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ISSUE NO 376

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PERMANENT INVITEE TO AIBOA

FINANCIAL SECTOR
WEEKLY NEWS UPDATES
22nd to 27th April 2019

CPSEs under strategic sale asked to immediately prepare list of non-core assets

(Central Public Sector Enterprises Exchange Traded Fund)

New Delhi: The Finance Ministry has asked CPSEs identified for strategic sale to immediately prepare a list of assets and initiate dialogue with potential investors and bidders so that their non-core assets can be monetised quickly. Such CPSEs will have an option to either hive-off non-core assets to a Special Purpose Vehicle (SPV) or transfer sale proceeds of non-core assets to an escrow account to ringfence the realised amount from the rest of the business, an official said. The government has already identified about 35 CPSEs for strategic sale. These include Air India, Pawan Hans, BEML, Scooters India, Bharat Pumps Compressors, and Bhadrawati, Salem and Durgapur units of steel major SAIL. The other CPSEs for which approvals are in place for outright sale include Hindustan Fluorocarbon, Hindustan Newsprint, HLL Life Care, Central Electronics, Bridge & Roof India, Nagarnar Steel plant of NMDC and units of Cement Corporation of India and ITDC. The central public sector enterprises (CPSEs) have also been asked to ensure proper housekeeping of all assets with a view to ensuring better realisation at the time of sale.

"CPSEs will be required to immediately start making an inventory of all assets, and ensure proper title deeds are available for sale. They will have to also interact with potential investors and other stakeholders, including state government," an official said. They will also be required to give suggestions regarding the mode of monetisation of the identified non-core assets. The official further said that non-core assets should ideally be hived off to an SPV, specially created through a demerger to hold and monetise such assets. However, since the transfer of assets to an SPV may involve time and issues like stamp duty, the CPSEs would be permitted to dispose the identified non-core assets on a case-by-case basis with the approval of the inter-ministerial group (IMG), chaired by Secretary in the Department of Investment and Public Asset Management (DIPAM). "In such cases, the CPSEs may create an escrow account to park the sale proceeds so as to ring-fence these from the rest of the business which is under strategic disinvestment," the official added. In the case of Air India, which is undergoing the process of strategic disinvestment, the government has already created an SPV -- Air India Assets Holding Ltd (AIAHL). The government has transferred Rs 29,000 crore debt of Air India, out of the total debt of Rs 55,000 crore of the airlines, to AIAHL. Besides, proceeds from the sale of four subsidiaries -- Air India Air Transport Services (AIATSL), Airline Allied Services (AASL), Air India

Engineering Services Ltd (AIESL) and Hotel Corporation of India (HCI)-- too would be transferred to AIAHL. Also, non-core assets - painting and artefacts - as well as other non-operational assets of the national carrier too will be transferred to the SPV. The DIPAM had earlier this week come out with guidelines for monetisation of non-core assets of CPSEs and immovable enemy properties, following a Cabinet decision in February. According to the guidelines, state-run companies will have 12 months to monetise non-core assets identified by a ministerial panel, headed by the finance minister, failing which the finance ministry may restrict budgetary allocations to CPSEs. The guidelines also provide CPSEs with an option to seek relaxation from the IMG of the 12-month deadline for the sale of non-core assets. "Any budgetary support for the CPSEs will be considered by the Department of Expenditure and DEA only if asset monetisation target is achieved by the CPSEs unless an exemption has been taken", say the guidelines. The ministerial panel will also decide on the threshold over which non-core assets of CPSEs and immovable enemy properties would be taken up for monetisation under the asset monetisation framework. Non-core assets below the threshold would be sold by the stateowned entities themselves. The amount raised through the sale of non-core assets would form part of the disinvestment proceeds. The government has set a target of Rs 90,000 crore to be raised through CPSE disinvestment in the current financial year, up from the Rs 85,000 crore mopped up in the previous financial year.

Banks want 90% lenders' nod for resolution

NEW DELHI: Banks have urged the Reserve Bank of India (RBI) to make only a small relaxation in the new norms for stressed assets by requiring consent of 90% of lenders for approving a resolution plan instead of 100% mandated in the last year's controversial circular, which was quashed by the Supreme Court recently. The recommendation of the Indian Banks' Association (IBA) to RBI about the lenders' consent clause has dismayed industry. Companies were hoping for a much bigger relaxation in rules and many executives fear that the year-long legal battle that culminated in the Supreme Court's order this month would fall flat if IBA's view prevails. IBA chief executive VG Kannan told ET that 90% limit is the safest bet as the chances of the dissenting lenders moving the project to insolvency court will reduce. "The probability of proper resolution is better at 90% limit than at 66%," he said.

Stringent Requirement

IBA's demand of 90% lenders' consent is against the requirement of 66% approval specified in the Insolvency and Bankruptcy Code and the Inter Creditors' Agreement signed by most big banks last year as a way out against the February 12, 2018 RBI circular. Many companies are disappointed by the IBA recommendations. "The 90% limit is no better than the 100% consent. The chances of a resolution process being agreed upon by all the lenders or 90% of lenders are very low, as we have already seen in most resolution processes over the past one year," said an industry executive requesting anonymity. The 100% lenders' approval clause was considered the most stringent requirement in the quashed circular as lenders were not able to get all lenders on board for a resolution scheme. Resolution plans of most projects have been stuck for want of 100% consent from lenders. A senior official with a public sector bank, however, said that no major deals were made even prior to the RBI circular when 75% consent was required. "We can at least pursue or buy the 10% dissenting lenders. The 90% limit will also attract investors as they are comfortable with the resolution process being agreed by a large number of banks," he said adding that IBA members held long discussions on proposals to RBI. POWER POINTS Association of Power Producers (APP) director general Ashok Khurana said suggesting a threshold much higher than that in IBC is inexplicable and would only pave way for more projects moving the insolvency court, leading to significant value erosion. "The rationale of APP suggesting threshold of 60% creditors' approval is that if any reluctant creditor insists on dragging the case to NCLT, he would only be able to delay the resolution but not derail it as the required percentage of creditors have already given approval to that package," Khurana said. IBA in its representation to RBI also asked for a mechanism similar to the joint lenders' forum (JLF) that was in place before the regulator's circular last year. JLF is constituted of board–nominated officials from each bank who are authorised to take decisions with respect to stressed projects on behalf of their organisations, helping expeditious resolutions. In their letter to RBI, power companies have sought different treatment in the ensuing circular to help the sector to revive in 18-24 months. APP has also asked that after restructuring of an account, it should be upgraded if the company makes regular payments for one year and 5% of the outstanding debt is paid. IBA has asked RBI to fix up gradation provision if 10% of the outstanding debt is paid. Shipyards Association of India, in a letter to RBI governor Shaktikanta Das on April 4, requested that the threshold of approval of resolution plan should be kept at 50.1% in value terms of the project against requirement of consent from all lenders. The Supreme Court had on April 2 struck down the controversial circular of the RBI as 'ultravires'.

FinMin asks all departments to conduct review of govt guarantees; submit details by Apr 30

NEW DELHI: The Finance Ministry has asked all departments to undertake a review of government guarantees given by respective ministries to their CPSEs or entities. The review should undertake aspects like the discharge of repayment obligations or interest obligations as per terms of the loan agreement and covenants and conditions met, the Finance Ministry said in an office memorandum. Besides, the details of CPSEs or entities due guarantee fee paid on time to the government should also be submitted. The Finance Ministry has extended date for submission of these details to April 30 from April 10. Guarantees are contingent liabilities have the potential to impact the financial performance of the government. In another circular, the ministry said FRBM Rules stipulates that government cannot guarantee more than 0.5 per cent of the GDP of the respective financial year to CPSE/entities. All ministries and departments are requested that prioritised guarantee requirement for 2019-20 may be worked out to include only such proposals where the loan agreement can be signed and guarantee agreement can be executed during the year. The guarantees already approved by the Budget Division of Department of Economic Affairs, Finance Ministry but not executed till March 31, 2019, needs to be revalidated and such proposals may also be included on the total guarantee requirement of 2019-20. The information should be sent by April 30, it said.

View: The next government needs to ax the public sector banks

India, the world's fastest growing large economy, is slowing: There has been a visible deceleration in activity in the past six months. It started with slowing sales of autos and some durable goods and has spread from there. Airline traffic growth is down; companies are now saying sales of consumer staples such as soaps and detergents have begun to weaken, too. Even as the hunt for reasons for the slowdown begins, the main culprit appears to be a familiar one: the still largely government-owned financial system. The issue is that there isn't enough money in the economy. For much of the past two years, distributors and retailers of consumer products have been warning of a growing lack of liquidity. At first, policymakers largely dismissed their concerns. The government's late 2016 decision to withdraw most currency from circulation temporarily, and the introduction the following year of a nationwide goods-and services tax, made it hard to decipher signals on economic momentum. Plus, liquidity, as the central bank measures it, generally looked stable: Banks were still parking funds with the Reserve Bank of India overnight. Now that the GST is more than a year old and the effects of demonetization have faded, the growth numbers are less distorted by base effects and the slowdown is becoming more obvious. So is the lack of liquidity: For the past two years, growth in money supply, as measured by M3, has lagged GDP growth; the M3-to-GDP ratio has declined sharply from 85 per cent to below 80 percent. Though aggressive purchases of government bonds by the RBI have caused base money or M0 (much of which is currency in circulation) to grow at 16 percent in recent months, it is still about 1 percentage point of GDP lower than its level before demonetization. Obviously, the engine that converts the Rs 28 lakh crore of base money (M0) to the Rs 154 lakh crore available as broad money (M3) is malfunctioning. The bottleneck is in the financial system. Money gets created when loans are given and, even though bank credit growth has accelerated in the past few months, aggregate credit growth is still far too weak. A reluctance to privatize the financial system is to blame. State banks continue to dominate the sector, controlling some two-thirds of banking assets. They also accounted for nearly 90 per cent of the non-performing assets from the last lending boom. While all sides of the political spectrum acknowledge the need for reform, governments have shied away from selling off state lenders outright, preferring to reform the sector by stealth. The hope has been to slow the growth of state-owned banks and allow privately owned rivals to gain market share. In another 15 or 20 years, the theory goes, the sector would effectively have been privatized. A similar strategy worked for the telecom and airlines sector, after all. The problem is that state banks continue to have a very large role in the economy. As they slow, they drag down the economy, too; private-sector banks simply can't grow fast enough to make up the difference. For a time, non-banking finance companies could help: Shadow banks were responsible for nearly a third of incremental loans in the system over the past three years. But, since September last year, when a funding crunch forced them to focus on survival, credit growth in the system has slowed. After elections, the next government should not dodge the need for more radical reforms. If state-owned banks are asked to start growing again, the risk of future bad loans goes up. On the other hand, if nothing changes, the economy will remain sluggish. While both major political parties have talked of consolidating state lenders into about half a dozen larger banks that should be easier to administer, more ambitious reforms will almost certainly be necessary -- at the very least, to remove them from the government's direct control. Other factors may also be contributing to the current slowdown in demand. The raises for government workers mandated by the last pay commission have started to dwindle in their impact, for instance. And, the central bank's Monetary Policy Committee could certainly help matters by cutting rates faster, especially since the RBI's own inflation forecasts for the next 12 months are lower than its 4 percent target. Lower rates can help bring down bond yields and provide some stability to the non-banking side of the financial system. But rate cuts are no panacea. If the economy is to start growing again, the government may have to take an ax to state banks, not a scalpel.

<u>RBI asks banks to disclose their IL&FS exposure</u>

Mumbai: The RBI has directed banks to disclose loans outstanding to Infrastructure Leasing & Financial Services and the provisions required to be made against the exposure, in their notes accompanying their fourth-quarter financial results. The RBI wants banks to disclose the total loans outstanding as well as the percentage of loans that are non-performing as per the Income Recognition and Asset Classification (IRAC) guidelines but not yet classified as NPAs. The RBI directive, posted on its website, comes after the National Company Law Appellate Tribunal (NCLAT) put a moratorium on financial institutions classifying loans linked to IL&FS as NPAs. How the IL&FS loans are treated is crucial because the company, which has defaulted on some payments, is estimated to have outstanding debt of about Rs 1 lakh crore. Banks will also need to disclose the provisions that have to be made as per the IRAC rules and the provisions actually made as of March 2019. Banks which have already declared their fourth-quarter results also will have to make this additional disclosure. "This is a welcome move because it will make bank exposure to IL&FS transparent. It addresses the concerns after the NCLAT order preventing the classification of these loans as NPAs," said Asutosh Mishra, head of research at Ashika Securities. "Though the RBI cannot ask banks to classify these loans as NPA, it can at least ask them to make provisions according to the IRAC norms. This now means that banks will have to show provisions which will invite questions from auditors and during the RBI's annual review." IL&FS' consolidated debt to equity has shot up to 10:1, which together with its asset liability mismatches points to the likelihood of significantly lower loan recoveries than earlier thought. From an original debt of Rs 91,000 crore, the situation has worsened because of delays in infra projects eroding the value of operating assets.

Govt may debar Deloitte for five years over alleged misconduct in IL&FS case

New Delhi: Even as Deloitte Haskins and Sells remains perched precariously on the high wire over its questionable role in the IL&FS audit process, it appears that the Ministry of Corporate Affairs may invoke section 140 (5) of the Companies Act to debar the firm for alleged malpractice in IL&FS accounts. This extreme action is being warranted after Deloitte's alleged misdemeanours and conduct in the IL&FS case. This Section essentially looks at the following: (5) Without prejudice to any action under the provisions of this Act or any other law for the time being in force, the Tribunal either suo motu or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, it may, by order, direct the company to change its auditors. If this were to happen, it will be the second such instance after Price Waterhouse was nailed in the Satyam scam. In January, 2018, nine years after the Satyam scandal stunned corporate India, SEBI banned Price Waterhouse (PW) from providing audit services to listed companies and market intermediaries for two years in the Satyam fraud. Two PW partners were banned for three years. The regulator also imposed a disgorgement of Rs 130.9 million on Price Waterhouse, and two of its chartered accountants - S Gopalakrishnan and Srinivas Talluri. The three entities also have to pay 12 per cent interest on the disgorgement amount since January 7, 2009, in 45 days from the date of the order. Further, it said that no listed company or intermediary registered with SEBI to be engaged with any audit firm associated with the PW network for issuing any certificate with respect to compliance of statutory obligations which SEBI is competent to administer and enforce, under various laws for a period of two years. These entities were charged under SEBI prohibition of Fraudulent and Unfair Trade Practices (FUTP) regulation. When contacted, Deloitte spokesperson told IANS: "The investigations on the company IFIN are in progress and we are cooperating fully. We reaffirm that we have conducted our audits in accordance with the Standards on Auditing and applicable laws and regulations." Deloitte on its part contends that the Group's defaults began in May 2018. The three principal arms of IL&FS Group - IL&FS, ITNL and IFIN -- according to sources within Deloitte saw SRBC &CO (E&Y) audit two of the firms in both 2017-18 and 2018-19, namely IL&FS and ITNL. IFIN meanwhile was audited by BSR (KPMG) in 2018-19 DHS (Deloitte) and BSR (KPMG). In 2016-17 DHS audited IL&FS, ITNL along with SRBC &Co (E&Y) and IFIN on its own. Of course, till 2015-16 for many years DHS audited all three Group entities. Trying to maintain distance from the opaque architecture of the 347 subsidiaries - majority of them overseas -- Deloitte has clarified that they were audited by various smaller firms, most of them being non Big Four. It has also emerged that during the many years that Deloitte was auditing the Group, secured loans were sufficiently collaterised which in turn was independently valued by reputable parties such as Knight Frank or realty and N M Raiji. The value of the assets and loans was corroborated by the fact that in 2015-16, Piramal Group had proposed to acquire a stake in IL&FS at Rs 750 a share after commissioning a detailed due diligence exercise by KPMG. LIC had at the time bunged in a monkey wrench, saying that the value was too low citing fair value at Rs 1100. Similarly, Deloitte has claimed that they did not audit the financial statements of 111 subsidiaries, 36 jointly controlled entities, 11 associates in 2016-17, or the financial information of 13 subsidiaries, two jointly controlled entities or six associates. This is where the real jiggery pokery exists.

BBB identifies 75 senior officers for leadership roles in PSBs

The Banks Board Bureau (BBB), the apex body for selection of whole-time directors of state-owned lenders, has identified 75 senior management personnel of public sector lenders to take over leadership role in the future. From a pool of 450 senior management personnel across nationalised banks, an inaugural batch of around 75 personnel has been identified this year to help nationalised banks take on the current and emerging challenges as well as help create a leadership pipeline, BBB said in its activity report for the October 2018-March 2019 period. "They are presently undergoing deeper assessments after which individual development plans will be generated. Shortly, a globally ranked Indian institution will be identified where every year the identified personnel will undergo intensive leadership development journey," it said. It has made a case for giving a complete autonomy to banks to decide organisational structure for better efficiency. BBB, headed by former Department of Personnel and Training secretary B P Sharma, also suggested revamping credit governance architecture in nationalised banks to reinforce efforts to minimise credit costs and enhance efficiency of credit allocation. "Incentivise maximisation of risk-adjusted income and disincentivise operational inefficiencies by aligning compensation with right performance metrics through the introduction of performance-based compensation through Employee Stock Option Scheme, which is different from Employee Share Purchase Scheme, and Performance Linked Incentives," the report said. It further said the Bureau was assigned with the task of recommending personnel for appointment as directors in government-owned insurance companies. In this regard, on January 4 this year, it made its recommendations for appointment of chairman and managing directors of LIC. Prime Minister Narendra Modi in 2016 approved the constitution of the BBB as a body of eminent professionals and officials to make recommendations for appointment of whole-time directors as well as non-executive chairmen of PSBs. It was also given the task of engaging with the board of directors of all the public sector banks to formulate appropriate strategies for their growth and development. Besides, it was also asked to frame strategy discussion on consolidation based on the requirement. The government wanted to encourage bank boards to restructure their business strategy and also suggest way forward for their consolidation and merger with other banks.

