Opinion

FRIDAY, NOVEMBER 29, 2019

CRITICAL POINT

Congress leader Sonia Gandhi

The economic crisis is deepening by the day. Growth is declining ... Instead of tackling the problem, the Modi-Shah government is busy fudging statistics or, indeed, not publishing them at all!

A VRS for Air India's staff must be a pre-sale priority

Who will buy the airline if govt permission is still required to get rid of staff? Ownership restrictions must also be relaxed

WHILE IT IS REASONABLY certain the government will absorb a lot more of Air India's debt than it did when the last privatisation bid failed, the question is whether this will be good enough to attract bidders. The likelihood that the government will completely exit the airline will undoubtedly help; while the government was planning to retain a 24% stake the last time around, this spooked investors since they were worried about government interference as long as it was a shareholder and had directors on the airline's board. Given that there were no buyers for even a Jet Airways, which was much better-run than Air India, it is not certain Air India's second attempt will fare much better than its first; the government, however, will do well to revisit many of the other restrictive clauses that put off investors. One clause, for instance, said that the airline had to be run on an arms-length basis from the other business of the buyer—if an airline was to buy Air India, this would mean the airlines couldn't merge to extract operational synergies! Another said that Air India had to be run "on a going concern basis". Why?

Nor is it clear why the government isn't willing to take on all of Air India's ₹74,000 crore liabilities; so far, the government has taken over around ₹30,000 crore of debt by putting this in an SPV and, indications are, it will take over another ₹20,000 crore or so. Given Air India's annual losses continue to balloon—FY19 losses rose 38% to touch ₹7,365 crore—and aviation is no longer a capital-intensive business, the government needs to make the deal as sweet as possible for the buyer.

A potential deal-breaker, as in the past, could be Air India's large and heavily unionised work force; it is so unionised that, despite the government merging Indian Airlines with Air India so long ago, the pilots agitated, a few years ago, on whether pilots of IA or AI should be allowed to fly certain planes. According to a news report in *FE*, the government is likely to, in keeping with disinvestment guidelines, make it clear that no workers can be retrenched for the first year after the sale. While the gullible will take this to mean that the new buyer is free to retrench workers after that, the law of the land requires permission to retrench workers if the unit has more than 100 workers; which buyer will take a chance at getting the permission later? The fact that the workers are a big problem is clear from the fact that, the last time around, the Air India Information Memorandum said that 37.6% of the 11,000+ permanent staff would retire over the next five years. Even then, government officials unofficially pointed to how the disinvestment guidelines allowed retrenchment after a year; but, if this is really true, why not say so explicitly or, better still, offer a VRS before the sale or take these employees on the government rolls till they retire? Another ticklish issue is the foreign airline cap of 49%. If a foreign airline can't buy a majority stake in Air India—ironically, a foreign grocer, say, can buy 100%—will it want to buy it? The government's rationale for this is that, were foreigners allowed to buy Indian airlines, they would become 'foreign', and so, the bilateral rights given to India would expire. It is not clear that this is an insurmountable issue since the bilaterals are given to the government, and it is up to it to assign them to airlines; several countries have airlines that are owned not just privately, but even by foreign airlines. But, if bilaterals are indeed the issue, the government needs to sort this out. While it is encouraging that civil aviation minister Hardeep Puri told Parliament that Air India would be shut down if it couldn't be privatised, it is worth keeping in mind that of the 20 PSUs cleared for shutting down by the Cabinet, only two small ones have been shut.

Breathing innovation

Indian researchers develop low-cost, portable ventilator

WHEN MEDICAL RESEARCHERS at the All India Institute of Medical Sciences, Delhi, announced last year that they had developed a portable ventilator that was cheaper than a premium mobile phone—the ventilator costs a tenth of conventional ones—not many would have thought that a ventilator could be made as small for portability and as cheap. AgVa, the portable ventilator developed by Professor Deepak Aggarwal of AIIMS and Diwakar Vaish, a robotics specialist, uses an Android device for controls, thereby greatly reducing space requirement. This has helped free up space in hospitals—patients who can afford the low-cost ventilator can be taken home—and can also mean drastically reduced costs for both patients and hospitals. *The Indian Express* reported that a patient, hospitalised at AIIMS with ventilator support for the past four years, could finally be sent home. AgVa is still in the process of getting US FDA approval, but there can be no doubt that it will prove game-changing for home-based care and hospital infrastructure. Indian startups have been at the forefront of innovations that can transform medical care delivery. Earlier this year, Biotechnology Industry Research Assistance Council, a government body that provides fund for research, in association with InAccel Technologies, a startup, launched the FDA-approved VAPcare—an automated secretion clearance system that could help contain pneumonia-related ICU diseases. Given hospital-borne infections are a major route of anti-microbial resistance, VAPcare, too, can prove transformative. The company is also working on Saans, a battery-powered Continuous Positive Airway Pressure (CPAP) system that could increase the survival rate of premature babies who require artificial respiration. Saans could help reduce the over 40% mortality among the 4,07,000 babies born with Respiratory Distress Syndrome each year. While India has no dearth of initiatives like AgVA and VAPCare, these need substantially more promotion and support from governments.

