

Clarity needed

RBI's decision in the LVB-Indiabulls merger case may be prudent, but it owes markets an explanation

After pondering over the merger proposal between Indiabulls Housing Finance and Lakshmi Vilas Bank for a good six months, the RBI has finally decided not to give it the go-ahead this week. This could well be in the best interests of depositors and the Indian banking system. While both Lakshmi Vilas Bank (LVB) and Indiabulls Housing have sought to put a positive spin on this rejection, they may now have to work harder on alternative means to address their business challenges.

The RBI's decision to nix this merger appears prudent on two counts. When the merger was first proposed in April, it was seen as coming together of two troubled entities. Hit by the freeze in institutional lending to realty-focussed non-banks after the IL&FS/DHFL crises, Indiabulls Housing Finance was essentially hoping to piggyback on LVB's branch network to garner a low-cost retail deposit base that could resurrect its loan growth. LVB on its part, which was saddled with gross NPAs of over 13 per cent and a precarious capital adequacy of 7.5 per cent, was hoping to lean on Indiabulls' large loan book and fee income to prop up its profitability and capital base. Allowing two such entities to operate a bank may have undermined the interests of public depositors and investors. That LVB's financial position has since worsened enough for it to be swept into RBI's Prompt Corrective Action framework and the Indiabulls group has been the subject of a public interest litigation alleging financial irregularities, further muddy these waters. Letting a non-bank entity merge with a bank to secure a banking licence

would also have set an undesirable precedent for future contenders to the RBI's hard-to-get universal banking licences. Now that the RBI has put these licences on tap and has defined the eligibility criteria, it would be best if NBFCs or housing finance companies seeking to convert

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into banks are required apply directly to the RBI for conversion into universal banks, without taking recourse to back-door routes.

While the RBI's decision is unexceptionable, the investors in the two listed entities who have been subjected to a roller-coaster ride in the last six months, have reason to be aggrieved at the opaqueness of this decision-making process. With the RBI refraining from conveying any reasons for its refusal, rumour mills in the stock and bond markets are now working overtime making it an uphill task for both LVB and Indiabulls Housing to chart a recovery from this setback. The merged entity, as per the amalgamation plan, was expected to be fully compliant with RBI's capital and prudential lending norms, apart from meeting all its conditions for a universal banking licence, making it all the more imperative for the RBI to disclose the reasons for its rejection. This will serve as a guidepost not only to investors and the markets at large, but also to all other entities who hope to apply for on-tap licences in future.

FROM THE VIEWROOM

India Inc needs a gender correction

Our boardrooms have only 15 per cent women. This must change

Indian businesses are known for their male bias. Several studies, conducted by local as well as international agencies, have confirmed this. There is also enough anecdotal evidence to prove the point. When such issues are pointed out by journalists, researchers and other concerned industry watchers, the usual refrain has been that things are looking up. Change is in the making. It appears, it's not.

The 2019 edition of the Gender 3000 report from Credit Suisse Research Institute, a think-tank supported by the financial services giant, confirms existing male-bias in India Inc.

The report studied 3,000 companies in 56 countries. And India ranks a pitiful 23 out of the 56, countries with just 8.5 per cent women donning senior roles. Even though this is a marginal improvement from the 6.9 per cent three years ago, India still ranks third lowest among its APAC counterparts.

Clearly, Indian companies must do more to make its workplaces and boardroom more gender equal. Just last year, a World Bank report pointed out that more than a third of all job advertisements in India are biased towards the male. Women do get hired, but mostly for low-paying, low-quality jobs, the World Bank report observed. A lot of factors contribute to the biased treatment of businesses towards women. In India, the society is still pre-modern in many ways and these attitudes get reflected in hiring. Patriarchal mores continue to play a pivotal role in shaping company policies.

Women continue to be underpaid; maternity leaves are a joke in many industries. Menstruation issues, pre-menstruation stress and such important matters do not even make a reference in HR manuals for women in workplaces. As a result, female job participation in general continues to lag and this lull is reflected in the boardroom scenario as well. This must change, not at the business-as-usual pace but more rapidly so that the gender imbalances are corrected judiciously. A gender-based affirmative action in private sector enterprises could be a suitable place to start.