Banking system faces Rs 70,000 crore liquidity deficit

MUMBAI: Muted government spending and high election-related spending have created a liquidity deficit of Rs 70,000 crore in the banking system, stymieing the Reserve Bank of India's record liquidity infusion via bond purchases and the innovative dollar-rupee swap, blunting the recent rate cut and clogging the efficacy of policy transmission. “System liquidity seems to be slightly more in deficit that is normal at this time of the year,” said Saugata Bhattacharya, chief economist at Axis Bank. “The proximate reason seems to be relatively high government balances with RBI, which might be due to lower spends. Other contributing factors might be higher cash withdrawal, weaker foreign exchange inflows and higher CRR (cash reserve ratio) balances of banks,” he said. The deficit is at Rs 70,266 crore on April 16 compared to Rs 31,396 crore on April 3, data from the Bloomberg India Banking Liquidity gauge showed. During the same period, the system was running in surplus cash in the range of Rs 33,400 and Rs 84,600 crore although New Delhi’s currency swap programme (DeMon) increased cash in the banking system around that period. “Extended deficit liquidity could become detrimental to smoother monetary policy transmission,” said Upasna Bhardwaj, senior economist at Kotak Mahindra Bank. “One of the primary reasons for tighter liquidity conditions in April has been the unexpected muted spending by the government.” The surplus cash balance with the government is now at about Rs 47,333 crore as on April 16 compared to nil balance in the corresponding period last year. “GST collections towards the end of the week are expected to have further increased the cash balance and worsened liquidity deficit given the absence of aggressive spending,” she said. The liquidity deficit may cross Rs 1 lakh crore by the end of last week in April, experts said. While RBI has injected Rs 2.98 lakh crore in liquidity into the banking system in 2018-19, it also conducted a dollar swap auction for $5 billion or Rs 34,500 crore in March. Similar dollar auction will also be carried out on Tuesday to infuse similar quantum. “RBI might have to infuse liquidity through term repo for the time being,” said Soumyajit Niyogi, associate director, India Ratings. “Post elections, the scenario is likely to change with the spending spree ebbing and possible reduction in cash in circulation.” Factors like ongoing weekly high central and state government bond auctions too added to the deficit problem, Niyogi said. On an average the central bank has sold about Rs 20,000-30,000 crore state and central government debt in the first two weeks in April. Liquidity conditions, however, should improve in the coming days amidst the FX swap and a pick-up in government spending.

Changed insolvency norms by April next to speed up process

The Insolvency and Bankruptcy Code (IBC) is in the process of being changed to be effective from the next fiscal to accommodate the fast changing creditor-debtor scenario, according to the Insolvency and Bankruptcy Board of India (IBBI). The IBBI on Saturday invited comments from stakeholders and the public on making changes to the current regulations notified under the IBC, 2016. The changes the IBBI is looking are in the regulations under Voluntary Liquidation Process, 2017, Fast Track Corporate Insolvency Resolution Process regulations, 2017, Liquidation Process, 2016, and the Insolvency Resolution Process for Corporate Persons, 2016, among others. Recent developments like the Supreme Court striking down the Reserve Bank of India's (RBI) circular last year on banks resolving their massive non-performing assets (NPAs or bad loans) has also made a case for review of certain criteria in the overarching laws of IBC," the IBBI said in notice. "In a dynamic environment the stakeholders could play a more active role in making regulations. They may contemplate, at leisure, the important issues in the extant regulatory framework that hinder transactions and offer alternate solutions to address them, in addition to responding urgently to draft regulations proposed by the regulator. This is akin to crowd sourcing of ideas", it said. "The comments received between April 20, 2019, - December 31, 2019, shall be processed together and following the due process, regulations will be modified to the extent considered necessary. It will be the endeavour of the IBBI to notify modified regulations by March 31, 2020, and bring them into force on April, 1, 2020." The regulator said that similar exercises have been undertaken in the previous years. "Public consultation enable every idea to reach the regulator. Consequently, the universe of ideas available with the regulator would be much larger and the possibility of a more conducive regulatory framework much higher," it added.

With IBC about to be 3, a look at the hits & misses and the road ahead

Next month, it would be 3 years since Parliament enacted the bankruptcy law. There have been hits and misses. As it matures, incumbents are working overtime to puncture it while others are waiting for it to deliver results. The new government should aim at strengthening it instead of weakening it, say Joel Rebello and Atmadip Ray As a raging currency crisis in emerging Asia threatened to engulf the globe and singe financial markets from Tokyo to Toronto in the summer of 1997, a new phrase entered the common man’s active vocabulary: Crony capitalism. Much of the Asian Financial Crisis was blamed on this practice, as were subsequent economic failures in Russia, Greece, Cyprus, and the Iberian Peninsula. India hasn’t been immune to this nexus either, and the country’s record bad-loan pile has been attributed, in part, to crony capitalism. In the winter of 2016, New Delhi sought to root out this practice, and extricate about Rs 10 lakh crore stuck in debt in industries as diverse as steel, cement, infrastructure financing, housing and jewellery. In its scope, therefore, the Insolvency and Bankruptcy Code (IBC) was not only the most well-intentioned, but also ambitious piece of economic legislation in the country. To be sure, its record has been rather mixed since its birth in May 2016. From vested interests and protracted litigation to periodic reinterpretations of the law, the IBC mechanism has been slow in extricating cash stuck in unviable projects. Among the most prominent examples of this chequered journey for the IBC is the Essar Steel insolvency. It has been more than 600 days since the Rs 50,000-crore account entered the IBC. Initially considered a showcase for the success of the new mechanism, this resolution programme has come to typify the delays in what was a long-awaited judicial reform. IBC mandates that an insolvent asset must be resolved in 270 days. If an insolvent asset does not find a buyer within that period or if the committee of creditors, the decision making body on these assets, is not happy with the bids, the asset should be liquidated at the minimum value assessed by the resolution professional managing the asset. According to details released by the Insolvency and Bankruptcy Board of India (IBBI), out of the 1,484 cases admitted for the corporate insolvency resolution process (CIRP), 586 have been closed till December 2018. That marks a hit rate of about 40%. There are cases like Essar awaiting court judgement. Then there are others seeking admission, like Visa Steel, filed in December 2017 following the banking regulator's nudge. Visa Steel is pending for admission in the Kolkata NCLT as the promoters have challenged SBI's right to take them to the bankruptcy court on the premise that the company owed lenders less than the ?5,000-crore, the cut-off set by the Reserve Bank of India (RBI).

THE CITY OF KILLJOY

Cases in Kolkata are notorious for delays as judges had to juggle between Kolkata and the other two eastern centres — Guwahati and Cuttack. A new judge has now been appointed to share the workload of about 2,400 pending cases, including 865 CIRPs. "Missing the 270-day deadline is a misnomer," says KR Jinan, judicial member at the NCLT Kolkata bench. "The code does not specifically mention whether time due to any unforeseen circumstances or justified reasons can be excluded while computing the 270 days. This has been a subject matter in a number of cases before the NCLT and NCLAT." Giving a verdict in the Quinn Logistics India vs Mack Soft Tech case, NCLAT held that if an application is filed by the resolution professional or committee of creditors or any aggrieved person for justified reasons, "it is always open to the adjudicating authority/appellate tribunal to 'exclude certain period' for the purpose of counting the total period of 270 days, if the facts and circumstances justify exclusion in unforeseen circumstances."

AN ACT OF GOD

Unforeseen circumstances could be: i) if the CIRP is stayed by 'a court of law or the adjudicating authority or the appellate tribunal or the Supreme Court, or ii) if no resolution professional is functioning for some reason, such as delay in taking charge or removal during the CIRP. "In order to create a balance between both the speedy disposal and the delivery of justice so that companies are not liquidated merely due to the expiry of the timeframe, we exclude the unutilised period for enabling the committee of creditors to approve a resolution plan," Jinan says. The IBC is aimed at early corporate debt resolution and value maximisation of the assets of the debtor. But gaps in the IBC ecosystem and infrastructure bottlenecks have slowed the process India has 14 NCLTs, and two are yet to start functioning. The government had a couple of years back announced to set up 24 bankruptcy courts. The NCLT judge roster shows 27 members have been sharing the workload against the target of appointing 60 judicial and technical members. Delhi and Kolkata are sharing the workloads of Jaipur, Chandigarh, Guwahati and Cuttack benches.

BIGGER AND BETTER

The government is learnt to have finalised a list of new members, although there is no official communication. The lack of supporting judicial infrastructure — clerks, paralegals and stenographers — has enhanced the challenge for the system. "Delays in judgement, admission of cases and interruptions in the whole process, besides the gaps in infrastructure, have compromised the IBC mechanism," said KP Sreejith, managing partner at Indialaw LLP. In the Orchid Pharma case, the entire resolution process must restart after the resolution applicant failed to infuse money. There have been cases where orders are pending for many months. Then there are winning bidders, such as the Liberty

House Group in the case of Amtek Auto and Adhunik Metalics, who hyave failed to pay. “All these factors are raising concerns that IBC will meet the same fate as DRT and SARFAESI and banks will eventually lose confidence in IBC,” said Sreejith. The recent Supreme Court order setting aside RBI’s decision to send all power companies to the NCLT has also set a wrong precedent. The recent agreement signed by lenders with Reliance ADA Group and Essel prevents them from selling pledged shares because it will lead to a sharp fall in these companies’ share prices and lead to lower recovery.

THE FINE PRINT

According to the Code, applications are to be admitted within 14 days. “The court held that these 14 days will be directory and not mandatory. This interpretation allowed for filing of replies by corporate debtors and endless legal arguments. Currently, pending cases have not been admitted for more than a year,” said Sapan Gupta, national head for banking and finance practice at Shardul Amarchand & Mangaldas. “One of the biggest positives for IBC was timely resolution — which is not true in absolute terms but in relative terms to DRT or winding up, it is probably better. However, the fear of IBC has worked in favour of banks where more and more defaulting borrowers are paying loans to avoid IBC proceedings. The impact of IBC is more visible outside IBC than in IBC,” Gupta says. Out of the top 12 cases listed by RBI involving around Rs 2 lakh crore, only five cases have been resolved so far. “We have to measure the success or failure of the IBC relative to the previous system,” says Nikhil Shah, managing director at Alvarez & Marsal.

THE GLASS IS HALF FULL

Apart from delays due to legal disputes, there have been issues that are being settled as the law, still in its infancy, requires interpretation when it comes to the spirit of the legislation. A recent intervention in the IBC process was a suggestion in the Essar Steel resolution from the NCLAT that why not the committee of creditors consider the redistribution pattern that they have voted on. While the opinion whether the NCLAT has the right over the distribution pattern or not, it unintentionally has become one of the many hurdles in the resolution of the steel company. Last year, the government proposed an ‘inter-creditor agreement’ where a majority of creditors, say 66%, had the control over resolution making it difficult for the dissenting creditors to air their views. Furthermore, there have been instances of bidders like the Liberty Group of the UK, which won the race in bidding process, but failed to pay up raising doubts about the soundness of the system. According to the World Bank, before IBC, the time taken to resolve stressed loans was 4.3 years and recovery rate was 26% for financial creditors. Two years into IBC, this has improved to 48% recovery, which takes about 1-1.5 years through the IBC (79 resolution cases). “I would say there has been a marked improvement in the recovery process which is already leading to billions of dollars being invested in the country due to the protection of creditor rights. Compared to other markets, the pace at which we have achieved this is also noteworthy. In the US, for example, it took 10 years (from 1978) for the bankruptcy law to attain some stability. At one point, they were even considering repealing it. The progress in India has been remarkable by global standards,” Shah says.

Customer complaints against banks surge 25% to 1.63 L in FY18

MUMBAI: Customer complaints to the banking ombudsman (BO) increased by a fourth to 1.63 lakh in the year to June 2018, with a majority of them related to unfair practices, the Reserve Bank said Wednesday. The country's largest lender SBI led the complaint list with close to 47,000 plaints, while HDFC Bank led among the private sector lenders with over 12,000 complaints, and American lender Citibank had 1,450 complaints. In the annual report of the BO scheme, the RBI said a rise in the number of complaints from digital transactions, an ombudsman scheme for digital transactions is proposed to be formulated and implemented during 2018-19. In the year gone by, the 21 BO offices received 1,63,590 complaints, marking an increase of 24.9 percent over previous year, and 96 percent of them were disposed. The major grounds of complaints received during the year was non-observance of fair practices code at 22.1 percent, ATM and debit card issues at 15.1 percent and credit card issues at 7.7 percent, and mobile and electronic banking at 5.2 percent. Problems relating to pension, levy of charges without notice, loans, remittances, agents involved in direct sales and recovery and mis 019 Customer complaints against banks surge 25% to 1.63 L in FY18 -selling accounted for 5 percent or less of the total complaints received each, it said. The percentage of maintainable complaints which were resolved by agreement i.e. through mediation increased to 65.8 percent from 42.4 percent, RBI said. The BOs issued 148 awards during the year, of which 111 were implemented, it said, adding this is a huge surge in awards when compared with the 31 issued last year. In FY18, the BO scheme was revised to enhance the powers of BOs by doubling the amount of compensation for loss that can be granted in an award to Rs 20 lakh, deputy governor MK Jain said in his foreword to the report.

ED writes to investigative bodies in Singapore, Hong Kong on Chanda Kochhar quid pro quo case

A day after the Enforcement Directorate summoned former MD & CEO of ICICI Bank Chanda Kochhar on May 3, in connection with the Videocon money laundering case, the agency today wrote to investigative authorities in Singapore, Hong Kong on Chanda Kochhar quid pro quo case, according to sources quoted by ET NOW. According to the same sources, the channel reported that the agency has sought the bank account details along with list of assets by Chanda Kochhar, Deepak Kochhar and Rajiv Kochhar. ED also suspects that more family members of Chanda Kochhar are involved in money laundering via offshore structures. The ED had also asked Chanda Kochhar to make full disclosure to the probe agency in line with the one she made to RBI, SEBI and other regulators. This development comes in the wake of evidence collected by ED, which implies that the former ICICI Bank MD & CEO was the sole beneficiary of the loans sanctioned to 'certain individuals' and 'firms'. The agency is also investigating the details of a $530 million loan granted to Essar Steel Minnesota LLC during Chanda's tenure in 2010. Similar to the Videocon case, ICICI leading a consortium of banks had sanctioned $530 million loan to Essar that turned into a non-performing asset in 2013.

Govt raises authorised capital of Allahabad Bank to Rs 8,000 cr

State-owned Allahabad Bank said Tuesday the government has increased its authorised capital by Rs 5,000 crore to Rs 8,000 crore. The central government after consultation with the Reserve Bank of India has increased the authorised capital of the bank from Rs 3,000 to Rs 8,000 through Gazette Notification, Allahabad Bank said in a regulatory filing. The increase in authorised capital will help enable the bank to raise further fund up to a maximum ceiling of Rs 8,000 crore.

RBI may offer more time for bank-led resolution of NPAs

The RBI is likely to adopt a more accommodative approach towards resolution of stressed assets when it issues a revised circular, replacing the controversial February 12 circular quashed by the Supreme Court. Sources said the major contention in the Reserve Bank of India's (RBI) controversial February 12, 2018, circular, including the one-day default norm, that was challenged in the court leading to its quashing, will be done away with in the new circular. Instead, banks will be given 30 days time from the first default to identify and qualify an account as a bad debt (special mention account or SMA) and initiate a resolution exercise. Besides, the 180-day period given for completing the bank-led resolution will start only after an account is declared an SMA I thirty days from first default, with RBI likely to accede to a suggestion given by the Indian Bans' Association (IBA) to allow individual banks to grant additional 60 days time for approval and implementation of a resolution plan (RP). So, instead of having 180 days time for a bank-led resolution from day one of default, under new RBI circular banks could get up to 270 days to resolve an asset without taking it to the National Company Law Tribunal (NCLT) for resolution. Sources said that the RBI is being guided by suggestions earlier given by the IBA on classification of non-performing assets (NPAs or bad loans) and their resolution. The IBA has made a presentation to the RBI Governor on April 10. The central bank is expected to retain the main contours of its February 12, 2018, circular while also making the referral to the NCLT non-compulsory. Also, the RBI could relax norms for approval of a bank led resolution plan. Instead of requiring the unanimous approval of banks, lenders may now get to approve a resolution plan with 90 per cent voting. The changes in the circular could also relax stringent provisions relating to restructuring for compromise settlements. Instead of classifying a compromise settlement as restructuring, if the settlement amount payment period extends beyond 90 days requiring a complex rating procedure (RP4), the changed norms could follow the IBA's suggestion of extending the period of settlement amount payment to 180 days. Also, for a compromise settlement, IBA has suggested that RP4 provision should be withdrawn and only income recognition and asset classification (IRAC) norms used once an account is considered as being restructured. The IBS has also suggested that an account should be upgraded if 10 per cent of the sustainable debt portion is paid, instead of the current provision requiring payment of 20 per cent of outstanding principal and interest. This will benefit large infrastructure projects having big exposure to banks. On April 2, the Supreme Court struck down a February 12, 2018, circular of the RBI that asked banks to initiate insolvency process against companies even if there was a day's delay in payment of dues. As per the circular, banks were told to start the resolution process as soon as a borrower defaulted on a term loan and were given 180 days to cure it, failing which the account would have to be referred to the NCLT. It also said that any company that defaulted on its loan repayment obligation even by a day should be declared a defaulter. In the earlier circular, the RBI had withdrawn all existing debt-restructuring schemes and asked banks to draw resolution plans for all assets where the banking sector's exposure was more than Rs 2,000 crore.

RBI approves proposal of HDFC for holding 9.9 pc stake in Bandhan Bank

NEW DELHI: The Reserve Bank of India (RBI) has given its nod to HDFC Ltd for acquiring up to 9.9 per cent stake in Bandhan Bank following the Gruh Finance deal. Gruh Finance, the affordable housing finance arm of HDFC Ltd, was taken over by Bandhan Bank in a share-swap deal in January. After the announcement of the deal, an application was made by HDFC to the RBI for holding shares in Bandhan Bank, HDFC Ltd said in a regulatory filing on Tuesday. The RBI on Monday granted approval to HDFC to acquire shareholding of 9.9 per cent or less of the paid-up capital of Bandhan Bank upon the effective date of scheme of amalgamation, it said. The scheme remains subject to approvals from the National Company Law Tribunal and the respective shareholders of Gruh Finance and Bandhan Bank, it said. The Gruh Finance deal will reduce stake of Bandhan Financial Holdings Ltd in Bandhan Bank to about 61 per cent from the current 82 per cent. The share swap ratio for the merger will be 568 shares of Bandhan Bank for every 1,000 shares of Gruh Finance.