Karnataka has taken some initiatives, so has Rajasthan. For instance, Janitri, started in 2017, has monitored over 27,000 pregnancies, across 100 hospitals and health care centres, primarily in Karnataka and Rajasthan. The world over, contractions and fetal health are monitored using cardiotocography, which involves a bulky machine; Janitri has simplified the process, using a patch and a mobile app and knocking 60% off the price of conventional cardiotocography. 5C Network, another start-up, has been working in the field of teleradiology—using the company's app, a patient can consult radiologists at a remote location or from the company's own panel. If a radiologist isn't available at a district hospital, 5C can send patient data to its panel of radiologists, assisted by AI in analysing the reports to ensure accuracy. India has only one radiologist for 1,00,000 population (the US has 1 for 10,000); so, teleradiology's potential is immense. While a Bengaluru may be a hot innovation destination, medical tech research needs a booster dose of support; the government can start with supporting an AgVa or a Janitri take off.

Driving PREMIUM

Telematics in motor insurance—or pay (insurance premium) how you drive—is a good idea, will reward good drivers

A WORKING GROUP of the insurance regulator, IRDAI, has recommended the use of telematics in motor insurance to enable insurers to offer relevant risk mitigation solutions to customers. The panel has also recommended 'Named Driver Policy' as an option for private car and two-wheeler policies. This will enable insurers to build a risk-profile based on the details of the drivers driving the vehicle, age, and experience. Insurers will pay the full payable claim amount if the named driver was at the wheel, and deter the insured from permitting unnamed drivers, especially children from using the vehicle. The panel's recommendations are welcome—the current motor insurance scenario doesn't make a distinction between a good and a bad driver. So, over the years, those who drive safely have been compensating the ones who do not.

In telematics—'pay how you drive'—insurance policies will be based on customers' driving habits data like speed, distance travelled, and usage of the car captured through a GPS-enabled device or a black box fitted in the car. The data will be collected through a smartphone and on-board diagnostic port, which will transmit a broad set of information to the insurance company. Based on the data, the company will determine the risk profile of the customer, calculate the cost of insurance, and adjust the premium. Globally, countries like the US and the UK have introduced telematics; it is picking up in other European countries as well. In India, motor insurance underwriting is dependent on the asset—the vehicle characteristics—and geographical use. Motor insurance underwriting needs to evolve in line with global best practices, and change into a more scientific and rational exercise. Telematics can help it get there.

THROUGH THE LOOKING GLASS

THE EVOLUTION OF INDIA'S TAX-TO-GDP RATIO WILL REQUIRE SIGNIFICANT POLITICAL AND SOCIAL CONSENSUS—A STRATEGIC MODELLING AND PLANNING OF TAX POLICIES IS REQUIRED

Fiscal architecture for a $5 trn economy

AKHILESH TILOTIA
Author of *The Making of India*
Views are personal

INDIA'S TAX-TO-GDP ratio at the central government level has hovered around 18-19% of GDP over the last few years (between FY17 and FY20E). Coupled with disinvestments, dividends, and other receipts, the central government mops up another 5-6% of GDP, taking the total revenues of the government to about a quarter of GDP. The government is committed to spend, on account of both revenue and capital expenditure, 29-30% of the country's GDP, leaving it with a fiscal deficit in the 3-4% range. The revenue percentages for the government have remained reasonably sticky, and the expenditure items are also committed.

As India works its way towards a $5 trillion economy, or double its current size, in the next few years, it is worth considering what the fiscal landscape could look like. As Esteban Ortiz-Ospina and Max Roser note in '*Our World in Data*', "total tax revenues account for more than 80% of total government revenue in about half of the countries in the world". Also, "developed countries collect a much larger share of their national output in taxes than do developing countries; and they tend to rely more on income taxation to do so. Developing countries, in contrast, rely more heavily on trade taxes, as well as taxes on consumption."

