TMI GROUP

Telangana Today

ARTICLES ON EMPLOYMENT, SKILLS, EDUCATION AND GOVERNANCE AUTHORED BY

T.Muralidharan
Chairman, TMI Group

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EMPLOYMENT

Telangana Today

T. Muralidharan September 4, 2018

Karnataka minimum wage increase: A political gamble

The larger companies will make some noise, but will adopt it, because they have no choice and will start looking at productivity improvement and automation to compensate for the increase in costs. The MSME sector will be impacted.

Effective April 1, 2018, the JD(S)/Congress coalition government in Karnataka notified revision of minimum wages, which has triggered a big debate in the state. Here's all you need to know about the move, which has created furore.

What is percent wage Increase?

As per the notification, minimum wages went up across the board. The table below explains the extent of increase for the role of typist/data entry operator for Zone 1 (Bengaluru). The figures are in rupees per month.

The basic minimum wages are fixed every 3 to 5 years, while the VDA changes every 6/12 months. The basic wages were revised for this role on 1 April 2012 and thereafter the increase was only in VDA, which is supposed to correct for inflation. The basic wages were revised in 2018, wherein part of the VDA was also included. But the total salary increased by 55 per cent, as compared to 1 per cent increase the previous year. The increase in other roles is also significant - upwards of 30 per cent.

	As on 1 April 2016	As on 1 April 2017
Basic	5590	5590
VDA (Variable Dearness Allowance)	2703	3070
Total	8293	8660
% growth over previous year		1%

Code on Wages (CoW) Bill controversy

This increase comes in the context of the recent Code on Wages (CoW) bill presented in the parliament on 10 Aug 2017, by the then minister of State for Labour. This bill, yet to be passed by the parliament, was part of the BJP government's labour reform, which tried to set a National Floor Level for Wages (NFL) and National policy on minimum wages that are actually administered by the individual States. CoW attempts to rationalise and revise minimum wages upwards and created a lot of reaction from the employers, who thought (mistakenly) the National Floor Wage would be over Rs 21,000 per month. It was later clarified that the NFL was not specified in the CoW bill. Incidentally, the minimum wage for a government employee was revised from Rs 18,000 to Rs 21,000 per month, recently. But the minimum wages for employees in private employment are far lower and despite that most employers beat the system by paying even less than the minimum wages

Why Karnataka?

But before we discuss Karnataka, we must discuss Delhi. AAP Government scored the first goal for minimum wage increase. According to the March 3, 2017 notification, the minimum wages for an unskilled worker went up from Rs 9,724 per month to Rs 13,350, an increase of 37 per cent. The semi-skilled wages went up from Rs 10,764 to Rs 14.698 per month, an increase of 36.5 per cent. This, however, was stuck down on the 4th August 2018 by the Delhi high court, as the employers went to the court and claimed that they were not consulted adequately.

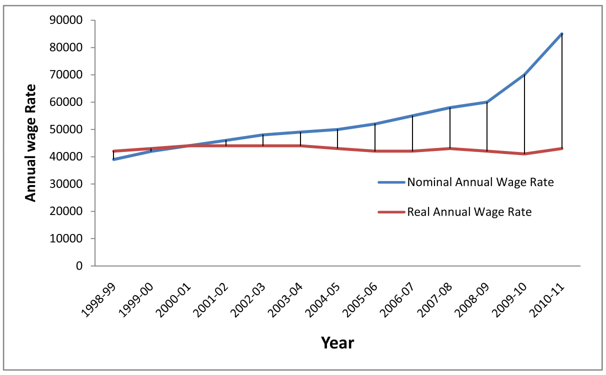
Karnataka has followed the Delhi AAP game plan to significantly increase the minimum wages. And it is a political gamble by the government. Karnataka was anyway struggling

to attract youth to non- IT jobs because the IT industry sets very high salary standards. So the big revision is a far easier matter for Karnataka than a state like Uttar Pradesh.

A big upward revision in minimum wages is long over-due

The graph plots the wages of the average factory worker. Nominal wage rate reports a steady growth. But the real wages appears to be stagnant Rs. 45,000 per annum over a 12 year period

A research paper published By Prof Bino Paul et al in Economic and Political Weekly (July 26, 2014 issue), revealed that the average factory worker's compensation - net of inflation - remained constant or was reduced, during the 12 year period between 1999 and 2012. During the same period, supervisor and managerial compensation went up by 200-400 per cent. Employers diverted the labour compensation to managerial compensation, because of demographics. Supply of unskilled and semi-skilled work force is far more than the demand.



This is the reason, why employers could manage to keep the minimum wages very low and even managed to pay less than the minimum wages. The demographic dividend is working against labour.

The minimum wages upward revision is essential for the skill movement.

In fact, the skill movement in India has suffered due to low minimum wages because it is not attractive to get skilled. On top of this, the skill premium - the difference in wages between unskilled and semi-skilled - is very low. For example, even under the new Karnataka Minimum Wages Notification for Shops and Establishments, the semi-skilled will get only Rs 45 per day (9%) more than the unskilled. So where is the incentive to get skilled?

Why now?

As it is elections time. For example, on August 8, 2018 'Beedi' workers staged an indefinite strike in Mangalore demanding the implementation of the minimum wages in 'Beedi' industry. Clearly, AAP and the coalition Government in Karnataka, would want to beat BJP in their game. Also minimum wages revision will also impact the MNREGA pay outs, and hence will have a huge rural and urban poor support. This means more votes in the next parliament elections.

What are implications for the rest of India?

The first party to propose the minimum wages increase was the CPM in its manifesto released in August 2014, which stated, "A statutory minimum wage of Rs. 10,000 per month linked to Consumer Price Index" is mandatory." Centre of Indian Trade Unions (CITU) has been demanding a minimum wage of Rs 15,000. After AAP and Congress/JDS coalition, all other parties will have to follow suit and I expect the BJP national government to also join the bandwagon. The Karnataka model will be adopted by all parties. The larger companies will make some noise, but will adopt it, because they have no choice and will start looking at productivity improvement and automation to compensate for the increase in costs. The MSME sector will be impacted. Those who can manage the local compliance authorities will get away by paying less than the minimum wages. Those who want to comply in MSMEs will suffer. The only solution is to provide Skill Wage Incentive (SWI) to MSMEs to compensate up to 25 per cent of the salary for all new employees for the first three years. Already the Central Government has started National Apprentice Promotion Scheme (NAPS) under which employers are paid directly Rs 1,500 per month for 12 months as an incentive. Central government is paying 12 per cent EPF contribution of employers for all new employment in the next three years. Hence, the MSME Skill Wage Incentive can be easily be implemented on similar lines and hence is a must for MSME compliance.

(The author is Chairman of HR services firm TMI Group)

Telangana Today

T. Muralidharan 5th June 2018

Averting the job crisis

Bulk of our 500 million youth is only partially employed and the reality for them is not very encouraging

Demographic dividend is defined by the UN Population Fund as "the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older)." In other words, when people in the age group 15-64 can work and pay for the non-working population of kids (14 or younger) or retired (65 or older), then the economy reaps a demographic dividend. This happens rarely in a country's history like India. The key words are 'can work'.

Reality Check

In January, the Chief Statistician of India projected a growth rate of 6.5%, the lowest in four years. The growth rate of agriculture has halved, rise in non-farm jobs is reducing, corporate investments in new projects slid to a 13-year low, exports have halved and 17 million people are entering the workforce every year, including 5 to 6 million who are exiting agriculture. The best estimate for new job creation is only 5.5 million jobs.

Moreover, 31 million people were unemployed as of March 2018 and another 6 million graduates were expected to pass out and enter the workforce in April. The bulk of our 500 million seeking work is only partially employed at very low wages. The reality for them is not very encouraging.

In such a scenario, India needs to do six things on a war footing. In a two-part series, we discuss the first two issues that need immediate attention.

Population Policy

The first action step is population management. We cannot provide employment to the 27 million kids born every year. Our biggest challenge today is our 1.35 billion population (2018) and the 15 million net addition every year. As per the 2017 revision of population estimates by the UN, India's population could surpass that of China around 2024, two years later than previously estimated, and is projected to touch 1.5 billion in 2030.

India was one of the first countries in the world to adopt family planning, back in 1952. Yet, 'population control' is a disastrous word in politics thanks to excesses during Emergency in 1977. Why? Because the electorate is believed to be averse to it. It is time it was brought back into national debate. China had a one-child policy and that changed its history. There should be a national all-party consensus. We need to actively promote the two-child per family policy.

Skewed population growth disturbs the balance in the country between North and South. Already people in South feel that their electoral voice is being diminished as North India is more populated. Even Prime Minister Narendra Modi is soft-pedalling this crucial issue.

However, the debate has started. The Finance Commission determines how the tax revenue collected by the Centre is allocated among the States. Population is one of the major determinants to distribute these funds. Two days after a meeting of Finance Ministers from the Southern States that strongly objected to the Terms of Reference in the 15th Finance Commission, Modi was forced to concede that southern States like Tamil Nadu cannot be penalised for population control. This debate has to happen in every family and we have to keep religion out of it. Mass media like TV has to take this debate to all the families.

School Education Reforms

India runs one of the largest education systems in the world. Look at the key annual statistics: Grade 1 enrolment, 27 million, 5 million dropouts by the time they reach class 6, another 3 million dropouts before passing class 9 and another 8 million dropouts in class 9 and class 10. Only 11 million enter class 11. Of these, 8.5 million enter colleges and 6.5 million complete graduation or diploma.

The above outcomes tell you that 70% of our kids drop out of school. Why? Many reasons. We have put emphasis on quantity instead of quality on the belief that pushing all the children into schools and colleges will change their future. But if the school system is not managed well, the whole thing becomes a disaster.

The school system is driven by the government at multiple levels. First, 70% of children in the age group 6 to 14 study in government-run/supported schools. The government regulates the remaining 30% children's education in private schools through extensive oversight. Net result. Disaster.

Change Schooling

The role of government has to change dramatically from funding, operating, controlling and regulating this sector to only funding and regulating through an independent education regulator. First – the government should fund instead of running schools and hand over all the government schools to non-profit educational societies like Bharatiya Vidya Bhavan, Kendriya Vidyalayas.

Second, build residential schools for special sections of society like SC/ST population. These again should be run by independent non-profit societies because these children need both nutrition and education.

Third, the government should provide education coupons for each poor child (from the money saved by not running the schools). The family can use thees coupons to send the child to any school of their choice and pay the differential fee. Fourth, put quality of education on a par with school access. Affordability is important but if the quality of education suffers due to this, it is not worth it. Today, State governments are trying to cap school fees. This commoditises schools and discourages differentiation. Set the fees based on the cost structure required to run a quality institution.

Fifth, change the assessment pattern from the current objective type written exam to project submissions and publish the answer sheet and scores to prevent assessment fraud. The assessments should separate children who are academically inclined and suitable for higher education from those vocationally inclined. Set pass standards high and do not dilute them for political reasons.

Sixth, encourage children and their parents to opt for vocational education. Seventh, expose children to career counselling and encourage them to choose their career based on their aptitude and competence. Eighth, insist on transparency to prevent excessive profiteering by school owners.

Telangana Today

T. Muralidharan

6th June 2018

Gain from demographic dividend

We must facilitate over 23 million children to take an alternative path like vocational education to reap benefits

The current status of higher education is that there are just a few high-quality educational institutions like the IITs and IIMs but a large number of substandard institutions, which exist due to the wrong government policy of increasing the gross enrolment ratio (GER). Like schooling, the government funds, operates, controls and regulates instead of only funding and regulating the sector.

The GER should be determined by the demand for graduates from the job market. Instead, it is decided by the supply side. The erroneous government policies on increasing GER manifests in many ways. For example, the government conducts entrance exam for engineering and medical admission. Every year the government is forced to reduce the cut off marks to retain/increase the merit list quantum.

What happens next? The quality students get admission into quality educational institutions. Those with poor ranks get allotted during counselling to poor quality colleges. So we have designed these children to fail at the admission stage itself. Parents mistakenly think that their child is smart because s/he got a rank and also believe that the college is good because the government has allotted. These students learn little and reality hits them and their parents when they pass out.

GER also drives the fees structure. India has one of the lowest fee structures in the world because the government puts affordability over quality of education. For example, the fee for BCom in a government college in Hyderabad is Rs 2,500 per annum (Osmania University) and Rs 26,000 per annum at a top private college run by a non-profit education society (Badruka College). Is it possible to provide quality teaching at these prices?

Higher Education Reforms

The government should exit running of government colleges and instead give college coupons to poor children from the money saved. First, increase the higher education fees based on the cost structure required to run a quality institution and then cap them at different levels based on a transparent quality grading. Second, subsidise college fees through increased scholarships to meritorious students and those from SC/ST background.

