

## RationalExpectations

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# No magic bullet, just hard reforms

The twin balance-sheet crisis has got worse, investors don't trust govt & with empty coffers, pump-priming isn't an option

**EVEN WHEN MANY** in the government criticised ex-chief economic advisor Arvind Subramanian for saying India's GDP was overstated by 2.5 ppt, few could explain why, if GDP was growing so fast, other indices were growing so slowly. As India's GDP has collapsed to 4.5% in Q2FY20, other indicators (*see graphic*) suggest that even this may be an overestimate. Even in FY94, when GDP grew at roughly the same rate as today, IIP grew at 6% vs 1.3% now, exports at 20.1% (-2.6% now), private consumption at 14.6% (7% now), and, the biggest surprise, while non-food credit was 5.7% then, it is -0.2% now; if everything is collapsing, how is GDP growing?

While many feel growth will come back soon, they ignore the fact that little has been done to fix India's credit crisis; in a recent paper, Subramanian and Josh Felman (S&F) argue that India's twin balance sheet crisis (banks and corporates with shot balance sheets) has morphed into a four balance sheet one (with NBFCs and real estate added). This is why, from ₹20 lakh crore in FY19, commercial credit completely collapsed in FY20.

In the past, the collapse in credit—due to a huge rise in NPAs—was tackled by the government injecting lots of capital into bank balance sheets. Since the NDA came to power, it has injected ₹3.5 lakh crore into PSU banks. But, with fresh loans turning bad and banks writing off ₹7.2 lakh crore, NPAs are still a high 9.2%; and 12% in the case of PSU banks.

While S&F speak of ₹2.5 lakh crore of stressed power loans that could turn into NPAs, other potential NPAs are the loans to NBFCs, real estate, and telecom (especially if Vodafone Idea shuts down, as is expected). And, with nominal GDP likely to grow at just 7-8% as compared to the 12% budgeted for, this will add to the stress; 40% of corporate loans in even Q1FY20 was to firms that couldn't service it, and this rose to 45% in Q2.

This is what finance minister Nirmala Sitharaman has to deal with. She faces a possible ₹2 lakh crore tax shortfall due to poor GDP growth and bad budgeting—instead of the actual FY19 tax collections of ₹20.8 lakh crore, the budget estimated it at ₹22.5 lakh crore; she also needs money to recapitalise banks, and to take over some NBFCs, so that credit starts flowing again. Had the government privatised some banks, it would need less recapitalisation money, but Modi refuses to do this.

The low GDP growth means FY21 tax collections will also be low, leaving the FM little to either raise government-spend or recapitalise banks meaningfully. Sitharaman's challenge, in fact, is made worse by the fact that private consumption growth has been falling steadily, from 15.3% in FY14 to 7% in H1 this year. If government consumption can't rise much due to budget constraints, the only hope has to be a rise in investment, but adverse government policy in many areas ensured nominal investment growth plummeted from 13.7% in FY19 to a mere 4% in H1FY20; as a share of GDP, investment levels fell from 31.3% just before Modi came to power to 28.8% in the first half of FY20.

There are many reasons for why India staved off a crisis despite the twin balance sheet problem morphing into a quadruple one; most revolve around a massive jump in government expenditure, aided by the dramatic collapse in oil prices in 2015 and 2016. As a result, nominal government expenditure grew faster than GDP in the Modi period (1.85 times vs 1.69 times); it was the opposite in the UPA decade, with government expenditure rising 3.26 times vs 3.46 times for GDP.

How, and whether the current crisis will turn into one like 1991 is not clear since forex reserves remain robust and inflation is very low, but it is clear India's troubles are only deepening as—amazingly, given how GDP is plummeting—interest rates continue to remain so high. Since this prohibits both investment and consumption, ideally, as many argue, RBI should slash repo rates. But, even when it has done this, it has not resulted in lower interest rates as banks continue to face NPA stress and are also more risk-averse.

At a larger level, the lesson is that the government must have no magic bullets left, it simply has to reform at breakneck speed in the hope that this will, over a few years, stimulate both investment and exports, and, as a result, also consumption. A speedy resolution of the telecom problem can, for instance, arrest the collapse in investment in the sector; slashing government levies and rapidly allocating mines could spur investment in the mining sector including oil/gas, fixing defence procurement procedures could give a big fillip to Make in India, finalising an incentive package to get the likes of Apple/Samsung to shift their vendor base to India will give a big fillip to exports...

Many argue that Modi doesn't have the ability to push tough reforms—like privatising banks or allowing hire-and-fire—that require Parliament assent, and his failure over the land acquisition bill is often cited in this context. While many of the reforms—slashing levies in telecom and mining, or allowing FDI in multi-brand retail—don't even require Parliamentary approval, too much is made of the lack of Rajya Sabha majority. When Modi wants it, as in the case of the citizenship law, he manages to get tough bills passed and, in cases like demonetisation, he brooks no opposition. The question, then, is when will Modi think economic issues are worth expending political capital on.