Jinoy Jose P Deputy Editor

Plight of cotton farmers still unresolved

The WTO hasn't got the US to cut its cotton subsidies. This has hurt developing nations and distorted global trade in the commodity

SACHIN KUMAR SHARMA
ABHIJIT DAS

Recognising the importance of cotton in agriculture development, poverty reduction and international trade, World Trade Organization (WTO) observed World Cotton Day on October 7. While this initiative is laudable, it does not conceal the harsh reality that the WTO has failed repeatedly in its efforts to improve the plight of poor cotton farmers in African countries by getting the US to cut its subsidies to cotton. It compels a sober reflection on what was the problem, how it was sought to be addressed and what went wrong.

For the past two centuries, cotton was an embodiment of slavery and colonisation. The need for employing slaves to cultivate and harvest cotton — a commercially lucrative crop — in the southern states of the US ultimately led to the American Civil War. The role of cotton in economic exploitation of India by the British is too well-known to be recounted. At the WTO, developments over the past 16 years suggest that cotton continues to remain a symbol of exploitation, poverty and hypocrisy.

The US holdout

The issue of cotton subsidies came into limelight in 2002, when Oxfam published a report titled *Cultivating Poverty*. The report delineated in detail how the huge subsidies provided by the US to its cotton growers had depressed global prices, diminished prospects of exports from developing countries and destroyed the livelihoods of cotton farmers in Africa. The adverse impact of US subsidies was felt most severely by African

countries, whose economies were overwhelmingly dependent on cotton. These included Benin, Burkina Faso, Chad and Mali (referred to as the 'C-4' countries).

The Oxfam report shook the collective conscience of most of the trade negotiators at the WTO. Those were the early days of the Doha Round of multilateral trade negotiations, and a persuasive case was built by the C-4 countries for eliminating subsidies to cotton as a part of these negotiations. In fact, cutting cotton subsidies became the rallying cry at the Cancun Ministerial Meeting of the WTO held in 2003. However, what happened on this issue at the Cancun meeting highlights the hypocrisy of the US and failure of the WTO to negotiate for more stringent rules on cotton subsidies.

With most of the WTO members putting pressure on it to give a commitment to cut its cotton subsidies, the US was cornered. However, the US found it politically inconvenient to give any commitment on cotton. It tried to divert attention away from its subsidies and instead, in informal talks with the C-4, proposed action for product diversification in Africa. This strategy fuelled further resentment and frustration among developing countries.

According to some trade experts, after sensing that the sentiment of most WTO members was against its approach to cotton, the US ducked a detailed discussion on the issue by letting the Cancun meeting sink on other contentious issues.

The US had succeeded in stonewalling the demand to cut its cot-



At the WTO, developments suggest that cotton continues to remain a symbol of exploitation and hypocrisy. AFP

ton subsidies. Undeterred by the failure of the Cancun meeting, C-4 and other developing countries persisted in their efforts aimed at getting developed countries to cut cotton subsidies. This bore fruit during the Hong Kong Ministerial meeting of the WTO, held in 2005. At the insistence of developing countries, the US agreed to reduce cotton subsidies "ambitiously, expeditiously and specifically", but as a part of agriculture negotiations under the Doha Round.

However, the US killed the Doha Round in 2015 and escaped reducing its cotton subsidies. This has also provided it a window to further distort global trade in cotton.

Cotton lobby

During 1995 and 2017, the US provided subsidy worth \$38 billion to cotton farmers through a plethora of schemes: including direct payment, market loan as-

sistance, crop insurance, counter-cyclical payment and commodity certificates. In a few years, the amount of subsidy was as high as 74 per cent of the value of production of cotton. The US is also implementing a Marketing Facilitation Programme, under which it has provided \$462 million direct payments to cotton producers whose export earnings have fallen due to the US-China trade war.

With the top 10 per cent of recipients of cotton subsidy in the US receiving 82 per cent of the total amount of the cotton subsidy, the influence of the cotton lobby on trade negotiations is evident.

As a result, despite the cost of cultivation of cotton lint in India (\$0.71 per kg) and the C-4 (\$1.23 per kg) being lower than that in the US (\$1.88 per kg), the US exporters always have an upper hand in the market.