SBI appoints eight new DMDs and many other CGMs

MUMBAI | KOLKATA: State Bank of India (SBI), which accounts for about a fourth of the country’s loan market, has elevated eight executives as deputy managing directors (DMD) in one of the biggest recent HR revamps, establishing an organizational structure that can underpin growth in FY20. SBI is also in the process of identifying about 15 executives who would fill vacant positions as chief general managers, three people with direct knowledge of the matter told ET. “Some DMD positions have fallen vacant as some executives have moved to other banks while others are set to retire in the course of the next few months," said one of the persons cited above. The new DMDS are Soma Shankara Prasad, Keshav Kumar T, Ashwani Bhatia, Hare Krishna Jena, Sandeep Tewari, Alok Kumar Choudhary, Janakiraman Swaminathan and Sanjiv Chadha, sources said. Their appointments could not be individually confirmed. A query sent to the Mumbai-based lender remained unanswered until the publication of this report. Unlike in the past, SBI now begins the annual appraisal process in April itself and concludes it by May 15. Earlier, the exercise would involve manual processing, consuming about six to nine months. The bank has interviewed 27 candidates for DMD positions, a person said. It conducted interviews for DMD positions last Saturday, while general managers appeared for interviews for selection as chief general managers this Monday and Tuesday. Simultaneously, interviews are going on for positions of general managers and deputy general managers. "It has digitised annual appraisals since last year," said another person. Now, the digital mode is used for four-fifths of SBI's yearly promotions and appraisals. The bank upgraded its internal promotion processes as it seeks to expand business faster after years of bleak earnings, hamstrung as it were by the mounting pile of bad loans. Lately, it returned to profits after provisioning for bad loans had dragged SBI into losses in the earlier quarters. SBI reported a net profit of Rs 3,955 crore for the quarter ended December 31 against a loss of Rs 2,416.34 crore in the corresponding quarter last year. In September, New Delhi appointed 10 senior executives from SBI as managing directors and chief executive officers in other stateowned banks. Half of them were DMDs in SBI. Mrutyunjay Mahapatra and Padmaja Chundru are among five former SBI DMDs now heading Syndicate Bank and Indian Bank. Three other DMDs, Pallav Mohapatra, J Packirisamy and Karnam Shekhar, are now at Central Bank of India, Andhra Bank and Dena Bank (now merged with Bank of Baroda), respectively.

View: The Jet lesson on why Indian capitalism must be saved from Indian capitalists

The grounding of Jet Airways India Ltd., the country's oldest private-sector carrier, isn't just bad news for customers and its 23,000 employees. It raises yet again a question that's puzzled two successive governments and will continue to bedevil whichever party takes power after elections conclude next month: What's killing capitalism in India? Jet was born in the early 1990s, when India's closed Soviet-style planned economy had just started embracing globalization and private enterprise. Back then, few Indians could afford to fly; now the country has the world's fastest-growing aviation market. An airline that was at one point the industry's dominant player should theoretically have been able to thrive. While Jet's costs were too high compared with those of its no-frills rivals, that issue could have been fixed. The real problem is that Jet founder Naresh Goyal gambled away a perfectly fine — albeit, unprofitable — airline by not injecting equity himself into the cash strapped business, or stepping aside in time and allowing someone else to do so. It's only natural for entrepreneurs to be possessive and irrational, especially when — like Goyal — they've been so wildly successful for so long. The bigger conundrum is why providers of outside capital (banks and capital markets) didn't act as a disciplining force on Goyal and save the business. Despite Abu Dhabi's Etihad Airways PJSC taking a 24 percent stake in the airline in 2013, Jet has been slipping deeper into negative equity for seven years. Had India's state-run banks insisted on a timely and substantial capital infusion, and had they credibly threatened to dilute Goyal's 51 percent controlling stake by issuing themselves new shares when the inevitable debt default occurred, Jet would now be flying under a new owner. When Jet's rival Kingfisher Airlines Ltd. collapsed in 2012, India didn't have a modern bankruptcy law. Now it does. Even so, in Jet's case — or in the high-profile $7 billion insolvency of tycoon Anil Ambani's Reliance Communications Ltd. — creditors didn't utilize that option. Instead they foolishly relied on entrenched insiders to make things right, thereby hurting their prospect of extracting value. Banks are now awaiting a white knight. Yet for a new owner to revive the airline after it has stopped flying will necessarily mean very deep haircuts on its $1 billion of net debt. State-run lenders will lose heavily, as will employees. It’s an unnecessary waste of capital and jobs in a country that doesn’t have enough of either. So what’s to be done? Private investment in India has been weak for years now, first under a Congress Party-led coalition and then under Prime Minister Narendra Modi’s Bharatiya Janata Party. There has been no dearth of new rules in this period. But rules-based capitalism cannot flourish in a business landscape so heavily dominated by insiders, who are regularly tapped by all parties for anonymous political donations. For real change to occur, electoral financing must be overhauled and market forces strengthened so that company founders, at least in capital-intensive industries, aren’t allowed to hang around and become a risk to viability. Almost every large business failure in India today involves providers of outside capital — and their agents — giving insiders a free pass to maintain control using other people’s money, destroying value in the process. These agents aren’t just company boards. In the case of the now-bankrupt infrastructure financier-operator IL&FS Group, it was the auditors and credit rating agencies that led even small pension plans like that of the American Embassy School staff in New Delhi into trouble. Or consider the problems brewing in India’s mutual funds industry, which lent money to media mogul Subhash Chandra against his shareholding in Zee Entertainment Enterprises Ltd., a highly profitable television content business that dates back — once again — to the early days of India’s economic liberalization. When Chandra’s leveraged bets on infrastructure ran into liquidity problems, the mutual funds agreed not to sell the Zee shares they held as collateral. The fund managers now have the chutzpah to tell investors that the net asset value for their maturing plans isn’t available in full — and won’t be until Chandra can find a buyer for Zee. Even more shockingly, the bilateral loans to Chandra, masquerading as bonds, are still rated A. Relationship lending is to be expected in a state-dominated banking system prone to rigging by crony capitalists. But relationship-based fund management? That shows the extent to which even the private sector is compromised. Business “promoters,” as they’re known in Indian law, have used a mix of personality cult and proximity to political power to terrorize the ultimate providers of outside capital. It’s lamentable that after 14 years as a publicly traded firm, operating in a capital-intensive, price-sensitive, competitive, regulated industry, Jet was still allowed to carry on basically as Goyal’s fief. Let the airline’s avoidable collapse serve as a warning for the next government: Don’t go out of the way to rescue Jet, but do save Indian capitalism from insiders.

Crypto currency is 'ponzi scheme', should be banned in India: Govt official

Crypto currency is a "ponzi scheme" and should be banned to protect the interest of investors, a government official said Friday. Amid continuing debates about crypto currencies such as Bitcoins, the Investor Education and Protection Fund (IEPF) Authority, which comes under the corporate affairs ministry, is in favour of banning trade in such currencies. Crypto currencies are based on blockchain technology and there are concerns about its viability in the long-term and risk to investors, especially considering steep fluctuations in the prices. These are digital units in which encryption techniques are used for trading and these currencies operate independently of a central bank. "When it comes to investor protection, the IEPFA has to take a stand against certain things. Against ponzi schemes, we are taking a stand. "We think that crypto currency is a ponzi scheme and it should be banned," IEPFA CEO Anurag Agarwal said. Emphasising that it is the view of the IEPFA, Agarwal, also a Joint Secretary in the corporate affairs ministry, said the government would also take a stand on the issue. While the government is yet to take a final call on whether crypto currencies should be banned or not, the Reserve Bank of India (RBI) last year tightened the rules to discourage use of such currencies. IEPF Authority, set up under the Companies Act, 2013, primarily focuses on protecting the interest of investors. It also has powers to seek information from companies as well as initiate prosecution proceedings. Agarwal said the authority plans to start gathering "primary data" from persons who have put in their money in chit funds and deposit taking schemes. A mobile application, as well as an online platform for such investors, would be introduced in 10 days, he added. Such a system would help in having an understanding about entities taking deposits as well as curb illicit money raising activities.

Standing instructions to banks go online

Consumers can now give standing instructions to banks online, mandating them to make recurring payments for a wide range of services like payments to insurance companies and into mutual fund schemes. Seven banks have gone live on the National Payments Corporation of India's (NPCI's) platform, allowing customers to provide e-mandate through net banking, while Kotak Mahindra Bank enables customers to do this using a debit card as well. In the past, the process of activating standing instructions involved customers providing a paper-based authorisation under the electronic clearing services (ECS). The National Automated Clearing House (NACH) digitised the process but still required the use of paper and signature verification. Banks did provide an e-Sign facility briefly but this was discontinued with the Supreme Court restricting the use of Aadhaar. The other banks that are live on net banking are Yes Bank, IDFC Bank, Axis Bank, Central Bank, Bank of Baroda and Punjab National Bank. The e-mandate makes it more convenient for utilities and other service providers to collect payments remotely without incurring the costs involved with credit cards or through payment gateways. NPCI's e-mandate platform allows customers to provide standing instructions for paying bills, fees or loan EMI dues to banks, NBFCs, insurers, utility companies, MFs, e-commerce and educational institutions. The platform will also be an inter-operable network like India's ATM network, where customers can create e-mandates, irrespective of which bank they have their account with. So far such e-mandates were restricted to short (6 month-1 year) consumer loans for buying electronic gadgets like i-Phones on ecommerce sites like Amazon, Flipkart for a select number of banks they had partnered with. Now such e-mandates will be possible across the industry, for longer loan tenures or payment periods and irrespective of the bank partner. Kotak Mahindra Bank on Monday became the first bank to offer such a service — as both net acquirer& receiver for e-mandates.

Deposits in Jan Dhan accounts fast inching towards Rs 1 lakh crore mark

NEW DELHI: The total deposits in bank accounts opened under the Jan Dhan scheme, which was launched about five years ago by the Modi-government, are set to cross Rs 1 lakh crore soon. The total balance in the Jan Dhan accounts, which has been steadily rising, was at Rs 97,665.66 crore as on April 3, as per the latest government data. The total number of Jan Dhan accounts have crossed 35.39 crore. The deposits stood at Rs 96,107.35 crore on March 27 and Rs 95,382.14 crore in the week before. More than 27.89 crore account holders have been issued the Rupay debit cards. The Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched on August 28, 2014 with an aim to provide universal access to banking facilities to all households. Enthused by the success of the scheme, the government enhanced the accident insurance cover to Rs 2 lakh from Rs 1 lakh for new accounts opened after August 28, 2018. The overdraft limit was also doubled to Rs 10,000. The government also shifted the focus on accounts from 'every household' to 'every unbanked adult'. Over 50 per cent of the Jan Dhan account holders are women, while nearly 59 per cent accounts are in rural and semi-urban areas. The objective of PMJDY is to ensure access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to weaker sections and low income groups. The PMJDY also envisages channelling all government benefits to the beneficiary accounts and pushing the Direct Benefit Transfer (DBT) scheme of the central government.

NEWS OF THE WEEK

ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.

Global warming shrank Indian economy by 31 per cent: Stanford study

BOSTON: Global warming has caused the Indian economy to be 31 per cent smaller than it would otherwise have been, according to a Stanford study which shows how Earth's temperature changes have increased inequalities. The study, published in the journal Proceedings of the National Academy of Sciences, showed that growing concentrations of greenhouse gases in Earth's atmosphere since 1960s have enriched cool countries like Norway and Sweden, while dragging down economic growth in warm countries such as India and Nigeria. "Our results show that most of the poorest countries on Earth are considerably poorer than they would have been without global warming," said climate scientist Noah Diffenbaugh, from Stanford University in the US. "At the same time, the majority of rich countries are richer than they would have been," Diffenbaugh said in a statement. The study from 1961 to 2010, global warming decreased the wealth per person in the world's poorest countries by 17 to 30 per cent. Meanwhile, the gap between the group of nations with the highest and lowest economic output per person is now approximately 25 per cent larger than it would have been without climate change. While the impacts of temperature may seem small from year to year, they can yield dramatic gains or losses over time. "This is like a savings account, where small differences in the interest rate will generate large differences in the account balance over 30 or 50 years," said Diffenbaugh. After accumulating decades of small effects from warming, India's economy is now 31 per cent smaller than it would have been in the absence of global warming, he said. Although economic inequality between countries has decreased in recent decades, the research suggests the gap would have narrowed faster without global warming. The study builds on previous research in the team analysed 50 years of annual temperature and GDP measurements for 165 countries to estimate the effects of temperature fluctuations on economic growth. They demonstrated that growth during warmer than average years has accelerated in cool nations and slowed in warm nations. "The historical data clearly show that crops are more productive, people are healthier and we are more productive at work when temperatures are neither too hot nor too cold," said Marshall Burke, a Stanford assistant professor of Earth system science. "This means that in cold countries, a little bit of warming can help. The opposite is true in places that are already hot," said Burke. Researchers combined data from more than 20 climate models developed by research centres around the world. Using the climate models to isolate how much each country has already warmed due to human-caused climate change, the researchers were able to determine what each country's economic output might have been had temperatures not warmed. "For most countries, whether global warming has helped or hurt economic growth is pretty certain," said Burke. Tropical countries, in particular, tend to have temperatures far outside the ideal for economic growth. "There's essentially no uncertainty that they've been harmed," he said. It's less clear how warming has influenced growth in countries in the middle latitudes, including the US, China and Japan. For these and other temperate-climate nations, the analysis reveals economic impacts of less than 10 per cent.

MUST READ ITEM FOR THIS WEEK

Leverage, deals & a succession plan: Mukesh Ambani has an eye on the future

When Saudi oil minister Khalid al-Falih made his second visit to India in less than three weeks in March to attend Akash Ambani’s wedding, it was expected that a Reliance-Saudi Aramco alliance was just round the corner. Al-Falih, also Saudi Aramco’s chairman, had previously let the cat out of the bag — first in December during the Udaipur festivities that marked Isha Ambani’s wedding, then in February when he accompanied Crown Prince Mohammad bin Salman for a state visit to India. New Delhi is “number one priority” for Riyadh,” he said. On February 20, Lutyen’s Delhi had even been buzzing with speculation that a deal announcement was due. What came instead at that time was an innocuous statement from the Saudi Aramco chief executive Amin Al-Nasser about joint investments with Reliance in refining and petrochemicals, almost echoing his boss' previous statements. But for those who still find it difficult to fathom that Mukesh Ambani would seriously consider diluting his hold over the Reliance Industries (RIL) crown jewel, especially since he has always chosen to build rather than buy in his home market, here's a reality check. RIL has been the busiest deal maker in India Inc, buying businesses and selling stakes in them. In the past two years or so, it has bought or invested in around 27 businesses, half of them in the telecom and media space, to bulk up operations that are still at the growth stage. These range from music streaming apps and cable networks to telecom software and hardware units. Of a total $5.3-billion of investment in the past five years, 79% has been allocated toward deals in the telecom sector, Morgan Stanley estimates. At the same time, for perhaps the first time, the company has been proactively exploring asset monetising even in its core home market through stake sales, innovative structures such as infrastructure investment trusts (InvITs) or even the outright sale of assets and businesses. This, evidently, is a new strategy after the failed bid for Lyondell Bassell in 2009-10 or the misadventures in US shale gas, and has much to do with ensuring that the legacy of fiscal discipline endures as it is. Reliance will sell stakes in firms that own its fleet of very large ethane-carrying ships to Japan's Mitsui OSK Lines, it said on April 17. Reliance Jio Infocomm has already transferred its fibre and tower assets into two separate InvITcontrolled special purpose vehicles (SPVs) to reduce liabilities of $15 billion. "The end objective will be to have a different set of investors who would want to run these companies. This means these assets go off our balance sheets, so liabilities also go down," Srikanth Venkatachari, joint chief financial officer, RIL, had said in January. "We were surprised with the scale of the demerged tower and fibre assets (book value of $18 billion), which is the largest among telecom operators in India," adds Nikhil Bhandari of Goldman Sachs Research. Ambani has also been negotiating with Saudi Aramco, the world's largest oil company, and Abu Dhabi National Oil Co for months now, for an equity partnership at the flagship refining and petrochemicals business. He has already sold his private pipeline entity for $2 billion to Brookfield, with an option of buying it back after two decades.

PLANNING AHEAD

After investing more than $40 billion to create the world's largest 4G network for Jio, India's richest man would certainly like to take some money off the table. With net liabilities of $45.1 billion, according to Jefferies, even Reliance needs to think of fiscal management, especially when it needs ammunition for the costly upcoming retail battle with deep-pocketed global rivals Amazon, Walmart-owned Flipkart and Alibaba. But, having turned 62 this April, this portfolio management exercise by Mukesh Ambani is also about baby steps toward succession planning. Ambani Senior is an astute billionaire, a perfectionist manager who revels in projects of unprecedented scale and scope. First, refining and petrochemicals, then retail and now telecom — the Reliance juggernaut has disrupted businesses across brick-and-mortar and digital like few others before it. He's also a doting father who wants to ensure his legacy endures through his three children —Isha, Akash and Anant. And he well knows the pitfalls of not having a clear plan for who gets to run what. All three are adults, two of whom are active in the business and married, with the third about to do so. As several of Reliance's newer group businesses achieve adolescence, recasting the empire is seen as logical and value accretive all round. This could involve various strategies, such as spinning off retail or petrochemicals and bringing a specialist partner on board. Reliance could take advantage of their expertise and cash, pay off debt, improve return on capital and reward shareholders. The next generation could each run telecom and media, retail, and energy as verticals with share sales that would release value. It is a sensible step, feels ET columnist and family business historian Sonu Bhasin. "The promoter gives an opportunity to his inheritors to operate somewhat independently while protecting the core business. The inheritors, too, get an opportunity to work without a constant over-the-shoulder hovering presence of the patriarch! To build businesses with longevity, and to keep the legacy going, this verticalisation is one of the logical ways." Quoting US industrialist and philanthropist Andrew Carnegie, she adds, "'Three generations from shirtsleeves to shirtsleeves' the most difficult transition that family businesses make globally is from second to third.". Some family friends disagree. "He's all keyed up. He's building the business for the next phase of his life. This is classic MDA 3.0," quips an old Mumbai-based associate. "After the struggles with gas exploration and Jio's teething problems, he's an entrepreneur again. He's done with his parental duties, got the kids settled. He's raring to go and is all keyed up. Other family related distractions are also gone." Investors also prefer cleaner, leaner structures or verticals, discounting holding companies or a mixed bag of operations that tend to distract management. Conglomerates across the world have had to face the wrath of activist shareholders who have clamoured for carve outs and spinoffs to unlock value.