Provide easy educational loans at low interest rates and attractive repayment terms. This will ensure that students choose their college based on the quality standards and receive funding support from the government.

Third, entrance exams must measure and publish what they are supposed to do – to measure the aptitude and preparedness of the student to undertake the course and complete it. Do not dilute the cut-off marks for political reasons. Fourth, stop setting high goals for GER in higher education. Fifth, fund finishing schools to counsel and link students to the job market after graduation.

Vocational Path

With the proposed reforms in the school and higher education system, the students entering graduate colleges will decline. In my view, the total graduate in-take should come down to only 4 million per year for them to be employed or enter Masters education. This would mean that over 23 million children would need to find alternative paths. One of the alternative paths is vocational education.

The present ITI and diploma-based skill education has acquired a stigma and so, we need to change this paradigm. Many things have to be done. First, integrating vocational and academic systems through the National Skills Qualification Framework (NSQF), which will allow students to move freely from one system to the other. For example, you can get a carpentry skills certification and later on acquire a BA in carpentry skills.

Despite being notified in 2013, NSQF has not taken off. Worldwide, especially in Europe, this model is very successful. In China, students are exposed to vocational training at the secondary level (Class VII-IX). Chinese students are supposed to take the senior high school entrance exam 'Zhongkao' after Class IX. Their score determines whether the students should be given academic or vocational education. Usually, students with lower marks end up in the vocational secondary stream. As of 2015-16, net enrolment in vocational courses in India is only about 5.5 million per year, compared with 90 million in China.

We have to popularise the NSQF and vocational system through democratic means, i.e, we must reach out to parents via mass media to educate them on the futility of sub-standard graduate education. We have to create employment and self-employment models whereby the skilled workmen earn more than graduates.

But skill training alone is not enough. More than skills, apprentices learn about work ethic only on a live job. How does one do this? Through apprenticeship programmes. Our current apprenticeship programmes cannot provide live apprenticeship opportunities to millions of youth. We have to enable labour reforms for the MSME sector — the largest employer after agriculture — to embrace the apprenticeship programme. The new apprenticeship programme launched by the Centre is an excellent first step. But this requires scaling up in a big way and urgently.

Export Manpower

After people work for 4 to 5 years, they realise they are not able to grow. Many of them are in dead-end jobs — stuck in call centres, data entry jobs. So, there must be an 'upskilling' eco-system, including loans, training providers, assessment partners among others. The NSQF framework will play a key role here. The upskilling eco-system should also be designed for global placements. This is because we cannot create enough jobs in India and there is a shortage of skilled workmen in many countries.

We need to create structures, processes both in and outside India to enable the eco-system for export of experienced manpower on non-migration contracts. For example, Japan needs a lot of trained and experienced professionals in IT, nursing in view of the Olympics 2020. The salary level is equal to full-fledged employment after the first three years. Indians can work in Japan for a maximum of six years only. But once they complete the six years, they will be in demand in any Japanese company operating outside Japan.

Responsible Citizenship

The first five reforms are what the government can do. This last reform is at the citizen level. This means that every citizen must participate in the political process by voting and engaging with the government.

Only then can we rebuild every component of the supply chain of people assets – from birth control, right schooling, relevant vocational and academic education and the right employment practices. Failing to do so will result in the demographic dividend becoming a demographic disaster.

Telangana Today

T. Muralidharan 6th April, 2018

Tackle graduate unemployment

Our higher education system is converting workers to 'willingly unemployed' people and needs serious attention

Recently, a national newspaper published a story on graduate unemployment in Telangana with the headline 'Reality Check- Is TS job ready?' This article dwells on the real issues involved.

In the Southern States, the Greater Unemployment Rate (GUER) — unemployment of those actively seeking a job and those willing to work but inactive in the job market — between September and December 2017 was far higher among graduates than school dropouts. This is the conclusion of 'Unemployment in India – A statistical profile' – a report prepared by the BSE and Center for Monitoring Indian Economy (CMIE).

GUER percentage represents the percentage of persons unemployed as a percentage of those actively and inactively seeking work. For example in Telangana, 24.1% of the graduates seeking work are unemployed, which is 34 times the percentage of 'class 5 dropouts' unemployed. The story is no better in Tamil Nadu, where the Graduates GUER% is 14.3%, which is 10.2 times higher than GUER% for 'class 5 dropouts'. (See info graphics)

Why? Because graduates are too choosy and the demand supply-gap is the most adverse for them.

Why it's happening

This is a true story. In 2009, I went to a small village in Dausa district of Rajasthan, close to Jaipur, to study rural unemployment. I met the Sarpanch and asked him why the villagers do not invest in formal education for their children. The Sarpanch, Gangaram was a BA, and his brother was an MA.

The Sarpanch asked me to help them get jobs. When asked about their specialisation, both said they had taken Political History in Hindi medium. I told them it was a wrong choice unless one wants to be in politics. What Gangaram told me blew my mind.

The first bus from the village reached Jaipur at 10 am and the last bus left Jaipur for the village at 3 pm. In between those timings, Political History in Hindi was the only course available at the University. Further, shocking was that the brothers were idling in the village and refused to work in the fields or do any temporary work because they were graduates, while their entire family was at work! This was when I realised how our higher education system is converting workers to 'willingly unemployed' people and that attention to the Graduate segment is both critical and important.

Unrecognised Phenomenon

Correlation between employability and employment among policymakers, media and even international agencies is the root cause of this phenomena. The correlation between the above two is valid for countries where the demand-supply gap is narrow mainly due to their demographic profiles. In these European countries, the job and skill profiles are changing but the growth of population is low.

Hence, the belief that right skilling leads to employability, which in turn will lead to employment is true for them. This is not valid for India. In fact, it is the other way. But more on this later.

The second reason is the generic employability reports regularly published by agencies like Nasscom on employability of engineering and non-engineering students. These reports indicate that graduates are failing in their generic employability assessment and hence are unemployed.

Let me take you back to the newspaper story. Even here the journalist quotes extensively from another report published by a consortium of CII, UNDP and others titled 'India Skills Report 2018'. He quotes the results of generic employability tests done and concludes that skill deficiency is the cause for the graduates being unemployed.

All policy makers, politicians and even the media buy this narrative. The lack of basic skills is a problem for sure but this is only a small part of the problem and not the sole reason. I strongly feel that this wrong assumption is the root cause for our flawed skill policy.

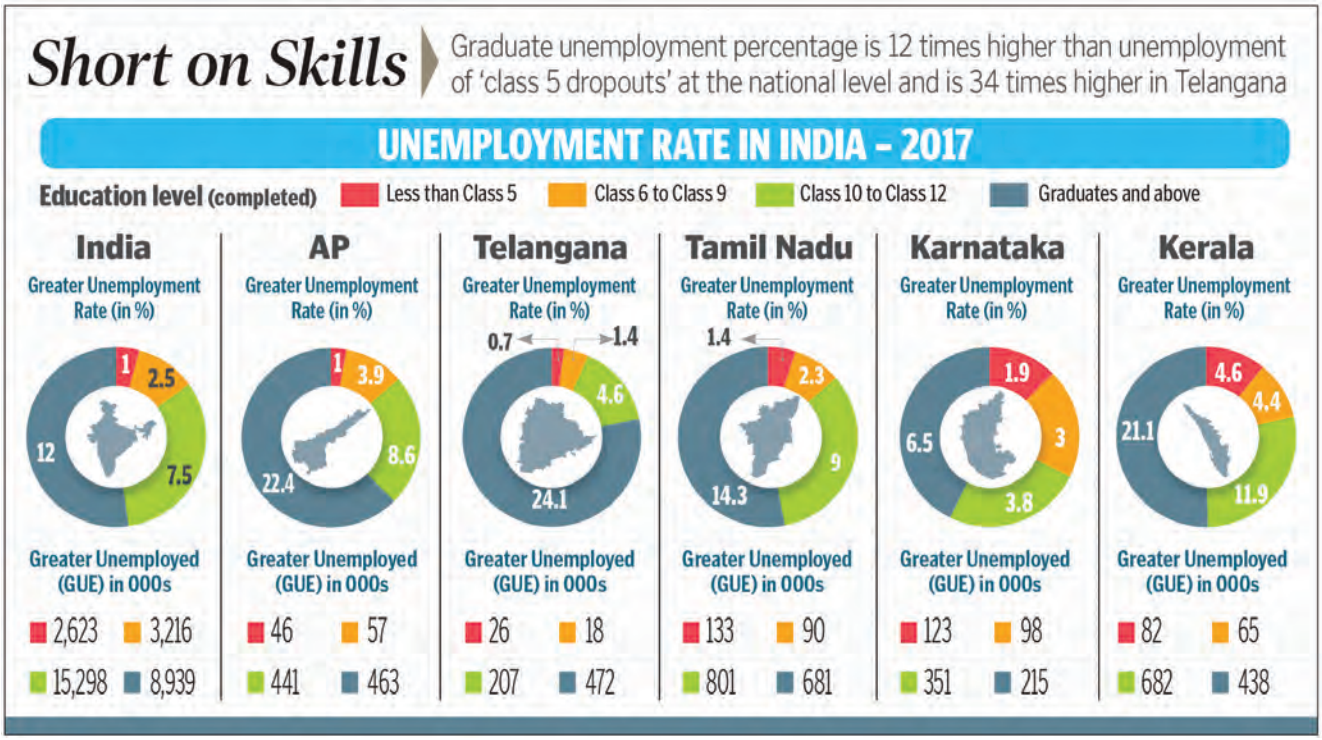
Why Do I Think So

Because skills can be taught in schools and colleges but can be grounded only in a live job. Here is another true story of Sashi, a Malayali graduate boy who came to Mumbai straight from Kerala. He could not speak Hindi or English. I helped him get a job because the family was desperate. He knew accounting in Malayalam and had never worked on a computer. Six months later, he was the darling of the company. He worked 14 hours a day, learnt English a bit, learnt how to use computer and spoke good Hindi. In two years, his salary was doubled.

The point is that the first job is the key to skills. Without a job, the skills are not grounded. So, any generic assessment of employability after college or any skill training has a very limited value. The real test should be to train a person on a specific job, let him/her work on a real job at any salary for three months and then assess the employability against that job.

The concept of generic employability is useful for high-end jobs like software or consulting but not for entry level back office or 'feet on street' sales jobs. We have demonstrated that graduates from towns can be trained and made employable for the entry-level jobs in two-three weeks. Over 25,000 graduates trained and placed by us bear testimony to prove it.

(The author is Chairman, TMI Group)



Telangana Today

T. Muralidharan 7th April, 2018

Beating the graduate glut

Since compensation is based on productivity, the skill ecosystem must focus on performance to get a better premium

Unemployment has three dimensions – Supply, demand and employment terms.

Let's first look at the supply of graduates (see Table 1). We are producing far more graduates than what we can employ. The HRD Ministry is responsible for improving the Gross Enrolment Ratio (GER) in higher education and they have done this diligently without studying the demand.

The GER in higher education is calculated as the total enrolment in higher education, regardless of age, expressed as a percentage to the eligible official population (18-23 years) in a given school year. It shows the general level of participation in higher education and this determines the capacity to be created.

The country's GER increased from 24.5% in 2015-16 to 25.2% in 2016-17, according to the latest edition of the All India Higher Education Survey. India aims to attain a GER of 30% by 2020. This would mean that our graduate passouts would increase by at least 25% by 2020.

Widening Gap

The second dimension is the demand for graduate jobs. Let's look at my research data on this, focussing at the entry level. (See Table 2)

Unemployment

Clearly, these were based on optimistic projections made before 2015 by KPMG for NSDC and other data. Even this report shows that only 3 million jobs would be created during the nine-year period 2013 to 2022 or approximately 0.33 million per year. Compare this against a supply of 6.45 million graduate passouts every year, which will further grow by 25% by 2020.

The third dimension is employment terms. Among the various employment terms, the most important is salary.

A TMI study in Patna a few years ago showed that unemployed graduates wanted Rs 35,000 per month to take up a job in Mumbai. Why? Two reasons. Lack of correct information about the cost of living in Mumbai. Bachelors can live from Rs 15,000 to Rs 1,00,000 per month in Mumbai. So where does this number Rs 35,000 come from? Mostly anecdotal evidence of a few. Second, the minimum wages are too low to cover the living costs, even if one were to live in Mumbai at Rs 15,000 per month.

Skill Advantage

The second expectation is better treatment than non-graduates. For example, minimum wages do not distinguish between a graduate and a school dropout. Graduates want a wage premium, which again is based on the wrong assumption. Across the skill ecosystem, there is a belief that skills mean a wage premium. This is not happening.

