Get the Debt Market Working, and Fast

That is how to move ahead on infrastructure

Investment as a proportion of GDP is today lower than at any point of time since 2004-05, and this is principally on account of falling private corporate investment. After a series of public-private-partnership projects in the infrastructure turned sour post the financial crisis and especially since the Supreme Court cancelled a bunch of telecom licences in 2011, private investment in infrastructure has virtually dried up. Even as the government has stepped up public investment, particularly in roads, water transport and the Railways, private investment languishes, depressing overall investment, hobbling growth and curtailing job creation. It is essential to reverse this trend.

But the twin balance-sheet problem stands in the way: banks are laden with bad loans and companies with debt they cannot service. Without bad loans being resolved and fresh capital infused, banks are not going to lend anywhere on the scale required to fund infrastructure. We can either wait for the banks to get their act right on ridding their books of bad loans or look at other sources of funds. One possibility is dedicated, long-term financing institutions, of the kind that the country had before they converted themselves into commercial banks. The other, and more viable, option is the debt market. Some Indian companies enjoy credit ratings on par with the sovereign's. At least such companies should have no problem raising money by issuing long-term bonds. The government should facilitate the process. Fully liquid and deep markets for bonds and interest rate and currency derivatives are essential for infrastructure companies to raise the finance they need by means of bonds. Removing the regulatory hurdles in creating such markets should be simpler than invoking the new bankruptcy code to resolve lakhs of crore worth of bad loans.

A developed bond market would allow insurance and pension funds to flourish as well. It would attract foreign savings looking for profitable deployment outside the home country. There is every reason to devote regulatory energy on spurring the bond market in the near term.

To Market to Market to Buy a Pig, Maybe

There is the pressing need for revamped market design in the country's policy-challenged agricultural economy. Specifically, we need options (and not just futures) for more efficient price discovery and hedging of risk for agricultural produce. Note that options give a buyer the right but not the obligation to buy or sell certain assets at a specific price during the life of a contract. And a thriving options market in agricultural commodities would improve liquidity and lead to better price discovery in the market.

True, market regulator Sebi has given its final clearance for options trading in commodities. However, detailed guidelines for commodity options are awaited. There also seems potential regulatory lacuna in commodity options. Unlike in the equity market, where Sebi regulates both cash and derivative segments, in commodities, it has oversight only on the futures market while the spot market is regulated by the states. There are tax implications as well for options trading that do need to be rationalised, fast. All transaction taxes are avoidable, but the commodity transactions tax on sellers of futures contracts is a nominal 0.01% (1 paisa per ₹100) of traded value. But the exercise of an option attracts a much larger securities transactions tax of 0.125% (over 12 paise per ₹100), levied on the option purchaser. And market participants fear, rightly, that option buyers who choose to convert their options into futures contracts would, in turn, be slapped with a steep upfront tax bill.

More glaringly, market regulator's draft norms for commodity options seem much too focused on delivery rather than price discovery, and appear generally restricted only to market participants with underlying exposure. It would surely nip the market in the bud.

So, zyzzyva is not likely to become a favourite of talk show lampoons

Just a Lesser Weevil, Not a Trump Tweet

A seven-letter word with only one vowel preceded by a short medley of the last two letters of the alphabet has every right to be deemed the last word. At least in the dictionary, if not in many other aspects of life. Zyzzyva is not a word that would find itself often in the midst of daily conversation, unlike 'the' — the most used commonly used word in English — or even 'because' — the leader in the seven-letter category — as it is the name of a type of tropical South American weevil. So, unless it acquires a new and possibly totally unrelated alternative meaning in the future, zyzzyva is more likely to remain a favourite of only Scrabble and spelling bee enthusiasts, and perhaps the odd entomologist with an interest in etymology, rather than becoming a staple of quotidian parleys. To be fair, the word zyzzyva displaced from the last spot, zythum, was not much of a conversationalist either.

