

Opinion

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INVISIBLE HAND

President of the US, Donald Trump

As President I have an obligation to end corruption, even if that means requesting the help of a foreign country or countries. It is done all the time.

Rational Expectations

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Focus on lowering CostOfDoingBiz

The CostOfDoingBusiness includes the cost of capital, the risk of policy changes, the government not honouring contracts, etc

GIVEN HOW, AS CMIE DATA SHOWS, new investment projects announced fell to 3.8% of GDP in Q3 2019 versus 7.5% a year prior to this, the investment slide continues to worsen. With the Sensex not too different from what it was before the FM announced large corporate tax cuts, a lot of the euphoria has also gone; though, even when the rates were cut, it was clear the immediate impact on growth would be limited.

So, what will it take to increase investments? And, as panelists at this year's FE Best Banks Awards asked, how will cash-strapped banks/promoters fund the debt or equity for projects?

What emerged from the discussion (see opposite page), is that the Ease of Doing Business (EoDB), where India's rankings have improved dramatically—from 134 when Modi came to power to 77 today—is just one factor driving investment. The Cost of Doing Business (CoDB) which is driven by the Risk of Doing Business (RoDB) matters more; also, EoDB is easily gamed. The ease of getting an electricity connection in Delhi and Mumbai was a big reason for the jump in the rank, but when is the last time you heard a Sunil Mittal or a Mukesh Ambani say they were going to invest because it takes a lot less time to get an electricity connection; or vice versa?

Indeed, as Edelweiss chairman Rakesh Shah said, while a lot more investment would take place if capital became cheaper, it can't till the CoDB and RoDB are fixed. CoDB includes, for instance, costs associated with poor infrastructure and rigid labour laws—by definition, these will take longer to fix. While entrepreneurs are more worried about RoDB, paradoxically, large parts of RoDB aren't that difficult to fix, should the government put its mind to it.

Shah's examples of RoDB were the Supreme Court cancelling 2G spectrum, or coal mining licences and now, the Andhra government wanting to renegotiate renewable power licenses issued by the previous chief minister. While it is difficult to argue that illegal licences—there were serious graft allegations, and even the then-PM Manmohan Singh was against granting them—shouldn't be cancelled, there are a lot of areas where arbitrary government policy causes the problem, and this can easily be fixed.

So, for instance, even when farmers weren't complaining, the government imposed price controls on Monsanto's seeds; it also argued, in court, that the patent issued by its Patent Office was not really valid! Some other instances are the arrest provisions brought in for violating CSR-spend guidelines, and the government changing the rules on FDI in e-commerce after Walmart spent \$1.6bn to buy Flipkart. Such arbitrary policy, surely, is something that can easily be fixed?

If investors in Amravati were jolted by the Andhra decision to junk the plan to make it the new capital, NITI Aayog's grand plan on electric vehicles shook industry; but the government took a long time to say that this was just a NITI proposal. Thankfully, it held back on the plan to ban various types of plastic since, even if it was desirable from the environmental point of view, in the absence of viable alternatives, this would have been another huge disruption, the likes of which industry has had to deal with in quick succession, from demonetisation to GST to RERA.

It is also shameful that, as Ajit Gulabchand of Hindustan Construction never tires of pointing out, when the government owes contractors money and even loses these cases in arbitration courts, the money doesn't get paid. While Arun Jaitley tried to address this when he was FM—as Nirmala Sitharaman is doing now—it is worrying that India ranks 163rd out of 190 countries on enforcing contracts; it was 143rd out of 145 in 2004. Ironically, while India is trying to position itself as a global arbitration centre, the government usually challenges the arbitration awards—including global ones—that it loses.

In other words, as Rajiv Lall of IDFC Bank concluded, India's reforms need to go much deeper than was originally envisaged. Over 70 years, India has built layer upon layer of bad regulation/policy; removing just one—like the recent corporate tax cut did—may not be enough. Take the example of coal mining. The government allowed the private sector to commercially mine coal last year, but no investment took place despite huge shortfalls in the country since no mine was ever auctioned/allocated for this. Even when that happens, it may not help since the process of forest and environment clearances can be long and arduous—recall Vedanta's Niyamgiri fiasco—and even that may not help till high central/state levies on coal are slashed...