In conclusion, celebrating the

World Cotton Day cannot mask the plight of poor cotton farmers in developing countries, mainly on account of cotton subsidies provided by the US.

The way forward should be for WTO members to discuss the joint proposal by India and China aimed at capping product-specific subsidies provided by developed countries to 5 per cent of value of production of the product concerned.

This proposal would go some distance in reducing the elbow room available to developed countries to distort global cotton trade through subsidies. The appropriate occasion to celebrate the Cotton Day would be the day when this proposal is accepted by all the WTO members.

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Has India's growth slowdown bottomed out?

Though several problems persist, green-shoots are visible. The govt's booster dose and sound fundamentals should revive growth

BARENDRA KUMAR BHOI

The near-term outlook of the Indian economy is disappointing. India's real GDP growth slowed to 5 per cent in the first quarter of 2019-20 — the lowest quarterly growth since 2012-13 Q4. Private investment is yet to pick up despite seasonally-adjusted capacity utilisation hovering around 75 per cent. India's export sector is facing unusual global headwinds such as cyclical slowdown of the world economy, escalation of tariff war between the US and China, and geo-political risks. In such a milieu, capital flows to emerging market economies have become highly uncertain.

Cyclical vs structural

There has been an animated debate as to whether India is passing through a cyclical or structural slowdown. The RBI has taken a view that India's recent slowdown is cyclical, while many experts believe that it is both cyclical and structural. India's structural problems are not new and these are being addressed at a rapid pace. Gross fixed capital formation (GFCF) as proportion to GDP at current prices has declined from 39.8 per cent in 2010-11 to 28.6 per cent in 2017-18, before

rising modestly to 29.3 per cent in 2018-19. As developing countries like India are mostly investment driven, accelerating growth is not feasible without regaining high level of investment.

Consumption as proportion to GDP has been more or less sustained during recent years, although the growth rate is not impressive due to slowdown of the economy. Gross domestic savings as proportion to GDP has come down to 30.1 per cent in 2017-18 from 36.9 per cent in 2010-11. In a low saving and low investment scenario, India's growth can be sustained at a high level only if there is improvement in productivity. In India, productivity in agriculture is one of the lowest among its peers.

The industrial sector is passing through a period of de-leveraging and, therefore, productivity gain is ruled out. Services sector productivity growth has also moderated in recent years. According to RBI Annual Report 2018-19, India's total factor productivity growth has decelerated from 1.8 per cent during 2003-07 to 0.8 per cent during 2008-16.

Sectoral problems are idiosyncratic in nature. Auto sector, real estate, consumer durables, etc., are not doing well for several reasons. Removal of check gates after the im-



Growth should pick up in second-half

plementation of GST has made the economy flexible and, therefore, large fleet of commercial vehicles is not required. This has not only made the existing fleet redundant, but also considerably reduced demand for commercial vehicles. Similarly, after the introduction of aggregators like Ola/Uber and fiscal incentive for electric vehicles, demand for passenger vehicles has come down significantly. Construction activities have slowed, mostly in the private sector, after the Real Estate Regulatory Authority (RERA) was implemented.

The government is in a catch-22 situation. While the agenda of cleaning up of the banking, NBFC and real estate sectors cannot be abandoned midway, the IBC, RERA and GST are found to be disruptive in the short-run, although they

have potential to accelerate growth in the medium-term.

The silver lining

The other side of the story has a silver lining. According to the IMF, India is still the fastest growing major economy of the world. There are early signs of green-shoots, which may lead to a turnaround of GDP growth. Although the monsoon was delayed by a week, it turned out to be 10 per cent above the long-period average. India's agriculture has developed considerable amount of resilience over time.

Recapitalisation of public sector banks has been front-loaded. Bank lending rates are expected to fall due to five successive rounds of repo rate cuts by the RBI. Credit growth is likely to pick-up in the busy season. July IIP growth at 4.3 per cent is encouraging, despite teething problem being faced by industries.

India's medium-term fundamentals are sound. Average CPI inflation is below 4 per cent for the second year in succession. Forward-looking inflation expectations are benign. As the government is committed to fiscal discipline, fiscal slippage may be negligible. External current account deficit is sustainable despite global headwinds.