However, there is an undeniable cachet in being the last word, even if it is only literally, especially as its status as such has just been acknowledged by the Oxford English Dictionary. Now that the ensuing publicity will increase awareness of the word, if not the weevil, there is less chance that zyzzyva will be mistaken for a Trump tweet trip-up and dispatched to night-time US talk shows for a thoroughly undeserved roasting.

India's political class must make the newborn goods and services tax bonny through more reforms

Another Tryst with Destiny

Hema Ramakrishnan

The Narendra Modi government will roll out the goods and services tax (GST) with much fanfare this Friday night. The Congress is unsure of its participation in GST's midnight launch in Parliament, after having cooperated with the government in getting the constitutional amendment passed for the Centre to tax retailers, and states' services — and in adopting the new tax in states where the party is in government or where it is the principal Opposition. That's politics.

Undeniably, the reform to switch over from a fragmented set of indirect taxes to a harmonised GST over a decade in the making had bipartisan support, in principle, all the while. State finance ministers have done well to acknowledge Union finance minister Arun Jaitley's role, as GST Council chairman, in bringing credibility to the exercise. It enabled them to reach agreements on the rates and procedures to be adopted.

Jaitley's consensus-driven approach has ensured that all states make the legal changes to move to the new tax system that will boost revenues and lift the GDP. The Peoples Democratic Party (PDP)-BJP government in Jammu and Kashmir may be the only state holding out on the tax reform. The state has special taxation powers and is exempt from service tax even today. But the spirit of cooperative federalism must remain.

A carpet-maker in Kashmir will lose out to his competitor in Himachal Pradesh, who can claim credit for all the input taxes paid in the value chain, making production cheaper. Jaitley has rightly appealed to the J&K government to come on board.

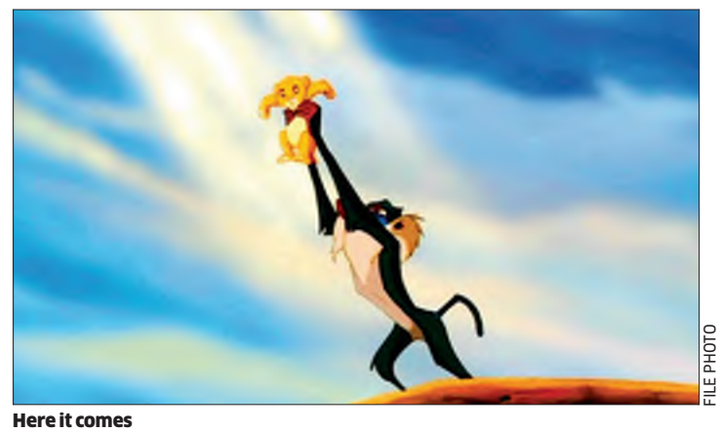
The GST Council has done well to ease compliance: businesses will have two-and-a-half months to adhere to the new tax system. It has been right to also defer the enforcement of the tax that e-commerce firms are mandated to collect at source from their suppliers. The proposal must be scrapped, as policy bars these firms from selling their own products and services and work only as marketplace. More course-corrections have to be made in the interest of industry and consumers, besides efficient enforcement.

GST: Great & Simple Tax

True, the GST design — with rates ranging from 5% to 28%, and a cess on the highest slab — is far from perfect. Half the tax base — real estate, electricity, alcohol and petroleum products — has been excluded from the levy. These flaws can be debated till the cows come home. But moving to a simpler and cleaner tax system with a broad base and minimal exemptions is eminently feasible once the dust settles down for consumers, industry and over 70 lakh dealers.

So far, no proposal has been put to vote in the GST Council. Experts worry that continuing a consensus-driven approach could lead to bad ideas driving out good ones. After all, the council is not a disciplinary authority that can hold states to account. Better than voting, states must ensure that they scrupulously abide by its decisions on the future course of GST.

The council, for example, should quickly decide on the time frame to bring petroleum products under the GST net. A role for the Inter-State Council to take a view on any disputes that the GST Council is unable to resolve is worth considering. Making the minutes of the council meetings public is a good idea. This will boost transparency and governance.