Clearly the present government can't be blamed for all of this since much of it is a 70-year-old problem; but, the short point is that reform is a 24x7 process, it can't be restricted to one tax cut here, or a limited relaxation of an FDI rule there. Since it is not possible to fix everything at one go, a more sensible way, perhaps, is for the government to take a few big projects—like, getting an Apple or a Samsung to shift a large part of their mobile manufacturing and component base to India—and dedicate a team to fixing each problem that comes up along the way.

Interestingly, as a Credit Suisse note suggests, thanks to India's policies not being as attractive, the lion's share of the investment that is likely to shift out of China will move to Vietnam (see graphic). India missed the first export boom that resulted from China exiting large parts of the garments' exports market; this market was mostly captured by countries like Bangladesh and Vietnam. So, let's not exult in the jump in India's EoDB ranks, and instead focus on reducing both CoDB and RoDB; both require 24x7 reform, and mere chest-thumping or bragging about the size of the Indian market aren't going to help.

Course CORRECTION

Hefty fines for idol immersion in the Ganga good, but more meaningful action is needed

THE UNION GOVERNMENT has directed 11 Ganga basin states to impose a fine of ₹50,000 for immersion of idols in the river and its tributaries. While this is a good move, the larger picture considered, it is quite low on the list of meaningful action. The Centre earmarked ₹20,000 crore for the National Mission for Clean Ganga (NMC) in 2014, to clean it by 2020. Between FY15 and FY19, only ₹7,764 crore had been released, and ₹6,135 crore had been spent. Besides, only 106 of the 299 projects taken up under the Mission have been completed. Against a targeted sewage-treatment-plant capacity of 3,742 million litres per day, only 495.84 million litres has been created, and against a targeted sewage network of nearly 5,000 km, only 2,700 km is up. Also, while an estimated 11,729 tonnes of municipal solid waste is generated per day by the 97 towns along the river, the existing processing capacity is of just 3,786 tonnes.

Thanks to such lethargy, Ganga doesn't meet bathing quality for the faecal coliform marker in large stretches in UP, and in all of Bihar and West Bengal—even as all 4,507 villages along the river have been declared open defecation free. CPCB data from 2018 shows that 2.11 of 961 industrial units along the river were violating effluent disposal norms. While the government has made significant missteps—the NGT censured the UP government for its waste management during the Ardh Kumbh, for which the government forked out ₹4,000 crore—it needs an urgent course correction.

IN SEPTEMBER 2019, UPI clocked 955 million transactions; with the festive season around the corner, it is likely to touch the one-billion mark in a month or two. A similar trend is noticed in other digital payment channels as well. This is certainly magical, considering that in 2015-16, the National Payments Corporation of India was struggling to attain monthly volume of a billion with all its products—ATM switching, cheque clearing, NACH, IMPS, AEPS, RuPay card, and NETC—combined. Today, UPI alone is contributing a billion. But, this is not enough, considering that the active user base is hardly 100 million in a large country like ours, with about 800 million mobile phone users, of which 350-400 million are using smartphones.

It is well-acknowledged by banks, payment service providers, and merchant aggregators, like Amazon, Flipkart, PayTM Mall, Snapdeal, etc, that UPI is the simplest, and most cost-effective payment option for customers. Three major players—PhonePe, Google Pay, and PayTM—now generate almost 90% of the UPI volume. Amazon, and WhatsApp are likely to enter the race in a big way. The deep pockets that these non-bank players have, with capacity to sustain long-term cash-backs and reward programmes, certainly makes the future of digital payments, and UPI in particular, bright.

But, the hard truth of only 100 million unique active users will have to be dealt with. Though the number of registrations for Virtual Payment Address is much higher, many customers drop off after one or two experimental transactions. Incentives and rewards do not attract them. Therefore, a strategy other than cashbacks and rewards would have to be adopted to encourage usage of this payment system.

