Opinion

THURSDAY, JULY 4, 2019

BREXIT AND JOBS
British prime minister, Theresa May

"I have done everything I can to ensure we leave the EU with deal. I can look workers in the eye and tell them I voted to leave with a deal that helps jobs"

RationalExpectations

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India needs an Agriculture Budget

Giving farmers market prices will boost GDP; it is also possible to fix problems like water scarcity and double farm incomes

THOUGH FINANCE MINISTER Nirmala Sitharaman has to deal with all manner of issues in her maiden budget, from stimulating consumer demand to reviving flagging investment sentiments, perhaps the most important sector for her to focus on is agriculture; not just in terms of increased outlays for irrigation or MNREGA, but in terms of broad policy direction.

One clear direction, set out by prime minister Narendra Modi before the elections, is PM Kisan where each family gets ₹6,000 per year; after PM Kisan was extended to more farmers, it will cost around ₹85,000 crore. Ideally, the budget should double or triple this direct cash transfer and, simultaneously, reduce subsidies on fertiliser or agriculture loans since these are, by and large, used by richer farmers.

The government spends around ₹170,000-180,000 crore each year on FCI procurement at the Minimum Support Price (MSP); buying at MSP raises farmer incomes and the grain purchased meets demand from ration shops. Ideally, the budget should indicate a dramatic shift from this, with a timeline to reducing FCI's operations to the minimum. Given the ₹20-25 per kg difference in market- and ration-prices of wheat and rice, even the Food Security Act's excessive 5kg- per- person- per- month will cost ₹96,000-120,000 crore. This ₹70,000 crore saving can be given to farmers in lieu of scrapping MSPs which, at best, benefit 20-25% of farmers, and mostly rich ones. Selling FCI's excess food stocks can fetch the FM ₹100,000 crore.

While NITI Aayog is pushing a Price Deficiency Payments (PDP) in place of MSP, this is a bad idea even though PDP means winding down the MSP system; to that extent, it cuts FCI's inefficiency costs. But PDP is open to large abuse. Under PDP, all farmers will register their cropping details with the government (*bit.ly/2Lt0Rc0*) and, at the end of the season, they will be paid the difference between the market price and the MSP for their crop. While this amount will be much lower than the MSP—the MSP could be ₹100 while the gap between it and the market price could be ₹10 or 20—it will have to be given for all the produce while the MSP, by definition, is paid only to the produce that is brought to the market and sold to government agencies. And, to the extent traders know the government is paying a PDP, there is nothing to stop them from colluding to further depress market prices.

> **Pay Punjab farmers to move from rice to corn & make ethanol from that for petrol. Will also fix Punjab's water problem. Make ethanol from cane for petrol in water-rich east UP & Bihar and see how farmer incomes shoot up...**

What of the PM's plans to double farmer income; how will this happen if subsidies like on fertiliser and interest subvention or the MSP are scrapped? On average, each farm household earns around ₹10,000 per month, so they need around ₹1.2 lakh more per year to double their incomes. Icrier professor Ashok Gulati (*bit.ly/2Xidfhj*) points out that, if solar panels are installed at a height of 15-20 feet in fields, this does not have a negative impact on crop growth—in which case, farmers can earn from 1-2 crops a year, as they do now, along with earning from solar power. To the extent this solar power replaces diesel for pumping water, farmer costs also fall. The budget then needs to fund the farmer's capital costs for solar panels—tax relief for solar-power firms or a capital subsidy perhaps—and ensure the solar power produced is mandatorily purchased by electricity boards; this is the law anyway, but it has to be enforced.

The budget, similarly, should have a subsidy for water-stressed areas, like Punjab, to ensure farmers move away from, for instance, water-guzzling rice to corn which uses around a fifth of the water rice does. This corn can be used to produce ethanol and while the extract is still good protein-rich feed for poultry/cattle, at ₹55-60 or so per litre of ethanol, that's a lot of money for farmers. The budget, then, needs to give incentives to industry that produces corn-based starch, poultry- and animal-feed, etc, and it is vital to ensure—with the oil ministry's cooperation—that oil marketing firms buy all the ethanol produced; blends of upto 15% with petrol require no change in engines of cars/two-wheelers. If farmers still earn less than they did from rice, a direct subsidy must be given to fund the difference. Indeed, the ₹6,000-7,000 crore of electricity subsidy that the Punjab government gives to farmers to pump up water can also be saved, apart from solving the state's water crisis. Since eastern India is flush with water, growing rice there is, in any case, a better solution—India's water crisis cannot, it is vital to keep in mind, be fixed if agriculture keeps guzzling water.