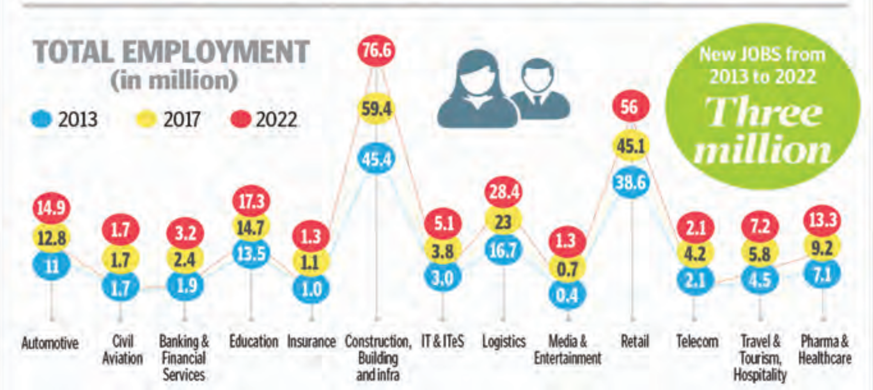
TABLE 1: GRADUATE PASSOUTS IN 2015-16 (in million)

All India	AP	Telangana	Tamil Nadu	Karnataka	Kerala
6.45	0.25	0.21	0.53	0.35	0.15

TABLE 2: GRADUATE & PG JOBS AT ENTRY LEVEL (in million)

DEMAND

Sector	2013	2017	2022
Automotive	0.09	0.11	0.12
Civil Aviation	0.01	0.01	0.01
Banking & Financial Services	0.78	0.98	1.30
Education	0.16	0.17	0.20
Insurance	0.48	0.55	0.63
Construction, Building and Infra	0.11	0.14	0.18
IT & ITeS	1.30	1.64	2.20
Logistics	0.02	0.03	0.03
Media & Entertainment	0.00	0.01	0.01
Retail	0.04	0.04	0.06
Telecom	0.14	0.29	0.15
Pharma & Healthcare	1.42	1.85	2.67
Travel & Tourism, Hospitality	0.01	0.01	0.02



For instance, in Maharashtra, the skill premium between unskilled and semi-skilled is non-existent. In 7 of the 19 industries we studied, the difference between the daily wage of a semi-skilled worker and an unskilled worker is below Rs 10 a day and the skill premium of semi-skilled vs unskilled is less than 5% (as of June 2017).

Skills are just a means but productivity is the outcome and the basis for compensation. However, graduates believe that passing the exam is skilling and hence they deserve a premium. The skill ecosystem also focuses wrongly on skills instead of productivity. Employers are unwilling to pay fair wages because of poor productivity when a person joins the first job.

This changes, however, once the individual demonstrates performance and productivity.

The misconception of higher cost of living and higher expectation of wages, unfortunately, is not addressed on campuses. Instead, the opposite happens. Because of campus placement, every student believes that s/he deserves the highest salary.

Job fairs are one place where they realise that they have little hope. For example, in one of the job fairs we conducted in Deoria in eastern UP last year, several thousand graduates competed for just a few jobs and the pent-up feeling of not getting a job was palpable.

The Solution

Supply Side

- Stop focus on increasing GER in higher education. HRD Ministry must align supply to demand. Focus must shift to quality. Allow unviable colleges and unviable courses to shut down
- Increase fee structure for better quality of teaching infrastructure, especially in non-engineering courses
- Higher tuition fee is a must to dissuade anyone joining a graduate college without the aptitude. Provide scholarships
- Encourage 'learn while you earn' programmes and subsidise and promote Open University education
- Introduce job counselling courses where the reality of job market is shared with students and parents

Demand Side

- Only MSMEs can provide employment to masses. Create a level-playing field and support MSME growth. Provide incentives like skill wage subsidy to encourage graduates to join this sector
- Export experienced manpower and replace them with skill certified fresh manpower

Employment Terms

- Revise minimum wages for semi-skilled and graduates
- Set up skill hostels at job centres so that the graduates can stay at minimum cost and thus do not go 'out of pocket' while working in their first job Concluded

(The author is Chairman, TMI Group)

Telangana Today

T. Muralidharan 28th Aug 2017

Avoidable row on New Wages Bill

It doesn't prescribe a National Floor Wage of Rs 18,000 per month that is fuelling the controversy.

Do you know that your barbers, workers of your club, etc, must be paid a salary above the minimum wages (MW)? And if it goes up, your bill will go up? If you are a worker in a company or a factory, do you know that your salary is linked to the MW determined by the government? If you are an employer and if you don't comply with this New Code on Wages (CoW) Bill, you can face prosecution? Read on about a new Bill that can affect us all — as employee, employer or customer.

On August 10, 2017, Minister of State for Labour Bandaru Dattatreya introduced a historic Bill — CoW Bill 2017 in the Lok Sabha. It is still a draft since Parliament is yet to pass this Bill. The Bill consolidates Minimum Wages Act 1948, Payment of Wages Act 1936, Payment of Bonus Act 1965, and Equal Remuneration Act 1976, into a single statute.

This is the first of the four major labour reforms being planned as part of the 'ease of doing business' agenda. The Ministry is also condensing 44 labour laws into four codes — wages, industrial relations, social security and safety, health and working conditions.

Unnecessary Frenzy

The Bill has created a media frenzy – by claiming that it will set a new single National Floor Wage (NFW) of Rs 18,000 per month (or Rs 693 per day assuming 26 days of earning per month), which means that the MW across all sectors, all States, would be above Rs 693 per day. This means almost doubling the current MW. While the employers welcome many aspects of the Bill, it faces stiff resistance on both the single NFW and its monthly value of Rs 18,000.

Employers believe this will prevent market forces from determining wages, thereby impacting competitiveness, profitability and even survival of enterprises, especially the MSMEs. The Retailers Association of India challenged the Rs 18,000 per month NFW incorrectly, because the government is yet to determine the amount.

In my view this controversy has taken the debate away from the core issue – the current MW regime is not working and we need to desperately correct it through a centrally-driven MW regime.

MW and NFW

The MW is a global practice to prevent exploitation of labour through payment of low wages and is championed by the International Labour Organisation. In India, the concept was first introduced through the Minimum Wages Act 1948.

The Labour Ministers Conference, 40 years later, in 1988 resulted in an addition of Variable Dearness Allowance (VDA) to the MW to address the issue of inflation. So there are two components to the minimum wage – a basic rate of wages and a special allowance or VDA. Some States announce these two components separately or merge it into one.

Determining MW

The MW are arrived on the basis of the following: first, arrive at a Living wage. Living wage is the level of income for a worker and his family of four (including two children), which will ensure a basic standard of living covering good health, comfort, education and contingency.

Second, arrive at the Fair wage. Fair wage is that level of wage that not just maintains a level of employment, but also seeks to increase the employment by keeping in perspective the industry's capacity to pay.

Lastly, arrive at the MW. Normally, the MW are between the Fair wage and the Living wage. There is a trade-off between what the worker needs and what the employer can afford to pay. It is my view that this trade-off has been against the worker.

MW set in two-stages

First, the Union Labour Ministry stipulates the draft MW for various sectors like agriculture and industry periodically (in three to five years), based on recommendations of the National Advisory Board and seeks objections and recommendations of the public and finally publishes the MW.

In the second stage, each State's labour department (as per recommendations of a State-level committee) is expected to translate these floor level wages and announce a minimum wage for each of the industries in the State, in each geographical zone, based on local conditions and as per guidelines specified in the Act.

In all these processes, the MW for unskilled is arrived at first and then extrapolated to semi-skilled and skilled categories based on the skill level and the arduousness required for the assigned job. Similarly the MW for various zones are extrapolated from the lowest cost zone. The real challenge has been both in determination and extrapolation of the MW at the State level and its poor implementation.

No Truth in Rs 18,000

The media focuses on the validity of a single NFW and why this amount of Rs 18,000 per month is too high. My detailed examination of the draft Bill, discussions with experts and Ministry officials confirm that there is no basis for these alarmist stories.

Firstly, there is no proposal for a single NFW across India. Clause 9(1) of the CoW draft reads, 'The Central government may, by notification, fix the national minimum wage provided that different national minimum wages may be fixed for different States or different geographical areas'. There is no reference to the single NFW of Rs 18,000 anywhere in the draft Bill. In fact, clause 9(3) clearly states, 'Central government, before fixing the national minimum wage may obtain the advice of the Central Advisory Board'.

This Board comprises employers, trade unions and independent members, who review data and recommend the national MW. This Board, which has 15 employer representatives, is yet to submit its recommendations. Hence, there is no basis for the Rs 18,000 per month NFW.

Current NFW

Based on the recommendation of National Commission for Rural Labour in 1991, the Government of India announced the national MW for agricultural/rural labour at Rs 35 per day, which was revised to Rs 100 per day in 2009, Rs 160 per day in 2015, and to Rs 176 per day from June 1, 2017 (for central sphere). However, these floor wages are non-statutory and advisory in nature and are not binding on the State governments. This is one of the root causes for the current state of affairs

What is new in CoW

Broadly three things. First, currently the applicability of the MW Act is restricted to a list of industries notified by the Central and State governments. This restriction is being removed. So every employee is covered except Apprentices and Armed Forces.

Second, currently employees with wages over Rs 18,000 per month are not covered. This restriction is also being removed. Every employee irrespective of salary will be covered.

Third, this Act will have statutory powers to align the State MW to the central stipulations and also give teeth to the implementation.

So, the focus should be on the following key questions – How are the MW implemented currently and what is its impact on wage determination? Is the employer focus on wages or productivity? Has the management passed on labour productivity increases as wage increases? Why do we need to overhaul the whole wage system?

We will deal with these questions in the concluding part of this article tomorrow.

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan 29th Aug 2017

Overhaul minimum wage system

The new Code on Wages Bill must address the key problem of inconsistent minimum wage determination by the States.

The controversy over the Code on Wages Bill has taken the debate away from the core issue – the current minimum wages regime is not working and we need to desperately correct it through a centrally-driven minimum wages regime. We explain some of the key concerns that need to be addressed. Minimum Wages (MW) are declared for three categories – unskilled, semi-skilled and skilled. Most States also declare MW for these three categories industry-wise and zone-wise. For example, the current MW of Maharashtra (from July 1, 2017) has 61 industries and for each industry, there are three zones and three categories.

An analysis of the MW in Maharashtra is very revealing:

• The MW vary from Rs 13,650 per month (Rs 550 per day for skilled category for construction industry) to Rs 9,022 per month (Rs 347 per day for skilled category for retail petrol pumps). There is a 51% variation for the skilled workmen category between construction and petroleum retail sector in the same zone.

• An unskilled construction worker earns 15% more than a skilled engineering worker or 28% more than a skilled factory worker, in the same zone.

• An unskilled club worker earns 3% more than a skilled factory worker in the same zone.

• A skilled factory worker in Mumbai (zone I) will get only Rs 600 per month more compared to a skilled worker working in a very small town (zone III)

• Even more shocking is the skill premium (difference between unskilled and semi-skilled for the same industry, in the same zone). For example, for engineering industry in zone 1, the skill premium works out to only 5% or Rs 500 per month (Rs 19 per day)

What is the core issue here? It is the way the MW are extrapolated across industries, across zones and across skill categories by each State.

Right Minimum Wages

The current way is to fix the MW of the unskilled worker in the lowest cost zone in the lowest paying industry and extrapolate the MW of all the rest. This is the crucial flaw that has resulted in the above anomalies.The correct way is to determine the MW of the semi-skilled category first, based on the norms and derive the rest. Why? Because it will incentivise the youth and the unskilled employees to pick up skills. The employer is happier to pay more to the semi-skilled and skilled because they are fewer in number and because there are ways to recover the wage increase through productivity training. While government undertakings and large corporate houses may comply with this norm, a large section of medium and large employers do not comply with MW. This has resulted in the actual wages being determined by market forces. In fact, one of the strongest arguments of employers is that any stipulation of MW will distort wages and that it must be determined by market forces.

Startling Findings

In an article published in the Economic and Political Weekly (July 26, 2014 issue), three authors (including me) clearly established three very little known facts after analysing voluminous data from government sources:

1. During the 12-year period from 1999 till 2011, the average factory worker's (the average worker earns much more than the entry level worker) real wages (after adjusting for inflation) remained constant at Rs 45,000 per annum. In more than 50% of the industries, the real wages declined.