As India's economy doubles in size and tax-to-GDP ratio rises, government tax revenues could more than double. India has various forums to opine and act on fiscal policy. India has made—and kept—some long-term promises on reducing the rate of taxation on corporate income. The Direct Tax Code report has proposed some changes in the tax structure. The Finance Commission, when it submits its report, will forecast its expectation of the taxes collected by the governments at various levels over the next five years. A model describing how India's tax-to-GDP ratio can evolve will offer pointers on what social and political aspects need to be focussed upon to build a fiscal consensus.

Deep-diving into the drivers of tax revenue

The composition of taxes for the central government largely rests on direct and indirect taxes—and so, we will focus our attention on those line items. We note that with the rolling out of GST, the casting vote on deciding on tax rates now is with the Centre. A progressive taxation structure requires that the ratio of direct taxation in total tax collection is more than half.

Direct taxes: According to the information released by the income tax department, ₹51 lakh crore of income was offered for taxation in AY19. The GDP in FY18 was ₹170 lakh crore. The income from salaries offered to tax amount to ₹20 lakh crore, business income ₹24 lakh crore, other sources ₹6 lakh crore, and house property and capital gains make up the rest. This implies that only 30% of GDP (income) was offered to tax. The total direct taxes collected amounted to ₹11 lakh crore, implying an average tax-incidence of 22% on the incomes offered to tax.

We know that only around 5% of citizens are registered to pay tax. From the above, we observe that less than a third of the GDP is offered for direct taxation, and where so offered, the average rate of taxation is significantly lower than the marginal rate.

Factors which could impact direct taxes as a percentage of GDP are: (a) proportions of taxpayers-to-citizens rising significantly beyond 5% as the average incomes in India increase, (b) the incomes offered to tax rising beyond 30% of GDP as the rising middle-class citizens breach threshold incomes, and consequently (c) governments being in a position to alter the marginal and average rates of taxation.

A model describing how India's tax-to-GDP ratio can evolve will offer pointers on what social and political aspects need to be focussed upon to build a fiscal consensus

Indirect taxes: GST now forms the largest component of indirect taxes, even as customs and excise continue to remain important in international trade and for states, respectively. The total GST collection was ₹13 lakh crore in FY19. Consumption, at 58% of GDP, amounted to ₹100 lakh crore—this implies that the average rate of GST on overall consumption is ~13%.

Various factors that could impact indirect taxes as a percentage of GDP are: (a) consumption as a percentage of GDP could rise back to the 60%+ levels, (b) more goods and services could be offered to taxation under GST and/or (c) the rates of taxation could materially change.

Expenditure: The committed revenue expenditure of the central government is ₹18 lakh crore in FY20. To make it easy to understand and remember, just think of this as 3-4-5-6. The central government is committed to spending ₹3 lakh crore on subsidies (food subsidy being the largest, followed by fertiliser), ₹4 lakh crore is spent on social development (agriculture, rural development, health and education), ₹5 lakh crore goes in pay and pensions (and the latter is increasingly a larger share of the total pie), and ₹6 lakh crore is the interest paid on the loans outstanding against the government.

How each of these items evolve over time, and what levers the government has on controlling or directing them will determine what is available for capital investment and defence. A concerted overhaul of the composition of expenditure is possible, especially as tax revenues more than double as the economy grows.

In a recent article, Dr Arvind Subramaniam pointed out that "macro-economic pathologies arise from conflicts over how to divide the economic pie". While changes to tax architecture, administration, laws, and processes are important, it is critical that underlying factors that drive tax revenues and expenditure for the government are understood, highlighted, detailed, and debated in the wider society. Building a social and political consensus on the tax architecture will help develop effective mechanisms for burden-sharing in our society.

Workers, too, can be corporate owners

Worker-owned businesses might not act much differently from conventional companies. However, the big differences would come in the way companies are organised, and who reaps the benefits

NOAH SMITH
Bloomberg

WHY AREN'T COMPANIES owned by the people who work for those companies? It seems like a natural way to organise a business. Americans are used to the standard setup: outside shareholders elect a board of directors that chooses executives to run the business. But, there is no legal reason companies have to be structured this way. The rules of American capitalism allow for workers to be the shareholders in their own business, and to make decisions for that business. But, as of 2016, there were only 357 worker cooperatives in the entire US, employing just 7,000 people.

Worker-owned businesses might not act much differently from conventional companies in the market. Whether a company is owned by outside shareholders or by its own employees, the incentive to maximise profits should be similar. It seems unlikely that cooperatives would be more altruistic, honest, or socially responsible than the corporations that exist now.