## MedalMUDDLE

RTI reply shows that armed personnel have little to show for their service

**BESIDES THE SERVICE** benefits received by army personnel, most have little more to show for their years of service than medals and honours. An *Indian Express* report shows majority army personnel have been forced to buy cheap fakes from the market as neither the force nor the government has been able to deliver their medals on time. An RTI, filed by a retired colonel who has been waiting for a medal for 13 years now, reveals that 17.33 lakh service medals were still on the waiting list as of July 31. Of these, 33,035 were of commissioned officers, and the rest belonged to Personnel Below Officer Rank (PBOR). Although earlier, the Directorate of Military Regulations & Forms, under the ministry of defence, was responsible for medals—another RTI reveals they had even allocated ₹20 crore in 2014, 2015, and 2016—for the last two years, the job has been given to service headquarters.

While the gallantry medals like the Shaurya and Vir Chakras are not the issue, the backlog seems to be in non-gallantry awards or service medals, which are awarded for completing certain requirements in service—for instance, the Videsh Seva medal, awarded for service rendered outside India, or the Sainya Seva medal, which is awarded in recognition of non-operational service under conditions of hardship and severe climate in specified areas. Even if the military thinks the fakes might serve the purpose for now, it must beware of depriving its personnel of the few satisfactions their service affords them.

**● CENTRE-STATE RELATIONS**

THE UNION GOVT'S FUNCTIONING HAS CURBED STATES' OPERATIONAL FREEDOM, RELEGATING THEM TO BEING AGENTS OF THE CENTRE RATHER THAN AUTONOMOUS UNITS

# India's eroding cooperative federalism

**AS WIDELY RECOGNISED**, India is quasi-federal, with powers and resources being highly tilted in favour of the Union. The Constitution provided for institutions like inter-state councils to serve as a platform for consultation between the centre and the states, and these have laid the foundation for cooperative federalism. Institutions such as the National Development Council, set up along with the Planning Commission, served to promote cooperative federalism. The 14th Finance Commission (FC) recommended a substantially higher share of the tax revenues for the states, with a clear objective to strengthen their autonomy. It also recommended the role of the inter-state council be reactivated. Even recently, when NITI Aayog replaced the Planning Commission, one of its important roles was to promote cooperative and competitive federalism.

However, in the Union's actual functioning, states' autonomy within their assigned jurisdictions, instead of being enlarged, has, in fact, been curbed. Over the years, states have come to function more as agents of the Union than as autonomous units. Here are a few examples that show how states have been coerced into accepting the Union's actions, and how the scope for states' autonomy has shrunk.

To begin with, Jammu and Kashmir, a full-fledged state, was split into two union territories at the time when there was Governor's rule and the state assembly was in suspension. This was done without ascertaining the views of the State Legislature in contravention of Article 3 of the Constitution.

The 14th FC hiked the states' share in the Centre's tax revenues by 10 ppt at one go—from the 13th FC's 32% recommendation to 42%—to promote states' autonomy in resource allocation. But, the Centre mobilised revenues by levying cesses and surcharges, not included in the divisible pool. Hence, cesses and surcharges' share in the Centre's gross tax revenues shot up to 15.7% in FY18 from 9.43% in FY12, shrinking the divisible pool of resources available for transfers to states. The divisible pool of taxes as a percentage of gross tax revenue of the

Centre declined to 78.28% in FY20, the terminal year of the award of the 14th FC, from 86.41% in 2010-11, the initial year of the award of the 13th FC. Despite the 14th FC recommending an increase in devolution, devolution during its award period as a percentage of gross tax revenue of the Union was 34.26% as compared to 27.88% during the award period of the 13th FC.

While the total central transfer to states/UTs was ₹4.1 lakh crore in FY18, revenue mobilisation by the central government through cesses and surcharges stood at ₹3 lakh crore, or 15.70% of the Centre's gross tax revenue. This went up to ₹5.12 lakh crore in the FY20 budget estimate (BE), accounting for 21.03% of the Centre's gross tax revenue, while the total central transfers to states/UTs was ₹5.2 lakh crore. What is more, the CAG, in its reports, has highlighted the issue of underutilisation of the proceeds from cesses. It has also pointed out that the monies raised for specific purposes through some of the cesses have been diverted for other purposes by the Centre.

Following the restructuring and rationalisation of the Centrally Sponsored Schemes (CSS) in FY16, the burden on states' resources has increased considerably. Its implication is that states now have to spend more on schemes that they merely implement. To state more clearly, CSS were restructured into three categories—core of the core, core, and optional. The sharing pattern of financing between the Union and the states remained unchanged in the case of core of the core, and the contribution of states belonging to the general category was raised to 40% of the total cost of the core schemes, and 50% for optional schemes. In fact, 75.24% of the total cost of CSS falls in the category of core schemes in

the FY20 BE. To the extent the states have to contribute a larger chunk of resources to finance CSS, they lose the freedom to allocate resources on their need-based schemes.