UPI has the potential to reach all bank customers with a smartphone or Aadhaar card (estimated at over

700 million unique customers). While UPI is also available on feature phones to expand its reach, the fact is that even many smartphone users are not using digital payments, and instead use their smartphones for internet messaging, exchanging videos, watching films, etc. Therefore, if RBI's vision of a cash-lite society is to be realised soon, smartphone users must be the priority focus, as they can all easily be converted to active UPI users. WhatsApp and Google are working precisely on this.

Riding on the UPI bandwagon, many fintech companies and startups, like PayTM and PhonePe, have built a good acceptance infrastructure (claimed to be around 7-8 million). With supply-side issues having been taken care of, attention should go to demand-side improvement. Though many *kirana* stores and eateries have prominently displayed QR codes, experience teaches that these are rarely used. A request to use the QR code is often seen as a burden by the vendor. For mass adoption of digital payments, the government, or RBI, needs to step in to mandate certain payments only through digital channels, although not necessarily UPI. Once it is mandated, customers would prefer paying by UPI to swiping a card, or scanning a fingerprint for Aadhaar Pay. Like Sebi has mandated use of UPI for IPO subscription by retail investors, or GST and income tax payments, beyond a certain value, must be made digitally, selected commercial pay-

ments, like at petrol stations, need to be made mandatorily digital. It is well-acknowledged that the cash option cannot be stopped altogether, but if the customer pays by cash, a cash transaction fee of at least ₹5 per bill should be charged. Since all petrol pumps are highly digitised, chances of leakage of this fee is limited. This fee can be passed on to a fund, to be created by Indian Banks Association (IBA), for the promotion of digital payments. It is doubtful that there would be users of motor vehicles who do not own bank accounts or a debit card; in due course, they would be forced to make use of digital payment platforms. In cases like fleet owners or car owners with drivers, digital solutions already exist in the form of prepaid cards, where drivers can make payments on behalf of owners.

Once petrol payments go cashless, or cash-lite, coverage of the regulatory mandate can be extended to payment of electricity bills. All households in economically weaker sections are now electrified, and covered under PMJDY and Aadhaar enrollment. Some of them may not have smartphones, or even feature phones, but they have been enabled with PMJDY RuPay cards. Thus, channels of digital payment are available to all sections of

society. The Bharat Bill Payment System, with its large distribution networks of registered operating units, being in place, economically weaker consumers of electricity can also pay digitally if they have no other option, or if the cash payment option is accompanied by the cash transaction fee. Electricity distribution companies would welcome such a move towards making collection of bills cashless. Currently, the cost of collection is estimated to be as high as 6%. The cost of collection by the service institution has to come down. A consumer database would also be helpful in building customers' credit histories. The coverage can be further widened as the acceptance infrastructure by fintech companies becomes smarter, and more user-friendly.

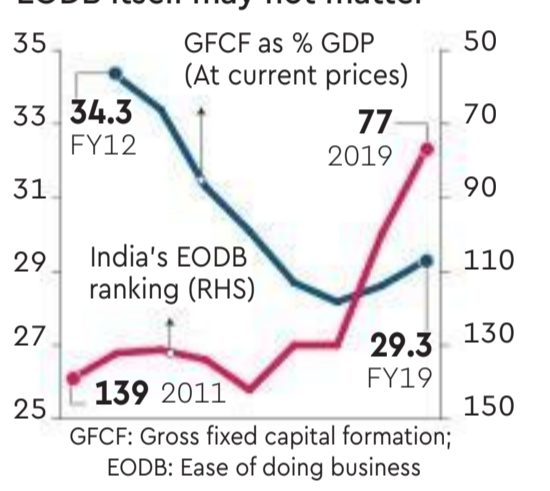
My vision for a cashless/cash-lite society is the scenario where cash payment would be seen as being injurious to the economy in the same way as smoking is considered injurious to health, or plastic is seen as an enemy of the environment. RBI should start ad campaigns against the use of cash in

the same vein as those discouraging consumption of cigarettes, or use of non-recyclable plastics. The share of cash in all retail payments has to come down from the current level of about 85% to a tolerable 30-40% level by the time our economy reaches the scale of \$5 trillion. Else, RBI would have to double the capacity of its note-printing presses without further delay. It is heartening to note that RBI has announced a series of policy measures, including allocation of districts to banks with the maximum footprint, to bring 100% of the consumers in that district under the digital payment umbrella.