Indeed, along with the solar solution, the government should encourage sugarcane cultivation in eastern UP and Bihar. Water availability is not an issue here and frequent floods will also regenerate the water table. Once again, the key here is ensuring ethanol purchases since, at the current levels of ₹55-60 per liter fixed by the government, ethanol production is as lucrative as sugar, perhaps even more so. It is critical to ensure that GST levels remain the same 5% on ethanol since, if this is taxed at the same level as petrol, oil marketing firms have no incentive to buy ethanol.

And, if the government can free up agriculture markets, as the Icrier-OECD study points out, farmers can get around ₹2.5 lakh crore extra per year for their produce. In other words, the FM will do well to use the budget to indicate the government's new policy and, wherever needed, make the necessary fiscal allocations or policy changes to facilitate the change.

HitWICKET

The BJP failing to act against Akash Vijayavargiya, despite the PM's rebuke, shows the party in poor light

THINGS CAME TO such a pass at the ruling party, the BJP, that PM Modi himself had to admonish party-leaders over the Akash Vijayavargiya incident, saying action must be taken, no matter whose son he (or those BJP workers who celebrated with gunfire the young MLA getting bail in a case of assault of a public official) was. Vijayavargiya inists his assault of the Indore Municipal Corporation officer was "in public interest". But, even if that should eventually prove true, what he—clearly also his party, which has not taken action against him so far—has failed to appreciate is that the people's mandate is not permission to take law and order into one's hands. The assault not only reflects a broader disrespect for administration, but considering it is the BJP that controls the Indore corporation, it should have seemed to the BJP as distrust in its leadership. Instead, party functionaries threw a hero's welcome upon Vijayavargiya's release on bail.

The local BJP unit, and indeed, the party leadership is likely to wait for the controversy to die down; hence, the eyewash of a disciplinary committee inquiry. Indeed, if the party were serious, it would have at least bothered to put Vijayavargiya under suspension while the inquiry proceeded, but no such thing has been done. Worse, Vijayavargiya's father, Kailash Vijayavargiya, a national general secretary of the party, initially shut down criticism of the assault in the media and later downplayed the incident. PM Modi was right to condemn the act, given how it is an assault on the governance structure of India. If the BJP leadership still buries its head in the sand, it would have helped erode the average Indian's faith in government and governance.

WAGE GROWTH

DURING FY12-FY17, THE WAGE GROWTH, AT 5.8%, OF WORKERS IN UNREGISTERED ENTERPRISES WAS LOWER THAN THE WAGE GROWTH, AT 9.7%, OF THOSE WORKING IN AGRICULTURE

Even agriculture trumps the unorganised sector

SUNIL K SINHA & DEVENDRA K PANT
Sinha is principal economist, & Pant is chief economist, India Ratings and Research
Views are personal

THE CURRENT DISCOURSE on economy from demand side largely revolves around the analysis of gross domestic product (GDP) and its components, namely consumption, government expenditure and investment. Similarly, from supply side, it revolves around gross value added (GVA) and its components, namely agriculture, industry and services. However, much less attention has been paid to the analysis of national income as it accrues and gets distributed across labour and capital. An analysis of national income on these lines can provide an insight into the evolving wage and wealth income, and its concomitant impact on income inequality.

An IMF working paper shows that the share of labour in the national income in advanced economies is trending down since 1975. It reached its lowest level (50%) before the global financial crisis of 2008 and has not recovered significantly since then. Although reasons behind the decline in share of labour in national income are still not well-understood, authors of this paper state that, in advanced economies, it is attributed to the rapid advance of technology, and the globalisation of trade and capital. These two factors have led to steep decline in the relative price of investment goods which has lowered firms' cost of capital and, in turn, given them incentive to replace labour with capital. Even as the reasons behind the decline in share of labour in national income of advanced economies are being studied, this decline has not only harmed consumption demand growth but has also translated into a backlash against outward looking trade policies in these economies.

Interestingly, the situation in India is different. The Central Statistics Office (CSO) provides GVA data as per four different components, namely (i) production taxes less production subsidies, (ii) consumption of fixed capital, (iii) compensation to employees, and (iv) operating surplus/mixed income both by production sector and institutions. A reorganisation of this data gives us a glimpse into the distribution of national income across the two key factors of production—labour and capital. Of the four components of GVA, only compensation to employees accrues to labour; the other three accrue to the owner of capital (including land). In case of private corporations, salaries of family labour are included in the compensation of employees. In case of households, though, it is clubbed with the operating surplus and is reported as mixed income.

A study of the data spanning FY12-FY17 shows that of the total income generated in the economy, nearly one-third accrues to labour and two-thirds to capital. This distribution has been fairly stable over this period despite wages and return on capital growing at a CAGR of 12% and 10.9% respectively.