Another example of how the states' autonomy is threatened is the additional terms of reference (AToR) given to the 15th FC. Specifically, towards the end of its tenure, the Commission was asked "to examine whether a separate mechanism for funding of defence and internal security ought to be set up and if so, how such a mechanism could be operationalised".

The ToR of a FC is constitutionally defined in Article 280(3): Distribution of the net proceeds of shareable taxes between the Union and the states and allocation among the states; the principles that should govern grants-in-aid of revenues of the states out of the Consolidated Fund of India; measures needed to augment the consolidated fund of a state to supplement the resources of the panchayats and municipalities on the basis of the recommendations made by Finance Commission of the state. Under Article 280(3)(d), the President may refer any other matter in the interests of sound finance.

Issues relating to sound budget and fiscal management have been referred to FCs starting from the 1st FC. However, AToR to the 15th FC, relating to protecting defence and internal security expenditures of the Union government, do not fit into the framework of the constitutional provision under Article 280(3)(d).

Defence is in the Union list and, therefore, the responsibility of the Union government, while internal security is largely the states' responsibility. If states

requisition paramilitary forces, they bear the expenses. It is not, therefore, an issue that should legitimately come under the domain of the Finance Commission. In any case, the original ToR itself incorporates a consideration for "the demand on the resources of the central government particularly on account of defence, internal security, infrastructure, railways, climate change, commitments towards administration of UTs without legislature and other committed expenditure and liabilities".

There could be two reasons why this AToR is added. One, the defence expenditure declined from 1.82% of GDP in FY15 to 1.54% in FY19, and is budgeted to decline further to 1.48% in FY20. As a percentage of total government expenditure, defence expenditure declined from 13.65% in 2014-15 to 11.22% in FY20. The other, with the slowdown of the economy, it could be hard to even meet this low budget provision in 2019-20 while maintaining the fiscal deficit at 3.3%.

Hence, the attempt to ring-fence the defence expenditure. Also, it could be an attempt to nudge the Commission to apportion a larger proportion of tax revenue for the Centre, leaving less in the divisible pool for states.

However, the recent implementation of the Goods and Services Tax (GST) can be cited as a remarkable act of cooperation between the states and the Union. After all, the states have agreed to give up their autonomy with respect to nine state taxes. Yet, the recent drastic cut in corporate tax, with its adverse impact on the divisible pool, and not releasing GST compensation to states falling short of the stipulated growth on time, as agreed upon, would deter the promotion of cooperative federalism.

All these examples clearly show that states' operational freedom to function within their specified jurisdictions is hugely curtailed. This is certainly not conducive to promoting cooperative federalism. Worse, they are coerced into actions that are contrary to advancing robust fiscal federalism.

## LETTERS TO THE EDITOR

### On General's remarks

With his sweeping remarks against protestors of CAA, Indian Army chief General Bipin Rawat had not only overstepped the much important line held in high esteem in a constitutional democracy, the division of polity from military and the very supremacy of civilian leadership over military, but also done a great damage to his reputation and the office he holds. His publicly expressed conviction that protestors are leading people to carry out arson and violence in cities and towns and this is not leadership could add impetus to the attempts by Modi led government to criminalise the protests against CAA. What stands apart India from several of its neighbouring countries is our vibrant democracy where its military maintains the culture of neutrality, exercise voluntary restraint and its stronger commitment to apolitical ethos. With only days away from his retirement, General Rawat should have exercised restraint and refrained himself.

— M Jeyaram, Sholavandan

### On archaic beliefs

It is incredulous that even in the age of the internet, some people continue to place their trust in blind beliefs and follow archaic rituals and practices. While sky gazers marvelled at the glorious solar eclipse that was unfolding in the heavens, eight children in Kalaburagi district had to undergo the trauma of being buried neck-deep in the ground. Hoping for a miracle and desperate to cure their children's disabilities, the parents allegedly ignored strong opposition from the villagers who doubted the wisdom of the move. Conducting awareness campaigns will help dispel wrong notions, besides, prevent the recurrence of such bizarre practices.

— NJ Ravi Chander, Bengaluru

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## What a decade of Netflix did

Cord-cutting and consolidation redefined the media landscape in the 2010s. The next decade will usher in a new roster of leaders

**TARA LACHAPELLE**

Bloomberg

**IT WAS THE** decade that altered the very definition of "TV"—Noun: Netflix. Verb: to stream.

The industry's struggle to adapt to the new terminology sparked a merger mania that has rapidly condensed the market for entertainment content and pay-TV services into the hands of a powerful few. Here is a look at what the rise of Netflix Inc, the intrusiveness of Big Tech and a decade of dealmaking did to the media and entertainment landscape.

