

Enabling India ...

May 19, 2014

Suggestions for the Imperative & the Important for the new Government

Lead India Back to High Growth

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FICCI believes the Government faces **significant challenges - as well as opportunities - in taking the Nation to a path of higher sustained growth.** This growth is a necessity for the good of our people. **ADVANCE of the REAL ECONOMY requires a BROAD BASED SENTIMENT OF RATIONAL POSITIVITY.** India needs to be seen as a **Nation of enterprise and skills**, not pervasive and persistent aberrations.

Going forward, some Key needs are :

- ▶ **Alleviate food Inflation** - better production, distribution & proactive moves can help
- ▶ **Build Confidence**, for business and for trust of society - articulate and act accordingly
- ▶ **Effective decision making/implementation** - empowerment & accountability, use of technology
- ▶ **Job creation** in every sector of the economy - manufacturing needs to be a key driver

A beginning must be made promptly, via articulations at highest levels and extensive supporting actions to set a progressive tone and direction. The Budget must send concrete signals on fiscal and current account consolidation, revival of investment, more productive use of government spends, and a non-adversarial regime with certainty in policies. We need greater coordination of the Centre with the States on inflation management, and with the Reserve Bank on monetary policy. **Positive signals must be carried regularly to domestic investors and the global community at large.**

Drive Positive Energy & Momentum

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While planning the way ahead the Government must take account of and address **clear and present factors inhibiting** enterprise. A period of negativity and pessimism, diluted decision-making, activism, regulatory & judicial actions - now requires balanced, sensitive reflection and management, via appropriate strategies to **ACHIEVE SHORT TERM HITS and LONG TERM FIXES.**

- ▶ **Aspiration-Reality gap** widening across society
- ▶ **Supply-side constraints** adding to inflation
- ▶ **Manufacturing activity** not growing; Country's **competitiveness decline** merits serious tackling
- ▶ Unbalanced reforms of Product vs. Factors Markets - **Trading vs. Manufacturing Nation ?**
- ▶ Blurred **Energy Security** signals - implications of Coal & Gas issues
- ▶ Concern on **Fiscal health**; productive priorities in spending diluted
- ▶ **Leakage of national revenue**; also possible undeclared assets at home/abroad outside tax net
- ▶ NPAs, **Banking Sector** health and need for further capital
- ▶ **Governance weaknesses**
- ▶ Harmful effects of **intrusive Regulatory/Tax** formulations and actions
- ▶ **Reputational risk** and related issues for country, industry & decision makers
- ▶ **Judicial & legal system** - speed is a challenge with no clear improvement in sight

The Essence of this Agenda

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Integral to FICCI's agenda – **Enablers for Enterprise and Employment** – we have classified our initial suggestions into **IMPERATIVE and IMPORTANT** that go beyond obvious administrative and financial tasks.

The Generic tasks must include but not be limited to :

- **Building business and consumer confidence – the most critical aspect**
- **Easing** conduct of business - transparency through policies and technology usage
- **Encouraging** spirit of enterprise at all levels
- **Incorporating** a true 'job creation centricity' in policies
- **Managing** Inflation via a dynamic framework
- **Strengthening** Centre - State linkages on economic policy implementation
- **Triggering** enhancement of Civic, Industrial and Social Infrastructure
- **Unleashing** expansion particularly in manufacturing & agriculture

We expect **tough actions today to produce tangible outputs over a 6-24 month period.**

It is important to balance **expectations vs. realities** to build consensus that actions and results will both be calibrated. **There is no MAGIC WAND.**

The Imperative

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From the **Prime Minister's** level we hope to see, as early as possible