While UPI facility is also available on feature phones to expand its reach, the fact is that even many smartphone users are not using digital payments

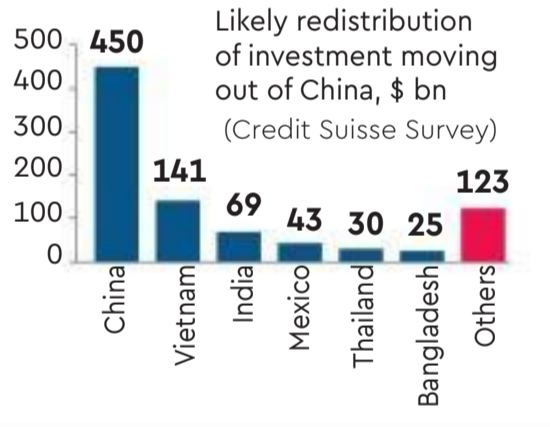
Better luck now?

EODB itself may not matter



GFCF: Gross fixed capital formation; EODB: Ease of doing business

Vietnam pips India



Likely redistribution of investment moving out of China, \$ bn (Credit Suisse Survey)

India's flawed fertiliser policy

These anomalies have cropped up because our policymakers are still stuck to the 1970s/80s thinking, geared towards increasing fertiliser usage

UTTAM GUPTA

Delhi-based policy analyst
Views are personal



THE MODI GOVERNMENT is in its sixth year, but a coherent policy continues to elude the fertiliser sector. To get a sense of how the central government is approaching the sector, and where the sector is headed, let us look at some crucial pronouncements by the prime minister.

First, in the 38th edition of his "Mann ki Baat" radio address to the nation (November 26, 2017), Modi exhorted farmers to take a pledge to halve their consumption of urea, which is the most widely used fertiliser, supplying nitrogen, or 'N', to plants, by 2022. At the same time, he has proclaimed, time and again, his commitment to reviving the ailing public sector fertiliser plants at Talcher, Gorakhpur, Sindri, etc. The two objectives seem contradictory.

If the first goal is achieved, the consumption of urea should decline from the approximately 30 million tonnes at present to 15 million tonnes by 2022. Against this, even if the current domestic production is maintained, at about 24 million tonnes, this will result in a surplus of 9 million tonnes if consumption is halved by 2022. Since the cost of Indian urea is significantly higher than the international price, exporting the surplus is not feasible; selling at a lower price will be tantamount to the importing country subsidising farmers its farmers, which won't be WTO compliant. If, in addition to this, ailing plants are revived, what will the country do with the additional production?

Second, Modi has pledged to eliminate diversion of urea to chemical industries by requiring all supply of the fertiliser to be neem-coated, which renders the urea unfit for any use other than agriculture. At the same time, he continues with an archaic policy of maintaining urea's maximum retail price (MRP) at a level that is, depending on the plant where it is manufactured, 2-4 times

lower than its cost of production and distribution. The huge arbitrage opportunity thereby created makes the temptation to divert too strong to resist and this can't be reined in merely by neem coating; no administration, however alert, can monitor a mammoth 600 million bags of urea.

Considering that diversion was at a significant 30%, its elimination ought to have resulted in a steep decline in subsidy payments. But, this has not happened; subsidy on urea was a high ₹45,000 crore during FY19 against ₹50,000 crore during FY15 (neem-coating was introduced in 2015-16). The allocation for FY20 is even higher, at ₹57,000 crore.