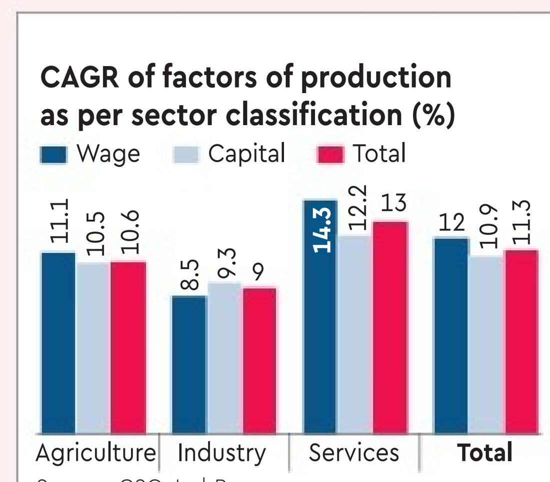
Data at the disaggregated level presents a mixed picture. Let us first look at the sectoral classification. At the sectoral level, industry witnessed returns on capital grow faster than wages. Does this mean industrial production is becoming capital intensive and shedding labour? Or is it that wages are growing slower than labour productivity? The answer to these questions will require much more detailed work. However, since growth both in wages and return on capital across the sector classification was lowest in the industrial sector, it is a pointer that industrial sector needs to improve both its efficiency and productivity.

In case of agriculture, despite share of wages growing at a CAGR of 11.1% during FY12-FY17, the labour received only 15.3% of the income, and the remaining 84.7% accrued to the owners of the capital. Also, while agriculture contributed 18.2% to the total income generated in the economy, wages in agriculture accounted only 8.4% of the total wages in the economy and only 2.78% of the GVA during this period. This translates into annual average wages of ₹21,060 per agricultural labourer per annum (assuming the number of agricultural wage earners remains the same) which is even lower than the official poverty line.

At an institutional level classification, the wage growth of households (this includes unorganised/unregistered enterprises) was the slowest (7.7%) and that of private corporations was the fastest (16.0%) during FY12-FY17. This means that the wage earners from the household sector, whose wages are generally low, also witnessed relatively lower wage growth during FY12-FY17, indicating that the wage gap between unorganised/unregistered enterprises and organised enterprises is widening. The plight of wage earners in the household sector, who account for 44.5% of the income in the economy but receive only 26.4% of the total wage, is quite similar to that of agricultural wage earners. A further breakdown of households by production sector reveals that during FY12-FY17, the wage growth, at 5.8%, of workers classified under households and working in industrial sector is even lower than the wage growth, at 9.7%, of the workers classified under households and working in agriculture sector.

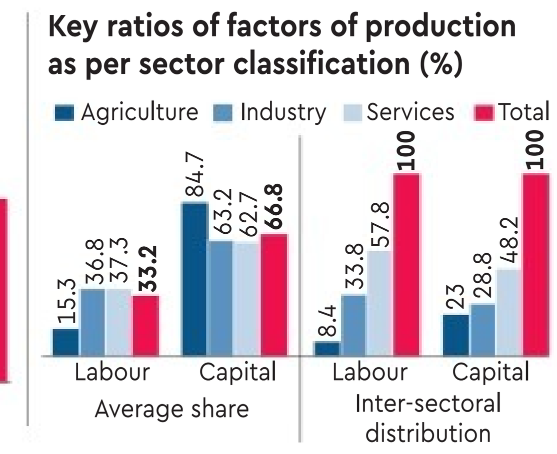
Some of the takeaways from the foregoing analysis are: (i) an income transfer programme to alleviate agricultural distress will not be meaningful as long as it does not include agricultural labourers; (ii) the low wage growth of unorganised/unregistered enterprises is a matter of concern; and (iii) a much higher proportion of the incremental public sector income is accruing to public sector employees than to the public sector capital.

CAGR of factors of production as per sector classification (%)



Source: CSO, Ind-Ra

Key ratios of factors of production as per sector classification (%)



Budget must focus on data democracy

User data doesn't just "belong" to the user, instead it is an extension of the user's self; India can establish the world's first data democracy

TANUJ BHOJWANI
Fellow at iSPIRT, Bengaluru
Views are personal

IF IT WAS not for the railways, we would not agree on what time it is. For the most part of human existence, time was a local phenomenon. Noon was benchmarked to the time the sun was right above you and shadows were the shortest. Everyone else in your village, hamlet or town then maintained their watches accordingly. As long as you and your neighbour agreed on when 9 o'clock is, it didn't matter if the next village or the one across the country agreed with you too.

Things were generally fine, until the railways came along. The railways were a network that cut across many of these time fiefdoms. Imagine a train timetable that needed to account for local-time in every stop it made. The complexity and inefficiency of the problem led Charles F Dowd, a school teacher, to come up with what we now call "time-zones" in 1863. Privately-owned railway corporations adopted Dowd's plan in 1883. The US government only formally adopted the Standard Time Act in 1918. By then, the railways had gotten everyone used to the idea of standard time anyway.