2. The supervisor compensation, during a similar period, went up two to four times the labour compensation. Clearly, the managers managed to secure higher wage raises and hence dominate the manpower costs of the organisation

3. The study shows a very weak (12%) productivity-real wage linkage in Indian manufacturing. If productivity goes up by Rs 100, only Rs 12 was passed on to labour. It shows that productivity has gone up owing to the management focus on automation and technology. Managements willingly did not pass on productivity increases to labour.

Supply Exceeds Demand

While India's GDP growth is one of the world's fastest, employment creation in eight sectors, including textiles and automobiles, as per a 2016 Ministry of Labour report, was the slowest in seven years. Over 12 million Indians enter the workforce every year. Between 2011 and 2015, the number of agricultural jobs reduced by 26 million while non-farm jobs rose 33 million.

According to McKinsey Global Institute, the net growth in employment was a meagre 7 million over 4 years or less than 2 million per year. What happens when supply of onions far exceeds demand for onions? Onion prices crash. The same thing happens in the labour market as wage is the price paid for labour.

Analyses of past data validate the fact of wage stagnation and this is because of huge supply over low demand. Demographic dividend is the main cause for real wage stagnation. Most of the employers get away with paying lower than MW because of the desperation of the unskilled worker to find and keep the job.

Entry Level WagesIn manufacturing, the total manpower cost as a percentage of the total cost varies from industry to industry – from 6% in highly automated plants to 20% in labour-intensive industries like apparel. We need to estimate the entry level factory worker cost as a percentage of the total manufacturing cost after subtracting for supervisory costs, experienced worker salaries, etc, which may vary from 1% to 5%. Hence, a 50% increase in MW will only impact the total manufacturing cost by 0.5% to 2.5%. If the increase is mainly in the semi-skilled category, the impact will be far lower owing to fewer numbers. This can be offset by increasing productivity through skill training and tool kits. Most industries are impacted more by energy cost than entry level labour cost of semi-skilled manpower. So, the claim that MW increase will kill the industry is more emotional than factual.

Ensuring Compliance

If most enterprises are already beating the MW regime at the current MW, what will happen when the MW are revised significantly upwards? Surely, this is an area of concern. Firstly, there is a need to make medium and large employers and all employees aware of this new CoW Bill and the consequences of non-compliance. Employers must be asked to declare their compliance in their annual reports. Secondly, the Labour Ministry must set up a portal and activate call centres for MW complaints with time-bound investigation and publish their findings. This portal should also encourage compliant companies to share their experiences in improving productivity to offset the increase in MW and this will differentiate the compliant and non-compliant employers and quality labour will move to work for employers who comply with this.

Over a period, non-compliance will become more expensive than compliance. The MW need to be revised significantly upwards to offset the wage stagnation due to excess supply over low demand. The Central government must intervene in this since MW cannot be left to market forces and State's interpretation and extrapolation. However, the increase in MW should be in the semi-skilled category rather than unskilled wages. The CoW Bill can be used to strengthen the skill ecosystem. A strong CoW Bill along with fair MW is the need of the hour. Concluded

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan

15th Sep 2017

Cash in on Wages Bill

CoW Bill presents a great opportunity to correct wage stagnation and build demand for skills among youth

In my two-part article earlier in this column (on Aug 28 and 29 – telanganatoday.com), I had argued that the current minimum wages implementation has failed and the cost of this failure is being borne by workmen through stagnant wages for over 12 years because of our unique skill market conditions, where the supply far exceeds the demand.

The Code on Wages or CoW Bill presents a great opportunity to not only correct the wage stagnation but also to build a demand for skills as well as Recognition of Prior Learning (RPL) in skills among the youth.

Dipping Demand

The following are three reasons for low demand for skills among youth:

Wages are low: Most of the jobs are in cities and require youth to migrate. The current wages are not enough to cover their costs and hence most end up borrowing from parents and co-workers. This is the reason for low retention in post-skilling jobs.

Skill premium is low: According to the Maharashtra minimum wages notification effective July 1, 2017, the skill premium measured by the difference in the minimum wages for unskilled and semi-skilled (for example in the engineering sector) is as low as 5%. Obviously, there is no incentive to undergo skill training.

No employment preference for skill certification: Skill certifications have no legal standing vis-a-via employers and hence cannot be enforced. This is a big obstacle in drumming up demand for skills.

The RPL programme attempts to identify skilled craftsmen and youth who are not certified and encourages them to take an assessment and get certified by the Skills Ministry. This is also yet to take off for identical reasons cited above.

How CoW Bill Can Help

Step 1: Revise the minimum wages substantially for semi-skilled and skilled categories. The revision can be far less for unskilled.

The CoW Bill plans to revise minimum wages through a National Floor Level Wages (NFW) model and to streamline the extrapolation of minimum wages across sectors and geographies. A committee has been appointed to arrive at the NFW and it is believed that the NFW will be increased significantly to offset the low stagnant wages.

Though experts believe that market should determine the wages, I believe this is only valid in a perfect market. Let me cite an example where this wisdom has not been adopted but the results have been dramatic and beneficial to the nation — Dr Kurien and Amul decided that milk producers will create a producer's cooperative that will determine the prices and that the prices must be remunerative to the milk producers. This resulted in the Indian milk revolution.

The skills market is also imperfect. The supply is far more than the demand and will continue to be so because of the demographic dividend. So the wages, which are determined by the demand-supply gap, have stagnated.

The Minimum NFW

As per 7th Pay Commission report, the minimum salary of Central government employees may be raised to Rs 21,000 per month from the existing Rs 18,000 per month. It is an irony that the government pays its employees much more than the market. Though this is a data point, the new NFW has to be far less.

The current (effective July 1) minimum wages in Zone 1 for the unskilled category in Maharashtra varies from Rs 8,033 to Rs 12,450 per month.

The new NFW to be defined by the committee will be, in my opinion, somewhere between government employees' minimum wages and the current levels, at around Rs 14,000 per month. But there will be a lot of reactions against the upward revision on the grounds that the business cannot absorb this increase, especially the MSME sector.

So, the first step is to revise the NFW of only the semi-skilled and skilled upwards significantly. The NFW of the unskilled should be revised upwards at much lower rates than the semi- skilled.

For example, the minimum NFW can be fixed at Rs 14,000 for semi-skilled and the unskilled NFW could be at Rs 11,000 per month. The skilled NFW may be at Rs 18,000 per month. This will be acceptable to the employers because the semi-skilled and skilled numbers are very small compared with the unskilled numbers.

This will also create a skill premium of over 27% without upsetting the employers.

Step 2: Define skill certification as one of the indicators for semi-skilled and skilled wages in the CoW Bill, thereby legitimising the skill certification.

Skill certificate has to be at a level specified by the Skill Ministry (say level 5 of the National Occupational Standards for semi-skilled and level 7 for skilled). Automatically this will drive the demand for skill certification. A bigger benefit will be the demand for RPL.

Step 3: The CoW Bill should specify that inexperienced fresh students certified by the Skills Ministry will be paid 5% less than the semi-skilled. This will create a sustainable wage for the migrating skill certified students.

Step 4: Like skill certification, link apprenticeship programmes to semi-skilled status at the end of the first six months of the apprenticeship programme. This will mean that the government reimbursement under the apprenticeship programme will be at the semi-skilled wages. This will drive demand for apprenticeships among students.

Step 5: Ensure better implementation of the CoW Bill by encouraging skill students to share their compensation data online on the Labour Ministry portal. This will highlight the defaulter employers so that corrective steps can be taken.

Step 6: Initiate a Skill Wage incentive programme to refund 25% of the applicable minimum wages to SMEs who employ fresh certified skill trainees for a period of six months. The payment must be directly made to the employer similar to the current apprenticeship scheme. This will encourage the SMEs to employ fresh certified youth and give them six months to realise the full productivity.

The CoW is a golden opportunity that should not be missed.

(The author is Chairman, TMI Group, and Independent Journalist)

ARTICLES ON
SKILLS

Telangana Today

T. Muralidharan

30th May 2017

Go in for regular reskilling

Investing in the primary asset, which is oneself, is the only way to beat skill stagnation and stay employable

There has been a lot of anxiety in the IT industry about job losses. This time, the job losses are across levels but more at the middle and senior level than at the entry level. This has created panic among the industries dependent on the IT sector – specifically the real estate or the housing and the office space industry.

Why did this happen and where do we go from here? Let's start with Why.

Recently, I got a call from my ex-employee, who works with a top IT services company based outside India. He has been with this company for many years and now he wants to come back to India. Why? "Things have changed. Everyone at the top has taken the 'me and for myself' approach, leaving a lot of middle managers stranded. In the past, the top and middle management were one team and now it is 'either me or you'. The leadership has clearly crossed the 'Laxman Rekha' on compensation and rewarded themselves at the cost of rest. I am disgusted at the way things have changed so quickly."

The Reasons

So the first reason is that the top Indian companies, which portrayed one team spirit when they were winning, have changed and have discovered suddenly that the middle management was not adding value proportionate to the salaries paid.

There are changes in the post-Trump era. But this is not the only reason for this development.

Five years ago, the Indian IT industry faced a big change – SMAC. Four technologies – social media, mobile, analytics and cloud – were changing the face of IT. At that time, the challenge of obsolescence of the middle managers was met with strong company-driven learning programmes. This time around, the companies have given up and put the middle manager on notice.

Behind the Curve

Who is responsible for staying contemporary is the key question. Is the employee or the employer responsible for keeping the employee contemporary? Professionals have been spoilt for a long time by the employers who put all the investment and took all the risk. The average employee just sailed along.

Let me explain this a bit differently. When an IT professional joins the industry, s/he starts investing in assets such as cars, housing and high-end smartphones. When investing in these material items, are they aware that the primary asset that creates all these secondary assets also needs investment?

Clearly, the primary asset is 'oneself'. How many IT professionals invest a percentage of their salaries in skilling themselves – attending conferences, buying latest books and getting the latest certifications? This is often believed to be the employer responsibility. There are many who don't even invest in the latest laptop and expect the employer to do that. Even those who do invest in themselves, do they spend adequately?

In my opinion, every IT professional must keep aside 10% of her earnings every year for investing in own skill upgradations.

The second aspect is the role intensity. As one goes into middle management, the job becomes more and more transactional — of daily crisis management. Weekends are spent on meeting deadlines. Why does this happen? Because the quality of hires at the entry level has been falling and more time is sucked up in managing angry customers. Most US IT customers are unhappy with our quality and professionalism. This again puts a huge pressure on the middle management to 'hold the fort' with very little time for up-skilling. The net result – skill stagnation.

Possible Solutions

First, acknowledge the new reality that everyone has to take ownership for her own skill upgradations. Second, employers will become more and more mercenary. Third, the IT industry has to take part ownership for the current crisis.

If the employers sack employees with contractual motive, we will have a huge crisis in many homes with EMI default and family atmosphere becoming vitiated. IT professionals are more fragile than those from manufacturing or banking sectors. So a sudden discovery that one is not wanted anymore can be difficult to cope with.

Deferred Resignation

I have a suggestion – deferred resignation. The employees resign with a deferred date of 6 to 12 months. During the notice period, the IT employee will be on the bench for a change. Earlier, the bench was used before redeployment. Now the bench with half salaries for 6 to 12 months can be used to provide a graceful exit.

Employees can use this time to upgrade using company resources like online courses and even work as an apprentice on projects involving new technologies. The employee can also apply for internal job posting during the bench period. But they have to exit automatically if there are no absorptions at the end of the bench period.

Tenure System

All future hires, especially from Tier 2 and 3 campuses, must be on a contract basis for five years. This will put the ownership on the IT employee to stay contemporary. At the end of this first contract, only those who fit the future requirements will be converted into a long-term and permanent tenure.

The rest may get an extended contract or may have to leave. This is the most common practice among university professors in the US and keeps them on their toes. More importantly, this kills any complacency in the employee. The employee will also moderate asset purchases until tenure happens and hence won't be caught with sudden surprises like it is happening now.

(The author is chairman of TMI group and an independent journalist)

Telangana Today

T. Muralidharan

28th Sep 2017

Tasks for new Skill Minister

Time we stopped blaming the Ministry, NSDC and the mission, and focused on solutions.

Last week, I read an article titled 'Recovering from the train wreck', written by one of the editors of a leading business daily. I was very disappointed because the narrative is the same across mainstream media – Skill Ministry, National Skill Development Corporation (NSDC) and their training partners have let the nation down.

The Skill Ministry was created with a lot of expectations. Rajiv Pratap Rudy was appointed as the Minister of State with Independent Charge in 2015. But what did Rudy accomplish? To explain this, I would like to use the story of Edward De Bono in his book 'New Thinking for the New Millennium.'