- ❑ **Broad-based and regular communications**
 - Outlining the Nation's **growth, economic and competitiveness needs** and priorities
 - Building wider acceptance for economic reforms - **we need to cross 8% growth 2017 onwards and 10%+ by 2020**
 - Stressing the need and ways to **bridge trust deficit** essentially amongst government, society and business
 - *Demonstrate Cabinet-led decision making with full authority and accountability*
 - Emphasizing an atmosphere of **Enterprise Friendliness**, and
 - *Assure Businesses that decisions and actions taken in good faith will be respected and protected*
 - *Assert that India values and welcomes capital, and this will be supported by clear, credible and stable policies*
 - *Encourage domestic investors to revisit and kick-start investment plans to build broad-based confidence*
- ❑ Creation of a **Food Inflation Response & Strategy Team (FIRST)** under PMO to
 - *Monitor real time data on food production, stocks and prices across regions*
 - *Coordinate rapidly, including with States, to try and balance supplies and moderate prices*
- ❑ **Articulation of the need to leverage Natural Resources and Assets for National Development**
- ❑ **Articulation of a National Agenda for job creation** across sectors and regions
- ❑ **Stronger Centre-State linkages** for greater, meaningful decentralization for development
- ❑ **Setting out a National Vision for India's Global Standing in the next 5-10 years !**

The Important

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TASK 1 : MITIGATE FOOD INFLATION

- ❑ Plan a **Comprehensive Agricultural Policy** covering
 - *Production, productivity, water management, soil and seed health, market access and insurance for farmers*
- ❑ For improving post-harvest handling and distribution infrastructure, **prepare a roadmap for**
 - *Up-grading collection centers, rural haats*
 - *Viability of cold-storage capacities (necessary to create new capacities)*
- ❑ Enhance **Public Distribution System (PDS)** efficiency
- ❑ Encourage/Incentivize States to **delist horticulture products** from APMC Act
- ❑ Higher production/productivity of cereals, milk, fruits and vegetables, protein-rich food to ensure **true long term Food Security**
 - *Plans for replicating the “White Revolution” for milk across States*
 - *Plans for launching a “Rainbow Revolution” for fruits and vegetables across States*
 - *Source global (e.g. Israel) proven technology to use arid/barren land for fruit & vegetable production*

Desired Key Outcome : Moderated food inflation will provide relief up to the last common denominator in society, and provide space for an accommodative monetary policy

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TASK 2 : EFFECTIVE REVENUE AND EXPENDITURE MANAGEMENT

- ❑ Goods and Services Tax (**GST**) implementation in 2015
- ❑ Review current draft Direct Tax Code (**DTC**)
 - *Ensure direction on aggressive widening of tax base, simplifying laws, rationalizing exemptions*
 - *Ensure a conducive environment for taxpayers, with litigation only as an exception*
 - *Review GAAR; ensure freedom from CFC-akin taxes to legal Indian holdings and structures abroad*
- ❑ **Take the first step on possible illegal assets abroad through tax net**
 - *Negotiate special tax treaty based on precedence - FICCI has made suggestions to MoF earlier*
 - *Informed debate on existing position and prevention of illicit generation going forward*
- ❑ Comprehensive plan for **disinvestment** of public sector enterprises
 - *Long term growth plans for those considered strategic for government ownership*
- ❑ **Revisit major subsidies**
 - *Extend direct cash transfer model for better targeting*
 - *Consider a cap on overall subsidies as % of GDP*
- ❑ **Revamp MNREGA** and link to asset creation (e.g. rural pucca roads, sanitation) and skill development
- ❑ Consider **consolidation of social welfare programs** across ministries and departments

Desired Key Outcome : Generate a surplus on revenue account in 5 years

The Important

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TASK 3 : ADDRESS TAX ENVIRONMENT

- ❑ Clear course of action to **end Tax Adventurism**
- ❑ **Retrospective legislation** must be a rare exception and invariably favourable to taxpayer
 - *Consider repealing retrospective tax provisions which seriously vitiated investment climate*
- ❑ **Resolve** tax disputes relating to capital raising (including application of transfer pricing)
 - *Defined time-frame, transparently, as per global best practice for growth oriented developing economies*
 - *Fishing expeditions on tax matters (i.e. without firm evidence) harms business atmosphere*
 - *Initiate training of tax administrators on new regulations (GAAR, application of transfer pricing)*
- ❑ **Introduce rebated income tax for small start-up businesses, in essence individually owned**
 - *Precedence in (e.g.) Singapore, China; Indian scheme could be called **START** (= **ST**artup **Rebated Tax**)*
 - *Tax benefits linked to direct employment by the start-up business*
 - *Tax benefit will be for defined rebate proportion (say 33-50%) and period (say 3-5 years)*
 - *FICCI will be happy to make specific suggestions*