The internet is often compared to the railways. Usually, to draw attention to the tremendous power internet giants have over the economy, just as railway companies of the late 19th century had. That lesson is important, but it isn't the only one. The connectedness that railways brought about changed lives in profound ways. It solved many problems, but also created problems that a newly connected society didn't know it had yet—like what do we do about time? Standardising time, a radical idea in the 1860s, made many other technologies possible, like studying global weather. Who could have predicted that a US railways innovation from 1883 would save 1.2 million lives in Odisha in 2019?

The internet is a network that cuts across both space and time. Every year, technologies and businesses built on top of the internet disrupt industries and our way of life. Cars become self-driven, homes, cities and even microwaves become "smart" and reality is becoming "augmented", if not entirely "virtual". For the last 30 years, and for the next 30 years at least, digital technologies remain the biggest economic opportunity that we can be sure of. If we are really planning to grow fast enough to become a $5 trillion economy in 5 years, ignoring the internet would be a foolish thing to do.

The problems for railways started when people realised that those who control the tracks, control the future of many adjacent industries. Everyone agreed that immense value was being created, but they disagreed on how it was being distributed. Six railway companies in the US owned or controlled 90% of the market for anthracite coal, and made it difficult for independent coal companies to move their product. Whereas once the railway barons laid tracks to build their empires, today, the internet barons collect your data.

The primary mechanism of disruption for the internet and the railways is the same: they don't make the world smaller, they make markets larger. Efficient and reliable coordination over large populations is possible on scales it wasn't before. The internet grew up in a mostly lawless, data-guzzling, winner-take-all kind of environment. Today, the world is waking up to the fact that our hyper-connected society has a new problem: What do we do about data?

If data is the new oil, why do we give it away so freely? Comparing data to a tradeable commodity is a huge disservice. It legitimises the capture of our data by others because we got some service for free in return. The more prudent analogy would be to say that our data is our vote. Our vote is protected by the law. We should be able to give it to whom we want, and if we aren't satisfied, we remain free to give it to someone else. The Constitution guarantees the freedom, security and privacy of the citizens to exercise their vote without fear.

By recognising that user data doesn't just "belong" to the user, instead it is an extension of the user's self, India can establish the world's first data democracy. This isn't simply a legal right, it has important economic implications as well. When users are in charge of their data, they get to decide whom to give it to, why and in return for what. This means, that a rural *kirana* store owner uses her phone records, currently locked up by telcos, to get better loans. This means that a farmer can show his track record, currently locked up by *patwaris*, to prove that his insurance claim is genuine. Instead of data being used by those who captured it, we make sure data empowers our users.

On this Friday, when the new government rolls out its first budget, we hope that we see commitments towards shaping a data democracy. The government needs to recognise that creating one involves more than installing wi-fi in trains, or launching apps for e-governance. We need to encourage the creation of more digital platforms as public goods, and give citizens control over the data about them within the government. In fact, if we encourage citizens to join the current structure of the internet, without laying out a framework on data, we risk jeopardising their ability to partake of the prosperity that the internet creates from their data. If we don't decide that now is the time for a data democracy, the internet, just like the railways before it, will decide for us what time it is.

LETTERS TO THE EDITOR

Bedi's acerbic comments

Puduchery Lieutenant Governor Kiran Bedi's acerbic comments blaming the people and the political class of Tamil Nadu for the crippling water crisis presently engulfing the state has, as expected, invited sharper rebuttals from parties across the political spectrum in the state. She may be right in attributing blame for the water scarcity to the Tamilian populace and government, but the language she deployed to articulate her views is undesirable. As a constitutional functionary, Bedi should have exercised restraint and refrained from making such unwarranted remarks about the people and government of another state. Bedi's dubbing of the Tamil people as cowards and selfish is unbecoming of the coveted constitutional post she holds now.
— M Jeyaram, Sholavandan

Indian IT coping well

Curbs on H-1B visa are not new. They came into prominence in 2010-11 as a dipping US economy impacted jobs under Obama. If it was out of necessity then, Trump now uses it for vote banks. Through the last decade, Indian IT has had to wrestle as much with rapid change in technological environs as with visa curbs. Thus, value creation became a recurring IT issue and a priority. IT departments realise that they must focus on improving service to the user and to departmental needs, outsource non-essentials and focus on value creation. Even small or mid-sized firms need to go on the cloud for standardised services. Leading Indian IT firms are diversifying products and showcasing pioneering ideas in blockchain, and artificial intelligence to clients, using innovation hubs, research and development centres, for differentiated offerings.
— Janaki Narayanan, Navi Mumbai

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UNION BUDGET

Why MSME sector must be the priority

We can certainly get back to 8% growth and create enough jobs provided we strengthen our MSME sector. The RBI report on MSMEs is timely and the Union Budget should focus on its important recommendations

PRAVAKAR SAHOO & ASHWANI BISHNOI

Authors are professor and assistant professor at Institute of Economic Growth, Delhi, and National Institute of Technology, Haryana, respectively

ILLUSTRATION: ROHNIT PHORE

THE MSME SECTOR contributes 30% to GDP; India is aiming to increase this share to 50% of GDP. MSMEs are vital in generating employment, output and exports, as this sector contributes one-third to India's manufacturing output and 45% to exports. According to a recent CII survey, MSMEs are the second-largest employment generator after agriculture, by engaging 12 crore persons. There are 6.34 crore units contributing around 24% to the services GDP. However, the sector has been facing a number of challenges—from accessing credit to marketing—and more so after demonetisation and GST. In this context, the RBI report headed by former SEBI chairman UK Sinha is timely and that comes up with recommendations that are necessary and implementable.