India's foreign exchange reserves are at a historic high that provides the RBI enough cushion to maintain a stable exchange rate.

The recent slowdown is certainly a major concern. But there is no need for panic. The RBI's latest growth projection at 6.1 per cent in 2019-20 should be seen in the context of the global slowdown. Given the government's commitment to pursue structural reforms, India may adjust to global headwinds better than its peers.

India's GDP growth in 2019-20 Q2 is likely to be marginally higher than 5 per cent. The second-half GDP growth is likely to be gradually higher than that of the first half, at least due to base effect. Booster doses given by the government may also contribute to growth revival. Monetary policy continues to be accommodative cutting repo rate by a cumulative 135 bps since February 2019. According to a technical paper by this author, jointly with Abhishek Kumar and Prashant Mehul Parab (<http://www.igidr.ac.in/pdf/publication/WP-2019-029.pdf>), indicate that space is still available to cut repo rate going forward.

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BELOW THE LINE



Work in progress

Remember the ₹20,000 crore special fund (₹10,000 crore from the government and ₹10,000 crore from investors) Finance Minister Nirmala Sitharaman announced last month to provide last mile funding to housing projects that are non-NPA and non-NCLT and yet stuck due to lack of funding. It now transpires that the proposed affordable housing and middle-income housing focussed fund — to be set up as Category II Alternate Investment Fund — will take some time before it becomes a reality.

If Finance Ministry insiders are to be believed, government procedures mandate Cabinet ap-

proval on the proposal before things can actually roll on for the creation of the fund. Till then, government investment cannot flow.

Simply Desi vs Khadi

When Sahakar Bharati announced the launch of Simply Desi, a new brand which would help market the produce made by small co-operative units across the country, many wondered whether it was a move by the Sangh Parivar to counter the growing popularity of Khadi. After all, Sahakar Bharati, a Sangh Parivar-affiliated voluntary organisation working in the co-operative space, is less than 10 years old while Khadi has been around for more than 60 years, said a veteran of the cooperative movement at the inauguration of the first-ever India International Cooperative Trade Fair in New Delhi last week when Agriculture and Farmers' Welfare Minister Narendra Singh Tomar launched the brand.

Fully filmi!

When Ravi Shankar Prasad quoted the earnings of Bollywood movies released recently to prove "All Izz Well" in the economy, he was bound to attract criticism.

On Sunday, a statement from Prasad said: "My comments made yesterday (Saturday) in Mumbai about three films making ₹120 crore in a single day — the highest ever — was a factually correct statement. I had stated this as I was in Mumbai — the film capital of India. We are very proud of our film industry, which provides employment to lakhs of people and contributes significantly by way of taxes."

Prasad didn't stop here: "The government of Narendra Modi always cares for the sensitivity of common people. The entire video of my media interaction is available on my social media. Yet I regret to note that one part of my statement has been completely twisted out of context."

"Being a sensitive person I withdraw this comment," Prasad said.

Pouring dollars

Finally, some cause for cheer in an otherwise gloom-and-doom scenario marked by economic slowdown and despondency in the country. The National Investment and Infrastructure Fund's (NIIF's) Master Fund has been such a hit with investors that the Finance Ministry has now decided to raise its fund size to \$2.8 billion from the current \$2.1 billion. The Master Fund, which is NIIF's first operational fund, was created to invest in operational assets with a focus on transportation, energy and urban infrastructure sectors.

As much as \$300 million has been invested. Encouraged by this success, not only has the fund size now been increased, it now transpires that the Finance Ministry has also extended the final close of the Master Fund by a year. Already commitments to the tune of \$1.8

billion have been received, prompting the Finance Ministry to now set the bar higher. If Finance Ministry insiders are to be believed, you will soon hear more good news on the other two funds under NIIF.

Party in jail

Even after having spent a sleepless night while in police custody, former Fortis promoters, brothers Malvinder Singh and Shivinder Singh, appeared in good spirits in the Saket District courtroom. A few reporters stole a conversation with Shivinder outside the courtroom.

When one of them asked him 'what happens next?', he replied: "What next? It is going to be one big party inside the jail. All the old-timers are meeting once more." The brothers appeared nonchalant, were chirpy, smiling and constantly talking to their family as also with the court staff.

Our Delhi Bureau