WIN-WIN FOR ALL?

Reliance Industries is at a crossroads in more ways than one — its organisational DNA is changing as GeNext takes up more proactive roles in executive leadership and management. Meanwhile, the old-world commodities and industrials champion is evolving into an increasingly consumer-facing enterprise. The legacy energy business still constitutes the lion's share of 75% of group's Ebitda (earnings before interest, taxes, depreciation and amortisation) while the younger consumer-facing businesses account for the rest. Ambani wants to take that to 50% as Reliance looks to pivot to being India's answer to Google or Apple — or better still, a combination of AT&T and Amazon — to offset business cyclicality. March quarter results announced on April 18 show why that makes sense — refining margins continue to be squeezed, leading to an 18.6% drop in sequential Ebit while retail and telecom, though improving, are yet to offset the shortfall. "RIL highlighted 'unprecedented capacity build up in ethylene and paraxylene chains, utilisation rates to drop and weakening olefin and aromatic cycle.' This is the most negative commentary we have heard from RIL in petro chem. Given the sheer size of the business (43% of FY19 Ebitda), multiyear weakness in petro chem would be negative," highlight Pinakin Parekh and Sanket P Parab of JP Morgan.

SELL STRATEGIC…

But getting closer to consumers and fortifying the telecom and retail businesses, the next big frontiers, will need money — and lots of it. Reliance has already spent $2.5 billion buying or investing in ecommerce, telecom and digital assets. Jio's liabilities alone have ballooned to Rs 1.29 lakh crore in March 2019, as per CLSA estimates, which includes Rs 67,000 crore of debt and Rs 21,100 crore of spectrum liabilities. But as the competition fights to retain share with the refarming of spectrum in 4G and introduction of minimum average revenue per user (ARPU) plans, the economics of the telecom trade have become challenging. "Together with higher other current assets, therefore, net liability rose a staggering $6.7 billion on-quarter to $52.5 billion (4.3x last 12 months' Ebitda). Net debt rose to $33.7 billion with other liabilities up to $18.8 billion as vendor dues rose," says Somshankar Sinha, analyst at Jefferies. "The announced sale of the very large ethane carriers and fibre/tower InvIT spinoffs helped pare net liabilities back to $36.4 billion, though. Yet, with telecom Ebitda slated to fall too, the deals may not be substantively accretive unless third-party revenues (which Reliance quantifies as $11 billion in discounted cash flow upside) accrue quickly." As mentioned before, with a user clocking below $2 in average billing, even an ambitious 30% operating margin for a 1 billion-plus market translates to $8 billion gross Ebitda. Doubling revenue market share to 40% would only lead to a $3 billion Ebitda pie for Jio, after deploying 12 times that in investments. Ambani needs a silver bullet — and that will come from ecommerce, content and carve outs. A blockbuster deal — say with Aramco and/ or others — can slash a third of the liabilities that Reliance has and even help on long-term crude contracts. BP has been its partner for the upstream oil and gas business, and a similar mid- or downstream alliance could be the launch pad for joint petrol pumps and aviation turbine fuel (ATF) sales to take on newer entrants such as Rosneft. Ambani was in Abu Dhabi last week. He and his senior management had visited Riyadh in February to meet the Aramco top brass and even discussed new frontiers of R&D and product development, including crude to chemicals and non-metallics. Selling tower assets to Brookfield or floating another InvIT-like structure with five to six sovereign wealth funds, such as Abu Dhabi Investment Authority (ADIA), Qatar Investment Authority (QIA) and long-only pension funds like Canada Pension Plan Investment Board (CPPIB) or Public Sector Pension Investment Board (PSP, also Canadian) will further improve net debt to Ebitda ratio of around 3.7x, based on the current year's debt and earnings estimates. …

BUY STRATEGIC TOO

Reliance has always chosen its partners carefully. Bringing BP on board in 2011 was as much about its deep-water drilling and natural gas expertise as it was for the cash. As Reliance positions itself as a technology company, Ambani is betting small yet strategically on sunrise offerings — frontier applications developed by niche, nascent entrepreneurs. He's seeking to integrate complementary services under the telecom and media businesses, becoming both, a software developer as well as a hardware manufacturer, in the process. The recent M&As are all aimed at creating a digital ecosystem around Jio, acknowledged Anshuman Thakur, the telecom unit's strategy head. "Lots of things we do organically, but we come across entrepreneurs, business leaders who are doing interesting work on technology, on platforms that can be integrated with Jio," he said on April 18. "There are certain core capabilities that some of these companies bring, such as national language processing or artificial intelligence (AI), so we are looking at those capabilities… There are people focusing on them so it helps to expand faster, and this is with focus on whole digital services layers." Having invested in or acquired content and distribution platforms such as Network 18, Saavn and Balaji, Jio's bundling approach is playing out, as it adds about 30 million subscribers every quarter. Fibre-to-the-home (FTTH) will provide broadband access and pay TV, along with a range of new-generation services. The Hathaway and Den acquisitions provide access to living rooms across India. Next up: The internet of things. The Reliance Retail omnichannel initiatives are being implemented through Reliance Trends and partner brand stores integrated for online order fulfilment, returns and refunds. The recent policy flux gives it a distinct edge over overseas-owned ecommerce rivals. To plug the gaps, Reliance is buying fashion brands from ITC. It has also acquired Haptik, which runs one of the world's largest conversational AI platforms and focuses on key customer engagement use cases such as concierges, lead generation and live chat. Loss-making toymaker Hamleys, already the most successful joint venture partner of Reliance Brands, is also likely to be scooped up. "This is a perfect string of pearls. For a Reliance, these are small transactions and often go unnoticed," says an investment banker who has worked on a few of them, on condition of anonymity. After years, the Reliance stock has been on a rising streak — up 45% in the last 12 months, during which the Nifty50 has barely climbed 12%. Investors would only want more from here on.

VIEW OF THE WEEK

View: Time for India to pursuit economic policies that have borne fruit across the world

By Amartya Sen (The writer is a Nobel Laureate in economics)

What can one say about the abysmal performance of NDA during its governing tenure of five years? The functioning of BJP led NDA has indeed been disastrous, but it would be hard to say that, preceding it, Congress-led UPA was doing brilliantly well. UPA, for sure, did have some truly impressive achievements, including unprecedented rates of economic growth, and social transformations such as establishing the right to information and making substantial moves towards guaranteed rural employment. But it did not manage to institute healthcare for all even at the primary level, nor move India significantly towards what the great Ambedkar called the "annihilation of caste". In understanding how NDA has failed, we have to be even-handed. The trouble is that NDA did little to remedy the deficiencies that were there, and instead consolidated and hugely enlarged the lacunae. It increased the evil grip of caste (reducing the freedom of Dalits and of the deprived tribal population); it moved the country further away from healthcare for all; and in sharp contrast with its electoral promise, it made it much harder for poorer people to find jobs, generating huge levels of unemployment (India under NDA moved to the highest level of joblessness in nearly half a century). Adding to this sad failure, NDA leaders have made the country much more divisive along communal lines – adding sharply to the precariousness of the lives of minorities, particularly Muslims. Along with that, the new rulers of India moved speedily forward in increasing the bureaucratisation of academic institutions, suppressing freedom of speech, and imprisoning people by branding dissent as "sedition". In fact, the Hindutva-oriented rulers have forced India to take "a quantum leap in the wrong direction" (as a collection of carefully researched scrutinies by a team of young scholars – Rohit Azad and others – has sharply brought out in a recent book of that name). And instead of following well understood economic policies, the Hindutva rulers have been keen on what can be called "development through magic" – like trying to generate wealth and prosperity through delegitimising parts of the established currency and reneging on the promise of promissory notes. The result has not matched any foretold vanquishing of black money (far from it), but has caused significant setbacks in the business of small traders and entrepreneurs, including in agriculture. It would have been much safer to leave magic to PC Sorcar. Rather than seeking the paranormal, India needs serious pursuit of economic policies that have borne real fruits across the world. Our real needs include development of efficient and equitable public services, appropriate incentives for private initiatives, carefully chosen public investments, and the cultivation of real science, technology and skill formation for productive use (rather than invoking of some fairytale creations from an imagined past). What Europe and Japan learnt to practice in the 19th century, and South Korea and China in the 20th, is equally available to us in India today. If we were to follow Adam Smith, the parent of modern economics, in encouraging India today to provide good incentives along with the pursuit of equity, there must be an abandonment of single-minded facilitation of the interests of the richest people in India, and a move towards support for opportunities to be enjoyed by people at large. Smith had called for good use of the market economy as well as for careful provision of needed public services (such as primary education and healthcare), which the state can provide. These facilities are central to the well-being of people and to the enhancement of their productivity (and through that, consolidation of opportunities for economic and social progress). The effective use that, for example, China has made of the market economy is important to appreciate, but along with that we have to recognise the huge advantages that the Chinese economy enjoys through having an educated labour force and a largely healthy population, capable of efficiently producing almost any good known in the world. Much is made in governmental rhetoric in India of the merits of meeting the costs of sophisticated medicine through its programme of Ayushman Bharat, which subsidises expensive medical procedures (mostly provided by profit making private firms, which often employ paid agents to drum up patients for these firms). But the provisions of Ayushman Bharat do little to provide better primary healthcare for all, which is most under neglect in India – a neglect that distorts secondary and tertiary medical care as well. It is, in fact, a mistake to give priority to extending the ayu of some (handsomely subsidising profit-seeking private enterprises), while neglecting the ayu of most people (doing nothing for elementary healthcare for all). Good healthcare – even efficient use of private healthcare – demands a solid foundation of basic public health for all. While UPA can be accused of some neglect, NDA seems to have abandoned altogether what India needs at this time. An equitable outlook has to be a part of the demands of sustainable development – both for justice and for efficiency. India needs a big constructive change in that direction – in healthcare as well as in economic and social policies in general. There is some real urgency in that recognition.

INTERVIEW OF THE WEEK

'We design the world as if there is no future' (Interview by Dr. Anupam Saraph, an India on World Economic Forum & Future Designer, our well wisher)

EnTranCe regularly welcomes international experts in the field of energy, sustainability and the transition towards a sustainable future. Last month, the Indian professor Anupam Saraph, visited EnTranCe and introduced students and researchers into the concepts of Future Design and System Dynamics Modeling.

We asked him a couple of questions about these concepts and their relation to the energy transition.

As an expert on Future Design and Complex Systems, you help individuals and organisations understand and design the future of their worlds. What are the toughest challenges we face when designing the future?

'The most important challenge is that the concept of future is generally missing in design. We tend to design the world as if there is no future. We fail to recognize the dynamics of the world, that is organized as several systems with actors that have a symbiotic relationship. If this symbiotic relationship is ignored when reorganizing the world and we create exploitative relationships, then we suddenly create a world that is unsustainable. Because we have failed to recognize that the world is made up out of several systems which must be symbiotic to be sustainable, we create a world that is exploitative and therefore unsustainable. Then tremendous challenges emerge because we have messed up with the design of the system that we are a part of. For example, for the last forty years the world leaders have been saying that the biggest challenge of the world is global warming. However, when looking at our effectiveness in handling global warming, it has been next to nil. Even after the meeting of world leaders for more than 24 times, the Conference of Parties (COP) has not succeeded in decreasing carbon emissions by even 1 percent. We have failed to recognize where we should intervene. The big challenge is to recognize which systems are causing the climate to change and where the points where we can intervene.'

You are also widely known for pioneering work on designing urban nervous systems for smart cities. What are urban nervous systems and what role can they play in the transition to sustainable future?

'Any living system, like cities, has to have a nervous system. It wouldn't survive without it. When a town grows into a city, you need to create a mechanism whereby the information about the water supply, the food supply, the waste being produced, the energy that is demanded and the traffic and mobility in the city is being fed back to the system. This feedback loop is the nervous system of the city. Within large cities, important feedback is often destroyed. For example, when there is a mobility problem in the city and the traffic is congested, this is information that the city has grown beyond its carrying capacity. We must listen to these kinds of signals instead of hiding them by with engineering solutions like building wider roads. Wider roads will not create a more livable sustainable city. Traffic congestion is a feedback of the system that it has exceeded its carrying capacity. We need to receive all the necessary feedback to ensure we are able to sustain the city. We need to have information that helps the city to know when it needs to stop growing. Living cities really shouldn't grow beyond a certain point. Thus, we must not just create more supply, even if this is through renewable sources, we must manage the demand of the inhabitants of the city (for example in terms of energy, water and food). Moving to renewable will not take away the problem, but only result in having to run faster and faster to stay in the same place.'

How do we then ensure that we decrease our demand for energy?

'Transition has to be accompanied by mechanisms whereby new technologies have to cut down their energy requirements. So, instead of having everything be done by new devices which will consume energy, we either must cut down on devices that require energy or cut down the energy that they require. Many tasks that can be done manually, or without energy, should be done manually. Technology should not be used as vehicle for continuously expanding our limit forever, but rather for supplying things within the limits that we have. This is something we need to recognize in the process of creating a transition.'

You introduced students and researchers in Groningen into System Dynamics Modeling. What does this entail and how could this methodology be used in the context of the energy transition?

'The idea in system dynamics is essentially that the world comprises of stocks and flows. Stocks are nothing but accumulators. Accumulators change because of inflows and outflows. When the inflow is larger than the outflow, there is an accumulation. And when the outflow is larger than the inflow, there is a de-accumulation. The larger the accumulation, the longer it will take to make changes in what has accumulated. For example, the C02 has accumulated in the atmosphere. This has accumulated through the inflow of carbon from burning fossil fuels. There is an outflow when carbon dioxide is absorbed by trees and fixed as biomass. Carbon dioxide can only be absorbed at a very small rate every year. Thus, we not only have to make sure CO2 is being fixed (outflow), but we simultaneously have to reduce the inflow. Another important element of systems dynamics is the idea that the world is built up of feedback loops. The more trees, the more the CO2 will be absorbed. This is feedback. Without policies to protect trees, therefore, less carbon from the atmosphere will be absorbed. System dynamics helps you to design policies by recognizing the feedbacks that should in place in order to address the accumulation and de-accumulation of stocks that are important to us.'

INTERESTING TO KNOW THIS WEEK

Canada trumps US, opens H-1B doors to Indians

BENGALURU: With the Trump administration tightening regulations for H-1B visa holders in the United States, software professionals, mostly Indian, are making a beeline to Canada, said two people with direct knowledge of the people movement. A large chunk of technology professionals on H-1B visas in the US are Indians, with the country offering 85,000 H-1B visas each year. The Canadian government has adopted a programme called Global Skills Strategy in 2017, which has set a target to welcome 3,10,000 new permanent residents in 2018 and 3,30,000 in 2019. According to a report called 'Building a Nation of Innovators' by the Canadian government, 40,833 jobs and 3,625 applications have been approved for high skilled immigrants as of November 2018. StackRaft, a startup that facilitate borderless technology sector recruitment in the US and in Canada, said software professionals are opting for Canada due to liberalised visa regime. Typically, a professional with an H-1B visa would have got an extension for another three years in the US, but tougher guidelines increased scrutiny of these visa holders and new visa applications. “If someone is moving after working in the US, they are given priority and they get the access faster,” said Vartika Manasvi, founder, Stack-Raft. “In fact, there are many people who are on visa extensions till 2021 and have OPT status (when you do a STEM degree in the US), (but) they still want to move to Canada,” she said, adding nearly one third of the H-1B visa holders moving to Canada are Indians. Uncertainty over the H-1B visa extension has been the primary reason some companies have set up offices in Canada and moved people with complex skills such as data analytics, said Manasvi. Technology services companies such as TCS, Infosys, Wipro, Cognizant and US arms of Tech Mahindra and HCL accounted for nearly two thirds of the 13,177 rejection of H-1B extensions for the top 30 companies, a report said. The data was analysed by the Centre for Immigration Studies, a US-based think tank. Canada is also luring highly-skilled professionals with potential citizenship in three years, whereas Indians have to wait as much as a decade for a green card in the US. In the past two years, more than 3,500 offers were released with more than 900 employers, including Canadian and multi-national firms, said StackRaft, citing the government’s data. Analysts, however, said remuneration packages in Canada are lower compared to the US, but the path to citizenship is faster. There is an increasing trend of tech talent movement to Canada as the immigration process is much more predictable there, said Poorvi Chothani, managing partner, LawQuest.