MSMEs registered annual growth rate of 4.35% during 2006-15 (from 3.618 crore in 2006-07 to 5.105 crore in 2014-15). During September 2015 to July 2018, 48.4 lakh MSME units were registered on the Udyog Aadhaar Memorandum (UAM) portal. The sector has advantages in realisation of inclusive growth agenda of India as one-fifth of MSMEs are residing in rural areas. Besides, the start-up community is growing rapidly—India is now the third-biggest start-up hub in the world—and providing a platform to MSMEs to access a larger market base. Today, India has around 7,200 start-ups, including 1,200 start-ups that came up in 2018 only. They have created 40,000 new direct jobs and are robust in accessing finance as these start-ups saw a 108% growth in total funding during 2017-18. City-based start-ups connect local SMEs and in many ways address the problems of MSMEs relating to product standardisation and market access.

Although MSMEs are the backbone of the economy, they suffer from access to finance, apart from low scale, technology, branding, competition, etc. At aggregate level, credit growth plunged in the recent years, reaching 5.1% in FY17, the lowest in last six decades. Moreover, bank credit remains skewed towards large enterprises as only around one-fourth of bank credit (₹14.8 lakh crore, of the total ₹62.3 lakh crore) goes to the MSME sector. This highlights the potential of the MSME sector as it receives one-fifth of bank credit but contributes one-third of manufacturing output with large employment opportunities. As per a CIBIL report, mid and large corporate segment held the biggest share of the overall credit at about 43%, with an exposure of ₹47.5 lakh crore. The contribution of public sector banks in the MSME sector lending has declined by 19% during 2013-18, and touched around 40%, implying that MSMEs have to explore other avenues for meeting their credit requirements. Moreover, 'new to credit' (NTC) borrowers entering the formal credit sector have accelerated from approximately 2.7 lakh in the first half of 2016 to 5.2 lakh in the first half of 2018. This indicates the rising pressure to enhance the lending environment for MSMEs. The sector also experienced an increase in NPAs—from 7.3% to 9% during 2013-18.

In this context, the recommendations of the RBI committee to create a ₹5,000 crore corpus, the Distressed Asset Fund (DAF), to assist MSME units in clusters where a change in the external environment led to a large number of MSMEs becoming NPA are important. Also, recommendations to move towards cash flow-based lending and revising collateral-free loan limit from ₹10 lakh to ₹20 lakh are useful. To reduce the credit gap, a new intermediary, i.e. loan service provider (LSP)—an agent of the borrowers—is a welcome proposal. Most of the cluster development initiatives are funded by public sector agencies. Private sector contribution should be enhanced through debt instruments like bonds, CDs, etc, with tax incentives through SIDBI. The committee also recommends strengthening of the MSME Export Promotion Council and a national (and state-level) council as a special purpose vehicle for crowd funding of MSMEs. A government-sponsored Fund of Funds (FoF) to support VC/PE firms to invest in the MSME sector should be in place. Considering their vulnerability and size, Insolvency Code/delegated legislation should provide out-of-court assistance to MSMEs that are mainly proprietorships, such as mediation, debt counselling, financial education, etc. The government should provide insurance coverage to MSME employees such as coverage under Ayushman Bharat-PMJAY to cope with natural calamities. All these proposals, which are doable, will strengthen the financial position of MSMEs.

Some recommendations to improve accountability, transparency and efficiency in lending and its uses are (1) online due diligence and appraisals of MSME loan proposals by banks using data available from sources, including GSTN, Income Tax, Credit Bureaus, Fraud Registry, etc, and (2) bringing all credit guarantee schemes under the purview of regulation and supervision of RBI.

RBI has some recommendations for more efficient functioning of MSMEs. These include moving away from investment volume to a turnover-based definition, 25% mandatory procurement by PSUs from MSMEs, and creating a unique enterprise identifier (UEI) for procurement, availing benefits, etc. Currently, MSMEs have to do multiple registrations with many entities such as Udyog Aadhaar portal, GSTN, NSIC, etc. Successful Indian start-ups within the country and those that are moving outside due to enabling environment, encompassing tax concessions, well-developed infrastructure, ease of doing business, exit policy, etc, should be retained with suitable financial and non-financial incentives.