As viewers decided they didn't need so many channels, the industry decided it didn't need so many companies. Once-powerful corporations such as 21st Century Fox and Time Warner Cable were acquired by rivals better equipped to navigate the new age of streaming. Fox's studios joining the Walt Disney Co family probably came as the biggest shock, but Disney's more meaningful acquisitions were of the Marvel and "Star Wars" franchises, giving it near-total domination of the big screen.

Of course, the big screen isn't quite so big anymore: Netflix alone generates more revenue than the entire North American box office. Originally a DVD-by-mail service whose biggest competitor was the Blockbuster store, Netflix is now nearly as valuable as Comcast Corp (for a time, it was even worth more than the cable behemoth). It has also lured some of Hollywood's most sought-after directors and actors, while others have taken their movie-making talents to Apple Inc and Amazon.com Inc. That is as Lions Gate Entertainment Corp, the studio that produced "The Hunger Games", is barely able to hang on to its independence. CBS and Viacom recently became ViacomCBS Inc, but they, too, may be industry prey. Discovery Inc was able to corner the market for unscripted domestic and culinary programming by taking ownership of HGTV and the Food Network. But, the mega-deal of the

decade was AT&T Inc, a once prosaic phone company, swallowing Time Warner, the parent of HBO.

The so-called streaming wars didn't begin on any particular date, but an important one was April 2, 2010. That was the day the Netflix app appeared on the Apple iPad. Within a few months it was in the iPhone app store and suddenly streaming could fit right in our pockets, travelling wherever we went. Not long before, Netflix had struck a fateful distribution agreement with the Starz premium cable channel, which held the rights to major movies months after they left theatres. Starz would later regret the arrangement, but for Netflix, it meant gaining backdoor access to thousands of films, including hits made by Disney (which would later ink its own deal with the service). And just like that, a \$9-a-month app became a viable and satisfying alternative to cable TV.

Then came the mergers. Few industries were maimed by technology these last 10 years more than media—print media absolutely but also the entertainment giants, where the figures at stake were even larger. By 2015, the industry's centre of power was shifting as cracks formed in the traditional pay-TV model. A now-infamous earnings report that summer from Disney showed that cable subscribers were dropping the company's ESPN channel, the most valuable network on the air—what was supposed to be the Teflon of TV. The typical \$100-a-month-or-so cable bundle that forced consumers far more channels than they ever needed was going the way of antennas. AT&T, which had just bet big on satellite dishes by acquiring DirecTV, turned its focus to content assets and spent \$57 days straining to close its deal for Time Warner.

It was a seminal moment for the industry when a usually tenacious Rupert Murdoch sold most of his com-

pany to Disney, a deal which also included valuable franchises such as "The Simpsons" and "X-Men". The recent reunion of Viacom and CBS was the Redstone family's attempt to shore up the walls of its own vulnerable empire, bringing back together the broadcaster that owns Showtime and the parent of MTV and Paramount Pictures.

Sprouting from all these mergers are new Netflix-copycat services, such as the Disney+ app that launched in November and AT&T's HBO Max, which is set to launch in May. Apple TV+ subscriptions also went on sale last month, while Comcast's Peacock service—named for the logo of its NBCUniversal division—arrives in April.

Cord-cutting and consolidation redefined the media landscape in the 2010s. The next decade will usher in a new roster of leaders tasked with trying to make financial sense of the industry shape-shifting. Longtime media moguls such as Disney CEO Bob Iger and John Malone, the influential owner of Charter and Discovery, are on their way toward retirement; Iger, 68, has a scheduled date of December 2021, while the 78-year-old Malone has started to lighten his load. A bedridden Sumner Redstone is 96 and his daughter Shari Redstone is 65; AT&T CEO Randall Stephenson is 59; and Charter CEO Tom Rutledge is 66. Comcast chairman and CEO Brian Roberts is 60, though the company's unusual articles of incorporation say he can hold onto his job for the rest of his life. However, Comcast did recently announce that Steve Burke will retire as NBCUniversal's CEO at the start of the new year.

For investors and consumers alike, it is an uncertain road ahead. My cynical prediction: An already shrinking industry will get even smaller.