FILE PHOTO

Here it comes

As many decisions may need to be taken quickly after the July 1 rollout, there is a case to have a larger permanent secretariat that should have representation from the states as well. The need is also for an institutional mechanism to monitor and study the experience of GST as it rolls out, with a view to making swift course correction.

The success of GST will depend on the efficiency of the administrative machinery for levy and collection of the tax. Fears that dual control of administering GST could lead to harassment of taxpayers are not entirely misplaced, especially when state border checkposts are not lifted.

International finance scholar Sijbren Cnossen had, in fact, made a case for control under GST to be exercised by auditors, rather than by excise officials. In his 2012 paper, 'Will a True GST Ever Come to India?' (goo.gl/Cj25jr), he argued that compliance should be exercised through checks on books of account. This requires auditors familiar with flow-of-funds analysis, net worth statements and with cross-checks between the entries in the books of one company against the entries made by another company.

Now, two administrative bureaucracies will undertake scrutiny and audit. But the anti-profiteering measure is a perverse incentive to habitually suspect the pricing policy of producers, and must go at the earliest. It would be worth exploring whether India can move towards single control.

VAT Excised

GST rides on technology as manufacturers will need to upload their sale invoices, make tax payments and claim input tax credits online. So, access to ubiquitous broadband is also important for its success.

Unlike demonetisation that was followed by remonetisation, there will be no looking back once the GST is rolled out. Why? Because the Centre will cease to have the powers to charge excise duty and states the power to levy value-added tax — both levies will get subsumed in GST.

More reform is the only way to move to an efficient tax system. This calls for a very strong political will. And note, the world is watching India.

The need is for an institutional mechanism to monitor and study the experience of the new tax as it rolls out, with a view to making swift course correction

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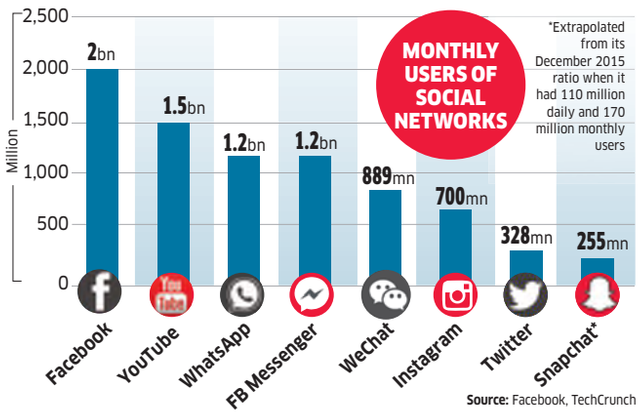
WIT & WISDOM

"The secrets of success are a good wife and a steady job. My wife told me."

Howard Nemerov
Poet

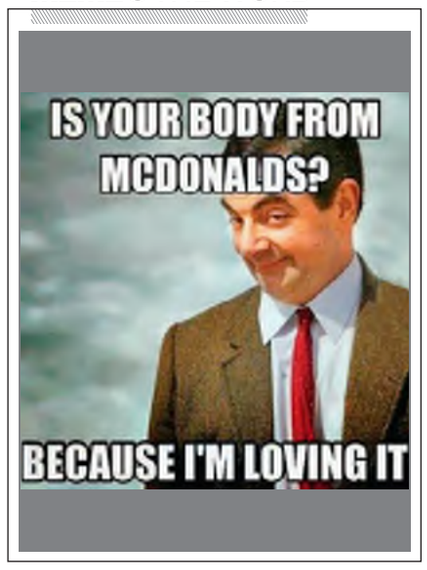
2 B Use Facebook Now

Facebook says it has two billion monthly active users now — meaning more than a quarter of the world's population is on the giant social network. Founded in 2004, the social media behemoth hit the billion-user mark five years ago...