Desired Key Outcome : Simpler tax rules and interpretation process to boost confidence

The Important

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TASK 4 : STRENGTHEN LEGAL & JUDICIAL INFRASTRUCTURE

- ❑ Significant **expansion in appointment** of judges, and judicial training
 - *Specialized fast track courts for settlement of significant commercial disputes; sensitization to economic impact*
- ❑ Expedite amendment of **Arbitration and Conciliation Act, 1996**
- ❑ Government's **propensity for litigation** to be equitably evaluated/moderated
- ❑ **Libel Laws** must allow punitive measures and speedy disposal
- ❑ Development of **Tort Law**

Desired Key Outcome : A responsive and speedy judicial system, to add to a conducive economic environment

The Important

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TASK 5 : ACHIEVE SUSTAINABLE BALANCE OF PAYMENTS

- ❑ Create **immediate action plans, with a long-term orientation**, to moderate import dependence for key natural resources and commodities
- ❑ Extremely High Priority (**EHP**) Plans to economize imports of :
 - **Coal**; multi-stakeholder resolution to clear barriers to domestic production; create ambitious plans to trim aggregate US\$ 40 billion from the import bill over 5 years
 - **Capital goods** (power equipment in particular) - encourage suppliers to set up manufacturing base in India
 - **Electronics** (imports ~ US\$ 30 billion) - encourage manufacturing/sourcing shifts to India to the maximum possible
 - **Fertilizers**, by freeing up fertilizer pricing
- ❑ Set up multi-stakeholder resolution process to resolve **Iron Ore impasse**
- ❑ Efficacy in **Oil Imports**
 - Promote market based fuel pricing, encourage use of public transport and renewable energy sources
 - Diesel pricing and subsidies need immediate attention to mitigate costs/imports
- ❑ **Promote indigenization of defense imports**
- ❑ Inspire **FDI with export orientation** and integration into global value-chains
 - Must aim for 2-3 showcase projects e.g. based on Thailand model of (say) being a global source for Hard Disks

Desired Key Outcome : Significant reduction in non-oil trade deficit in 3-5 years (present : ~ US \$ 85 billion)

The Important

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TASK 6 : REFORM FACTORS OF PRODUCTION

❖ LABOUR

❑ Set up a Task Force to review labour laws

- *In the context of integrating growth and manufacturing agendas with job creation, equity for workforce and employer must be provided to discourage 'shopping for loopholes' by all concerned, i.e. labour, business and government*
- *Grandfathering existing laws for existing workforce; amended contemporary laws for new entrants to the workforce*
- *New laws must **moderate the tendency towards greater capital intensity***

Desired Key Outcome : More jobs across all forms of enterprise

❖ ENERGY

- ❑ Open up **Coal sector** to private players on market based principles
- ❑ Resolve **gas pricing and allocation** in an equitable and contract-respecting manner
 - *Essential to attract global capital into this sector which will not happen without transparent implementation*
- ❑ Move to **market based pricing mechanism** for energy products, with properly targeted subsidies
- ❑ Roadmap for **leveraging unconventional energy resources** supported by fiscal and financial incentives
- ❑ Ensure implementation of **Open Access** in letter and spirit
- ❑ **Enable effective State role** in distribution reform, grid discipline, rural electrification

Desired Key Outcome : Reliable energy for a more competitive India

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TASK 6 : REFORM FACTORS OF PRODUCTION *(contd.)*