Third, Modi wants soil health cards (SHCs) to encourage farmers to opt for a more balanced use of fertilisers based on soil analysis. But, pursuit of disjointed policies such as disproportionately high subsidy on urea—nearly 50%-75% of the cost is subsidised—vis-à-vis complex fertilisers (phosphate 'P' and potash 'K') only 25-30% of whose cost is subsidised and denial of secondary transportation costs for the complex fertilisers prompts farmers to use more urea. This, in turn, leads to imbalance in fertiliser use, and thereby militates against the objective of the SHCs.

Fourth, Modi has vowed to curb leakage of fertiliser subsidy by implementing direct benefit transfer (DBT). Yet, he continues with the existing unit-wise, new pricing scheme for urea, which protects high-cost units—we have units producing urea at the cost of ₹20,000 per tonne as well as those producing urea at half this cost. Since the subsidy gets transferred to the bank account of the manufacturer after sale is authenticated by the farmer using his Aadhaar number, the authorities may prevent bogus claims, but excess payments to inefficient manufacturers continue.

Fifth, while the PM wants to give a boost to 'Make in India', the existing policy gives no incentive to companies to invest in exploration of indigenous resources, or in research & development for delivering more efficient and cost-effective products to farmers. For instance, at present, India depends heavily on import for meeting its fertiliser requirements—90% in P and 100% in K. As a result, even as the country remains vulnerable to exploitation by global suppliers, farmers don't get any major breakthrough in yield because of skewed fertiliser use.

The root cause of these anomalies is that our policymakers remain glued to the antiquated framework of the 1970s and 1980s, which was designed solely to increase the production and consumption of fertilisers. In contrast, today, it is issues such as fertiliser use efficiency, balanced fertilisation, increase in crop yield, improvement in soil health, efficiency and cost optimisation in the supply chain, and reduction in subsidy that need greater attention. This is what Modi has himself repeatedly emphasised in his speeches.

The way forward is to unshackle the fertilisers sector from state controls, and leave all crucial decisions to market forces. Government intervention should be restricted to giving direct cash transfer subsidies to the poor farmers.

Left to market forces, urea's MRP will increase to a level where its use is curtailed, leading to reduction in unbalanced fertiliser usage. By eliminating arbitrage, this will automatically eliminate diversion, too. Manufacturers will increase efficiency, and reduce costs. They will invest in R&D and innovation, and find more effective solutions to farmers' needs. 'Make in India', too, will get a boost. Above all, the government will save a large amount on subsidy outgo. Will Modi bell the cat?

LETTERS TO THE EDITOR

This year's monsoon

This year's monsoon drowned Uttar Pradesh, Bihar and some other parts in floods—the worst in recent decades. Despite the rescue efforts, the floods caused loss of life. Even natural disasters are sometimes made worse by human activities, or not made less severe by better management of them. Interestingly, the current floods were attributed to *nakshatras* by a *neta*, in a way reminding us of the old way of looking at natural calamities. But, that is besides the point. The images of the places deluged by floods gave us glimpses of the scale of the disaster. Patients on hospital beds just inches above gushing water, and clutches of people moving to safer places sitting on bulldozers, and cranes showed human helplessness in the face of nature's fury. The fact that most deaths happened due to house collapses attested to the greater vulnerability of the impoverished people to natural disasters. Water stagnating even during let-ups of rainfall pointed to the collapse of the drainage systems. The destruction of natural drainage caused by construction with cement and other impermeable materials, soil, and sand silted-up river delta and catchment areas, denuded forests and depleted vegetation cover, and rampant and reckless mining and quarrying caused an aggravation of floods. Of serious concern must be the Himalayan glaciers melting, and producing floods as a consequence of climate change. In the past, we had 'light to moderate' rains for more number of days. But this year's monsoon brought 'heavy to very heavy, even extremely heavy' rainfall for fewer days. Normally this should result in a fall in the mean rainfall. But, this time it rained so disproportionately that the Indian Meteorological Department (IMD) classified this monsoon as 'above normal'. On the positive side, this year's abundant monsoon would ameliorate water scarcity during the hot spell. — G David Milton, Maruthancode