The big differences would come in the way companies are organised, and who reaps the benefits. Corporate profits now represent about 6.6% of US gross domestic income, while labour compensation is 43.2%. That means that if profits flowed to workers instead of distant shareholders, the average worker could get a raise of about 15%.

What's more, cooperatives might help reduce inequality. Workers in a cooperative can vote to pay executives less and pay themselves more, making the compensation structure more egalitarian for the entire company. There is some evidence that this happens. Mondragon Corp, Spain's largest worker-owned business, pays its chief executive officer just nine times as much as the average worker—a much lower ratio than most companies in the US.

It is hard to measure, but flatter corporate hierarchies might yield intangible benefits, too. Instead of feeling like rented labour, workers who own part of their employer might feel a greater sense of ownership, pride, control, and loyalty.

Beyond reducing inequality and giving labour a bigger slice of the pie, that might lead to higher productivity. Better morale might make workers put more effort into their jobs and to encourage their co-workers to work harder. Cooperatives might also benefit from more direct worker input, bringing first-hand knowledge of production into the decision-making process.

Data on this question is mixed. A landmark 1995 study of plywood manufacturers by economists Ben Craig and John Pencavel found that in terms of output per hour, conventional businesses had higher productivity than cooperatives, but in terms of total factor productivity—which measures the efficiency with which companies use all their inputs—the co-ops had the edge. This suggests that cooperatives don't encourage greater effort, but they do organise production in more efficient ways. A 2012 paper by economists Fathi Fakhfakh, Virginie Perotin, and Monica Gago found a similar result for cooperatives in France.

Worker cooperatives thus seem like they hold the potential to fuse the best elements of capitalism—free markets and private enterprise—with the age-old socialist dream

A final benefit of cooperatives is that they might be less subject to asset-stripping by short-term investors and shed fewer workers in recessions. There is some evidence that cooperatives have higher survival rates than other businesses, especially during the recent recession. These effects might be magnified in the US, with its more rapacious private-equity industry.

Worker cooperatives thus seem like they hold the potential to fuse the best elements of capitalism—free markets and private enterprise—with the age-old socialist dream of workers owning and controlling the means of production. So why are they so rare?

One obvious reason is that they are hard to get off the ground. Since banks and lenders are generally unwilling to lend money to new companies with little collateral or proven ability to make payments, early-stage companies tend to fund themselves by selling their stock—but cooperatives can't do this, or they are no longer cooperatives.

Another reason is that cooperatives may suffer from distorted incentives. Whereas a traditional corporation will try to pay high-ability employees more (so as not to lose them to the competition), co-ops may opt for less variation in pay. Economist Michael Kremer has suggested that democratic redistribution within cooperatives dulls worker effort, while economist Gabriel Burdin has found evidence that more skilled and ambitious workers tend to quit co-ops.

There is no shortage of other potential explanations for the rarity of cooperatives. Yet, these businesses may slowly be gaining on their more ruthless capitalist cousins. As big businesses gobble up smaller ones, cooperatives may have a survival advantage. Meanwhile, a team of legislators including senators Bernie Sanders and Elizabeth Warren has introduced a plan to help promote worker-owned businesses. The plan would offer low-interest loans to cooperatives, helping them surmount the financing barrier. It would also provide funding to states to provide training and technical support for workers looking to start this sort of business.

So, although it will be slow going, worker cooperatives may eventually become an important piece of a healthier, more egalitarian economy.

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LETTERS TO THE EDITOR

On UNEP's report

The grim findings of United Nations Environment Programme's *Emissions Gap Report*, pointing to alarming rise in the level of global carbon emissions , approximately by 1.5% over the past decade should serve as a wake-up call for the international community to get its act together and ensure their commitments under Paris Climate Pact are met without any alibis. According to the report, even if all emissions promised by the countries are met, the world will be warmer by more than double the 1.5 degree-target by 2100. Global warming induced climate change and its debilitating repercussions on life dotting the earth and rich biodiversity is real. Naysayers of global warming such as the president of the US, Donald Trump, are doing more harm than good to the cause of environmental protection. His decision to pull out the US from the Paris agreement and the subsequent increase in energy related carbon dioxide emissions in the US is a case in point. It is time the international community took cue from young activists across the globe who took climate change as an issue beyond politics, and are fighting to secure a safer future for all and ensure fight against global warming happens with all the seriousness it truly deserves.