There is a ship on high seas. A lot of things are going wrong. The pipes are leaking. The food is lousy. The generator is not working. The sailors are very grumpy and demotivated. There is a mutiny on the ship. Suddenly a new captain is airlifted into the plane. Everything changes. No leaking pipes. Food quality improves dramatically. The generator is fixed. The sailors are happy. But there is still one problem. The ship is still sailing in the wrong direction.

Rudy was a man in a hurry and fixed quite a few issues. But the direction was still wrong. Excessive focus was on the supply side instead of the demand side.

Conflicting Narratives?

One media view is that the skill targets are supply-driven and hence irrelevant. The actual skill is absorbed only in the first job and unless the student is employed within six months, the skill training goes waste. The economy is not creating enough jobs. Hence, why train when there are no jobs?

The opposite view is that job creation is not possible unless there are skilled people available. So skill first. Skilling empowers the youth and hence the Skill Ministry and the NSDC should have aggressive targets and achieve them. Otherwise, they will be deemed as failures.

Both these narratives are used by the media depending on the mood and propensity of the journalist who is writing the story.

So while half the stories kick the skill mission for the poor placement record, the other half is unhappy with the poor training record. Both of them gang up when it comes to quality of training and fraud by a few training partners and accuse NSDC and Skill Ministry honchos of this malaise.

Unfair Reporting

Let me explain why this is unfair reporting.

First, it is not the fault of the Skill Ministry that India is not creating enough jobs. Rather, it is the fault of the entrepreneurship model we are adopting wherein big investment is beautiful while small but with a big number of jobs is passe. Ever heard of partnership summits for SMEs?

Second, it is not the fault of the NSDC that 12 million people are joining the workforce every year. It is the result of the failure of our population control programme.

Third, it is not the fault of the NSDC that we have a few unscrupulous training partners who find ingenious ways to cheat. It is the fault of the Indian mindset that when it comes to making money, the means are not important but only the ends matter.

Our rich bureaucrats and politicians are shining lights of this philosophy. So why blame the NSDC when the unscrupulous training partners are also from our own society.

The 'Bakra'

Every journalist is looking for a 'bakra' to blame for all our failures and currently that bakra is the Skill Ministry, NSDC and training partners.

At the root of all this narrative is the core belief that skill training is a grant given by the government of India to training partners and if anything goes wrong, we have to blame the administrators and lynch the training partners.

Let's examine this core belief.

Grant to whom?

There are two beneficiaries of the skill system – the student and the employer. The student gets free skill training while the employer gets free trained resources to hire.

The training partner gets the training, mobilisation and placement expenses reimbursed and does not get free grant. This mindset, also prevalent among the bureaucracy, must change. So instead of controlling the training partner, it is time to manage the student and the employer.

The Solutions

How does one do that? Simple. Give every student a skill coupon (only one coupon per person in the entire lifetime) which s/he can exchange for training at any nominated centre in a skill course of her/his choice. The extra cost of training, if any, has to be borne by the trainee. This will make the trainee value the coupon like a cheque and choose the training course and the training partner with care. Most importantly, make the trainee own the training.

The second option is to add another programme to the existing Pradhan Mantri Kaushal Vikas Yojana (PMKVY). Introduce PMKVY PLUS Programme for MSMEs. Why MSMEs? Because it's only the MSMEs that create bulk of the new jobs. Under this programme, any employer can train as per his requirement and hire freshers and claim part of the training cost and part of the salary for the first six months from the government. This will ensure that the training is customised, employment guaranteed and retention-driven. Three birds with one stone.

Will the new Skill Minister do these two simple things? Will the journalists dig deeper into the ground realities and then write their piece? I really hope so. Otherwise, we will all miss our demographic dividend bus.

(The author is Chairman, TMI Group, and Independent Journalist)

Telangana Today

T. Muralidharan Tuesday, November 21, 2017

A market-linked skilling initiative

Government-defined training programmes need to give way to demand-driven and employer-paid skilling models.

Recent media reports have stated that the PMO has sought an exhaustive review of 34 key government programmes launched by it since 2014. Atop the list is STRIVE – a Skilling Programme of the Ministry of Skills and Entrepreneurship proposed with a massive outlay of Rs 2,300 crore. Why? Because it is not working.

Why is it not working? Because it is a supply-side model where people are skilled based on perceptions of market demand. However, the skilled workers are not in demand among employers or there are no jobs in the skilled domains. The key findings of the PMO are lack of market linkage and quality of training.

Is there a way out?

Yes. We can develop a market-linked quality Skilling model. A few skilling companies have already demonstrated demand-driven and employer-paid Skilling models, but this has not drawn the attention of the skill administration. Let's look at the solution starting with the basics.

Sharada Committee

The Ministry of Skill Development and Entrepreneurship vide its Order dated 18th May 2016 constituted a Review Committee for Rationalisation and Optimisation of the Functioning of the Sector Skills Councils (SSCs) under the chairmanship of Sharada Prasad, former DG, DGET, M/o LO&E, Government of India. The Committee submitted a comprehensive report in December 2016 that highlights some of the key challenges.

Challenges in Skill Ecosystem

The top challenges in skill ecosystem today according to the report are:

• Poor private sector employer's participation in skill programmes – There should be close interface of the vocational education training (VET) system with industry. The SSCs must become vibrant institutions of interface between the government, VET system and youth. The employers must own, finance and drive them to discharge their responsibilities efficiently and effectively

• Poor employment after skilling: Only 12.4% students are placed after skilling

• Low retention after employment

• Poor quality of training: There are no uniform VET standards in the country and. therefore, the skills imparted to the trainees are also not uniform

• Wastage of public money when the trainee is not able to get a job and use the skill: All employment exchanges in the country should be converted into state-of-the-art counselling, guidance and employment facilitation centres with modern technological tools

• Excessive dependence on a 100% grant model of public money: The commitment of industry towards training happens only when they contribute and are closely involved. This has resulted in maximising the beneficiaries by minimising the cost per trainee. Often the cost per trainee is not enough to provide adequate training

Causes of Poor Quality

Let's start with two root causes of poor quality of training. The specs of the training programme are defined by the donor – the government and SSCs, and not the beneficiary (the employer) often necessitating retraining by employer. Excessive checks and balances are required to prevent fraudulent training practices because only the government is paying. The PMKVY (Pradhan Mantri Kaushal Vikas Yojna) PLUS can address all these problems.

What is PMKVY PLUS

• Classic demand-driven skill model with stake for employer

• Co-pay system with employer and government contributing. The training cost can be decided by the employer, who will pay the difference between the total cost and the fixed government payout under the PMKVY programme

• Employer specifies customised training on top of SSC QP programme

• SSC, employer, training partner and Skill Ministry come together to offer the training specific to a job role for the specific employer

• It is a Skill-plus productivity model of training

How it Works

• SSC and Training Partner (TP) approach employers that they will offer 'day one' productive SSC certified employee provided they co-pay and pre-select employees for the skill training

• The TP will develop a customised training programme – based on the existing QP course for that role or create a new QP – in consultation with the SSC and the employer

• SSC will issue a new QP for this role

• The employer will hire the certified trainees at the end of the programme

• Employer will pay for the training to the TP and claim the government share only for candidates retained after three months of employment

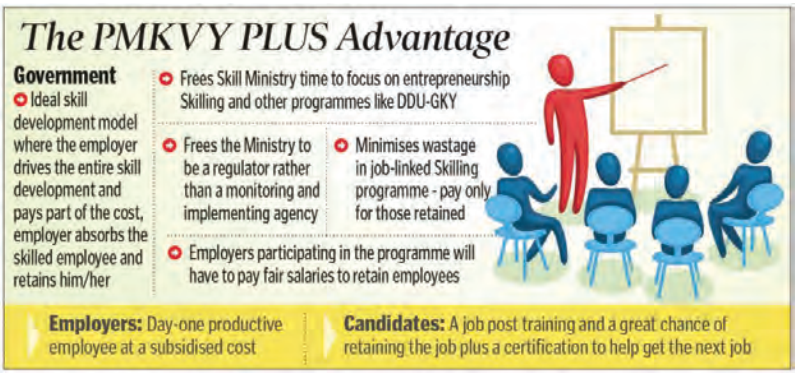
• In short, the employer designs the programme, pre-selects and counsels the candidate – executes through a TP, conducts quality assessments with the SSC help, certifies with the SSC and Skill Ministry, pays the TP and claims after three months for the retained candidates a share of the cost

Why custom-designed training — Productivity on the job requires customised training designed for productivity post training. Employers are willing to co-pay only if the induction training is also included and employer need not provide additional training

Why would employer co-pay — Because a productive employee is worth paying for and the co-pay amount will be lower than the cost of low productivity of the untrained employee

How big can this programme be — This can be a new programme aimed at graduate or the diploma /ITI segment, in addition to the existing PMKVY, Pradhan Mantri Khanij Kshetra Kalyan Yojana (PMKKY) and Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) programmes.

Many sectors where there is a shortage of productive employees will participate. Banking, insurance, financial services, healthcare, retail, manufacturing and assembly are some of the sectors. Roles ideal for PMKVY PLUS are sales, plant operations, customer service in the above sectors. The potential for coverage could be as much as a million graduates a year within 2 to 3 years. (See infographic for PMKYK Benefits)



• Employer will take responsibility for the quality of training and will choose the training partner

• Employer will be ensuring high certification and employment % by continuous evolution of the QP and the course

• Certification will be issued by SSC, Skill Ministry and the employer

• Employer will assess the candidates – pre-and post-training – in coordination with the SSC

Next steps

The Skill Ministry should initiate dialogue with select employers hiring large numbers in sectors including BFSI, electronic manufacturing, e-commerce and retail to co-develop this PMKVY PLUS scheme.

(The author is Chairman – TMI Group, Independent Journalist and co-chair Ficci-Telangana)

Telangana Today

T. Muralidharan

February 22, 2018

Turning skill capital of world

Rely on a twin approach of short, customised training for domestic employability and a longer one for global skills certification

In the next decade, India will have a surplus labour force of 4-5 crore. India can bridge the global labour shortage if the youth are imparted the right skill sets — Prime Minister Modi said while launching the Skill India initiative in July 2015. He said if China is the world's 'Factory', India should be the world's 'Skill Capital'. Where are we against this objective in 2018? In my opinion, it is yet to take off because we have adopted a wrong approach. Here, I examine the reasons and propose a new approach to make it happen.

Export Manpower

Simple. We cannot create enough jobs every year for the 18 million people who are looking for non-farm jobs, including 12 million fresh youth joining the workforce on attaining the working age and over 6 million migrating from agriculture. Against this demand, we have created 2-4 million jobs a year. The Economic Survey 2018 forecast that India will add 7 million jobs in 2017-18. Even if we create 7 million jobs per year, we are still short by 11 million. So we have no choice but to export manpower.

Why Others Will Welcome

Simple. Demographics of the ageing population and changing dynamics of skill requirements. Traditionally, the Middle East and Africa are the destinations for Indian youth. Many new countries like Japan, EU, Germany, Australia and South America are ageing and are also not able to attract youth to certain skilled occupations due to poor employment terms. Even robots cannot kill the demand for these occupations in the next 10 years. So, these countries will have to relax their visa norms to attract foreign workers.

Japan, which is hosting 2020 Olympics, will need skilled manpower in areas such as construction and hospitality. It will amend its visa regime to allow foreign labour and over one lakh Indians are expected to be a part of the skilled workforce for the Games. Some 10,000 young workers from India will arrive in Tokyo soon under the Skill Development Ministry's Technical Intern Training Programme with Japan's International Training Cooperation Organisation. This is in addition to the workforce required to meet the on-going demand for people in certain occupations.

Current Approach

The current strategy is to identify youth, skill them and export them 'as is – where is'.

Many States have created government organisations (not PPP) to source and even train workforce prior to departure. They even provide consular support in the 'destination' country.

Unfortunately, this is not working because of three reasons:

- Government cannot operate with the agility of a private enterprise
- Current focus is on freshly trained skilled workmen whereas the demand is for experienced and globally certified workmen. Japanese apprenticeship model is very rare
- Role of export agent ends when a migrant worker lands in the 'destination' county and critical support system during the migrant's tenure is absent

Bi-focal Model

Is there another approach? Yes. Let me present my bi-focal model. In this model, skill training is divided into two phases — a short, customised training for domestic employability for freshers and a second phase, which will be long and lead to global skills certification programme for experienced workmen. India should export workmen after the second phase who will be replenished by workmen coming out of the first phase.

Domestic Employability Phase (Ph I)

Here the employer drives curriculum, quality norms and certification, pre-assessment and guarantees a job on course completion. Training will be short, since it will be customised for a single employer and a single job role. The training pedagogy will be focused on producing day one productive people. Employer must pay for sourcing and training costs while student should invest for his stay and living costs. Employer can claim refund for the costs from the government after a 90-day retention.