The government should also facilitate collaboration between MSME clusters and companies/universities offering innovation infrastructure, R&D institutions, etc, in a specific industry or knowledge area. This is because MSME clusters are not properly equipped in areas such as tool rooms, innovation centres, testing facility, etc. The recommendation to build networks of service providers to offer expertise to MSMEs by giving them customised solutions in areas such as technology, product development and marketing techniques will create an enabling environment for MSMEs.

We can get back to 8% growth and create enough jobs provided we strengthen our MSME sector. The RBI report on MSMEs is timely and the Union Budget should focus on its recommendations.

TRANSFER PRICING

Raise threshold for compliance

JITENDRA JAIN

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Remove compliance for non-residents, rationalise safe harbour rules

TRANSFER PRICING IS ONE OF the most litigious areas in India. This litigation will intensify with the availability of more information with tax administrators in view of the alignment of Indian transfer pricing requirements with OECD/G20 Base Erosion and Profit Shifting project. These requirements provide administrators an opportunity to understand taxpayers' business and conduct transfer pricing assessment.

The government introduced measures to ease compliance burden and make transfer pricing environment non-adversarial. These include rationalisation of safe harbour rules, risk-based selection of cases for scrutiny and advance pricing agreement roll-back provisions. The upcoming Budget is an opportune time to highlight measures that can further ease the compliance burden and reduce litigation.

Increase threshold for compliance: Taxpayers with international related party transactions exceeding ₹1 crore are required to maintain detailed transfer pricing documentation. This threshold limit is low and has not been revisited since FY02, when regulations were introduced. Increasing the threshold will contribute towards reducing the compliance burden on small taxpayers. It would not be out of place to highlight that China prescribes a threshold of ₹40-200 crore, depending on the nature of the transaction.

Remove compliance for non-residents: Transfer pricing provisions require compliance by a non-resident if it derives taxable income from transactions with its related party in India despite the Indian related party undertaking compliance for the same transaction. This leads to duplication of efforts. Non-residents should be excluded from the ambit of transfer pricing compliance in India, provided its Indian related party has undertaken the compliance with respect to same international transactions.

Remove certification requirement: Taxpayers entering into related party transactions are required to prepare a transfer pricing disclosure form and get the same certified by an accountant. This requirement should be done away with. If the idea of obtaining such a certificate is to ensure that the taxpayer doesn't miss reporting a reportable transaction, the existing penalty of 2% of the value of the undisclosed transaction should act as an adequate deterrent for taxpayers. While several countries have the requirement of filing a detailed disclosure form, only a handful (Argentina, Saudi Arabia, etc) require taxpayers to obtain such a certificate.

> **The Budget is the time to highlight measures that can further ease the compliance burden, reduce litigation**

Rationalise secondary adjustment provisions: It requires the overseas related party to repatriate the amount of transfer pricing adjustment to the Indian entity and also reflect the adjustment in the book of accounts. If such an amount is not repatriated to India, it is treated as an advance and interest is levied thereon. This is also called constructive loan approach. This creates an issue when the foreign entity faces regulatory hurdles in repatriating the money or where it does not acknowledge the adjustment. In such cases, the interest on the adjustment could be levied till perpetuity.

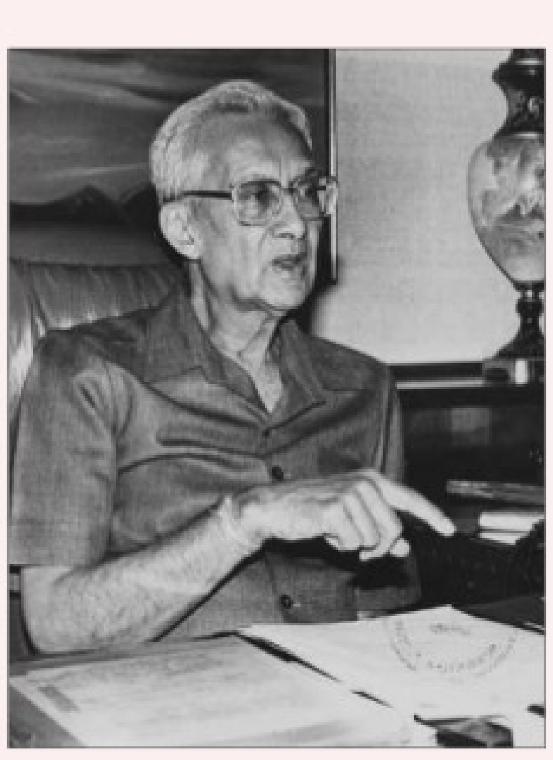
Many countries that follow the concept of secondary adjustment follow the constructive dividend approach—a one-time event whereby the transfer pricing adjustment is treated as deemed dividend. This is unlike the constructive loan approach, whereby the deemed loan may remain in place for many years or even indefinitely, if not acknowledged by the related party. There is a need for India to shift to the constructive dividend approach.