*This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners*



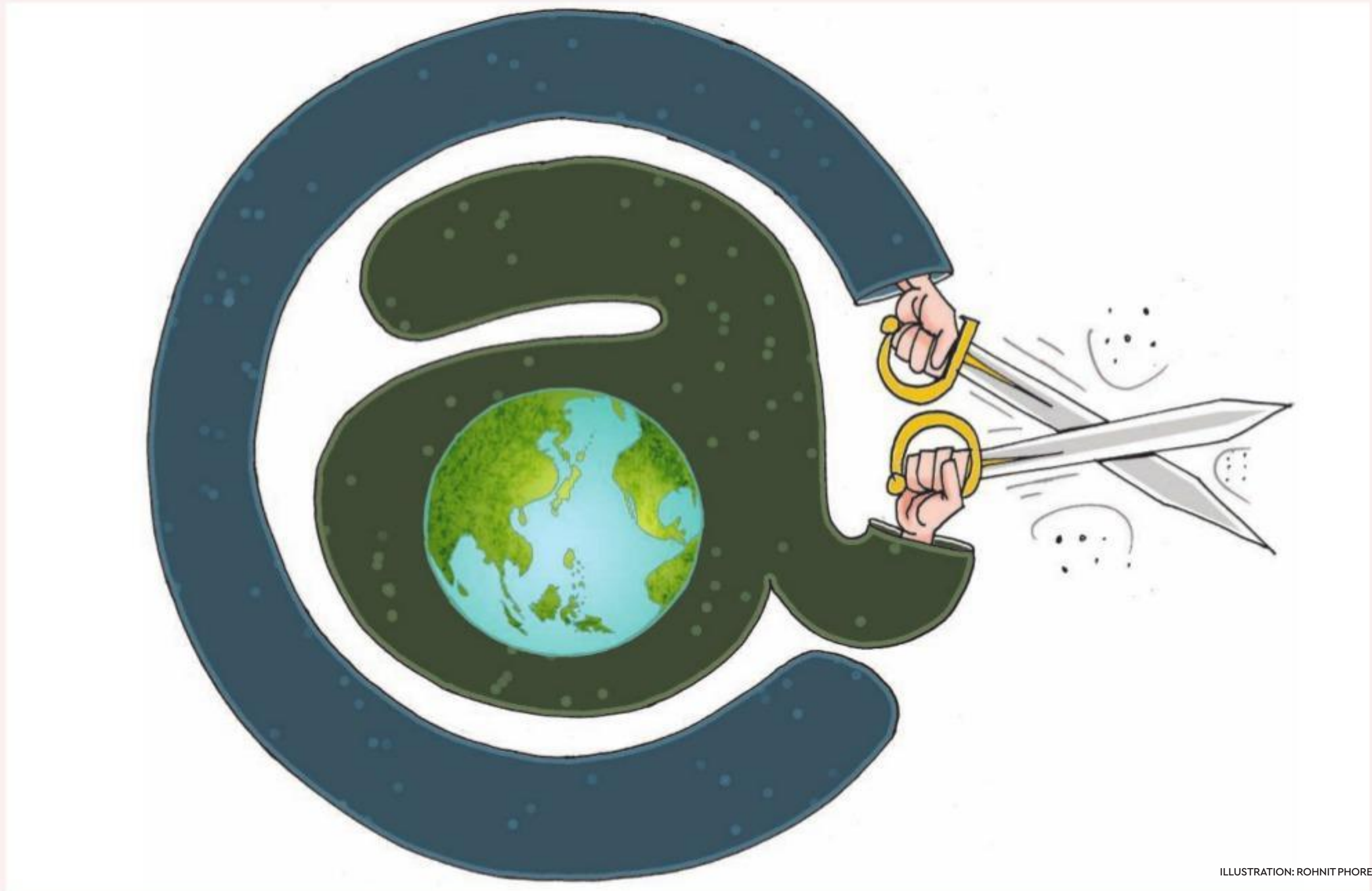


ILLUSTRATION: ROHNIT PHORE

THE WORLD IN 2020

# The Splinternet of Things threatens 5G's potential

The transformative potential of 5G will be diminished by America's blacklisting of Huawei

FOR YEARS, TECHNOLOGISTS have gushed about the promise of the "Internet of Things" (IoT). With ubiquitous sensors and universal connectivity, punters have been told, the IoT will transform ordinary workshops into smart factories. Passengers will enjoy safe travel in autonomous cars and cargoes will be tracked seamlessly across borders. Consumers will enjoy blazing-fast connections on mobile devices that allow whole films to be downloaded in an instant.

This heady vision was promoted so heavily for so long by tech vendors that it began to seem like a chimera. It is not. The two essential technologies speeding the IoT's arrival, inexpensive sensors and super-fast networking kit, are advancing fast. Gartner, a research group, predicts that the global number of devices embedded with sensors will

leap from 8.4 billion in 2017 to 20.4 billion in 2020.

The second enabler is 5G, a telecommunication-networking technology superior to today's 4G mobile networks. Hans Vestberg, chief executive of Verizon, an American telecom giant, has restructured his entire firm around 5G's potential, arguing that it will bring many benefits beyond blazing-fast speed. For example, an IoT network based on 5G connections would allow a million devices to be clustered within a square kilometre, as they might be on a dense factory floor or at a crowded sports arena—far more than the 60,000 or so possible with 4G.