INTERNATIONAL NEWS THIS WEEK

View: India has to navigate US' Iran oil sanctions both economically and geopolitically

From Venezuela to Iran, on the supply side, and from France to India, on the demand side, the market for oil has once again been invaded by politicians and geopolitical strategists. While demanding of the world ‘fair trade’ practices, US President Donald Trump has resorted to the ultimate unfair trade practice of imposing unilateral sanctions on the oil exports of Venezuela and Iran. Trump’s oil sanctions are not just a hit on unfriendly exporters, but also on friendly importers — like India. While the share of oil in India’s total energy consumption has been declining, with that of gas and renewables rising, the fact is that the share of imports in India’s oil consumption has steeply increased in the past two decades, now at over 80% of consumption. This is expected to continue to increase to over 90%. Making an elaborate presentation on the global outlook for energy and analysing trends in India’s energy demand, recently at a think tank in New Delhi, the chief economist of a global oil major made no reference at all to potential geopolitical risks that could once again disrupt the market for oil. Economists who don’t understand geopolitics cannot say much about the market risks for oil. This fairly commonplace observation has to be reiterated, because so much of the economic modelling and forecasting that still goes on, shies away from a discussion of how power politics continue to distort the market for oil and the prospects for development, especially among the world’s poorer economies. India sources over two-thirds of its crude oil requirements from West Asia, mainly Iraq, Saudi Arabia and Iran. While sourcing from Venezuela has declined, that from Iran had increased in the past three years. The US, too, has emerged as a supplier, with around 3% share of India’s oil imports. There are two dimensions to India’s oil imports from Iran: economic and geopolitical. The economic dimension is price. Iranian oil has come cheaper and, more recently, has been paid for through barter arrangements.

The geopolitical dimension is the access Iran offers India, both to Afghanistan and Central Asia. More recently, India has sought to maintain good relations with both the Shia (Iraq and Iran) and Sunni (Saudi Arabia and the United Arab Emirates) nations in West Asia, given the Shia-Sunni dimension to global and domestic Muslim politics. The US reference to Iran as a nation exporting terrorists rings hollow, given Washington's equivocation on Pakistan. Every country has its own economic and geopolitical interests, and these would have to shape policy choices. India has, therefore, no option but to try and seek accommodation with both the US and Iran. Gestures aimed at keeping the US happy would have to go hand in hand with gestures to reassure Iran aimed at maintaining a good relationship. For India, neither the US nor Iran are hostile nations. But if either resorts to measures that harm India, it would have no option but to reconsider relationships, to the extent possible. While GoI has to deal with the geopolitics of oil, the ruling BJP is also having to deal with the domestic politics of oil. Congress and the Left Front have demanded that the Narendra Modi administration should not kowtow to the US and must reject US sanctions. Unfortunately, for Congress, it is on a weak wicket on this issue. As a source of supply of oil, Iran moved up from seventh position in 2013 to third in 2018 among India's suppliers. Moreover, the UPA government, too, had to cut imports from Iran from time to time, during its decade in office, responding to US pressure. So, the Congress spokesman was recently making much of a much-ness issuing dire warnings to the Modi government on how to conduct its relations with the US and Iran. The fact is that during the last three years, GoI has stepped up its import of crude oil from Iran, with a 36.7% increase, making Iran the third-largest source of crude oil imports after Saudi Arabia and Iraq.

Slippery as Oil

The Left Front has, of course, been more consistent in its stance on Iranian oil imports. But that is a function both of its anti-US ideology and the appeal to Muslim votes. Each time the Left berated Prime Minister Manmohan Singh on his policies towards the US and Iran, he would not only remind the Left that he knew well what was in India's national interest but would also chastise them for 'communalising foreign policy'. But then, oil markets have no option but to navigate the slippery ground of politics and geopolitics.

About 200 US companies seeking to move manufacturing base from China to India:

USISPF About 200 American companies are seeking to move their manufacturing base from China to India post the general elections, a top US-based advocacy group has said, observing that there is a fantastic opportunity with firms looking at alternatives to the Communist giant. The US-India Strategic and Partnership Forum's (USISPF) President Mukesh Aghi said that the companies are talking to them about how to set up an alternative to China by investing in India. Aghi said that USISPF's recommendation to the new government would be to accelerate the reforms and bring transparency in the decision-making process. "I think that's critical. We would advise to bring more transparency in the process and to make it more consultative because in the last 12 to 18 months, we are seeing US companies look at some of the decisions being made, either e-commerce or data localisation, as more domestic-oriented than global," he told PTI in an interview.

In his reply to what the agenda of the new Indian government should be to attract investment, Aghi suggested that New Delhi needs to accelerate reforms, be more transparent in the process and engage more. "We need to understand how we can attract those companies. And that means all the way from land issues to customs issues to being part of the global supply chain. Those are critical issues. There's a whole plethora of reforms that need to go further down, and I think that is also going to create a lot of jobs," he said. He said that Mark Linscott, the former Assistant US Trade Representative for South and Central Asian Affairs, is working with USISPF member companies to come up with a recommendation as to what India needs to do to enhance its exports and work up from that perspective. “One recommendation, which I strongly believe is going to help India is that we should now start thinking of a Free Trade Agreement (FTA) between India and the U.S," Aghi said. "I think if India is concerned about cheap goods coming from China, an FTA will eliminate that need. You can put barriers to Chinese goods and still have the U.S. providing access to the Indian market and Indian companies having more access to the US market, and issues like GSP would diminish,” he said. Aghi said that they have formed a high-level manufacturing council within the member companies, led by John Kern, Senior Vice President of Supply Chain Operations at Cisco who are putting a document together detailing what India needs to do to turn it into a manufacturing hub. "We plan to have the document ready by the time elections are over as part of recommendation,” he said. “What they're saying is we want a backup strategy to start manufacturing in India. There are small-small issues, which can slow them down. And at the moment most of them are waiting for elections to be over. But there's a large deluge of companies keen to not only manufacture in India but also who want to go after the domestic market,” he said. On the amount of investment these companies would bring to India, he said the number in question is substantial. “If you look at, our member companies in the last four years have invested over USD 50 billion,” he added.

Vocalink introduces real time payments in Saudi Arabia

Payments system provider Vocalink, a Mastercard company, has partnered with Saudi Payments, a fully owned subsidiary of Saudi Arabian Monetary Authority (SAMA) in order to launch real-time payments in the Saudi Arabian kingdom. The partnership is expected to enable the account to account payments between financial institutions, business and consumers. It aims to upgrade the payments infrastructure and encourage new fintechs to leverage the ecosystem. Ziad Bin Bandar Al-Yousef, Managing Director, Saudi Payments said: “Saudi Payments commitment to be a key player in transforming the Kingdom of Saudi Arabia into a cashless society is at the heart of our strategy and aligned with the kingdom’s Vision 2030, as prescribed in the Financial Sector Development Program (FSDP). We believe the Kingdoms’ consumers and businesses will benefit tremendously from leveraging the power of real-time payments and help the Kingdom to a smooth transition to the digital economy. Our partnership with Vocalink and IBM to enable instant payments between financial institutions, businesses and consumers will introduce innovative solutions that will benefit our society for generations. ” The new platform will enable credit transfers, e-invoicing and billing, real-time payment acknowledgement, remittances and bulk payments instantly. The technology will also enable instant peer-to-peer money transfers between friends and family, simply from their smartphones and without the need of the recipient’s bank details. J.K. Khalil, General Manager of Saudi Arabia & Bahrain, Mastercard said: “Real-time payments are transforming the financial services sector globally, showcasing the tremendous potential in creating efficiencies across national economies and redefining the overall experience for users in Saudi. Our partnership with Saudi Payments will foster further innovation across the Kingdom. We see this is a significant step in enabling the Kingdom’s transition towards a more digital economy.” Vocalink’s real-time payments technology was first implemented in the United Kingdom in 2008. Most recently, Vocalink was behind the transformative payments system launched in the US for The Clearing House’s RTP.

IBM’s AI to propel Regions Bank’s customer service

US-based Regions Bank has selected IBM’s AI technology in a bid to improve its customer service and assist bankers. Regions Bank will be utilizing IBM Watson to assist both customers and employees. The bank’s Banker Assist will leverage Watson Assistant to offer guidance for bankers and helps resolve customer service needs. “At Regions we are investing in technology to make banking easier for our customers and to recruit and retain talented associates,” said Chris Brasher, head of Bank

Operations for Regions Bank. "IBM Watson's automated intelligence is an important tool that allows us to operate more effectively by understanding customer needs. We are identifying additional use cases for this technology as part of our focus on continuous improvement across the company." According to the supplier, customers interact directly with the Watson Assistant while calling Regions, and receive assistance on a variety of issues ranging from personal information update to navigating the bank's website. The Watson Assistant is expected to be further trained, in order to take on complex tasks such as analysing customers' tone to determine when a customer should be transferred to a live agent. "The use of artificial intelligence among banks continues to rise, helping financial institutions make better use of vast amounts of data, analyze patterns, evaluate risks and improve customer service," said Beth Smith, General Manager, IBM Watson AI. "Regions Bank is focused on improving customer and associate relationships and Watson will help them continue to provide a great customer experience. Established in 1971, Regions Bank is a provider of consumer and commercial banking, wealth management, and mortgage products and services.

FIS integrates into Visa B2B Connect Platform for cross border payments

Visa and FIS are collaborating in order to enable easy access for FIS' clients on Visa's B2B Connect platform. This will facilitate FIS' customers to process cross border payments. "FIS is excited to partner with Visa to enable financial institutions to connect to this groundbreaking new payments service," said Raja Gopalakrishnan, international head of Banking and Payments for FIS Global Financial Solutions. "The combination of FIS' global customer base and leadership in commercial payments and Visa's extensive experience as a payment processing network, creates a strong partnership for adding value to the multinational commercial value chain." According to the supplier, the collaboration will enable both FIS' and Visa's clients to send their corporate B2B payments directly to and from another participating bank. This process is expected to weed out any friction associated with multiple intermediaries. "Innovation in cross-border B2B payments is long overdue. Visa's core strategy is to help clients and partners drastically improve their customers' friction-filled experiences," said Kevin Phalen, global head, Visa Business Solutions, Visa. "We are excited to continue building momentum for Visa B2B Connect and to bring speed, efficiency and transparency to our financial institution clients through our partners, like FIS, who help make transacting on our platform more accessible and seamless. In order to accelerate the transaction process on the Visa B2B Connect platform, FIS has created a custom integration module which will significantly reduce the need for clients to perform technology updates to their existing systems.

SoftBank to invest €900 million in Wirecard for fuelling digital payments

Wirecard AG and SoftBank Group Corp, have entered into an agreement under which a SoftBank affiliate shall invest €900 million in Wirecard via a convertible bond mechanism. The parties, along with the investment term, have signed a memorandum of understanding (MoU) on a strategic partnership for digital payments solutions. This MoU will allow SoftBank to provide support for Wirecard's planned Asian expansion and will facilitate Wirecard with opportunities for collaboration within SoftBank's digital payments and AI portfolios. Markus Braun, CEO at Wirecard, commented, "As global innovators, we focus heavily on expanding our networks and creating opportunities for companies with groundbreaking ideas. In SoftBank, we have found a partner that shares both our passion for new technologies and drive to spearhead the latest innovations, all on a global scale. In addition, through this potential partnership, we will expand our reach and products to the East Asian markets, thereby further strengthening our position in Asia." According to the supplier, the partnership is expected to enable both parties to jointly explore new products, portfolios and novel financing solutions. Established in 1981, SoftBank Group Corp. is a Japanese multinational holding conglomerate headquartered in Tokyo, Japan.

ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.

RBI THIS WEEK

Reserve Bank of India releases Annual Report of the Banking Ombudsman Scheme 2006

The Reserve Bank of India, today, released the Annual Report of the Banking Ombudsman Scheme for the year 2017-18.

Highlights

- The 21 Offices of the Banking Ombudsman received 1,63,590 complaints in the year 2017-18 marking an increase of 24.9% over previous year.
- Offices of Banking Ombudsman maintained a disposal rate of 96.5% as compared to 92.0% in the previous year.
- The major grounds of complaints received during the year were non-observance of fair practices code (22.1%), ATM and debit card issues (15.1%), credit card issues (7.7%), failure to meet commitments (6.8%), mobile and electronic banking (5.2%).
- Complaints received on grounds such as problems relating to ‘Pension’, ‘Levy of Charges without Notice’, ‘Loans and Advances’, ‘Remittance’, ‘DSA and Recovery Agents’ and ‘Mis-selling’ each accounted for 5% or less of the total complaints received.
- 65.8% of maintainable complaints were resolved by agreement i.e., through mediation. During the previous year, the figure stood at 42.4%.
- 148 Awards were issued by 12 out of the 21 Banking Ombudsman in 2017-18 as compared to 31 Awards issued in the previous year.
- The Appellate Authority received 125 Appeals in the year 2017-18 as compared to 15 Appeals in the previous year. The rise in the number of Appeals followed expansion of the grounds on which Appeals can be filed against the decision of BOs with effect from July 1, 2017.
- The average cost of handling a complaint came down from ₹ 3,626/- in 2016-17 to ₹3,504/- in 2017-18 due to increase in efficiency and economies of scale.
- Offices of Banking Ombudsman organised awareness campaigns/outreach activities, town hall events, advertisement campaigns to spread awareness about the Scheme primarily covering the rural and semi-urban areas of their respective jurisdictions.
- RBI’s SMS handle ‘RBISAY’ was extensively used for sending text messages on topics such as fictitious offers of money, secured use of electronic banking facilities, BO Scheme, etc. An Integrated Voice Recognition Service facility (by giving a missed call on 14440) was also made available to public by RBI for getting more information on the above.

2. The Banking Ombudsman Scheme, 1995 was notified by the Reserve Bank of India on June 14, 1995 under Section 35-A of the Banking Regulation Act, 1949. The aim and objective of the Scheme is to provide a quick and cost-free resolution mechanism for complaints relating to deficiency of banking services of common bank customers, who otherwise find it difficult or cost prohibitive to approach any other redressal fora such as courts. The Scheme is applicable to Scheduled Commercial Banks, Scheduled Primary Urban Co-operative Banks and the Regional Rural Banks. The Scheme has undergone several revisions since its inception. Presently, the Banking Ombudsman Scheme 2006, as amended up to July 1, 2017, is in operation. There are 21 Banking Ombudsmen with specific State-wise jurisdiction covering all the States and Union Territories.

The Reserve Bank introduces Ombudsman Scheme for Non-Banking Financial Companies

As announced in Para 11 of the Statement on Developmental and Regulatory Policies of the Monetary Policy Statement dated April 04, 2019, the Reserve Bank of India (RBI) today has extended the coverage of Ombudsman Scheme for Non-Banking Financial Companies (NBFCs), 2018 (the Scheme) to eligible Non Deposit Taking Non Banking Financial Companies (NBFC-NDs) having asset size of Rupees 100 crore or above with customer interface vide Notification dated April 26, 2019. The Non Banking Financial Company-Infrastructure Finance Company (NBFC-IFC), Core Investment Company (CIC), Infrastructure Debt Fund-Non-banking Financial Company (IDF-NBFC) and an NBFC under liquidation, are excluded from the ambit of the Scheme. The Scheme was launched on February 23, 2018 for redressal of complaints against NBFCs registered with RBI under Section 45-IA of the RBI Act, 1934 and covered all deposit accepting NBFCs to begin with. It provides a cost-free and expeditious complaint redressal mechanism relating to deficiency in the services by NBFCs covered under the Scheme. The offices of the NBFC Ombudsmen are functioning at four metro centres viz. Chennai, Kolkata, Mumbai and New Delhi and handle complaints of customers in the respective zones. The Scheme also provides for an Appellate mechanism under which the complainant / NBFC has the option to appeal against the decision of the Ombudsman before the Appellate Authority. The complete Scheme is available on RBI's website.

India’s growing significance in global arena. Is it Sustainable? Are we ready for it?

(Shri B.P. Kanungo, Deputy Governor, Reserve Bank of India - April 19, 2019 - at FEDAI Annual Conference at Beijing)

1. It is a great pleasure to be amidst you today and I wish to thank FEDAI and the organisers of this conference for the privilege to speak to you. FEDAI has been playing a seminal role in steering the cross-border transactions of the members of public as well as interbank transactions in the foreign exchange market for more than six decades now. It may be recalled that FEDAI was formed to secularise foreign exchange transactions in the early days when only select branches of foreign banks were conducting these transactions. Over time, the statutory framework enjoined upon the foreign exchange dealers an additional role as authorised dealers – a role so comprehensive that they share the responsibility for administering the regulatory regime. FEDAI, as organisation of authorised(forex) dealers has played its role remarkably well and if we are expanding the set of players in the foreign exchange market today, a part of the credit goes to FEDAI in creating the necessary skill abundantly and widely in dealing with foreign exchange. I am sure it will continue to play a constructive role and help market participants grapple with the challenges that a market as prone to volatility and uncertainty as the foreign exchange market will spring from time to time.

2. These annual conferences since 2006 have been an important event, or should I say, the most important event that the participants in the foreign exchange market look forward to. It provides an opportunity for networking and exchange of ideas for the market participants. It also provides a welcome respite from the heat and dust of the marketplace. I cannot but commend the choice of the venue this year, particularly with a view on the theme of this year’s event. China and India have been comrades-at-arms for millennia’s, sharing their journeys in multiple dimensions: commercial as well as civilizational. Angus Maddison[1] estimates that India and China were the world’s two largest economies until the early 18th century. China is the world’s largest economy today on PPP basis and India is the third largest. If you add the exports and imports, China is India’s largest trading partner (2017-18 data). Among the fastest growing economies, the engagement between the two countries can be expected to see phenomenal growth in the times to come.

3. The theme chosen for this conference is: India's growing significance in international arena: Is it sustainable? Are we ready for it? These are interesting and important issues and as we shall see, quite relevant to our common functional domain. Now, importance in the international sphere has many dimensions: cultural, military, moral, strategic to name a few but the dimension that underpins all others is economic. If you look at the history of mankind, it is economic prosperity that has always dictated the importance of a nation. Whether we look at the Italian city states of the 15th/16th century – many of Shakespeare's plays were situated in these places Verona to Venice – and one wonders whether the renaissance would have been possible but for the wealth and backing of the Medicci's and others, or the British of the 18th/19th century – Britain became the dominant global power for two centuries, and English became the lingua franca, it is the economic prosperity that made the nations internationally important. The pre-eminence of China today is to a great extent due to its phenomenal economic success.