— M Jeyaram, Sholavandan

BJP's shrinking hold

The BJP's occupancy across the country in 2017 was 71% which in 2019 has come down to 40%, proving that people of the country have realised that the Modi government is not worth ruling and has failed on all the fronts with false promises. The fact of the matter is that BJP is falling and they themselves are fully responsible for it. With this the BJP's days across the country are numbered and its is not surprising if they are wiped out in future elections. With these decreasing numbers, BJP needs to act faster or lose their hold.

— Bhagwan Thadani, Pune

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TRANSFORMING FARM LOANS

The digital & retail route

Digital and score-based retailing approach to crop loans would enable banks to position this segment as their growth driver, much like retail loans, and gradually make it immune to syndromes such as loan waivers

CROP LOAN IS a lifeline for over 145 million farmers in India. Every year, millions of farmers and thousands of bank branches go through a hectic process of granting crop loans delivered through Kisan Credit Cards. Denial or delay in crop loans forces farmers to borrow from informal sources, on adverse terms. Despite the fact that during 2018-19, banks disbursed ₹12.55 trillion worth farm loans (majority as crop loans), this massive loan segment continues to be treated as a necessary evil by banks, rather than mainstreaming as a commercial proposition like retail loans.

The Centre provides interest subvention on crop loans up to ₹3 lakh, and with additional incentive for timely repayment, effective interest rate works out to affordable 4%. Banks are also mandated to secure crop insurance cover for farmers, who have to pay a minimal premium.

Despite these measures to make crop loans affordable, only 61% of farmers have accessed institutional loans (NAFIS 2016-17). Due to predominantly manual crop loaning processes in banks, there are substantial direct and indirect costs inflicted on farmers on account of loss of precious time, potential wage opportunities, expenses on visits to banks/other offices, legal expenses on verification of land records/documentation, processing fee levied by some banks. The possibility of desperate farmers getting fleeced by local 'agents' also cannot be ruled out.

Undue glorification of farm loans through politically-motivated waivers is common. Although the NDA government has resisted announcing farm loan waivers and yet managed to win two consecutive general elections, this fiscal prudence was not replicated during the several assembly elections held since 2014, as political parties promised loan waivers as their main electoral strategy. Subsequently, the elected state governments announced farm loan waivers aggregating a whopping ₹2.4 trillion.

Irrational loan waivers cause systemic damage as farmers tend to postpone repayments, NPAs rise in banks that show reluctance in extending new loans, and state governments resort to fiscally-imprudent acts such as higher market borrowings and curtailing expenditure on capital investments and welfare programmes to fund waivers. Not surprisingly, agricultural NPAs crossed ₹1.04 trillion mark in July 2019, their proportion to total outstanding agri-loans rose from 9.6% in July 2018 to 11.04% in July 2019, and states that implemented waivers ended up in bad fiscal math.

Today, subsidised crop loans are a necessity for farmers. But there are issues relating to their accurate targeting, end-use, skewed distribution across states, exclusions, adverse selection, actual impact in terms of incremental farm productivity/output, etc. Correct diagnosis and mitigation of these issues can be possible only through analysis of credible micro data and trends on farm credit.

Within the priority sector norms for agriculture, banks are required to provide 8% loans to small and marginal farmers. The presence of women and lessee farmers, who also need credit, is steadily growing in India. With existing manual loan operations and related data, it becomes difficult to track actual progress on these parameters. This calls for a paradigm shift in approach and an open mind by all the stakeholders to adopt disruptive fintech ideas for making crop loans work better for farmers, banks, governments.

Some transformative ideas

First, crop loans should continue to be delivered to farmers based on a well-evolved methodology comprising crop-wise acreage, crop seasonality, district-wise scale of finance. However, we need to make crop loan delivery simple, transparent and efficient through process automation to allow timely, hassle-free, cost-effective credit access to farmers.

Second, banks must change the prism of looking at crop loans to see the multi-billion worth banking opportunity with 145 million aspirational rural customers, having cross-selling opportunities. So, instead of getting nudged by the government and regulator 'to do more', banks need to act proactively and disruptively to make crop loaning a serious and competitive business, like retail loans.

Third, to safeguard financial interests of farmers in the event of a natural calamity or market adversity, the government may create a 'National Agriculture Calamity Fund (NACF)' within a credible national-level agency. A set of operational guidelines comprising eligibility criteria, operating procedures and supervisory mechanism may be evolved. Mandatory annual contributions to NACF by the central/state governments may be facilitated by the Finance Commission in its resource-sharing formula. States granting loan waivers outside the NACF mechanism may be disincentivised in devolution of the formula.