Alas, the once-bright prospects for a speedy global roll-out are turning into a tale of the good, the bad and the ugly. The good news is that several big markets will see 5G networks deployed at scale in 2020. Verizon expects three-quarters of

the phones it launches in 2020 in America to be 5G-capable, and AT&T, a rival firm, expects to offer nationwide coverage by mid-year. Huawei, China's telecom-equipment giant, has spent \$46 billion developing 5G kit, and expects to deploy 1.5 million base stations across hundreds of Chinese cities by the end of 2020. Europe has been held back by market fragmentation, but the European Commission is pushing to have an EU-wide commercial roll-out of 5G by the end of 2020.

The bad news is that the usefulness of all this will be limited at first. Unless consumers spend a fortune on the latest 5G handsets, they will not be able to enjoy super-fast downloads. Most companies will not have sensors embedded in all of their factory machinery for a few years yet, though vendors like Siemens and GE will be keen to help them set up such "industrial internets". There are also barriers to the use of IoT devices in some industries (privacy concerns in healthcare, for example) that require policy reforms. As the various hurdles are overcome over the next few years, reckons Michael Chui of the McKinsey Global Institute, a think tank, IoT technologies will create between \$3.9 trillion and \$11.1 trillion in economic value globally by 2025.

The ugly aspect of the 5G story involves geopolitics. A decision to ban Huawei from America's telecom networks and to deny it access to vital intellectual property from American suppliers has dealt a severe blow to the market leader. President Donald Trump has cited security concerns. Huawei points out that no evidence of wrongdoing has ever been presented.

America has also been strong-arming its allies around the world to reject Chinese kit. Some, like Australia, have done so. Others, like Britain, may restrict Huawei to peripheral parts of their networks. In countries where Huawei is banned, telecom operators must rely on more expensive, non-Chinese 5G kit made by Finland's Nokia, Sweden's Ericsson or South Korea's Samsung. Sensing

opportunity, Ericsson plans to open a new manufacturing plant in Texas in 2020 to make 5G equipment that is palatable to the White House.

Still, vast swathes of the globe, from Russia to Malaysia to Peru, will remain open to Huawei in 2020. This is not only because they are in China's geopolitical orbit, though this is true for many Asian and African countries. Huawei's 5G equipment is also more advanced: Chinese firms represent over a third of global patent applications for 5G-related technologies, with Huawei alone representing 15% of the world total. And Huawei's equipment is less expensive than rivals' kit.

The result is likely to be a bifurcated IoT, dividing the world between countries willing to use Chinese telecom gear and those that share America's concerns over security. Part of the 5G dream was that of a unified global standard for networking. Once that is fractured, the resultant divide poses huge headaches. Multinational firms with operations in Shenzhen and Silicon Valley cannot use the same IoT systems in both. Global developers of IoT devices relying on seamless 5G, such as new virtual- and augmented-reality applications, may be handicapped by interoperability issues among markets.

Frank Appel, chairman of Deutsche Post DHL, a giant logistics and package-delivery firm, warns that if information cannot be exchanged easily between different networks, "we have to go back to paperwork and print and input into the system... I don't know how we will manage." Verizon's Mr Vestberg observes that 5G would then be a step back to 1G and 2G, which used network standards that did not allow seamless global connectivity. Vincent Peng, a board member at Huawei, warns that this could result in a disastrous "digital Berlin Wall". Unless a political settlement is soon reached between China and America on 5G, 2020 will be remembered for the arrival of the Splinternet of Things.

THE ECONOMIST

DISTRIBUTION OF PROFITS

## Buy-back of shares may still be viable?

SAUMIL SHAH & NITIN BOHRA

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Opting for buy-back or dividend is not a straightforward task

**DIVIDEND HAS BEEN** one of the preferred ways amongst Indian corporates to distribute profits to their shareholders. However, considering the additional dividend tax levy in the hands of non-corporate resident shareholders, buy-back of shares by listed companies has emerged as one of the preferred ways to distribute profits in recent years. This is also evident from the fact that the return of cash by listed companies to shareholders through the buy-back route got a big boost since the introduction of super-dividend tax.

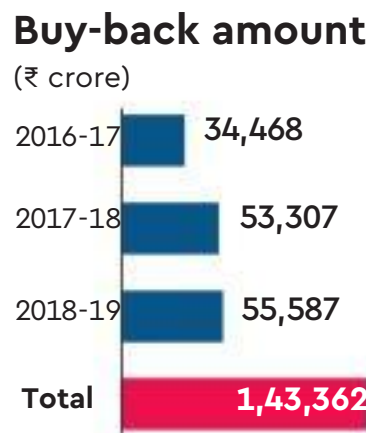
The buy-back of shares by listed companies was more attractive on account of two aspects. First, the buy-back of shares by them was not subject to buy-back tax (BBT), and second, the receipt of consideration in the hands of shareholders was subject to capital gains tax, and where listed shares were held for more than 12 months, the same was exempt from tax. The combination of all these led to distribution of profits back to shareholders with almost no tax.