4. We also must notice that economic prosperity has almost always been inextricably linked with international trade and commerce (capital movements are recent phenomenon). The need for free trade and commerce became important as the industrial revolution greatly increased productivity. Of course, it was not in the sense we now understand. Till middle of the nineteenth century, mercantilism was the dominant policy driver in Europe. Essentially, while it favoured exports of all commodities except gold, it sought to discourage imports through tariffs. Ultimately, with repeal of the (British) Corn Laws in 1846, the case for free trade had been decisively established. The doctrine that free trade enhances welfare has been further strengthened by subsequent research at least at a theoretical plane. Despite the fact that global economic growth and growth in global trade have moved in tandem over the past two centuries, arguments in favour of import substitution, selective protection, subsidies abound. One can perhaps reasonably conclude that while the global objective will continue to be less restrictive trade, local variations will have to be considered keeping in view other macroeconomic factors like fiscal policy, exchange rate policy, employment policy, and so on.

5. Unlike trade in goods and services, the case for capital flows has not been clear. We must appreciate that restriction on capital flows were enshrined in the Bretton Woods system. However, after the breakdown of the Bretton Woods system in the early seventies, a set of strong arguments emerged in favour of free capital flows and was endorsed by IMF. In the wake of the far eastern crisis of the late 1990's, the debate about its desirability was revived. The debate again came to life after the global financial crisis and there has been a general agreement since that – and I quote the words of Harry Dexter White, one of the principal architects of the Bretton Woods, – "the desirability of encouraging the flow of productive capital to areas where it can be most profitably employed needs no emphasis, but there are periods when failure to manage flows have led to serious economic disruption." Keynes was in agreement.

6. The reason I have dealt with the propositions relating to trade and capital flows is to bring out the point that there is no universally acceptable policy prescription relating to either. Both theory and empirics accommodate the possibility of specific sets of policy appropriate to a country's idiosyncratic requirements and it is in this backdrop that we shall consider our policies in respect of cross-border transactions, past and present.

7. There are several dimensions of the regime for cross border transactions: but what we shall be concerned with in this discussion is that relating to exchange control or rather foreign exchange management. The foreign exchange management policy ultimately hinges on two factors: the

quantity of foreign exchange available and the exchange rate. This has guided the evolution of the exchange control regime in India, and indeed elsewhere in the world.

8. The war-time exchange control through administrative fiat was converted to a statutory regime in 1947 through the FERA, 1947. The acute shortage of foreign exchange in the 1960's and various other factors such as food shortage, wars, etc. led to a more stringent regime through the FERA, 1973. Foreign exchange per se was considered important and the policy regime comprised rules to grudgingly allocate foreign exchange to various demands. Import control and promotion of import substitution provided complimentary policy instruments. Beginning mid-seventies (soon after the enactment of FERA,1973 but not necessarily because of it), the situation relating to the external sector started improving primarily because of increasing remittances from Indian diaspora and impact of green revolution. Thus, through the 1980's, there was progressive and incremental liberalisation in cross border transactions, albeit within the same paradigm. Two observations are in order here. First, the liberalisation in exchange control regime was not accompanied by any significant changes in other economic policies. Second, although the Bretton-Woods regime broke down in early 1970's and many currencies started floating, the rupee continued to be in a pegged exchange-rate system, first to pound sterling and then to a basket of currencies. Thus, the foreign exchange crisis once again surfaced in early nineties. The policy response in the aftermath of the crisis this time was a comprehensive reform. As far as regulating cross border transactions are concerned, I would like to mention three landmarks: (a) adoption of a market determined exchange rate system in 1993, (b) Commitment to conform to Article 8 of the IMF charter – current account convertibility – in 1994 and (c) Enactment of FEMA in 1999 – removing the shackles of a repressive regime. It was a new paradigm.

9. We have lived through this paradigm for nigh two and a half decades now. There have been cadences in the policy regime from time to time, but the basic tenets remain the same and will continue to guide the evolution of policy framework in future. Let me draw your attention to the preamble of the FEMA, 1999 which very aptly summarises the philosophy behind how we regulate the cross border transactions. It goes: "An Act to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India."

10. As far as current account is concerned, the statute mandates that there shall be no restrictions except such that are placed by the Central Government in consultation with the Reserve Bank. The restrictions that figure in the rule-book mostly relate to some (socially undesirable) non-priority activities like gambling, transactions that can be used to dress capital accounts transactions as current account transactions, and some with strategic implications. There is also some asymmetry, in practice if not in precept, between the current account transactions that involve an outward remittance and those that involve an inward one. The regulatory framework for current account transactions has been pretty stable; I may mention in passing that transaction in services has been growing steadily in keeping with India's reputation as an outsourcing hub. While a comprehensive system for collection of aggregate statistics for compilation of the balance of payment is in place, perhaps we need to develop a system to capture transaction level data similar to that for merchandise trade to improve our understanding and guide policy action, wherever necessary.

11. Let me now turn to the capital account transactions. The statute provides that the Reserve Bank (and when the 2015 amendment to FEMA, 1999 is notified, the Central Government in some classes of transactions) will regulate which capital account transactions are permitted and to what extent and

subject to what conditions. Partly because of this construct of the statutory provisions but mostly because of the evolving macroeconomic conditions during the past two decades, majority of the policy actions have related to the capital account.

12. As I mentioned earlier, starting the 1970's, and through the 1980's and well into the 1990's there was a strong advocacy of full capital account convertibility by the free market proponents. This culminated in the 1994 Madrid Declaration of the IMF to encourage the member countries to remove impediments to capital flows. However, subsequent global economic developments have modified the stance and it is now admitted that capital controls can indeed be used an instrument for macroeconomic and financial stability. The goalpost has now shifted from convertibility, an event to capital account liberalisation, a process. This raises issues about the pace and composition of the liberalisation the drivers of which are eclectic and country specific rather than based on universal principles. Broadly, three determining factors are important: (a) the pre-conditions for opening up of capital account (b) the cost and effectiveness of capital account restrictions and (c) monetary policy implications of an increasingly open capital account. Of course, the stability and orderly conditions in the forex market remains the proximate determinant of the policies relating to capital flows. In our case, while capital inflows serve the twin purposes of bridging the Export-Import gap and the savings-investment gap, the above considerations will determine the approach to regulation.

13. There are usually three preconditions for capital account liberalisation discussed: price stability, fiscal stability and stability of the financial institutions and markets. As we speak to day, achievements in respect of the stated parameters vary. The fiscal deficit at the General Government level needs consolidation. It is desirable that growth along with low inflation and fiscal prudence become well entrenched before we take quantum steps towards a more open capital account. Besides, there are signs of global headwinds, though in the distant horizons.

14. While the nuances of capital account liberalisation is a matter of detail, some broad policy prerogatives relating to the hierarchy of capital flows can be mentioned. First, capital flows particularly for the real sector will always have priority over flows into the financial sector. Second, equity related capital inflows will have preference over debt inflows. Within the equity flows, direct investment flows will be preferred to portfolio flows and in so far as debt flows are concerned, preference for long term debt and rupee-denominated debt – whether bilaterally contracted or through marketable securities – shall continue. You are aware of the policy changes in recent times in respect of foreign direct investment, external commercial borrowing, trade credit, etc. However, the changes constitute mostly rationalisation and consolidation rather than any significant change in stance.

15. The investment requirement of the Indian economy is and will continue to be quite large. Apart from the usual ICOR-driven investment to support the desired growth, huge investments are also required for the physical and social infrastructure sector. These latter investments have their own challenges in terms of long and uncertain execution period, long payback period, etc. The world today is flush with long-term savings in the nature of pension funds and corpus of insurance companies, our policy regime need to be nimble and accommodative enough to direct these to productive ventures in India. We are working towards this.

16. Talking of the need of infrastructure sectors, we cannot help notice the emergence of a new class of investors: venture capital and private equity funds. Anecdotal reports seem to suggest that in the last few years, investment by these funds constitute about 35-40% of the FDI inflows. Important as

the role of VC and PE funds is as the mediator between long term investors like pension funds, insurance companies, sovereign funds, trusts, endowments etc. on the one hand and potential growth industries on the other, these investments have different structural and behavioural characteristics. The current regime permits wide latitude of freedom to VC investors in select sectors perceived to be economically important but risky for normal FDI. Perhaps there is a need to consider private equity investment in its totality and see if a modulation of policy regime is warranted, including wider and innovative debt funding, hybrid instruments, etc particularly in so far as they relate to priority areas such as infrastructure, non-conventional energy, health, education and other social impact areas. This is engaging our attention.

17. The issues relating to start-ups are extremely important. Business has evolved in ways that could not have been foreseen a short while ago. It has become a cliché to cite the examples of the largest transportation company that does not own a cab, the largest retail company that does not own a store and so on. Technology and internet have and are continuing to revolutionise the service industry. Most of the start-ups have immensely contributed to employment generation. (Should we create a preferential FDI regime for activities with large employment potential, given the importance of employment in the economy?) The start-ups have great appetite for funds in their growing phase and lion's share of the funding has been coming through foreign investment, mostly venture capital or private equity funds. We have taken some steps in the past to facilitate fund raising by start-ups, but we will remain alive towards their evolving needs including easing the compliance burden.

18. What should our approach be as far as capital outflows are concerned? So far it has been almost entirely for direct investment. Moreover, there is no differentiated policy for equity and debt outflows. The policy perspective forged during the FERA days had many negative vibes. Why should a capital deficit countries export capital? Shouldn't overseas investment be considered on the basis of the returns it generates? Perhaps a time has come to take relook at it. Creation of overseas assets by resident Indians goes as a credit entry in the international investment position. Therefore, rather than looking at dividend earning, there is a need to look at value enhancement. Secondly, acquisition of strategic and economic assets, eg., coalfields, oilfields, etc. is a long-term priority. Thirdly, overseas investment can perhaps be seen as export, not of capital but of entrepreneurship. Lastly, overseas investment is also an important phenomenon associated with start-ups. Several start-ups, including individual entrepreneurs invest in India through a holding company overseas primarily because of the ease of raising capital in a foreign jurisdiction, whereas the economic activity is located in India, generating employment, revenue and economic value. We, along with the GoI, shall take a relook at any misgivings about regulatory regime in this regard and take necessary corrective action.

19. Now I come to the foreign exchange markets. I am aware that treasury professionals dealing with the forex market constitute a large part of this gathering and this is a theme with which you are closely involved. As I mentioned earlier, an orderly forex market is an important objective and also a precondition driving the evolution of the exchange management regime. We have come a long way from the days of 'RBI's middle rate'. Today, the Indian forex market is pretty well developed in terms of daily turnover as well as the range of products available. Yet, it continues to be a regulated market and let us now turn to the motivation for and the future of the regulatory regime.

20. The forex market determines the exchange rate, an important macro-variable with implications for balance of payments, monetary policy, capital flows, and several other derived issues. Now, it is well known that in the long run the exchange rate depends on economic fundamentals like inflation, interest rates, balance of payment position, etc., but in the short run there can be significant

deviations in the exchange rate from the value dictated by the fundamentals. Though the exchange rate can be measured in several ways such as REER, NEER with different combinations of currencies and different weighing schemes, my discussion will be centred around the headline INR-USD rate, which drives sentiments and decisions. The fluctuations in the exchange rate are caused by sentiments and perceptions of a host of events, some domestic and some global. As you dealers say, "Buy the rumour, Sell the news". We have had many such episodes. During the last one year or so the Rupee saw levels of 64 to a dollar in March 2018, depreciated to near-75 levels in October 2018 and again appreciated to 68+ levels by March, 2019 and has been trading almost flat since then. During this one year, there has not been any change in the fundamentals of the Indian economy, nor any dramatic change in the global conditions either. The cause mostly has been surge or ebb in capital flows, driven by perceptions and risk aversion or appetite. However, understanding these gyrations in the exchange rate does not provide any solace to the policy maker: there is a response necessary lest the expectation turn to panic and bring a great deal of disorderliness in the market in its wake. The first line of defence is market interventions. But then the impossible trinity comes into play: the interventions affect the rupee liquidity and may lead to a conflict with the monetary policy stance. Sterilisation carries a cost. And sometimes, particularly when the Rupee depreciates, there is a limitation to the extent of intervention, rendering intervention strategically ineffective. The second line of defence is resorting to modulating the capital control regime: diluting or strengthening restrictions depending on whether the Rupee is appreciating or depreciating. This must be a last resort though: because while the forex market conditions can quickly reverse, the control regime must have a longer lifetime, lest decision making by economic agents is adversely affected.

21. The second theme I want to talk about relates to derivatives in the forex market. Derivatives evoke extreme reaction – from 'the most significant event in finance' (Greenspan) to 'weapons of mass destruction' (Buffet) or 'license to kill' (Soros). The primary purpose of derivatives is to hedge against future uncertainties. Thus, they perform economically a hugely useful function in enabling agents to make better inter-temporal decisions. But on the other hand, they can also be used as instruments of speculation and can obfuscate risk allocation. As Garber notes, 'The problems associated with rise of derivatives stem partly from the same source as the benefits: the increased ability to separate and market risks means that some counterparties can assume riskier positions more readily than in the past.' The other part of the source of the problem with derivatives is that they can be incomprehensively complex making the risk implications opaque. In our markets, we have both linear (forwards and futures) as well as non-linear (options, exchange traded as well as OTC) varieties. The later is mostly plain vanilla. For some time, complex derivatives not involving Rupee were allowed, but it led to assumption of risks not understood epitomised in the Rajashree Sugar case. Another facet of the problem is un hedged exposure. Hedging has a cost. It is the price an agent pays to convert an uncertainty to a certainty. Thus, there may be a tendency to remain un hedged and leave events in the lap of gods. Should the market conditions turn hostile, there is a mad scramble to cut loss which exacerbates the market further. Our approach has been and will continue to be to provide an agent who has exposure to the Rupee – resident or non-resident - with a range of derivative products to enable them to hedge their foreign exchange risks but expanding the range of products has to be gradual.

22. The discussion of foreign exchange market will not be complete without the issue of internalisation of the Rupee. A currency is international or a reserve currency when it is held widely by non-residents and used to settle international transactions. Internationalisation of a currency has certain advantages and disadvantages as well. The main advantage lies in getting rid of the 'original sin' of inability to borrow in one's own currency which is at the root of currency crises. The

disadvantage comes from the obligation of a country whose currency serves as global reserve currency to supply it to meet the global demand which may come to conflict with its domestic policies. Over the years, global investors have shown increasing interest in Rupee denominated assets – both equity and debt - traded in on-shore markets. Rupee denominated bonds, the so-called masala bonds, have also found investor appetite in off-shore markets. When Rupee assets are widely held by global investors, there will be need for rupee derivatives to hedge currency, interest rate and credit risks. It is therefore natural that there will be a need for such markets in offshore financial centres. The challenge that these markets pose is that while the on-shore derivatives market is tightly regulated, offshore markets are beyond regulatory reach, which can lead to domestic market being affected through arbitrage during turbulent episodes. The regulatory framework will continue to strive to make the on-shore derivative markets accessible to all non-residents with a Rupee exposure.

23. Let me now conclude. India is among the world's fastest growing countries and is the world's third largest economy today in PPP terms. It is among the global investors' preferred destination. The Indian economy has also shown remarkable resilience against adverse global developments, if not completely decoupled from it. With increasing sustained economic growth and macro-economic stability, favourable demography and a large market, India is an important player in the global economic arena. The sustainability of its global role will depend on the sustainability of the growth momentum and stability. While this would require continuing policy response to emerging challenges in many spheres, integration with global economy will be an important factor in sustaining the growth momentum. We have to be alive to the challenges of both growth and stability and steer the policy regime relating to cross border transactions in tandem with the needs of the economy. Foreign exchange dealers or rather authorised dealers, in so far as they provide the primary interface with the customers and give shape to the developments in the forex market, will continue to play an important role.

24. I am sure your deliberations and discussions will be rich and fruitful. I also wish you happy vistas of this ancient yet modern city.

Legal Entity Identifier: Extension of deadline

A reference is invited to circular FMRD.FMID.No.10/11.01.007/2018-19 dated November 29, 2018 issued by the Reserve Bank on requirement of Legal Entity Identifier (LEI) for participation in non-derivative markets.

2. Based on the feedback and requests received from market participants, and with a view to enable smoother implementation of the LEI system in non-derivative markets, the timelines for implementation (Phase I and Phase II) are extended as under:

Phase	Net Worth of Entities	Current Deadline	Extended Deadline
Phase I	above Rs.10000 million	April 30, 2019	December 31, 2019
Phase II	between Rs.2000 million and Rs 10000 million	August 31, 2019	December 31, 2019

Phase III	up to Rs.2000 million	March 31, 2020	March 31, 2020

3. These directions are issued under section 45W, read with section 45U, of the Reserve Bank of India Act, 1934.

Mr. Agustín Carstens, Bank for International Settlements (BIS) delivered the Seventeenth C.D. Deshmukh Memorial Lecture titled "Central Banking and Innovation: Partners in the Quest for Financial Inclusion"

The Reserve Bank of India hosted the Seventeenth C.D. Deshmukh Memorial Lecture on April 25, 2019 in Mumbai. The lecture was delivered by Mr. Agustín Carstens, General Manager, Bank for International Settlements (BIS). Governor Shri Shaktikanta Das in his opening remarks, welcomed the guests and highlighted the significance of the Lecture series, instituted by the Reserve Bank in the memory of Shri C.D. Deshmukh, the first Indian Governor of the Reserve Bank of India, to recognise his meritorious services to the Reserve Bank and the nation. Mr. Agustín Carstens is General Manager of the BIS since December 2017. Mr. Carstens served as Governor of the Bank of Mexico from 2010 to 2017. As a member of the BIS Board from 2011 to 2017, he was chair of the Global Economy Meeting and the Economic Consultative Council from 2013 until 2017. He also chaired the International Monetary and Financial Committee, the IMF's policy advisory committee from 2015 to 2017. In today's lecture, Mr. Carstens highlighted the importance of access to financial services in a modern economy and underlined the crucial role that central banks can play in promoting financial inclusion in an economy. Financial inclusion can help in reducing poverty by fostering usage of formal credit, savings and insurance facilities. Lack of sufficient funds, high costs and lack of trust in formal financial system remain some of the key impediments to financial inclusion. Mr. Carstens posited that by looking after their core mandates – namely price and financial stability – central banks and financial authorities can bolster trust in the financial system, thus providing the basis for financial inclusion. The use of digital technology and big data can be leveraged to overcome some of the barriers to financial inclusion, namely the high costs, lack of documentation and credit history. The full text of his lecture titled "Central Banking and Innovation: Partners in the Quest for Financial Inclusion" is placed at www.rbi.org.in.