Fourth, to make crop insurance a preferred choice of farmers, insurance firms and banks, refinements such as early remittance of premium collected by banks to insurance firms, timely payment of premium subsidy by state/central governments, use of advanced remote-sensing and digital technologies for timely and trustworthy conduct of crop cutting experiments at farmer level, building effective grievance mechanism, etc, may be expedited. This would ensure seamless integration between crop loaning and insurance processes.

Fifth, with numerous data points involved in crop loan operation for 145 million farmers, the segment is a mammoth big data game. Manual handling of this massive data during crop loan processes results in inefficiency, delays, biases, opaqueness and even exclusions. Further, in the absence of digitisation, banks, governments and other stakeholders are deprived of power of data analytics for making informed decisions on policies, products, processes, cross-selling opportunities, etc. Therefore, there is an urgent need to adopt modern financial technology in crop loaning.

Sixth, creating a robust 'National Data Platform on Farmers (NDPF)' to warehouse data on individual farmers, covering their demographics, land records, credit history, lease/contracts, agro-climatic risks, crops, scale of finance, crop insurance, interest subvention, PM-Kisan, land lease contracts, etc, is another necessity. Since several institutions shall become the data pipelines and/or users of this data, NDPF may be promoted as a joint venture of central/state governments, financial institutions and other stakeholders, managed by an exclusive national authority. Data on NDPF may be made available to users on payment.

Seventh, there are risks associated with crop cultivation and loaning, often manifested as distress to both farmers and banks. But banks do not systematically factor structured risk assessed at farmer level in their crop loaning decisions. With farmer-level micro data on NDPF, it will be possible to evolve appropriate risk-assessment models and generate a 'Farmer Rating and Credit Score (FRCS)', the framework for which may be evolved jointly by credit risk experts and stakeholders. Score may be updated annually and made available to individual farmers on NDPF. Crop loan eligibility for a farmer, worked out using usual standard criteria, may be further moderated, based on his/her score. Such a risk-based lending approach would help in promoting judicious borrowing by farmers and responsible lending by banks.

Eighth, a standardised 'National Crop Loaning Portal (NCLP)' may be developed under the aegis of Indian Banks' Association (IBA) as a fully digitised and paperlight end-to-end solution for crop loaning. NCLP shall be able to access data from all the relevant databases of the government, banks, credit information bureaus, insurance agencies, etc, through an appropriate digital interface. Farmers may be given access for making online loan application, tracking and viewing loan transaction details.

Ninth, gradually, FRCS-score-based approach may also be adopted for deciding differential eligibility of farmers under interest subvention, insurance subsidy and subsidies under other government programmes. This will prompt farmers to improve their FRCS scores—to maximise benefits. It would also help in improving targeting, transparency, de-duplication, efficiency and inclusiveness under farmer welfare programmes.

The proposed NACF and NDPF shall prove to be major steps towards promoting cooperative federalism in Indian agriculture. Loan process automation would enable banks to easily outsource basic loan processes to other agencies. Data-driven, digital and score-based approaches to crop loaning would help liberate farm loans from the crutches of political patronage and bring these in sync with market dynamics, triggering reforms, innovations and competitiveness. Finally, the adoption of a digital and score-based retailing approach to crop loans would enable banks to position this segment as their growth driver, like retail loans, and gradually make it immune to syndromes such as loan waivers.

Tax reform is taking shape

SUMIT SINGHANIA & GAURAV BARCHHA
Singhania is partner and Barchha is manager, Deloitte India

FM seeks to iron out possible ambiguities in corporate tax ordinance

EARLIER THIS WEEK, the finance minister introduced the Taxation Laws (Amendment) Bill, 2019, in the Lok Sabha, to legislate reduced rates of corporate tax (22% and 15%) that were promulgated through an ordinance in September. Wholesome changes to the corporate tax rate card have certainly placed India ahead in the list of countries—not only in Asia, but also globally—with highly competitive tax rates, particularly for new manufacturing companies.

The ordinance, however, bore certain lacunae and ambiguities, largely owed to the very nature of the legislation, which must seek to prevent any unintended revenue leakages; as expected, such lacunae are now sought to be steam-rolled through the amendment. At the same time, the Bill, once enacted by Parliament, ought to provide taxpayers, value judgement aside, with better decision-making ability vis-a-vis transition to the new rate regime.