Post the introduction of long-term capital gains tax on the sale of listed shares and BBT on listed shares, the direction has certainly changed. As stated in the Budget speech by the finance minister, the reason for introduction of BBT on listed shares was to discourage the practice of listed companies announcing buy-back of shares instead of dividends, to avoid the dual levy of dividend tax.

However, after rolling out BBT on listed shares, it is interesting to analyse whether listed companies should switch to dividends as the preferred route for distributing profits to shareholders. A plain vanilla analysis still appears to be in favour of buy-back in the scenario where the majority of shareholders are non-corporate resident shareholders. With the levy of additional dividend tax in the hands of such shareholders, buy-backs offer a tax arbitrage of nearly 10%. This arbitrage may further increase if significant cost-base is available to the companies on shares being bought-back, as the same would reduce the BBT liability considerably, thereby leading to more surplus in the hands of shareholders. A detailed analysis of shareholding pattern (viz. corporates or non-corporates, residents or non-residents), consideration received on issue of shares proposed to be bought back etc, are essential for holistic comparison between buy-back and dividend route.

Another advantage of the buy-back route from a stock market perspective could be its positive impact on the EPS and consequently on the P/E ratio, as shares bought back are extinguished and lead to a lower capital base. It is also noticed that the buy-back price proposed under the offer is generally higher than the ruling market price, which imbues greater confidence amongst shareholders. Apart from taxes, one must be also cognisant of other legal and commercial aspects that need consideration while deciding on buy-back vis-à-vis dividend route, viz. disproportionate participation from promoters and public shareholders, limits on buy-back size with minimum 15% entitlement for small shareholders, restrictions on fund raising for the next six months, constraint on maintaining minimum debt-equity ratio of 2:1 post-buy-back, etc.

Based on the above analysis, it becomes evident that opting for buy-back or dividend is not a straightforward task. It would require much more deliberation and consideration. Furthermore, recent remarks by the finance minister to address DDT as regressive tax levy have fuelled the speculation on the removal of DDT. If it is removed, it would certainly change the rules of the game. In such a scenario, it would be interesting to see what happens to BBT?



## SECONDARY AGRICULTURE

**SECONDARY AGRICULTURE** assumes prominence with the announcement of the goal of doubling farmers' incomes. The term 'secondary' has a bearing on climate change adaptation and its mitigation, small farm viability and profitability, food security, nutrition, sustainable utilisation of natural resources, and optimal usage of produce from primary agriculture and farm incomes.

In other words, promoting secondary agriculture has implications on attaining sustainable development goals, which aim to connect primary, secondary and tertiary sectors by using slack/idle factors of production, such as land and labour—contributing to primary agriculture production, capturing 'value' in primary agricultural activities, and generating additional income at the enterprise level.

While there is no formal definition of secondary agriculture, based on the Economic Accounts for Agriculture of the European Union, a Technical Advisory Committee on Secondary Agriculture was formed by the then Planning Commission in 2007, and the committee had set out the inclusion criteria as "assembling, ripening, cleaning, grading, sorting, drying, preserving, packing and storing."

The essence of secondary agriculture was understood when the Ashok Dalwai Committee submitted its report on "adding value to primary agriculture and building agricultural enterprises in rural

# The shift Indian farming needs

We must focus on sustainable production, monetisation of farmers' produce and strengthening of extension services

KUSHANKUR DEY

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India" through "farm-linked activities and secondary agriculture" in February 2018. The committee has defined secondary agriculture as a production activity at enterprise/farm level, and it devised a four-fold strategy:

