions. It will be wrong to say that the government is stuck with the TRAI base price or is facing dilemma, for the course it chooses will make or mar its policy objective of bringing digitisation to its 133 crore people.

BANK NATIONALISATION

The spirit is still relevant

Despite triumphs and tribulations, the move to nationalise banks aided by banking sector reforms contributed towards robust banking outreach

K SRINIVASA RAO

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AN EFFICIENT AND robust banking system is a *sine qua non* for growth and equitable distribution of financial resources of the economy. Beginning with the nationalisation of banks in 1969, the banking sector contributed significantly towards the well-being of the society and in reducing poverty. In that era, 20 banks were nationalised in two phases—14 banks on July 19, 1969, and six more banks in April 1980 under the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970/1980, thus bringing 91% of the banking system under government control. The reason for nationalisation was to ensure equitable flow of credit to every sector of the economy to avoid lopsided growth. Historically, private banks had a tendency to lend only to large industries and business houses, depriving credit to those at the bottom of the pyramid.

Transformation of banking system: These 27 banks—20 nationalised banks, and SBI and its associate banks—formed a strong force of public sector banks (PSBs), disseminating banking services to the common man. Mobilising deposits and dispensing credit in rural and semi-urban centres in the short term is not cost-effective and hence the private regime was averse to it. But RBI, the government and PSBs worked together to take banking to the masses. The shift has been from 'class banking' to 'mass banking'. The journey of expansion of banking that began modestly after nationalisation picked up speed and efficiency. The commitment to spread banking began with the introduction of the Lead Bank Scheme (LBS) in 1969, and the State Level Bankers' Committee (SLBC), district credit plans, priority sector lending (PSL) norms in 1974, branch expansion policy and the formation of Regional Rural Banks in 1975. These tools speeded up the outreach of banks to transform the village economy by adopting them for integrated development.

Coordinative role of PSBs: Beyond providing banking services, PSBs played a critical role of coordinating with state-, district-, tehsil- and block-level units of the government and district industrial centres, and facilitated in implementing welfare schemes. PSBs served as a conduit to disburse subsidies, implemented government-sponsored schemes for integrated rural development, routed interest subventions, facilitated debt-waiver schemes and fulfilled mandatory lending norms. The combined impact improved the economic conditions of rural enterprises.

In the process, the number of bank branches increased from 8,187 in 1969 to 59,752 in 1990 to 1,41,756 in March 2019. The share of rural and semi-urban branches varied from 58.4% to 77.2% to 62.89% during this period. The total network of rural and semi-urban branches stands at 89,144 in March 2019 compared to 4,781 in 1969 and 46,128 in 1990. In addition, 1.26 lakh bank *mitras* (business correspondents) provide branchless banking in villages.

As a result, share of unorganised credit fell sharply and the economy seemed to come out of the low level of equilibrium trap. In the process, the flip side of social commitment led to inefficiency and poor customers service in some PSBs, taking away the competitive edge. The administered interest rates and the burden of directed lending constrained their autonomy to operate on commercial lines. The mandatory expansion of branches in unbanked centres with low business potentiality impacted the working of PSBs.

With little latitude to decide business mix, profitability took a back seat. PSBs struggling to work under the doctrine of dual regulation suffered from poor governance. Board of directors of PSBs are appointed by the government with no freedom to review their performance or competency. The expertise with such independent directors rarely passed on to bank management. As a result of poor board oversight and the ability of large borrowers to influence certain decisions, PSBs accumulated huge non-performing assets (NPAs). They had to bear the brunt of holding close to 90% of stock of bad loans, further impinging upon their profitability.

Impact of bank reforms: Even after banking sector reforms, PSBs continued to balance their social obligations while working on commercial lines to compete with private peers. Along with integrated technology, PSBs gradually changed their look and feel with modern outfits and better interiors. They also adopted international prudential and capital adequacy standards in line with Basel frameworks set out from time to time, integrated risk management systems, business process re-engineering, reorganisation of administrative structures, better systemic controls, higher compliance standards and better HR management strategies.

Despite triumphs and tribulations, the move to nationalise banks aided by banking sector reforms has greatly contributed in the robust growth of banking outreach, more importantly in the hinterland, benefiting people at the bottom of the pyramid. Focus on financial inclusion guiding banks to adopt a specific three-year outreach policy since 2010 took aggressive form in 2014 after the implementation of the Pradhan Mantri Jan Dhan Yojana. The combined synergy led to massive connect of the banking system with the people, taking the World Bank Findex 2017 to 80, from a level of 35 in 2011.

Effectively, 80% of adults aged 15-plus have a bank account—a great achievement by any standard. Of the 36 crore new savings bank deposit accounts opened under PMJDY till May 2019, PSBs accounted for 96.6%, reflecting their role in social transformation. The challenges of bank reforms did not dither the spirit of bank nationalisation and PSBs continue to serve the masses even, at times, at the cost of losing competitive edge. As India completes the golden jubilee of bank nationalisation, the purpose still holds relevant, more so when growth aspirations are high, India aims to be a $5-trillion economy, and the banking sector increasingly needs to stay committed to serve the masses.