Insofar as the process of law making through ordinance is concerned, as per Article 123 of the Constitution, any ordinance promulgated by the Executive under the assent of the President, such as in this case, is mandatorily required to be laid before both the Houses of Parliament and would cease to operate at the end of six weeks from the reassembly of Parliament. The move by the minister not only, therefore, seeks to affirm the ordinance, but also seeks to validate an 'improved' version of the proposed legislation by addressing critical concern areas.

> The move not only seeks to affirm the ordinance, but also seeks to validate an 'improved' version of the proposed legislation by addressing critical concern areas

Whilst the broad construct of 22% and 15% tax brackets have been affirmed, the Bill makes it clear that taxpayers opting for reduced tax rates must forego brought-forward credit on account of minimum alternate tax paid in years prior to the transition to lower rate regime. This is a massive outcome of the latest amendment; whilst it does bring about certainty to the regime itself and has certain economic logic underlying it, it surely comes as a bitter-sweet outcome especially for large taxpayers who would usually see MAT credit as an asset. It remains to be seen whether some of the taxpayers could actually challenge the *vires* of the new law to the extent it doesn't sit well with the ratio laid down by Supreme Court in past instances.

Also, the Bill seeks to clearly articulate the fall-back and transitionary provisions, which would not only help the taxpayers plan a prudent step chart of whether to avail the lower tax regime or not, but will also serve as a guideline to the Revenue to resort to, and thus curtail any protracted litigation. Besides, the Bill seeks to also provide a 'negative list' of businesses, such as mining, development of computer software, etc, to fall outside the ambit of 'manufacturing' or 'production', and thus be ineligible for the 15% bracket. While a specific inclusion for power business for 15% eligibility would have helped alleviate concerns, the fact that the same has not been specifically covered within the negative list, coupled with the ratios of the courts holding power business to be engaged as 'manufacture'/'production', the argument to contend a 15% eligibility stands bolstered. It is interesting that the amended law would also allow the government to include any other business in such 'negative list' from time to time; this effectively provides an inbuilt tool to claw back any unintended fall-outs.

To prevent abuse of lower rate, the amended law provides that non-adherence to specified conditions, which entitle taxpayers for 22/15% rate in the first place, would result in non-applicability of such a regime to taxpayers, in perpetuity thereafter. This is one bold anti-abuse rule carved-in now, and will deter reckless restructuring of businesses seeking to avail benefits through future restructuring.

It is heart-warming to see a well-intentioned tax reform finding itself rooted now in the statute, with the speed of law making. It will be but a fair ask that the law is administered in its true spirit from here, and allow businesses to create the economic advantage the government expects to leverage out of this carefully planned fiscal policy, i.e. enable an all-round ecosystem to promote private investments.

Uber uncool

London hits Uber hard and hails a fleet of new, cheaper apps

IT WAS AS as if the floodgates had opened," says Mariusz Zabrocki, GM, Kapten, London. When the French ride-hailing app invited drivers to register at two hotels in the capital in May, so many people turned up that the hotels kicked the firm out and Kapten had to decamp to a community centre in Vauxhall, near the River Thames. Customers, too, followed in their droves. In the second week of operating Kapten booked more rides in London than it did over the same period in all of France.

Uber, the American pioneer of ride-hailing, is taking the threat from Kapten and other rivals extremely seriously. It has just lost its London licence after a surprise ruling from London's transport watchdog. On November 25 Transport for London (TfL) decided Uber was not sufficiently "fit and proper" to have the permit renewed.

The problem is passenger safety, a familiar issue that caused Uber to lose its operating licence in September 2017 until, on appeal, a court gave it a probationary licence in June the following year for another 15 months (it then won a short extension). It was Uber itself that told TfL in May that a change to its systems erroneously allowed unauthorised drivers to upload their photos to other drivers' accounts. Some 14,000 rides (a relatively small number since Uber sells millions of rides in London each week) were provided by 43 such chauffeurs. One of them had in the past received a caution for distributing indecent images of children. No attacks on any passengers were recorded as a result of the error.

Uber has since fixed the problem but TfL said it could not trust its processes in future. Dara Khosrowshahi, its CEO, called the regulator's action "just wrong". The company now has 21 days to appeal against the withdrawal of the licence, and then a court will decide. Other British cities, too, have said they are studying TfL's decision and may follow suit. In the meantime Uber can continue operating. Its popularity with millions of users in the capital makes it highly unlikely that TfL will ban it permanently. Yet the firm faces weeks of uncertainty.