Rationalisation of safe harbour rules: These were introduced in 2013 and were rationalised in 2017. These rules offered taxpayers an alternative to transfer pricing audits, if they declared profits as specified. While these have been rationalised, there is room for increasing the threshold for eligibility of safe harbour for specified services, which is at ₹200 crore currently. Further, the margin for specified services should be moderated in line with the margins concluded in the APA proceedings.

Vincent van Gogh said: Great things are not done by impulse, but by a series of small things brought together. Most recommendations made above do not require major changes existing provisions and instead just involve fine-tuning. These changes will go a long way in easing the transfer pricing compliance burden and minimising disputes.

BASANT KUMAR BIRLA (1921-2019)

A tall business leader, a great philanthropist



HARSHAVARDHAN NEOTIA

The author is chairman, Ambuja Neotia

SHRI BASANT KUMAR BIRLA was a colossus in the business firmament of our country. In his passing away we have not just lost a tall business leader, but also a great philanthropist. He had nurtured and set up many institutions in the field of education and culture that are centres of excellence today. He together with his wife late Sarala Birla were great patron of arts and actively supported and promoted the rich artistic and cultural traditions of our country.

On a personal note, I have had the great privilege and pleasure of interacting with him on several occasions. Our families were closely known to each other and I would often accompany my late uncle Suresh Neotia when he went to visit BK *babu*—who was a great disciplinarian and very punctual, and I remember we had to be particular to be there absolutely at the appointed hour. BK *babu* was soft-spoken and kind-hearted, and had a curious bent of mind. In spite of the fact that our businesses were very small compared to the vast empire he presided over, he would often ask fairly detailed questions on the working of our business. This clearly gave me an insight into a man who was always curious to know more, and to learn.

I have had the privilege of receiving his affection and blessings from ever since I can remember, and indeed they will remain cherished memories.

He was fond of music, and at the annual Gulab Bari concert in the lawns of our house, he would make it a point to come, even if it was for a short period of time.

He maintained high personal discipline. His diet was frugal and simple, and he was very particular about the timing of his eating, resting and walking.

I pray to Almighty that his soul may rest in peace.

He will remain a great source of inspiration to his various well-wishers and admirers. He leaves behind a rich legacy that is more than ably steered forward by his accomplished and celebrated grandson Kumar Mangalam Birla, and his two enterprising daughters, Jayashree *ji* and Manjushree *ji*, both of whom are actively involved in family businesses and philanthropic activities.

We've to rethink our mining policy

Little is currently being spent on exploration of minerals, regulation of mining also remains an issue

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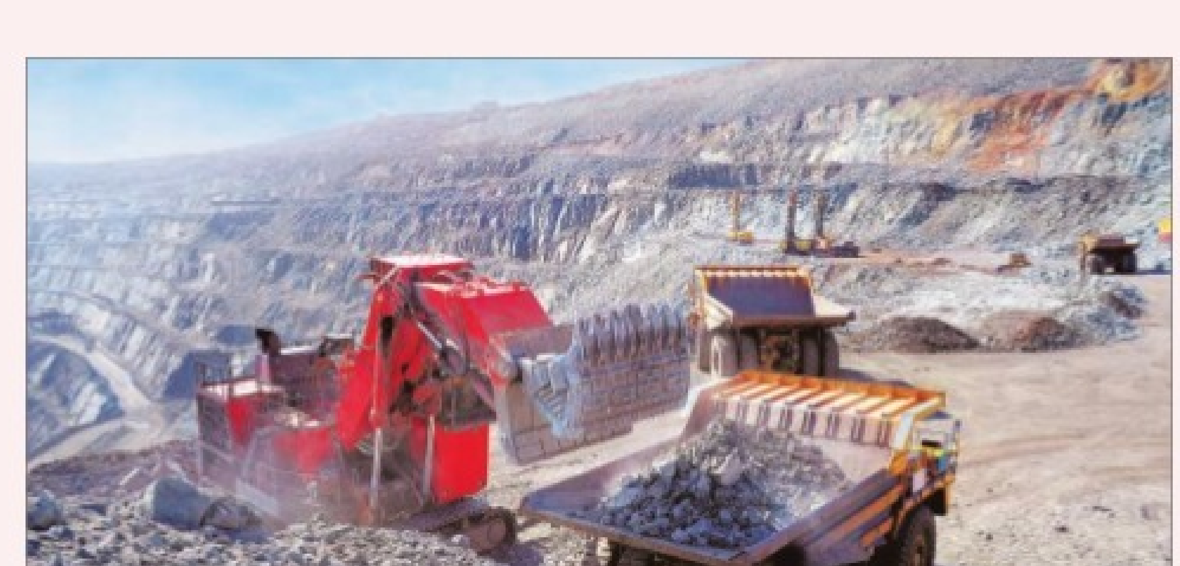

AN INDUSTRIAL STRATEGY in India will benefit from the country utilising its mineral potential. According to a FICCI report, every 1% increase in the growth rate of mining and quarrying leads to an increase of 1.2-1.4% in the growth rate of industrial production. Yet India has lacked an industrial policy since 1991, with the result that manufacturing's share of GDP has stagnated at 16% since then, and its share in employment fell from 12.8% in 2012 to 11.5% in 2016 (while NSSO PLFS 2017-18 shows no increase).