The government will provide subsidised accommodation by setting up (in PPP) working men/women hostels and expense support for first work month.

Global Skilling Phase (Ph II)

In this, sector skill councils will drive and define global skill standards. Training will be for over two years in eight quarters, for global certifications, in two or three stages. Employee pay hikes will be linked to sector skill council certification stages achieved during the two years. Skilled workforce will also be trained in English or one other foreign language essential for migration along with global skills in these two years.

Any skilled and experienced (with minimum two years of work experience) employee has the option to sign for the Phase 2 of the programme and must meet the pre-qualification criteria. Training will happen on employer premises or at the nearest global ITI centre. Government must invest in capital expenditure required for training and senior employees will be trainers. Employee and government will share the training costs. Employer will first pay for the training and claim the government share through skill refunds.

New Bodies

These two-phase solution requires a manpower export agency (see graphics for criteria). Besides, to implement the model, India will have to create an International Engineering Skills Staffing Agency (IESSA) exclusively for engineering skills workmen (see graphics on contours).

Is IESSA workable?

Yes. India's success in IT industry is due to TCS, which commenced as an onsite staffing agency for IT roles — crudely called 'body shopping' in the late 80s. Later, others like Infosys, Wipro and HCL mastered the art. Market valuation of TCS stood at Rs 6 lakh crore ($90 billion) in Jan 2018. IESSA valuation will also reach a billion dollar within 10 years and provide a handsome exit to investors.

IESSA for non-IT skills

We can replicate the IESSA model for skills in engineering, construction and services sectors like hospitality. Indian workforce has a great track record in the Middle East and hence migration or working outside India is not only socially acceptable but also preferred.

Two other things that must be done to implement the bi-focal model:

- Bi-lateral country level agreements: Government of India needs to negotiate with global skilled workforce programme/ temp-migration through ILO and enable multilateral and country-to-country agreements to export manpower after Phase II training
- Large corporates must participate: They must join as investors and sign up for Phase II. The government can sign up a large number of big and MSME employers for this programme. The biggest benefit for the employers is salary capping. For example, if all workmen in a skillset after three years' exit after Phase II to IESSA and the exiting employees are replaced with entry-level fresh employees coming out of Phase I, then the salary of workmen will remain capped. This will make the employer more competitive. Unionisation issues will be minimised due to low residency of the workforce.

The government must move quickly if it wants India to become the skill capital of the world.

(The author is Chairman – TMI Group; participant – Global Forum for Migration & Development)

Telangana Today

T. Muralidharan Date: 14th July 2018

Making apprenticeship scheme work

Rope in staffing companies and amend the scheme suitably to realise its true potential and spread its impact

It was reported recently that the government plans to execute the apprenticeship programme with private participation. This programme is currently being run by the Director General of Training under the Ministry of Skill Development and Entrepreneurship. But going forward, it would be run by NSDC and Sector Skills Council. Let's understand the scheme a little better.

Apprenticeship Scheme under National Apprenticeship Promotion Scheme (NAPS)

- 2.5-10% of company's workforce must be taken as apprentices
- They can be taken for a period of 1 to 3 years
- No job guarantees to be given by employer
- There is a separate budget for training of apprentices
- Government is willing to pay 25% of stipend subject to a ceiling of Rs 1,500 per month as a fee to the employer for training of apprentice
- Employers engaging apprentices under the Apprentices Act, 1961 are exempted towards contribution to EPF and ESI for apprentices
- Apprentices get the entire stipend in hand because there will be no deductions
- 40 sectors and 259 trades are covered
- Employer and apprentice must register on the NAPS portal
- Paperwork required to claim the stipend and participate in the scheme

Challenges in the model

There are many challenges in implementing the apprenticeship programme 'as is':

- The model envisages direct participation of employers. But many employers are reluctant to take on red tape and scrutiny that comes with any government scheme. Since the maximum apprenticeship number permitted is 10% of the workforce, the employer should have tens of thousands of employees for achieving the required number of apprenticeships to create internal team to manage NAPS
- Apprentices must be productive for employers to pay salaries/stipend
- This will also mean many smaller employers who employ hundreds or less of employees (99% of the employers are in this category) may not participate in NAPS
- Candidates do not want to take up assignment where the job is not guaranteed after apprenticeship. Outstation candidates also need support to settle in the city of work

Is there a solution?

Yes, there is a better way. Promote the apprenticeship scheme through staffing companies. The Indian Staffing Federation has predicted that the 2.1 million temporary workers in the organised sector will increase to 2.9 million workers by 2018, making India the third largest market in the world after China and the US.

The government of India is the largest employer of temporary workforce, followed by IT/ITeS and retail sectors. What's more important – the staffing companies can easily manage the paperwork required to implement the scheme. The current apprenticeship model completely ignores this approach. If public-private partnership must work, the staffing companies need to be roped in and the scheme amended accordingly.

Changes in staffing companies

The current apprenticeship scheme recognises only one party – the employer. In the staffing arrangement, there are two employers — primary and secondary. The corporate will be the primary employer (employer hereafter) and the staffing

firm will be the secondary employer. Hence, we need to modify the apprenticeship scheme for temp staffing intermediation. Some of the required policy changes are:

- Secondary employer (staffing firm) and the employer should be allowed to register under the scheme
- 10% cap for apprenticeship induction should be calculated as per the employee strength of the primary employer, not the staffing firm
- 25% of apprenticeship salary should be paid to primary employer
- Staffing firm should be allowed to do all the paperwork on behalf of the primary employer
- Allot PMKVY quota on appropriate job roles to the training partner appointed by staffing firm, if the trainee is not yet trained
- Staffing firm should manage the entire NAPS scheme process and documentation

Private sector participation

If the apprenticeship scheme must work, the primary employer needs to see value in it. Private companies will not give apprenticeship opportunities to candidates who are not productive. The next obvious question is, how do we devise a model, which is a win-win for all parties involved – the employer, apprentice and the staffing firm.

How does it work

- Corporate employer gives a contract for large apprenticeship — up to 10% of its workforce to staffing company
- Staffing company sources and trains them as per employer specifications and onboards them on their rolls
- Candidate joins as an apprentice on the staffing rolls of the staffing company for one year but works for the corporate employer
- Staffing company enrolls and trains the student under PMKVY, along with the apprenticeship
- The staffing company supports the apprentice with motivational and job-related training
- Employer hires productive apprentice on their rolls as soon as the productivity is met

Productive apprentices

Staffing company is responsible for making the apprentice productive. The apprentice should be trained as per employer specifications initially, which will be paid by the employer. After coming on board, the staffing company will identify the right skill training course and arrange for the training as per the NAPS. It will track the performance on the job and motivate the apprentice to reach the productivity norm at the earliest to enable the apprentice to join the employer as a full-time employee.

At the end of one year, many trainees would have joined the rolls of a corporate. Those who could not make it, would have a skill certification as per the NAPS and on-the-job training, which will help them find a job in the same industry. The staffing firm will also help them find a suitable permanent placement.

Why government must support

First, there will be better compliance. Second, the apprentices will be taken care better by the staffing company and will be enthused by the opportunity to become a full-time employee once they reach the productivity target. The staffing firm will provide the safety net as and when the apprentice quits the programme. It will ensure that the apprentices are enrolled in the skill training and certification process.

Why employer must support

The employer gets a productive apprentice because of the initial training and the continuous emphasis on productivity. Second, the additional cost of staffing will be set off by the stipend pay-out by the employer. The entire paperwork is outsourced to the staffing company. The employer will have to pay only for the initial hiring and induction training but the productive apprentice will be worth the extra payment.

Why students must opt

There are many students who are not fit "as is" and hence rejected by the employer are the first target. Then there are those in smaller towns who desperately need a job but are not employable "as is". This model enables the transfer to a permanent role once productivity norms are met and hence a candidate has a clear path to a permanent job.

(The author is Chairman, TMI Group)

ARTICLES ON
EDUCATION

Telangana Today

T. Muralidharan

11th Feb 2017

Flourishing for-profit private schools

Despite higher fee, these schools are a necessity till we develop alternatives.

Last week, we delved into whether the furore over school fee is justified. Taking it forward, in this second part, we look into whether private 'for-profit' schools are flourishing despite government and government-aided schools being affordable. How big is the private school sector?

According to a report by Ernst & Young — 'Private Sector's Contribution to K-12 Education in India', 25 per cent of all schools (Kindergarten to Class 12) in India are under private management. Their enrolment has crossed 40 per cent (urban and rural together) of the total enrolment. This number increases to 55 per cent when you look at only the secondary and higher secondary enrolment.

The Annual Status of Education Report 2016 points out that this is not just an urban phenomenon. Enrolment in private schools (age 6 to 14) even in rural India is increasing — from 18.7 per cent in 2006 to 30.8 per cent in 2014.

Every poor family spends a disproportionate amount of its earnings to send her child to a private school. Clearly, private schooling is big and is growing in both urban and rural India.

Government Spend

A study by Ambrish Dongre and Avani Kapur titled 'India's Spend on Elementary Education' states that the government (Central and across 16 States) median spend on elementary education (Class 1 – 8) works out to Rs 11,225 per student enrolled in 2011-12. This looks quite low because it is the average across India and across all types of schools in rural and urban areas. A better benchmark is 'government-spend' in Kendriya Vidyalayas that provide the best quality among government schools.

Elementary school education (Class 1 to 8) is free in KVs and is subsidised thereafter. The fee notified by the KV Sangathan is nil for these classes. From Class 9 to 12, a tuition fee of Rs 200-400 per month is claimed from boys. In addition, Rs 650 per month is taken for computers and Vidyalaya Vikas Nidhi, with exemptions for certain categories of students. The government expenditure per child in a KV was Rs 32,700 in 2015-16. Thus, the total cost incurred by parent and government together in a KV per boy student is around Rs 45,000 per year.

Hence, one of the real issues in government schools is the huge variation in the 'spend'. The schools set up by the Central government fare better compared with municipal schools because of higher spend.

The 7th Pay Commission announced in September 2015 has significantly improved the salary of Central government teachers. State governments like Telangana are following the same direction. However, teachers in private schools, especially those catering to the poor, are paid lower than the government teachers and this gap will further increase.

Lacking Motivation

The first reason for the poor motivation in government teachers is HR issues like slow promotions, no incentive for performance, irregular salary pay-out, poor health schemes and absence of 'need-based' transfers.

The second big reason is politics and bureaucracy in government schools. The teacher unions are a political force.

Bureaucracy de-motivates passionate teachers significantly. The third reason is the declining quality of student intake. For example, most of the poor parents want to join their children in English medium private schools.

Role of non-profit societies

Most private schools are run as a society/ trust but many are run by 'for-profit' societies. Many of us believe that non-profit societies like Bharatiya Vidya Bhavan and DAV only should run schools. But, our exploding demographics mean that the demand for quality education far exceeds the supply.

Old non-profit societies like BVB and DAV started at a time when the land was not expensive. Some even got endowments or land from philanthropists or government. This is repeatable today only if the government gives land free on a long-term lease basis and gives grants. Even then, the non-profit educational institutions can only accommodate a few more schools and cannot meet the full demand.

So let us face it – the private 'for-profit' schools are a necessity unless we develop alternatives, including a new set of non-profit societies to substantially improve the government school system. Some more actions required include;

- Building the enrolment capacity of the 'non-profit' society schools
- Celebrating passion for teaching
- Encouraging technology-assisted teaching
- Encouraging peer and self-learning
- Shunning bureaucracy at all costs

Creating Quality Schools

Assess and divide government schools into two categories– performing or special category and non-performing schools. The government should invest and expand performing schools like KVs. It should encourage non-profit societies to maintain and operate schools independently. Non-performing schools can be handed over to performing non-profit societies on a long-term lease.

Encourage school and college alumni to take over schools. Students will get free education up to Class 8. Thereafter, they will pay a nominal fee as in KVs. The government will pay a fixed fee per student to the school. The fee must be determined with an incentive for hiring passionate teachers and rewarding them. It should be based on the cost incurred at quality schools like KVs.

Alumni Support

The IIMA Alumni Association, Hyderabad, took over a school three years ago, renamed it and runs as Udhbhav School at Rasoolpura here with 650 children from Class 1 to 10. This is with financial support from Coromandel International and other corporate employees. If not the infrastructure, at least the quality of education imparted is comparable to the best government schools. The key point is old institutions such as Grammar School or Osmania University have alumni of varied age groups and adequate volunteers.