❖ LAND

- ❑ Government must **show the way on land acquisition under the recent Law**
 - *A template must be created by acquiring contiguous land of (say) 500 acres for (say) extended railway or PSU projects, without invoking special rights and at par with industry*
- ❑ **Comprehensive review** and resolution of implementation issues in the “*Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act*” and associated rules
 - *Industry strongly recommends review of this Law to make it practical and equitable and which can uphold the fundamental intention of providing fairness and certainty to stakeholders*
- ❑ Create **Land Bank Corporations** at Center & State levels as repositories of large unused tracts of land, which can be allocated to relevant users
- ❑ States must immediately commence **digitization of land records**
 - *Rural & Urban land must be satellite mapped, demarcated and classified in a time bound manner*

Desired Key Outcome : Access to Land & Compensation at fair terms with certainty - a win-win for all stakeholders

The Important

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TASK 6 : REFORM FACTORS OF PRODUCTION *(contd.)*

❖ CAPITAL

- ❑ **Deepen and broaden capital markets** to bring down dependence on FII's
 - *An attractive regime must be created for Private Equity over 12 months, to attract long term capital funds*
- ❑ **Legislating Insurance Laws (Amendment Bill), 2008**, to supplement long term capital sources
- ❑ **Raise fresh equity for Public Sector Banks via capital markets** by diluting government stake down to a minimum of 26% while **keeping a golden share for control**
 - *Banks may need Capital estimated at Rs. 5 lac crores over 4-5 years*
- ❑ Examine **consolidation of select Public Sector Banks** to create globally-sized banks
- ❑ Examine having **at least one long-term lending Financial Institution** for business (*e.g. like IDBI in past*)
- ❑ Action plan for **effective handling of NPAs** in Banks
 - *Undertake a high-level review of wilful defaulters as well as assets impaired by economic downturn*
 - *12-24 month window to turn around latter assets*
 - *Strengthen ARCs for acquiring NPAs and for security enforcement*
 - *Plan to set up Government sponsored specialized institution for management of stressed assets*

Desired Key Outcome : Diversified long term capital sources for Indian industry

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TASK 7 : FAST TRACK PROJECT INVESTMENTS

- ❑ Cabinet Committee on Investments, Project Monitoring Group must continue with **PMO monitoring**
 - *Analyze learnings so far to **institutionalize future actions***
- ❑ **PMG type of mechanism** to review and monitor projects and issues at **State level**
- ❑ **Bring into use assets impaired and revive projects rendered inoperative**
 - *By delayed approvals, judicial decisions or factors not within owners' control*
 - *Country cannot afford productive assets to lie idle; estimate on Coal linked assets alone was Rs. 2 lac Crores*
 - *Key areas of infrastructure, power, mining face this difficulty, besides business weakness due to downturn*
- ❑ **Policies must bring balance between environment and development**
- ❑ **Fast Track dispute resolution for natural resources pricing or sharing arrangements**
 - *Without a decisive mechanism new investments will be affected*

Desired Key Outcome : Enhanced productive capacity of the economy

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TASK 8 : ACCELERATE INFRASTRUCTURE DEVELOPMENT

- ❑ **PM must announce** 2-3 mega-infrastructure projects; to start in year 1, completion over 5-7 years
 - *For example - High Speed Passenger Train corridors, River linkages, Major highways, bringing a pucca road to each village, drinking water/sanitation facilities in each village*
 - *Each such mega project must have its own implementing authority for clear accountability*
- ❑ National level **specialized PPP advisory unit** to focus on re-negotiation/re-auctioning or restructuring of PPP contracts thus reviving stalled projects
- ❑ **For large PPP infrastructure projects** all clearances/permissions must be granted prior to bidding
- ❑ Set up a **Commission on Urbanization**
 - *To create plans for new cities with modern transport and urban infrastructure*
- ❑ Examine **corporatization of Indian Railways**; improve governance and unlock capital for development
- ❑ Initiate privatization of public sector ports; **identify one port for privatization** in the current year
- ❑ Plan for **tourism circuits in select States**
- ❑ Extend JNNURM to **National Cleanliness Drive**
 - *Funds and incentives to urban local bodies for implementing waste management programs*