Source: Facebook, TechCrunch

MEME'S THE WORD



ADMINISTRATIVE REFORMS

Rebolting the Steel Frame

Amitabh Kant

It is not feasible for India to progress through the 21st century with 19th-century administrative systems. In the last three years, several innovative measures have been launched. They signal GoI's intent to make the administrative machinery far more efficient, decisive and cohesive.

The first key reform is the shift in administrative focus from inputs and outputs to outcomes reviewed and monitored by the prime minister. Capacity, mobility, quality and safety have, for example, been identified as key outcome dimensions for road projects. In the case of railways, the key outcomes are operating ratio, passenger and freight yields, capital spending, redevelopment of railway stations and safety measures. For the first time, an outcome-based budget prepared by the Niti Aayog was presented to Parliament along with the Union Budget.

Minutes of meetings, along with clear ownership and implementation timelines, are released and followed up periodically. Outcome-based reviews have a broad sweep: 15 infrastructure and social sectors have been reviewed, covering 72% of the total budget outlay. Key decisions have also been taken post-review. It was decided, for example, to increase the modal share of railways from 33% to 35% in 2016-17 in line with the long-term goal of 50% by 2032.

The second key initiative, Pro-Active Governance and Timely Implementation (Pragati), is an initiative where key infrastructure and social sector projects facing bottlenecks are taken up for review at the PM's level. Pragati provides a forum for all stakeholders of key projects to voice their views, assigns clear responsibilities with strict timelines, expedites developmental projects by bringing the Centre and states on the same platform, and brings key projects under close supervision of the highest officials.

It is also a means to break walls between different government agencies and enable best practices being shared. Since its launch, 18 Pragati meetings have been held and state projects worth over ₹8.31 lakh crore across critical infrastructure sectors have been fast-tracked across states. Besides projects, 38 flagship programmes and schemes, along with grievances of 16 ministries and departments, have been reviewed.

The third reform has been the creation of an immense sense of competitive spirit among states and districts by ranking them, and increasingly selecting them for projects through a challenge method. The 'ease of doing business' ranking of states has led them to initiate radical reforms by eliminating a vast number of rules, regulations and procedures. Competitive pressure has led to newer states like Telangana, Jharkhand and Chhattisgarh making a quantum jump forward.

The ranking of districts on cleanliness under the Swachh Bharat initiative has also had a major impact, spurring change at the municipal level. The selection of cities for the Smart City programme through a challenge methodology has led cities to undertake reforms in urbanisation and implement projects by forming special purpose vehicles (SPVs) and housing all approvals in the SPVs.

FILE PHOTO

Welding governance

The fourth key reform has been the formation of Groups of Secretaries (GoSs) to break silos, stimulate thinking across ministries and develop a roadmap for growth with commitment from all stakeholders.

Last year, eight GoSs were constituted to work on themes ranging from 'Accelerated Growth with Inclusion and Equity' to 'Employment Generation Strategies' and 'Energy Conservation and Efficiency'. An innovative aspect of these groups was that they involved senior officials whose departments were not directly related to the theme. This encouraged cross-sectoral thinking.

Reforms are not possible if mindsets don't change. Doing away with the resource allocation-focused Planning Commission, the scrapping of 1,175 obsolete laws, the merging of the railway budget and Union Budget, are all steps to make India an easier place to do business in and to enhance the quality of governance.

Measures like scrapping the distinction between planned and non-Plan expenditures in the annual Budget will also help shift focus from reducing revenue deficit to increasing capital spending, thereby setting in motion the process for improving the quality of fiscal deficit.

Lateral entry has been instituted at senior levels at the Niti Aayog. Young professionals were the ones who primarily shouldered the task of explaining the different modes of digital payments across central ministries and states via digi-dhan melas after demonetisation. Secondments have also been introduced so that talented individuals from the private sector can bring about meaningful change through GoI while keeping their career path intact.

It may take time for these reforms to manifest fully. But the direction is right and the pace is brisk. Administrative reforms will have to remain a continuous process, even as a lot has been achieved quietly in the last three years.