In that time, its rivals will be flaunting their wares. Several new services have recently entered the British market. None lacks commercial aggression. This week Ola, an Indian firm, pounced on Uber's troubles to announce its arrival in London "in the coming weeks". The service already operates in other British cities. The day after the news from TfL, traffic on Kapten's app increased threefold, boasts Zabrocki.

Londoners will soon be able to pick from no fewer than five apps, some offering lower prices than Uber and leaving a higher portion of revenue for drivers. In addition to Uber, Kapten and Ola there is Bolt, an Estonian company, and ViaVan, which sells only shared rides (emphasising its green credentials).

Market share is hard to ascertain. There is no single verified source of figures, and none of the firms releases comprehensive numbers of paid rides. Drivers often work for more than one app, making comparisons largely meaningless. All the services have a few tens of thousands of drivers or thereabouts. As for customers, Uber is well ahead, with 3.5m users. In second place is Kapten, which claims 800,000 customers. Bolt, which first arrived in 2017, says it has 300,000 users. ViaVan, another recent entrant, claims to have more than 500,000 customers.

> The American company's latest regulatory woes underline how vulnerable its business model remains

All the firms have strong backers with deep pockets and can be expected to burn cash to build market share for several years. Kapten and ViaVan are both backed by big German car groups. Bolt has raised money from Didi Chuxing, a Chinese ride-hailing giant. A Japanese group, SoftBank, stands behind Ola, Uber and Didi Chuxing and plans to fuel their expansion.

London thus underlines just how low the barriers to entry are in ride-hailing, with the exception of one high one—a licence. Uber's only real weapon to fight off its rivals in London (in a market that contributes a substantial share of its revenue and profit) is its well-established brand. The action by TfL will not have burnished it.

A second lesson is that regulators are ready to contain the recent explosion of ride-hailing cars, e-scooters and electric bikes. To comply with new rules in New York aimed at reducing traffic congestion, Uber in September started limiting drivers' access to its app. Last year Vienna seized hundreds of hirable bikes that city authorities said were cluttering public spaces. Transport authorities want to show that they are in control as cities move towards integrated "mobility-as-a-service" systems, says Richard Threlfall, global head of infrastructure at KPMG, an audit and consulting firm.

As they do so, regulators appear to be listening to vested interests. TfL, for its part, comes under pressure from the Licensed Taxi Drivers' Association (LTDA) to rein in Uber and other ride-hailing firms. The LTDA represents London's pricey black cabs that serve mainly the well-to-do in the capital's centre. Ride-hailing firms believe that TfL prefers black cabs, whose owners are overwhelmingly white and British. Only LTDA members are exempt from paying London's £11.50 ($14.80) daily congestion charge. Uber's ride-hailing rivals are bullish in public about the American firm's regulatory difficulties in London, but in private they worry, too. As the boss of one puts it: "It could happen to you."

THE ECONOMIST

One standard, one regulation

Towards a professional valuation system for India

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THE MINISTRY OF corporate affairs has set up an expert panel to examine the need for an institutional framework for regulation and development of valuation professionals. To strengthen the practice of valuation and set a common standard for valuation professionals in the country, it has solicited public views on the issues it is deliberating. It is expected to submit its findings very soon, and based on the recommendations the regulatory architecture will be adopted.

An uptrend in deal activity and onset of corporate distress brings with it increased likelihood of fallouts and disputes. Valuation is often the first point of negotiations. Valuations are undertaken for individual assets or liabilities or a group or the entire business as per requirements and applicable regulations. Independent valuations are also relied upon by management and investors to support decision-making.

Professional experience of a valuer plays a major role in concluding value. We have seen different regulators prescribing different valuation requirements for transactions involving purchase/sale of assets. Some regulators have prescribed some valuation methodologies, whereas others have kept it open to the judgement of valuers. Such conflicting assessment can deter investors, and hence this anomaly must be addressed for ease of doing business in India.

What India needs is an institutional framework for a single standard of valuation and regulation through which valuation professionals can estimate the value of any class of assets with transparency and accountability. India is aligned to global best practices across industries, and this makes it all the more critical that there is a comparable standard of valuation and regulation in the country. One standard, one regulation for the valuation industry will go a long way in achieving the goals that the expert committee has set.

India requires universal education, development of valuation standards, practice guidance and institutionalisation of the profession. The regulation of valuation profession would bring in serious valuation professionals with valuation standards in place. Correct principles can be applied by valuers, leading to more standardised process, the basis of conclusions, reporting formats and disclosures. However, the element of 'valuer's judgement' cannot be taken out of valuation process.