But will teacher unions come on board? This is a big question. However, it is time the unions took a pro-active step before government schools become irrelevant. Instead of living under the threat of shut-down, it is better to embrace change now, protect the jobs and flourish under the new management.

(The author is chairman – TMI Group and co-chair, Ficci Telangana)

Telangana Today

T. Muralidharan

18th Feb 2017

Arriving at a good school fee

Quality schools deserve a price premium and so the best way is to leave the pricing to the market forces

Price regulation is required if there is a monopoly, as it leads to price gouging. But private education is very competitive and parents have umpteen choices. As mentioned earlier, the E&Y report of March 2014 states that 25 percent of all schools in India are under private management, summing up to 338,000 private schools in 2011-12. In this concluding part, we look at the factors that decide fee and how to create a system that benefits all stakeholders.

Fee Factors

The cost per child depends on many factors with batch size and school infrastructure being the two biggest elements. A school with only 20 students per class will cost twice as a class with 40 students. Size determines teacher's attention. In a large class, the teacher has no time for each student and tends to focus on the bright kids. So, parents with children, who are laggards need to put them in schools with smaller batch size so that they get attention and pick up.

Expensive schools insist on a small batch to give every child a chance. So, the school fee is determined by its cost structure and pricing philosophy. But schools must spell out their fee structure before the parents commit. And if the parents still want to pay, why should others object?

Parents' Point

A few parents of children in private schools agree that they made a choice after receiving full information about the fee structure. But their main concern is fee increase. A child admitted to Class 1 will be in the same school till Class 10. Changing schools in the middle due to fee reasons is a challenge because the child will suffer. More importantly, good schools discourage admissions into Class 2 to 9. So, the parents demand schools to spell out the annual fee increase at the time of admission. They expect the schools at least to not increase the fee disproportionately and without justification.

The second issue is the value they get for the fee they had paid already. If the school is not delivering value, why should parents agree to a price increase?

But how does one calculate the value you get in school education? In my view, most parents

see value with the school as long as their child is doing well.

However, determining value at the time of admission is complex. Parents mostly rely on the information from other parents. And this information is incomplete or biased. The admission process is also opaque. The parents are put to stress till the last minute and they succumb to pressure. They want admission at any cost. Once their children are admitted, the ball game

changes!

So one of the solutions we need is mobility across schools. The government should encourage creation of a portability platform where parents wanting to swap their children's school can connect and the schools should encourage this. This will put the school managements under notice.

Regulating Fee Hike

According to GO 91 of 2009, every school must submit its audited accounts and propose the annual fee for the next year based on the operating cost structure to the District Fee Regulatory Committee.

There are many models for fixing the annual fee. The most popular model seems to be the cost plus model, which calculates two types of expenditure – capital expenditure and operating expenditure. Capital expenditure includes investment in infra and operating expenditure includes all annual costs. The cost structure items will also vary from school to school. The capital cost recovery related items like depreciation and interest on loans will come down with time. Costs like salaries go up every year. So, the total cost will have to be calculated from year to year.

Auditing Costs

But even if each school audits its costs and submits a price to the District Fee Regulatory Committee, how will this Committee approve and on what guidelines?

If they insist on disallowing some costs or capping some costs, it becomes a matter of debate and litigation. The government is used to the NGO model – total cost plus an administrative charge – which is totally unacceptable in an entrepreneurship model. For investment to come in, the equity returns have to be attractive. Each entrepreneur needs freedom to differentiate from other schools, which means that the cost structure will change from school to school.

Quality schools deserve a price premium. One single cost structure, determined by a third party is a strict 'no-no' for private investments if new schools will have to be funded.

So, the best way is to leave the pricing to the market forces. Each school must share the pricing and inform the parents about automatic price increase year after year, right at the time of admission. The items of cost that are part of the automatic price increase will have to be spelt out by the school. Parents can calculate the future annual fee and take a call.

Regulate Beyond Normal

If the school wants a price increase beyond the automatic price increase, they need to submit their cost increase data to the District Fee Regulatory Committee, after publishing the data on their websites. Only the data on the cost items unplanned need to be submitted. The DFRC will intervene only if it feels that the price increase is unreasonable.

School portability, where students mutually exchange their school through an online portal, will put the schools in check. This online portal will also enable the former students to share the reasons for their exit and this will again put a lot of pressure on school managements to be reasonable.

(The author is chairman – TMI Group and co-chair, Ficci Telangana)

AN ARTICLE ON

GOVERNANCE

Telangana Today

T. MURALIDHARAN | Hyderabad | Page 06 | Monday, July 25, 2022

Amend 4 ruinous GST provisions

Ironically, the Centre does not want to part with its GST dues to States but wants it from tiny MSMEs, on time

Four key provisions under the GST regime spell total disaster for the MSME sector

1 Tax payer must pay the entire GST dues before filing the GST summary report (GSTR 3B)

2 GST Summary Return (GSTR 3B) cannot be filed until and unless the delayed payment interest @18% is also paid

3 Tax payer is blocked from filing the outward supplies report (GSTR-1) if he has failed to furnish the summary GST return (GSTR 3B) in the previous month.

4 Tax payer will be denied the Input Tax credit (ITC) if the supplier of the MSME does not remit the amount to the government, after receiving the GST payment from the MSME

All he three are one-sided and draconian for the MSME sector. Let me explain why?

MSMEs are suppliers to many large corporates who are now insisting that the MSME file their outward supplies report (GSTR –1) in time so that they can claim the input credit. Till recently GSTR-1 was filed by most MSMEs on time because it was not linked to any payment or linked to filing of any other type of report. But ta new circular changed this by insisting that the previous month Summary GST report (GSTR 3 B) must be filed first. Very soon, many MSMEs who cannot file their GST summary report will be blacklisted or penalisedby the large companies, in addition to being penalised by the GST department in the form of huge interest and penalties This will kill he MSME unit

This takes us to the moot question.

Why are the MSMEs not able to remit the GST dues on time?

This is the unfairness of the issue. GST is a levy charged by the government and the MSME taxpayer is supposed to collect this levy, deduct the Input Tax Credit and pay the dues to the government by 20th of the next month. Here the tax payer plays the role of the agent of the Government. But unfortunately the GST wants the MSME to pay the GST dues irrespective of GST collections from its customers. This is impossible because MSMEs do not have the bargaining power to dictate the payment terms with their customers who pay only after 60 to 90 days.The tragedy is that even if one big customer does not pay the GST in time, the MSME will have to default because the GST summary report can only be filed only after 100% dues are paid. The bigger tragedy is that, even if the tax payer pays part of the dues, the government will use that part money but will not reduce the interest for the part payment. The biggest tragedy is that the MSME must pay the draconian 18% interest along with GST dues, every month.

GST TAKES THE CAKE IN TERMS OF INTEREST DISPARITY COMPARED TO EVEN INCOME TAX LEVY -IF GST DEPARTMENT DELAYS ITS REFUND, GOVT PAYS 6% INTEREST BUT IF TAXPAYER DEFAULTS, S/HE MUST PAY 18%

All of this are one sided.

If you ask the GST department as why are you insisting that MSMEs pay and then only file the GST summary return, their reply is this. This will help us settle the IGST dues to the state governments, on time. Look at the irony. The central government does not want to finance its GST dues to the States but want the tiny MSMEs to finance the GST dues to the central government.

The second one sided affair is the interest rate. If the GST department delays its due (refund) to the tax payer, Government will pay interest @ 6% per annum. But if the tax payer defaults its dues to the GST department, tax payer must pay interest @18% per annum. The GST takes the cake interms of interest disparity compared to even Income tax levy. Income tax department pays interest @12%per annum on its refund while GST will pay @ 6% only. God knows why? I am also surprised how the courts have allowed this one sided and unfair dealing of the Government towards its own citizens.

The third one sided treatment of GST regime is even more serious. For example, if the MSME pays its GST to its supplier and the supplier does not remit this amount to the government within a specified period, the MSME will be denied the Input credit and has to pay again the entire GST amount to the department with interest and penalty. This is the ultimate. The MSME will pay GST twice for no fault of the MSME. Typically the GST is not a small amount. Many of the items are taxed at 12 to 18% which is more than the profit earned by the MSME. By paying the GST twice, transaction will become unprofitable – again for no fault of the MSME.

I wonder at the one sided nature of the GST legislation in this matter. What is the basis for arriving at the deadline for claiming GST? What is the basis for denying the Input credit just because the GST payment is delayed?.

It is essential that Finance Minister and the GST council take immediate cognisance of this draconian sections and immediately issue amendments to correct all the four provisions, especially for MSMEs

Root cause of all MSME GST payment problems

Now let me discuss what is the root cause of all MSME payments to GST. It is poor payment record of MSME customers. Both government and private sector. According to MSME Samadhan portal, which was created to monitor delayed payments to MSME, 1.17 lakh applications were filed by MSME for delayed payments. But these applications were only for disputed payments requiring arbitration. This does not cover undisputed delayed payments.

The largest defaulters are Central and state governments. For example "At Rs 1.23 trillion, dues to power producers up 17%; six states account for 70%. Union power secretary Alok Kumar said the main reason why these six states accounted for the bulk of the dues to GENCO's is because state governments often fail to pay subsidies to discoms on time. Also, government departments don't clear their electricity bills promptly." This was the headline in a leading newspaper in April 2022. If the government departments don't clear the electricity bills on time, imagine the fate of MSME contractors to the government.

According to another newspaper report from Karnataka of November 2021, "Karnataka State Contractors' Association says bills worth Rs 17,000 crore are due at the end of October. 2021" According to another report from AP, in a news daily in June 2022, AP government is saying payments timelines cannot be guaranteed and they have added a special conditions in the contracts which says "note: the payment of bills will be made based on the availability of plough back funds. In case of any delay in payment, the contracting agency shall have no right to challenge in the court of law. Only such contractors who can wait till realisation of bills without approaching the honourable courts only need to bid for the works."

The question is – if the government cannot pay their dues on time, how can they expect the MSME entrepreneur to pay their government dues, on time.

It is time government and PSUs be asked to pay 18% per annum interest

The only way forward is to penalise the government and private parties for delaying payments and make it mandatory for all government, PSU and private contracts to add a clause on payment to MSMEs as " all MSME payments and interest will be as per the MSMED Act 2006" This must be supplemented by Online portals where the MSMEs can upload their invoices, and the government must approve the invoices within 30 days so that pending payments dues are transparently displayed online. And the interest can be calculated transparently. Until this is done, the government has no right to demand timely payments for its dues

(The author is Founder-Chairman, TMI Group)

Telangana Today

T. MURALIDHARAN

Hyderabad | Page 08 | Friday, October 22, 2021

South States should coact on GST

Finance Ministers must reach a consensus to make the tax system effective

On 29 September, for the first time, five FICCI southern State councils — Karnataka, Kerala, Tamil Nadu, AP and Telangana — came together and organised a GST Southern State Finance Minister's conclave. The industry Minister of Karnataka, and Finance Ministers of Kerala and Tamil Nadu shared their views. It was a very good start because the Southern States must reach a consensus on the GST issues.

Five top issues faced by the industry were presented to the ministers. These were restructuring of the Advance Ruling Authority to make it more effective, making the GST officials more accountable, notification of the GST rating section of the CGST Act 2017, non-denial of Input Tax credit claimed on genuine transactions and constitution of the GST Appellate Tribunals immediately. Many of these recommendations are in the realm of the GST Council and the Central GST authorities

Let me flag five big issues in the realm of the State leadership and seek their support to resolve them.

Data Ownership: It was mentioned that the GST data is not easily accessible and hence decision-making is not 'data based'. Especially, the GST has a 'near' real-time technology backbone for data. The State Finance Ministers should make a case that the States have co-ownership on the data and the GST Council must create an analytics platform and provide access to the GST data — in real-time — to them. This is their right. The data is the oil of the GST regime and is not the sole property of the Central government. Delayed data release is often an indicator of a lack of transparency.

Role of Entrepreneur is Supreme in GST: The Central and State governments have forgotten one key fact — it is the entrepreneur who is the goose that lays the golden egg. It is the entrepreneur who stakes everything to start an industry

Instead of finding and penalising fraudsters, the tendency is to draft a new law or a rule to correct this exception

— invests, buys raw material, transports to his plant, pays the labour and uses the technology to convert it into finished goods, finds customers, transports it to customers, collects the money and then pays the GST. The government just waits for the transaction to be completed and insists on getting its share on time. How much does the entrepreneur make at the end of all his toil? Maybe 10-12% of the sale price, which after income tax is reduced to 8-9% of the sale value. The government makes — through GST and income tax — much more than this. By doing what? The point is simple — if the State and Central governments want to grow the GST collections, they should be working with the entrepreneur and ensuring his needs are taken care of. Today, an entrepreneur is treated with suspicion and is demotivated by the GST administration. We are killing the goose. The governments need to understand that if the entrepreneur stops, the GST collections end. The state administration should be sensitised to this fact.