The writer is CEO, National Institution for Transforming India (Niti) Aayog

Citings

Quantifying Financial Risk

CONOR KEHOE ET AL

In the decade since the global financial crisis, financial companies have honed their ability to measure risk in a way that non-financial companies have not. Granted, non-financial executives hadn't faced the same existential crisis. And they have seldom come under the same kinds of investor and regulatory pressure.

But the result is that they haven't absorbed many of the lessons on risk management learnt by the financial sector. We believe that non-financial companies, too, would benefit from a more aggressive look at the risks they face. Among the most important steps they could take, for example, would be to quantify risks in the context of broader scenarios, and not just as discrete sensitivities.

They should calculate the effect of more extreme one-off events, such as a cybersecurity attack, in addition to continuous risks, like GDP. They should model risk-mitigation strategies as well as the risks themselves. And they should sustain a conversation about risk that is explicitly tied to strategic planning, capital allocation and other business decisions.

Companies often maintain a list of the main risks that managers believe they face, which they report as their "risk register" in annual reports. These include discrete operational events, such as major industrial accidents, cyberattacks or employee malfeasance.... But measuring individual risks discretely does little to illuminate a more complex landscape of interrelated risks that often move together in the real world.

From "Stress Testing for Non-Financial Companies"

the speaking tree

Don't Rock Your Boat

SUREKHA KOTHARI

Followers of Advaita philosophy say that the soul and the Divine are one. But when a soul takes birth encased in a physical body, its new physical identity after birth and the process of socialisation overtake and even obliterate the memory of its connection with the Divine. As the external identity strengthens with a first name, family name, religion, caste, and the "mine and thine" tendency, the ego strengthens and the world and everything in it begin to appear real.

It would not be incorrect to say that while we are in this world, the world is real, as much as our living in it and performing our karma is real. But how do we live our life on this earth? Indian tradition says that the first and perhaps the final purpose of the atma is to realise its unity with the cosmic consciousness by removing the veil of ignorance that distances it from the Divine. Our inner world and its knowledge thereof should be the prime focus.

Given the discipline and focus required, salvation seems a distant dream to most of us. As wisdom dawns, the intellect becomes sharper, the vision crystal clear, the instincts honed to such a degree that there is no scope for any confusion. The only principle of living that works is that of "nadi naav sanjog". This means living like a boat on the seas that is safe as long as it travels parallel to the seas but can drown if water fills it.

The message for us is that we, too, should traverse the waters of this world without involving ourselves in it or run the risk of drowning.

Chat Room

Severely Punish Lynch Mobs

Apropos 'Consequence of Lynch Mobs' by T K Arun (Jun 28), bullying and oppressing potentially weaker sections of society on the basis of caste, creed, colour, clan or any other differentiating factor is condemnable. Any organised (religion-specific groups) or unorganised (lynch mobs and casual mayhem creators) effort to interfere in this multi-ethnic nation to undermine one caste and elevate one over another is a dent on India's democratic identity and is unconstitutional. Punitive measures against such efforts must be taken to avoid any civil insurgency.

MONIKA ADWANI
Indore

From Parallel to Nonpareil

GST is the biggest indirect tax reform in our country since the formation of our Constitution. The unorganised sector, as it exists today, would be history at the midnight of June end. Hopefully, there will be no more tax evasion and under-the-table deals. Once acquainted with clean trade, traders will realise that paying taxes gives them real peace of mind, not the kind they got with tax evasion. With most of the parallel cash economy collapsing into the formal tax system, the government will get more revenues that would help create infrastructure and indirectly benefit people.

S N KABRA
Mumbai

The Gold Goes to Gopichand

Apropos the Edit, 'Will Badminton Become the New Cricket in India?' (Jun 28), K Srikanth's spectacular back-to-back wins in prestigious international tournaments is testimony to one man's vision and dedication to badminton: P Gopichand. He is the reason that today India is regarded as one of the powerhouses of badminton. Fitness and stamina are the cornerstones around which champions are built today. Without adequate training facilities and a strict fitness regime, talent is bound to wither away.

ANTHONY HENRIQUES
By email

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