India has a lot of potential for discovery of minerals as the continental landmass and its offshore consists of several crustal elements going back ages. India is blessed with ample resources of a number of minerals and has the geological environment for many others, but currently mining accounts only for around 2% of GDP. Extraction and management of minerals must be integrated into the overall industrial strategy. But India's imports of non-fuel minerals are much higher than exports. Small-sized mines dominate the industry. In addition, mining in India is largely public-sector-driven, with public enterprises accounting for around 66% of the value of mineral production; the rest emanates from medium and small mines that are largely private-operated.

Little is being spent on exploration of minerals. If neither governments, Union or state, nor PSUs are able to invest on the scale required, then foreign and private firms will need to be incentivised. However, the government can well claim that 100% FDI has been permitted in mining. So, what is holding investment back?

Regulation of mining remains an issue. Given the widespread regulatory failure, there is a need to create an independent mining regulatory authority for oversight at the central and state level to restore investor confidence. Primary regulatory responsibility must lie with state governments. The first National Mineral Policy (NMP 1993) allowed FDI up to 50% with no limit on captive FDI, but little interest was shown by foreign investors. Meanwhile, the lack of resources with public sector agencies such as the Geological Survey of India, Mineral Exploration Corporation Ltd, and other state and central agencies resulted in limited promotional exploration. Then the National Mineral Exploration Policy came in 2016, which is a structured framework for comprehensive exploration in the country with a judicious interplay of government support and private enterprise.

However, FDI has not increased in mining, although it has grown sharply in other sectors (mainly in services, and to some extent in brownfield manufacturing in the form of takeovers). The amount of FDI in mining was $1.32 million in 2000-01 and $55.75 million in 2016-17. Clearly, mining is not attracting foreign investment.

There have been repeated violations by existing mining companies (Indian and foreign), as well as governments, of social and environmental impact assessment guidelines. As part of its industrial policy, the Union government will have to rethink mining policy. The situation was brought to a head by a August 2017 Supreme Court judgment, which regarded the mineral policy as outdated, and stated that a "fresh, more effective, meaningful and implementable policy" needs to be developed.

Several issues are important (TERI studies have pointed out). First, data from the Geological Survey of India's geological mapping should be available in a geographic information system format to facilitate entrepreneurs to take investment decisions for exploration. Second, the Mines and Minerals (Development and Regulation) Amendment Act, 2015, has made auctions as the only mode of granting mineral concessions. This implies that the Indian Bureau of Mines and the State Directorates of Mining need to have the capacity to undertake mineral resource estimate and reserve valuations. This requires their capacity-building.

Third, mining has both backward and forward linkages; these need to be encouraged. This can be done by allowing free transfer of concessions including mining leases, and by giving a preference to value-addition and end-use when calling bids for mineral deposits. Fourth, scientific human resources including knowledge at the frontiers of geoscience has emerged as a bottleneck. India will need more mining engineers, geologists, geophysicists, geochemists and geoinformation experts. The ministry of mines estimated that up to 2025 there will be a need to equip about 3,000 geoscientists and 40,000 mining engineers over and above the normal supply (Kumar and Ganeshan, 2015).

Finally, because past mining operations had not given much attention to rehabilitation of people uprooted by mining, the MMDR Act 2015 provides for the creation of a District Mineral Foundation in every district affected by mining-related operations to work for the benefit of persons and areas affected by such operations. These foundations should deliver on rehabilitation of old mines as well as affected peoples; else, the affected will agitate and demand mines to be closed.

There is an electric vehicle (EV) demand rush that is likely to happen. There is a major implication for global demand for minerals used in EV batteries. Cobalt demand will rise five times, as will demand for copper and nickel. In a 2016 study (Council on Energy, Environment and Water), 12 most critical minerals (with high economic importance and high supply risk) for India's manufacturing growth were identified. The study says that for seven of these—and *nearly* half of the 49 minerals analysed—India is totally import-dependent. If India is going to bet big on EVs, then the challenge is even greater. Again, the Chinese dominance in EV-relevant minerals is overwhelming. This creates exclusive markets for Chinese battery and EV manufacturers, a situation similar to solar panels. India needs a comprehensive strategy, i.e. the role of industrial policy, in this sector.