17th C.D. Deshmukh Memorial Lecture

(Opening remarks by Shri Shaktikanta Das, Governor, Reserve Bank of India - April 25, 2019 - Mumbai)

On behalf of the Reserve Bank of India, I am delighted to welcome Mr. Agustin Carstens, General Manager of the Bank for International Settlements to deliver the C. D. Deshmukh Memorial lecture, the seventeenth in the series. We are also honoured to have Smt. and Shri Atul Deshmukh from late Shri C. D. Deshmukh's family. A hearty welcome to all the distinguished invitees of the Reserve Bank.

2. At the outset, I would like to say a few words about Shri C. D. Deshmukh to commemorate the occasion. Shri Chintaman Dwarkanath Deshmukh was born in Nata, near Fort Raigad in Maharashtra on January 14, 1896. He had an outstanding educational career. He stood first in the Matriculation examination of the University of Bombay in 1912. He graduated from Jesus College of Cambridge University in 1917 and topped the Indian Civil Services examination, then held only in London, in 1918. Upon his return to India in 1920, he worked in the Government of Bihar and also as a joint secretary to the Government of India.

3. His association with the RBI began in July 1939, when he was appointed Liaison Officer to keep the Government of India in touch with the Bank's affairs. Three months later, he was appointed Secretary of the Central Board of the Bank and two years later in December 1941, as the Deputy Governor. He was the first Indian to be appointed as the Governor of the Reserve Bank of India on August 11, 1943 and he continued in this capacity till June 30, 1949. He played a pivotal role in the creation of Industrial Finance Corporation and promotion of rural credit. During his tenure, RBI saw enactment of the Banking Companies Act, 1949 which laid the foundation for regulation of banking sector in India. The nationalisation of RBI on January 1, 1949 also took place during his tenure.

4. After his tenure in the RBI, Shri Deshmukh went on to become Member, Planning Commission when it was set up in 1950. Subsequently, he became Union Finance Minister in 1950 and served with distinction till July 1956. During his tenure, he made significant contributions to the formulation and implementation of the country's First and Second Five Year Plans. He was instrumental in the enactment of new Companies Act and nationalisation of the Imperial Bank of India and life insurance companies. After resignation from Union Cabinet he worked as Chairman of UGC during 1956 to 1961 and Vice-Chancellor of University of Delhi from 1962 to 1967. In 1975, he was bestowed with the Padma Vibhushan award. He was also a co-recipient of the prestigious Ramon Magsaysay Award in 1959 for distinguished Government Service.

5. For this year’s Memorial Lecture in honour of Shri C.D. Deshmukh, it is our pleasure to have Mr. Agustin Carstens with us. He was the Governor of the Central Bank of Mexico from 2010 to 2017 and a member of the BIS Board from 2011 to 2017. As a BIS board member, he chaired the Global Economy Meetings and the Meetings of Economic Consultative Council**.** He also headed the International Monetary and Financial Committee, the IMF's policy advisory committee for two years.

6. Mr. Carstens began his career at the Bank of Mexico in 1980, where he has worked in various capacities. He later served as Mexico’s deputy finance minister and as Deputy Managing Director at the IMF. He was Mexico's Finance Minister from 2006 to 2009. He has also been a member of the Financial Stability Board since 2010 and is a member of the Group of Thirty.

7. Mr. Carstens holds a doctoral degree in economics from University of Chicago and has extensive research experience in the field of macroeconomic issues and finance. His work on ‘Latin American Central Bank Reform: Progress and Challenges’, which takes stock of the institutional reforms of monetary policy in Latin America since the early 1990s, was widely acknowledged.

8. Today, Mr. Carstens will speak on “Central Banking and Innovation: Partners in the Quest for Financial Inclusion”, - a topic which could easily be the most relevant at the current juncture. The recent emergence of fintech or digital innovations in finance is potentially a strong transformative force to shape the financial sector globally. A great benefit of these technological developments is the scope to expand financial outreach in a cost effective manner. At the same time, however, there are regulatory and supervisory challenges which the central banks across the globe need to address.

9. The Reserve Bank is committed to promote and deepen the cause of financial inclusion in India. The recent developments in FinTech have given a fresh impetus to financial inclusion process in the country. Taking cognisance of exponential growth of digitisation and online commerce in India, policy efforts have been directed in recent years to put in place a state of the art national payments infrastructure and technology platform. The Reserve Bank is continuously aligning its regulatory and supervisory framework so that the evolution of FinTech can be leveraged to widen and ease the

financial access by the excluded population. In view of the growing significance of FinTech innovations and their interface with the financial sector as well as financial sector entities, the Reseve Bank is strengthening its surveillance framework and has also issued draft guidelines on “Enabling Framework for Regulatory Sandbox” for obtaining the comments of stakeholders. Mr. Carstens’s talk today will surely give us relevant insights in this direction. Let me now invite Mr. Carstens to deliver his lecture.

FINMIN THIS WEEK

Note on search conducted in NCR on a Group in the Power sector

The Delhi Unit of the Directorate General of Income-tax(Investigation) initiated search and seizure action on a Group in NCR, Bhopal, Indore and Goa based upon credible information of large scale collection, possession and movement of unaccounted assets, a few weeks back. The Central Board of Direct Taxes (CBDT) had earlier issued a Press Note pertaining to searches conducted in MP. As some new developments have taken place, this Press Release is being issued pertaining to search and seizure operation carried-out in NCR on 07th April, 2019 on a leading Solar Power Group connected in the matter. Some of the significant transactions detected during the search operation are detailed here under:-

Accommodation entries of Rs 370 crore: During the search, a maze of shell companies used as mere conduits for providing entries to the group have been detected. Accommodation entries in the garb of bogus unsecured loans/share application money to the tune of Rs. 370 crore have been found.

Bogus billing of Rs. 330 crore: Evidence of inflation of expenses through bogus billing to the tune of around **Rs. 330 crore** has been detected in the case of a power plant of the said group. The money so siphoned off was collected in USD through hawala operators.

Unaccounted diary transactions of Rs. 240 crore: A handwritten diary containing records of out of books cash receipts to the tune of around Rs.240 crore was seized from the office of the group. The entries therein have been admitted by the persons concerned.

Bogus loans of Rs. 30 crore in a group company: Investigations reveal that a loan entry of Rs. 30 crore in one of the group companies was an accommodation entry arranged by an entry operator against equivalent cash.

Over-invoicing of imports and round tripping of Rs. 252 crore: During the search, evidence was found indicating that the group grossly over-invoiced its imports from original manufacturers by re-invoicing it through a shell company of a person who is an accused in a major defence scam. The surplus so created was ploughed back in the books as FDI through another shell company of the same person.

Unaccounted foreign investments/expenses: Enquiries reveal that the Group used the services of a Dubai based operator to park unaccounted foreign remittances in overseas jurisdictions. Out of such remittances, approximately **Rs. 27 crore** was paid towards credit card expenses and **Rs. 72 crore** for purchase of a property abroad.

Apart from the above, unaccounted payment of **Rs. 9 crore** towards purchase of a property has also been detected.

Seizure of unaccounted assets of **Rs. 3 crore** has been made during the search**.**

The search action was undertaken on the basis of credible information and has led to detection of large scale tax evasion of more than **Rs. 1350 crore**.

Repayment of 7.28% Government Stocks 2019

The Repayment of following Security is due as per details given below:

Table: Details of GoI Security maturing on June 03, 2019

Sl. No.	**Name of Security**	**Scheduled Date of Repayment**	**Effective date of Repayment**	**No Interest Accrual from scheduled date of Repayment**
(1)	**(2)**	**(3)**	**(4)**	**(5)**
1.	Repayment of '7.28% GS 2019'	June 03, 2019 (Monday)	June 03, 2019 (Monday)	June 03, 2019

(Monday)

The outstanding balance under 7.28% GS 2019 will be repayable on the effective date of repayment as indicated in Column 4 of above Table. In the event of a holiday being declared on effective day of repayment by any State Government under the Negotiable Instruments Act, 1881, the Loan/s will be repaid by the paying offices in that State on the previous working day. As per sub-regulations 24 (2) and 24(3) of Government Securities Regulations, 2007 payment of maturity proceeds to the registered holder of Government Security held in the form of Subsidiary General Ledger or Constituent Subsidiary General Ledger account or Stock Certificate shall be made by a pay order incorporating the relevant particulars of his bank account or by credit to the account of the holder in any bank having facility of receipt of funds through electronic means. For the purpose of making payment in respect of the securities, the original subscriber or the subsequent holders of such Government Securities, shall submit the relevant particulars of their bank account well in advance. However, in the absence of relevant particulars of bank account / mandate for receipt of funds through electronic means, to facilitate repayment of the Loan on the due date, holders may tender the securities, duly discharged, at the Public Debt Offices, Treasuries / Sub-Treasuries and branches of State Bank of India (at which they are enfaced / registered for payment of interest) 20 days in advance of the due date for repayment. Full details of the procedure for receiving the discharge value may be obtained from any of the aforesaid paying offices.

WORLD BANK THIS WEEK

Oil prices to be lower in 2019 on slower-than-expected global growth, rising non-OPEC supply

Metal, agriculture prices to stage partial recovery, momentum to pick up in 2020

WASHINGTON, April 23 – Crude oil prices are expected to average $66 a barrel in 2019 and $65 a barrel in 2020, a downward revision from the October forecast due to the weaker-than-expected global growth outlook and greater-than-anticipated U.S. production, the World Bank said. Metal prices are expected to continue a recovery in 2019 that follows a sharp drop in the second half of

2018, the World Bank said in its April *Commodity Markets Outlook*. The recovery has been spurred by stabilization of activity in China after weakness around the turn of the year, as well as various supply shortfalls.

"It has become clear that the commodity price cycle has come to an end, which is causing strains for exporters but may offer opportunities for importers," said **Ceyla Pazarbasioglu, World Bank Equitable Growth, Finance & Institutions Vice President**. *"Exporters may have to adapt to slower gains in commodity revenues with economic diversification, while importers could take advantage of lower commodity prices for increased investment."*

Agriculture prices are projected to fall 2.6 percent this year but rebound in 2020 due to lower crop production and higher costs for energy and fertilizers. An escalation of trade tensions would likely push prices lower, but higher-than-expected energy costs could lift prices more than expected.

"The outlook for commodity prices is sensitive to policy-related risks, especially for oil," said **Ayhan Kose, Director of the World Bank's Prospects Group**. *"The outlook for oil could be swayed by a range of policy outcomes, including whether the Organization of the Petroleum Exporting Countries (OPEC) and partners extend production cuts, the impact of the removal of waivers to the U.S. sanctions on Iran, and looming changes in marine fuel emissions regulations."*

After a drop in late 2018, oil prices have risen steadily since the start of the year, as OPEC and partners have cut production, and output has declined in Venezuela and Iran. U.S. shale production is expected to remain robust after surging in 2018. Energy prices overall – which also include natural gas and coal – are expected to average 5.4 percent lower in 2019 than in 2018. A special focus section shows that when countries intervene to dampen the effect of food price fluctuations on their citizens, the collective intervention of many countries can produce the opposite of the intended effect and amplify movements in world prices – to the detriment of the most vulnerable populations.

Low-Paid Workers Catching Up Over Time in Mauritius

Women, youth, and less-educated workers remain at a disadvantage

PORT LOUIS, April 24, 2019 — Lower-paid workers in Mauritius are to some extent catching up to their higher-paid counterparts over time, according to *Mauritius: Earnings Mobility and Inequality of Opportunity in the Labor Market*, a new World Bank report released today. Inequality remains high, however, and the characteristics that drive earnings inequality also keep individuals from benefitting from earnings mobility, and therefore women, young people, and less-educated workers not only face lower initial earnings, they also face more difficulty in catching up with high-paid workers during their time in the work force.

"*Workers who start at the bottom of the earnings distribution are seeing a larger growth in earnings than workers that start at the top, so they slowly move up the earnings ladder,"* said **Marco Ranzani, the Bank's economist and the report's main author**. "*This progress over time is promising, but the rising gap in earnings between high- and low-skilled workers remains a concern*."

The increase in income inequality over the past decades in Mauritius was driven by a progressive shift from traditional and low-skill sectors to services, notably professional, real estate, and financial services. This transformation has generated a considerable rise in the demand for skilled workers that the country is struggling to meet, despite higher education levels among the population. As a consequence, high-skilled workers received considerably larger wage increases compared with low-skilled workers. Access to labour markets has become more equal over time, due largely to better education across the population, but women and youth especially tend to lag behind, and are less likely to have full-time jobs. The report takes a close look at the extent and nature of earnings mobility and inequality of opportunity in the Mauritian labour market to better understand whether low-paid workers catch up in earnings with high-paid workers who have the same characteristics, which individual characteristics foster earnings mobility, and to what extent circumstances at birth affect the ability of an individual to access certain good jobs. The report makes three key recommendations to equalize earnings and job opportunities, especially for those left behind:

Continue with women-friendly social policies. Recent reform efforts go in the right direction and include the introduction of paid paternity leave, the extension of maternity leave, the prohibition of dismissal of pregnant workers and of discrimination in access to credit based on gender, as well as the law on equal remuneration for work of equal value that imposes a positive duty on every employer. Going forward, developing affordable childcare and eldercare programs as well as working-time regulations that promote flexibility will be key to make further progress in closing the gender gaps in the labour market. In addition undertaking awareness campaigns can help shift norms around the types and levels of jobs that women can have.

Strengthen policies targeted at developing skills that are in high demand. A comprehensive assessment of current and future skills needs should be the starting point of a new skills planning strategy. This could help inform education curricula choices of future generations of workers. In addition, re-training programs for individuals who are already in the labour market can contribute to reducing the skills shortage.

Consolidate employment programs, connect them with demands from employers, and integrate them with education policies. Programming should combine on-the-job training, short classroom training, life-skills training, and labour market intermediation services and career guidance for participants. The report identifies a reluctance among low-skilled youth to take up jobs in certain sectors because of the working conditions as well as the social status associated with being employed in these sectors. In addition, employers report difficulties in finding people with proficiency in technical skills.

IMF THIS WEEK

Belt and Road Initiative: Two Key Channels to Achieving Financial Connectivity

Opening Remarks
By Christine Lagarde, IMF Managing Director
Belt and Road Forum Session on Financial Connectivity

April 24, 2019

As prepared for delivery

Governor Yi, Minister Liu, Distinguished Guests, Ladies and Gentlemen — good morning! *Zao Shang Hao!*

I would like to thank the People's Bank of China and the Chinese Ministry of Finance for organizing this important event. As we meet during this beautiful springtime weather it brings to mind the words of the Chinese proverb, " *The whole year must be planned for in the spring*." Over the next three days we will consider the ways the Belt and Road Initiative — the BRI—can help better connect the world physically and financially for years to come. It is fitting that we begin these conversations with financial connectivity. Why? Because history teaches us that physical and financial connectivity go hand-in-hand. Think of the original Silk Road. The desire for trade drove merchants to travel thousands of kilometers. Over time, infrastructure in the form of bridges, buildings, and even entire new cities were built to accommodate what began as small trading posts and financial exchanges. So where there is financial connection, we see that rapid improvements in quality of life can quickly follow. In our modern context, there are several important channels to achieving this greater financial connectivity. I want to highlight two today: increased capital mobility and increased financial inclusion.

1. Increased Capital Mobility

First, enabling capital to flow more freely.

Allowing capital to flow across borders can help support inclusive growth. How? By enhancing investments in infrastructure, manufacturing, and even health care.

Right now, **foreign direct investment —FDI — is only 1.9 percent of GDP in developing countries.** Before the global financial crisis, it was at 2.5 percent. Making progress on major infrastructure needs will require capital flows to rise again and to be managed safely.

Greater openness to capital flows can also bring down the cost of finance, improve the efficiency of the financial sector, and allow capital to support productive investments and new jobs.

That is certainly the case here in China, where a further opening of the bond market to foreign investors will enable diversification and **foster the internationalization of the Renminbi (RMB).**

In fact, the IMF recently published a book on this topic, called “The Future of China’s Bond Market”. It outlines how the inclusion of China’s bonds in global indexes can be a gamechanger not only for China’s own financial markets but also for global investors.

The book also underscores the challenges that come with opening up capital markets. Thankfully, we know from experience the elements that are required for success. These include **sound financial regulation, transparent rules for investment,** and **attention to fiscal sustainability.**

On this last point, China’s increased focus on the long-term success of BRI projects, and the announcement today by Finance Minister Liu of a BRI debt sustainability framework, are very welcome steps in the right direction.

So too is the work that is now beginning to ensure that investment in BRI projects is green, low-carbon and climate resilient. This will lead to increased environmental sustainability.

2. Increased Financial Inclusion

We also need **increased financial inclusion** — my second channel for a more effective BRI.

A few numbers: close to half of the adult population in low and middle-income Asia-Pacific economies do not have a bank account. Less than 10 percent have ever borrowed from a financial institution. [1]

And yet, we know that closing the finance gap is an “economic must-have” for nations to thrive in the 21st century. IMF analysis shows that if the least financially inclusive countries in Asia narrowed the finance gap to the level of Thailand — an emerging market economy — **the poverty rate in those countries could be reduced by nearly 4 percent.** [2]

How can we get there? In part, through policies that enable more women and rural citizens to access financial services. **The financial gender gap for women in developing countries is about 9 percent** and has remained largely unchanged since 2011. [3]

There is no silver bullet, but we know that **fintech can play a catalyzing role.**

In Cambodia, for example, strong public-private partnerships in supporting mobile finance has led to a tripling in the number of micro-financial institutions since 2011. These institutions have now provided loans to over 2 million new borrowers, representing nearly 20 percent of the adult population. Many of these citizens had never had a bank account. Now they can save for the future and perhaps even start a business of their own.

These are ideas that can work everywhere. But countries have to be willing to partner and learn from each other.