Desired Key Outcome : Greater economic integration for sustainable growth

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TASK 9 : IMPROVE GOVERNANCE

- ❑ Set up a **Regulatory Review Committee** to review business regulations, laws and processes
 - *Must urgently address a control mind-set*
 - *Do away with/amend those no longer relevant, creating multiplicity or leading to over-reach*
 - *Introduce 'Sunset clause' for periodic review of any new legislation/rule*
- ❑ **Inter-ministry co-ordination** via umbrella structure in select areas with **common underlying factors**
 - *Cabinet Minister to hold concurrent charge*
 - *Beginning can be made in the areas of (a) Energy; (b) Infrastructure; (c) Mining & Steel*
- ❑ **States** must get flexibility to **amend/implement laws on select concurrent list subjects**
 - *Particularly labour and environment*
- ❑ **Review the real developmental role** played by regulatory bodies
- ❑ **Increase use of Information Technology** in service delivery and interface with Government
- ❑ Amendment to '*Prevention of Corruption Act*' to mitigate undue harassment of officials & businesses
 - *To avoid decision paralysis, reasonable safeguards may be needed for administrative decision makers*
- ❑ **Principle/Policy based decisions** including on allocation of natural resources with no discretion
- ❑ Implement Damodaran Committee suggestions on **improving doing-business parameters**

Desired Key Outcome : Restoring credibility of institutions and a more responsive public administration

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TASK 10 : ECONOMIC DIPLOMACY

- ❑ FICCI proposes (and is willing to lead) the concept of **creating GATEWAYS for GLOBAL CAPITAL (GGC)**
 - *Key government leadership to showcase India to inspire investments – on an ongoing basis*
 - *FICCI suggests Singapore as one “Eastern Gateway” and London as one “Western Gateway”*
- ❑ **Green Channel Priority** to investors bringing cutting edge technology, export oriented FDI
- ❑ Continue **high level engagement at multilateral forums** including WTO, G-20 and BRICS
 - *Showcase Government's development vision at BRICS Summit in July 2014 to build confidence*
- ❑ **Partner with States** for economic diplomacy initiatives abroad
- ❑ **Engage Indian Missions** to position India as a key Investment, Business & Tourist destination
 - *Indian Missions must also proactively support Indian business interests in their respective countries/regions*
- ❑ **Indian Missions** & local desks at MEA need enhanced manpower for business support activity
 - *Induct or provide direct access to domain expertise in major economic areas at Missions abroad*
- ❑ Indian Missions to **engage and connect with Indian diaspora**
- ❑ **Critical re-examination of the FTA framework**
 - *New FTAs must result in greater effective market access for Indian companies; in-built review timeline for new FTAs*
- ❑ Make **Energy Security a core priority** in economic diplomacy

Desired Key Outcome : Increased share of global trade and investment flows

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TASK 11 : HARNESS DIVIDEND OF BETTER EDUCATION AND SKILL DEVELOPMENT

- ❑ Identify 100 universities across public & private sectors for development
 - *Target to bring some in the global top 100 over the next 5-10 years*
- ❑ Plan institutions like **AIIMS in all States, IITs and IIMs in key States** : begin with 3 states in year 1
- ❑ Create a **National Mission for Faculty Development** for superior training to school teachers
- ❑ A **National Learning Corporation** to act as advisory body for digital e-learning
- ❑ A **National Skills Qualification Framework** to accredit training and align qualifications nationally
- ❑ Roll out project to establish/operate **1500 green-field ITIs** in un-served blocks **on a PPP basis**

Desired Key Outcome : Employment ready workforce - meeting aspirations of youth for social stability

TASK 12 : IMPROVED HEALTHCARE AND WELLNESS

- ❑ Need to enhance **public expenditure on health** from 1.1% of GDP to 2.5% over a 5 year period
- ❑ Nationwide movement and education to improve sanitation, encourage and enforce civic responsibility and cleanliness standards to **systemically build Wellness for a healthier Nation**

Desired Key Outcome : A healthy society and workforce for nation's development