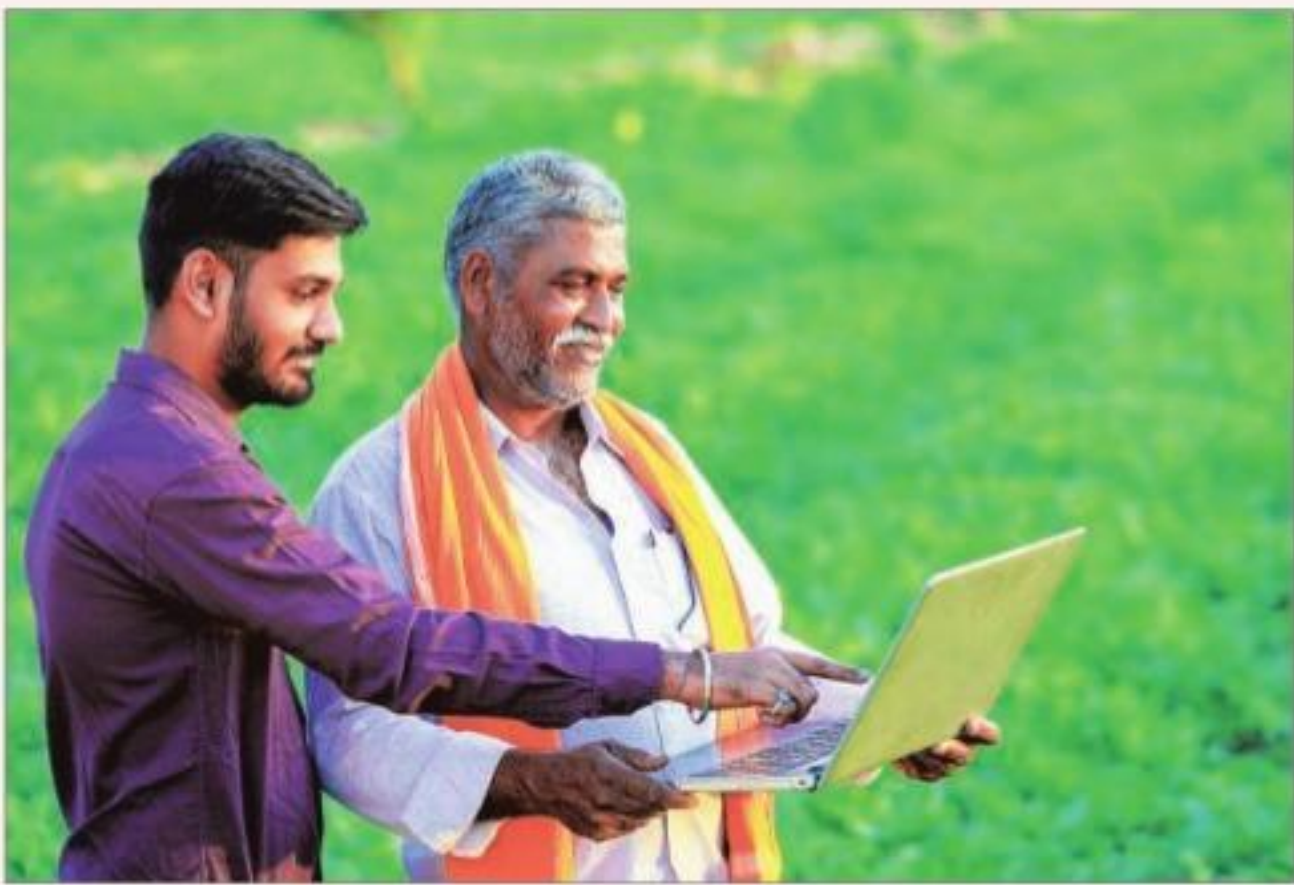
- Sustainability of production;
- Monetisation of farmers' produce;
- Strengthening of extension services;
- Recognising agriculture as an enterprise, and enabling it to operate as such, by addressing various structural weaknesses.

This four-fold strategy for secondary

agriculture has drawn attention of development professionals, agribusiness academics and experts, and policymaking bodies. Secondary agriculture, as is defined, can help drive the growth of primary agriculture, and three avenues have been identified that adequately help utilise capital, human resources, technology, organisational capabilities, and risk management:

**Type A:** Value-addition to primary agriculture production systems;

**Type B:** Alternative enterprises, but linked to rural off-farm activities;



**Type C:** Enterprises that thrive on crop residues and waste materials of primary agriculture.

Type A can be achieved by improving livelihood enhancement action plans that are implemented by farmer-based/community-based organisations. Linking farmers with the market through aggregation and assaying/grading of agricultural produce can help them in value enhancement and appropriation. Collectivisations, cluster farming, financial literacy, marketing skills are important to

build this avenue.

Type B is based on utilisation of alternative enterprises to primary agriculture, but is associated with rural off-farm activities. For example, poultry, bee-keeping, duck farming and livestock management are off-farm enterprises that can be promoted as part of integrated farming system. Integrated farming can hedge farm risk in the period of crop failure, or ease out the seasonality in the stream of cash flows.

Type C are such enterprises that strive on crop residues, or by-products of pri-

mary agriculture. For example, after recovering sugar from cane, cane can be used as bagasse for molasses production. Similarly, cotton stalk and seed (after ginning) can be used for de-oiled cake preparation or utilised in the secondary/tertiary sector.

To promote agricultural entrepreneurship or agricultural enterprises, there is recognition of priority sector status for institutional credit; low-cost skilling and knowledge-based exposure of farm communities; specialised extension services for enterprises owned by females; priority under rural electrification objectives; fast-track procedures to avail benefits under the ongoing central sector schemes; and label geographical indicators to products of village-scale secondary agriculture.

It is worth noting that the Indian Council of Agricultural Research, in association with the World Bank, had instituted the National Agricultural Higher Education Project (with a \$165 million funding support) in 2017-18 for a five-year period to promote skill development and agri-entrepreneurship amongst graduates of agricultural colleges, apart from institutional development and innovation funding to education. Agribusiness incubation and acceleration, if made marketable, can benefit farm communities, and appropriate market linkages can improve farmers' realisations through collectivisation. However, a concerted effort at both policy and implementation levels at the Centre and states is necessary to attain this goal.