That is one of the major reasons why last October, the IMF and World Bank launched the Bali Fintech Agenda. The agenda lays out key principles — from developing financial markets to safeguarding financial integrity — that can help each nation as it strives for greater financial inclusion.

It is a model for international collaboration, much like this forum.

Conclusion

Let me conclude.

I began with a Chinese proverb. In the spirit of global connections, I will close with a western poet. The English poet John Donne, who wrote about the Silk Road, was right when he said, "*No man* (or woman!) *is an island, entire of itself; every man is a piece of the continent, a part of the main*." [4] Just like our history, our modern financial landscape reveals the enormous potential of better connections between nations and between financial institutions across borders. These financial connections can lead to new construction, new jobs, new opportunities, and, ultimately, the ability to achieve economic security. If we find ways to harness the potential, we can build more prosperous, inclusive economies that benefit all.

Thank you very much.

Financing for Sustainable Development: Tackling Big Challenges

About the Blog

IMFBlog is a forum for the views of the International Monetary Fund (IMF) staff and officials on pressing economic and policy issues of the day.

The views expressed are those of the author(s) and do not necessarily represent the views of the IMF and its Executive Board.

By Chris Lane

Without adequate financing, the best intentions of the global community expressed in the Sustainable Development Goals (SDGs) will remain beyond reach.

ITEMS COMPILED & EDITED FROM NATIONAL, INTERNATIONAL FINANCIAL DALIES, WEEKLIES, WEBSITES.

Recent setbacks in financing for development should therefore focus policymakers' attention on the need for decisive national strategies so these best intentions might be realized. Harnessing the necessary resources could be achieved through a combination of revenue mobilization, attracting private finance, and supporting financial sector development. Policy makers will need to engage in collective action and practice a new multilateralism in support of global goals.

A new UN study, prepared with significant contributions by the IMF, the World Bank Group, the World Trade Organization, the United Nations Development Program and other UN agencies, takes a deep dive into how countries and the international community are faring in mobilizing the needed financing.

The financing needs are not small change—an IMF study earlier this year estimated additional annual spending needs by 2030 would be $2.6 trillion in low-income and emerging markets for the big-ticket SDGs delivering education, health, power, roads, water and sanitation to growing populations. The financing challenge is particularly large in low-income and fragile states given their low starting point, rapid population growth, and often weak growth trajectory accounting for one-fifth of the total financing needs.

While the financing challenges are large, they are not overwhelming for most countries.

The UN report also notes that some recent developments may make mobilizing financing more difficult. Global growth has likely peaked, trade restrictions are intensifying, some emerging markets are experiencing capital flow reversals, and debt risks are rising with about thirty low-income countries at a high risk of debt distress or in debt distress. We are indeed at a delicate moment for the global economy as the IMF Managing Director remarked earlier this month.

Meeting the financing challenge

The Financing for Sustainable Development Report makes over 40 specific recommendations to UN member states to better align financing with investments in the sustainable development goals. Four proposals merit particular attention:

Develop a financing framework. Financing is often the weakest part of national SDG plans: a recent study showed that over three-quarters of 107 national plans do not contain costings or financing details. The report makes concrete recommendations on how to operationalize a financing framework and illustrates how some countries developed plans identifying both public and private flows.

Medium-term revenue strategies. The report recommends building a national consensus for medium-term revenue strategies that can support reforms through the political cycle by highlighting the link between additional revenues and effective and equitable public services. Indonesia provides a good example of an ambitious revenue strategy that aims to raise revenue from 10 to 15 percent of GDP over the medium term (explained in this IMF book). Revenue strategies may be bolstered by global coordination on international corporate tax reform.

Actions to support debt sustainability. An in-depth discussion of debt risks provides a rich menu of actions to help countries spot vulnerabilities early on, and better manage their debt. The report highlights that all debt crisis situations are different and discusses ongoing efforts and challenges for debt-restructuring in the Gambia, Republic of Congo, and Mozambique.

Prepare for future crises. Even the best laid plans, strategies, and tools may not prepare developing countries adequately for future financial crises and spillovers from advanced economies. The report reiterates the importance of ensuring the adequacy and comprehensiveness of the global financial safety net, including through the ongoing review of IMF financing arrangements.

While the financing challenges are large, they are not overwhelming for most countries. Particularly strong efforts will be needed to move the needle in Africa and parts of the Middle East, with national policies to support SDG investments, and international cooperation to find solutions to new and emerging challenges. The Financing for Sustainable Development Report makes an important contribution to identifying necessary actions.

Communiqué of the Thirty-Ninth Meeting of the IMFC

Chaired by Mr. Lesetja Kganyago, Governor of the South African Reserve Bank

We express our sympathy for the human loss and devastating impact of the recent natural disasters in Iran, Malawi, Mozambique, and Zimbabwe.

Global outlook and policy priorities

The global expansion continues, but at a slower pace than anticipated in October. Growth is projected to firm up in 2020, but risks remain tilted to the downside. These include trade tensions, policy uncertainty, geopolitical risks, and a sudden sharp tightening of financial conditions against a backdrop of limited policy space, historically high debt levels, and heightened financial vulnerabilities. Other longstanding challenges also persist. To protect the expansion, we will continue to mitigate risks, enhance resilience, and, if necessary, act promptly to shore up growth for the benefit of all. Fiscal policy should rebuild buffers where needed, be flexible and growth-friendly, and strike the right chord between ensuring debt sustainability, supporting demand while avoiding procyclicality, and safeguarding social objectives. In line with central banks' mandates, monetary policy should ensure that inflation remains on track toward, or stabilizes around targets, and that inflation expectations remain anchored. Central bank decisions need to remain well communicated and data dependent. We will monitor and, as necessary, tackle financial vulnerabilities and emerging risks to financial stability, including with macroprudential tools.

Strong fundamentals, sound policies, and a resilient international monetary system are essential to the stability of exchange rates, contributing to strong and sustainable growth and investment. Flexible exchange rates, where feasible, can serve as a shock absorber. We recognize that excessive volatility or disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will refrain from competitive devaluations and will not target our exchange rates for competitive purposes.

Advancing financial and structural reforms is critical to boosting potential growth and employment, enhancing resilience, and promoting inclusion. To this end:

- We stress the importance of timely, full, and consistent implementation and finalization of the financial sector reform agenda as soon as possible, and the ongoing evaluation of the effects of these reforms. We will also address fragmentation through continued regulatory and supervisory cooperation, adapt regulation to structural changes, and close data gaps.
- We commit to strong governance, including by tackling corruption. We will implement policies that foster innovation and fair market competition. We will strive to address challenges from demographic shifts, ensure that gains from technological change and economic integration are widely shared, and effectively assist those bearing the cost of adjustment.

We will continue to take joint action to strengthen international cooperation and frameworks.

- We will work together to reduce excessive global imbalances through macroeconomic and structural policies that support sustainable global growth.
- Free, fair, and mutually beneficial goods and services trade and investment are key engines for growth and job creation. To this end, we recognize the need to resolve trade tensions and support the necessary reform of the World Trade Organization to improve its functioning.
- We will expedite work for a globally fair and modern international tax system and address harmful tax competition, artificial profit shifting and other tax challenges, such as those related to digitalization. We look forward to results as soon as possible. We will tackle sources and channels of money laundering and terrorism financing, proliferation financing, and other illicit finance. We will also address correspondent banking relationship withdrawal and its adverse consequences.
- We are working together to enhance debt transparency and sustainable financing practices by both debtors and creditors, public and private; and strengthen creditor coordination in debt restructuring situations, drawing on existing fora.

We recognize that joint action is also essential to confront broader global challenges. We will continue to support countries' and international efforts to build resilience to, and deal with, the macroeconomic consequences of pandemics, cyber risks, climate change and natural disasters, energy scarcity, conflicts, migration, and refugee and other humanitarian crises. We will also continue to collaborate to leverage financial technology while addressing related challenges, including from privacy and data security and fragmentation issues. We support efforts toward achieving the 2030 Sustainable Development Goals (SDGs).

IMF operations

We welcome the Managing Director's *Global Policy Agenda*. In line with its mandate, the IMF will continue to support its members and collaborate with others to:

- *Help members enhance resilience and secure sustainable higher growth*: We support the IMF's efforts to provide tailored policy advice and, when needed, financial support for balance of payments needs. We look forward to discussing the IMF's work on a more integrated policy framework that further considers the interactions between monetary, exchange rate, macroprudential, and capital flow management policies. We welcome the enhanced engagement on governance, including corruption, in line with the new governance framework; work on central bank governance; and continued work on infrastructure governance and structural reforms, including market competition issues.

- *Strengthen debt sustainability and transparency*: We support the continued implementation of the IMF-World Bank multi-pronged approach to work with borrowers and creditors to improve the recording, monitoring, and transparent reporting of public and private debt obligations. We ask the IMF to continue to work with members to strengthen fiscal frameworks, improve debt management capacity, and implement the updated debt sustainability framework for low-income countries. We look forward to reviews of the debt sustainability framework for market access countries and the IMF's debt limits policy.

- *Promote policies to foster inclusion and opportunities*: We look forward to the IMF proposing a strategy to more systematically engage on social spending issues. We welcome the macroeconomic analyses of gender and inequality issues. We appreciate further efforts to strengthen the effectiveness of engagement with fragile and conflict-affected states, and provide analysis and advice for developing countries to achieve the SDGs. We call on the IMF to help members improve domestic resource mobilization, including through collaboration with other partners of the Platform for Collaboration on Tax and by applying the experience with medium-term revenue strategies and tailoring efforts to support domestic resource mobilization in countries with limited capacities. We welcome the IMF's continued support for the G20 Compact with Africa initiative to improve investment frameworks.

- *Upgrade global cooperation*: We support the IMF's efforts to mitigate risks and enhance confidence in trade through policy advice and trade-related macroeconomic analyses. We welcome continued efforts to conduct a rigorous, evenhanded, and multilaterally-consistent assessment of external positions and look forward to further analysis of the role of exchange rates in the external adjustment process. In collaboration with other institutions, we welcome the IMF's contributions to the global regulatory reform agenda; its continued role in international tax issues; and its work on measuring and addressing illicit financial flows. We call for further efforts to strengthen the global financial safety net (GFSN) and promote a resilient international monetary and financial system, including by reconsidering elements of the IMF's lending toolkit and deepening collaboration with regional financing arrangements.

- *Facilitate global solutions to global challenges through macroeconomic analysis and policy advice*: We welcome the IMF's work on the implications of fintech for cross-border flows and financial stability, inclusion, and integrity, consistent with the Bali Fintech Agenda; on supporting countries' efforts to enhance resilience to cyber risks through enhanced financial supervision and promotion of good practices; and on addressing the causes and consequences of the withdrawal of correspondent banking relationships and helping countries deal with them. We look forward to further work on challenges faced by countries with demographic shifts. In line with its mandate, the IMF will continue to provide guidance on members' implementation of climate change mitigation and adaptation strategies. We support the IMF's continued assistance for resilience-building in countries vulnerable to natural disasters, especially small states and low-income countries, in collaboration with other institutions. We also support the IMF's ongoing assistance to countries affected by conflict and refugee crises.

- *Adopt policy tools to lead and support change*: We welcome the IMF's efforts to enhance its surveillance through the 2020 Comprehensive Surveillance Review; the reviews of the Financial Sector Assessment Program and the policy on multiple currency practices; and work on the Data Standards Initiatives and data provision to the IMF for surveillance purposes. We support improving lending policies, including through the reviews of program design and conditionality and concessional facilities; and integrating capacity development with surveillance and lending.

IMF resources and governance

We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the GFSN. We note the recent report to the Board of Governors on progress on the 15th General Review of Quotas. We request the Executive Board to continue its work on IMF resources and governance reform as a matter of the highest priority, and to report on its outcome when it concludes its work on the 15th General Review of Quotas and by no later than the Annual Meetings of 2019. We call for full implementation of the 2010 governance reforms. To continue providing high value-added support to its members, we call on the IMF to maintain a high-quality staff and strengthen efforts to meet the 2020 diversity benchmarks; and look forward to the IMF's initiatives to modernize its operations, including through the timely conclusion of the comprehensive review of compensation and benefits. We support increasing gender diversity in the Executive Board. Our next meeting will be held in Washington, D.C., on October 19, 2019.

Restoring Trust through Fiscal Policy

Opening Remarks by Mitsuhiro Furusawa, IMF Deputy Managing Director *Tenth IMF-Japan High-Level Tax Conference for Asian Countries Tokyo, Japan, April 25-26, 2019*

April 25, 2019

Introduction

Good morning everyone!

It is my great pleasure to welcome you to the IMF-Japan High-Level Tax Conference for Asian Countries. Today we mark the tenth anniversary of this conference.

Since 2009, the conference has provided an important platform for tax officials in Japan and the Asian region to share experiences and deepen collaboration on common challenges in tax policy. I am grateful to our co-host, the Ministry of Finance, for its generous support of the conference and for the country's unwavering commitment to our technical assistance activities. I would also like to thank my colleagues in the IMF Fiscal Affairs Department and in the Regional Office for Asia and the Pacific for their organizational leadership of this event. This year, the conference takes place against a delicate and unsettled backdrop for the world economy. The broad-based economic expansion witnessed around this time last year has hit a temporary soft patch – and policy uncertainty and financial vulnerabilities further threaten ongoing momentum. This is all at a time when rising inequality is eroding trust in institutions and support for a system of international cooperation that has delivered enormous benefits. So today I would like to share a few thoughts on two areas where effective tax policy and administration can help restore trust in public institutions: corruption and international taxation.

Curbing corruption to restore trust in fiscal institutions

Let me start with corruption.

Corruption helps some people evade taxes, whereas others may end up paying more than they should. It distorts taxpayers' money away from schools, roads, and hospitals, and undercuts the government's ability to achieve sustainable and inclusive growth. Ultimately, corruption erodes peoples' trust in government and institutions. And we know well that effective fiscal institutions – including effective revenue systems – cannot function without trust.

Why? Because corruption weakens the culture of compliance.

In our latest Fiscal Monitor, we analyzed more than 180 countries and found that less corrupt governments collect more revenues, up to 4 percent of GDP. Countries that managed to reduce corruption significantly were rewarded with even higher revenue.

For example, in Georgia, tax revenues more than doubled, rising by 13 percentage points of GDP following aggressive reforms to fight corruption. Corruption also distorts how governments use public money and impacts the effectiveness of social spending. ***More corrupt countries overpay for building roads and hospitals, and their school-age students have lower test scores.***

So, what is the IMF doing to help our members in their fight against corruption?

We have been deeply engaged with our members in building effective institutions and improving public sector governance – through policy advice and diagnostic tools. We have built up comprehensive diagnostics on weaknesses and inefficiencies in fiscal institutions. These tools assist our members to track down shortcomings in their systems and help them design necessary reforms to improve oversight and control of public revenues and expenditures.

For example, in tax area, we have tools that can help countries assess the health of key components of their tax administration systems, and to estimate the size of non-compliance gaps for major taxes. In sum, our assistance to member countries is guided by a simple principle: strong fiscal institutions are important to promote integrity and accountability. They are key to restoring trust in government.

Towards a fairer international taxation system

This brings me to my second topic: international taxation. The effective taxation of multinationals is one of the most prominent issues not just for practitioners but for society at large. This is especially relevant for low-income countries. Why?

Many low-income countries rely on corporate income taxes as a source of revenue. Yet, they are often under pressure to sacrifice potential corporate revenues in order to attract foreign direct investment. So not only do these countries become exposed to profit shifting and tax competition, they also have limited alternatives for raising revenues. And this limited capacity becomes further stretched by increased tax complexity. The good news is that there has been progress on coordinated measures to deal with this issue, most notably the G20-OECD Base Erosion and Profit Shifting (BEPS) Project. Under this initiative, a multinational agreement was achieved on new and improved standards, such as transfer pricing and treaty abuse. These standards address some of the most egregious types of international corporate tax avoidance, and many countries are now amending their tax laws in line with the recommendations of the BEPS Project. Despite these important initiatives, the international tax system remains uneven. For two reasons.

First, profit shifting is still a problem.

Limitations of the arm's-length principle – and reliance on notions of physical presence of the taxpayer to establish a legal basis to impose income tax – have allowed apparently profitable firms to pay little tax.

Second, and equally important, tax competition remains largely unaddressed.

Views differ as to whether tax competition may be appropriate in certain contexts. But for low-income and developing countries, we see all too clearly the damage that tax competition can do to much-needed revenues. To further the debate on the issue of international corporate taxation, we recently published a paper that focuses on the perspective of emerging and low-income countries. We examined several alternative international architectures, such as minimum taxation and the destination-based cash-flow tax. And of course, we engage closely with our members on all tax issues within the context of our wider surveillance and capacity development work. This conference provides an excellent opportunity to further explore the economic impact of current international tax arrangements, and the merits and drawbacks of alternatives now under discussion.

Conclusion

Let me conclude.

- The global economic backdrop is shining a light on the importance of strong fiscal institutions and policies in navigating current challenges.
- The topics of this conference strike a very timely chord.
- So, I would like to welcome all participants, and wish you productive and engaging discussions.
- I hope you will also have the time to enjoy Tokyo even if the beautiful Sakura season is over!

Thank you.

BASLE THIS WEEK

Central banking and innovation: partners in the quest for financial inclusion

Speech by Mr Agustín Carstens, General Manager of the BIS, at the Reserve Bank of India, C D Deshmukh Memorial Lecture, Mumbai, 25 April 2019. Central banks and financial authorities can promote financial inclusion by pursuing their core objectives. By watching over price stability, they ensure that money keeps its value. By ensuring financial stability, they prevent financial institutions from failing and taking people's savings with them. And, by delivering on these objectives, they reinforce trust in the financial system. Still, achieving financial inclusion requires other elements as well. Innovation can play a crucial role in breaking down barriers to inclusion, for citizens and financial institutions alike. Policymakers can catalyse and shape innovation by providing infrastructure and utilities, as well as rules and guidelines. Central banks and innovators should work together to further financial inclusion.

27/04/2019

BY VASANT PONKSHE
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