Primary role of GST admin is to support entrepreneur: The GST administration role is to make it easy for the entrepreneur to run his business. Instead, the GST administration expects the entrepreneur to not only pay his GST on time to his vendors but also to ensure that his vendors pay this GST amount on time. This is unfair. If the GST department cannot collect the GST from its registered vendors with all its powers, why should the poor entrepreneur be penalised by denial of the Input Tax Credit? The GST Council must implement the rating system promised under Section 149 immediately. Already over four years have passed. This will enable the entrepreneur to choose compliant vendors and thus non-compliant vendors will be punished. This will also enable entrepreneurs to choose vendors from any part of India and thus 'one nation, one market' can be achieved. Once the GSTR-1 is filed by the vendor (vendor discloses the sale), the GST department must take responsibility for the collections and not penalise the entrepreneur. This is the least the department can do for the entrepreneur.

Government can't make more revenue by delaying payments: Many State and Central governments are strapped for cash and delay payment to their vendors. This makes the vendor default on GST payment and he has to pay 18% interest. But the government will not acknowledge the delayed payment and will not pay interest. The more the delay, the more the interest. This is very unfair. The governments must acknowledge their payment dues on a public platform (AP government has had this since Chandrababu Naidu's term) and pay interest at 18%. This will put pressure on the state public officials to acknowledge and clear the dues on time and this is the best and first requirement for Ease of Doing Business.

GST Council should not recommend any amendments to GST law based on exceptions: In the course of GST implementation, the GST administration realises the loopholes adopted by the dishonest taxpayers. Instead of finding and penalising such fraudsters, the tendency is to draft a new law or a rule to correct this exception. Here's an example. Some of the GST-registered vendors fail to pay their dues on time. So instead of going after them, the GST Act insists on penalising the entity which gave the payment to the vendor along with the GST. We need to study the extent of the deviation and only if it is very large and cannot be plugged by enforcement, the law must be amended. Why? Because you will end up increasing the compliance load of genuine taxpayers. It is like penalising the majority for the omissions and commissions of the minority. The GST administration must do its role of enforcement. An example: imagine the police put up checkpoints — every day and everywhere — to catch thieves, thereby penalising every car driver. The job of the police is to catch the thief using their detective skills and not by enforcement of tough regulations on the bulk of the rest of the innocent population.

(The author is Chairman, FICCI Telangana State Council. Views are personal)

Telangana Today

T. Muralidharan

Hyderabad | Page 06 | Friday, June 05, 2020

Six pillars to revive MSMEs

Instead of direct money transfer to migrant workers, which could encourage idling, MSME wage subsidy is way better

In the first part of this article, we proposed a six-pillar framework for revival of the Micro, Small and Medium Enterprises (MSMEs). Here we discuss these pillars in detail.

Liquidity Pillar

There have been many announcements about additional working capital limits, emergency line of credit, equity, subordinate debt, etc, which are very welcome. But these may not flow down to the MSME sector due to three reasons.

First, banks are reluctant to relax the norms and allow credit flow. This will happen only when there is a moratorium on questioning the bank managers' decision to lend for 12 months at least. They should not be harassed later by enquiries. The credit committees must be supported for their decisions to implement government's intention. Second, the credit will flow only if there is drawing power, which will happen only after the business revives. So increase in working capital limit without relaxing the margin won't help. Clean overdraft, thanks to the omnibus bank guarantee, without drawing power will help. The third condition for credit to flow will be profitability of the unit. Banks lend to get back the money. Units that turned unsustainable due to the lockdown will not get the credit until they are made sustainable. This is the correct thing to do because banks are funded by the common people through their deposits.

Reforms Pillar

The government has started this exercise in earnest. The first reform is the redefinition of the MSME based on turnover and investment. Why is there a need for investment limits when there are limits for turnover? Even the turnover limits should have been far higher, at least twice, if the intention is to correct for the loss of money value due to inflation and continuous devaluation of the rupee against the dollar, which has widened the gap between our definition of MSME and the European definition of MSME. Still, this is a good development. The definition should be automatically revised every three years to correct for inflation. The government has to pass the legislation quickly to make this happen.

Second, we need massive reforms in labour laws to differentiate between MSMEs and large enterprises. Labour reforms in the Code of Wages to revise upwards the minimum wages to offset the wage depression due to excess labour supply must be implemented on a war footing. We need massive reforms in Company Law to differentiate in compliance norms between LLP, private limited, public limited and listed companies. The current differentiation is highly inadequate. Third and the most important is compliance rating. The government needs to pass a constitutional amendment to differentiate honest taxpayers and those who comply with regulations from those who cheat. There has to be a compliance rating across all compliances like GST, Income Tax, labour laws, which must be published like ISO quality rating. Those with high rating should be exempted from inspections, raids and harassments until there is contrary evidence and ratings revised. The government must stop making new rules and legislations to prevent fraud but rather spend its full might in identifying and penalising those who commit the fraud.

Labour Pillar

India has a huge population and bulk of these need livelihoods and jobs. They have to migrate in search of work to urban areas. The size of migrant labour – only on account of economic reasons would be between 200 and 300 million. This migrant labour needs dignity. The lockdown has exposed the underbelly of our politics. Universal white card to benefit from the local public distribution system, universal medical benefits, remote election voting, universal education portability for children are some of the urgent reforms we need.

Employers, as well as the government, have all let the migrant labour down and the wounds are deep. In fact, employers should have taken more pro-active and direct steps to talk and negotiate with the migrant labour. It will take 6 to 12 months for the migrants to return but when they return, it will be on better and fairer terms.

Supply Chain Pillar

The broken supply chain will restart quickly if the authorities do not interfere in the manufacturing and supply chain. Material movement has commenced. The lack of labour and liquidity will delay the recovery but the innate desire of the MSME to survive and its work ethic will force every MSME to restart. The government should stop policing them. For example, if Covid positive cases are found among labourers, despite clean manufacturing practices, then holding the entrepreneur and the unit responsible will kill taking risks.

Demand Pillar

Unless demand revives, there is no economy. There are no tax collections. By demand, we mean consumption demand and not intermediate demand. Consumption demand is linked to disposable income, perception of future (or consumer confidence) and liquidity. Today, all three are in peril. Job losses impact all the three for those who lose their job but it impacts consumer confidence even of those who don't lose their jobs. The Rs 20-lakh stimulus does impact the supply side but not the demand side, which requires real stimulus and grants to the right segment.

The government does not have the money to provide grants and hence demand generation will take some time unless there are factors outside India which will drive liquidity and sentiments. For example, there are huge FDIs into India or the stock market starts booming due to FIIs coming into the stock market.

Sustainability or Profitability Pillar

This is the most important pillar. MSMEs provide the largest number of jobs and put liquidity into the hands of people. A profitable MSME will get funded. The unprofitable ones will go bust if they don't become profitable. This requires the following urgent interventions:

- **Wage subsidy for MSMEs:** Direct transfer of money in the hands of the migrant worker is an unproductive payout as it encourages idling. Instead, it is better to make the same payment to an MSME as a wage subsidy. This way, the MSME entrepreneur gets a lower labour cost enabling him to expand his operations. The migrant worker gets the minimum wage, which is three times the direct payout and it is a productive payout. In addition, it makes MSMEs compete for talent with large companies on a level-playing field. This is similar to the 24% PF payment of government for MSMEs with less than 100 employees except that this is for all MSMEs, which employ people and pay them the minimum wages or more with retirement benefits.
- **Interest subvention:** Net interest rates for MSMEs have to be brought down to 2-3% for global competitiveness.
- **Covid Grant:** A one-time grant to recover losses due to the lockdown will help hugely in making the units profitable once again

– ***Concluded***

(The author is Chairman, TMI Group)

Telangana Today

T. Muralidharan | Hyderabad | Page 06 | Thursday, June 04, 2020

Getting the wheels rolling again

Restart of the economy is a herculean task and cannot be done through an executive order

The stimulus package of Rs 20-lakh-crore, announced by Prime Minister Narendra Modi, raised a lot of expectations. The package reflected Modi's recognition that lives are as "important" as "livelihoods".

While Kerala was early to restart, all other States have suddenly joined the restart bandwagon. Restarting is a herculean task. The notion that "Restart is like pressing a switch and the economy bulb lights up" needs to be dispelled. This notion is prevalent among some bureaucrats and politicians. Let me start with certain facts.

Fact 1: Lockdown of this size and scale has never been done before and experience is useless

All sizes of enterprises – micro, small, medium or big – have been devastated simultaneously. All countries are impacted. All sectors, save a few essential services, had been shut for extended periods. Supply chains are fully broken. This is unprecedented. So we have to look for new smart solutions

Fact 2: The government has no expertise to understand business intricacies and how to run a sustainable business

Governments have done a great job during the lockdown. Law and order was very well maintained. Full credit to police, bureaucracy and politicians. Everyone worked as a team to enforce it. Since it is their primary responsibility, the government has acquired enormous strengths over the years to streamline it. But restart is beyond the domain expertise of bureaucrats and government. The government has no expertise to understand business intricacies and running a sustainable business. It is the domain of professionals and entrepreneurs.

On April 14, US President Donald Trump revealed the expert team that will advise him on reopening the economy. He read out the names of nearly 200 corporate chiefs and other notable figures during a news conference at the White House, implying they would act as consultants of sorts. The White House later published a list of leaders who would serve on "Great American Economic Revival Industry Groups". Even the US government has acknowledged the need for an outside professional group from industry. Indian restart plans too need a professional group.

> Even the US government has acknowledged the need for outside professional groups from industry. Indian restart plans too need professional help

Fact 3: Whenever we restart the economy, entrepreneurs have to take a calculated risk

The safest time to restart is when new infections die down and the risk of restart of the Covid infection is low. Alternately, we must have a low-cost vaccine cure or the medical treatment for quick recovery. None of the above is likely to happen in the next six months. So the safest way is to wait for six months or more. But by that time, the economy would have been dead. South Africa reported food riots in some parts due to economic shutdown. Hence, whenever we restart the economy fully, we have to take a calculated risk. We have to make tradeoffs. The government must stay the course and not panic into another lockdown.

Fact 4: Due to the extended lockdown, the government capacity to help the poor has been greatly compromised

Government revenues have fallen dramatically, weakening government's capacity to provide social support or healthcare for the poor. So not only the enterprises but the government will also suffer on a huge scale.

Options for Restart

Is there a framework for restart? Let's start with acknowledging two MSME ministers.

First, we thank Covid for making something happen, which was overdue for decades – making the MSME word fashionable. For a long time, SSI or Small Scale Industry was a liability. Employees, bankers, investors, customers thought poorly of an SSI unit. Suddenly it has changed. Two people deserve credit — Kalraj Mishra, BJP's first Union Cabinet Minister for MSME, and Nitin Gadkari, current Cabinet Minister for MSME. Mishra was passionate and popularised the word MSME. He is one of the unsung heroes of the MSME sector. Gadkari made the word fashionable with an extraordinary belief in the MSME sector. He made many of the MSME reforms happen.

Pillars for Revival

We need to focus on six pillars for the revival of MSMEs — Liquidity, Reforms, Labour, Supply Chain, Demand and Sustainability. Of these, the most important but unfortunately, the least addressed is sustainability. In the second part of this article, we will discuss these six pillars in detail.

*– **To be continued.***

(The author is Chairman, TMI Group)

T. Muralidharan 22nd May, 2020

Is stimulus package a lost opportunity?

Economists believe government tried to resolve only supply-side issues and did not create demand for manpower and goods

he government’s recent stimulus package evoked mixed reactions. To get an in-depth response, Telangana Today and FICCI Telangana State Council conducted a select industry leadership panel discussion via Zoom on ‘Impact of Economic Stimulus Package’ to discuss and debate whether the government succeeded in providing the desired impetus and support to the industry and economy, at a time when the world is shattered by the pandemic. Experts shared their unbiased views, insights and recommendations to the government on not only the sustenance of wide ranging sectors such as MSMEs, agriculture, healthcare, manufacturing, and the financial system but also their revival. They also evaluate the ability and relevance of the package to ensure faster recovery.

Liquidity for MSMEs just on paper

Govt must focus on implementation and should not push companies into a bigger debt trap

B Krishna Mohan
Hyderabad

MSMEs are now in a restarting phase. The growth has been dwindling for some time now and the lockdown has only further aggravated it. There are five pillars that need to be focused by the government in this restarting phase- liquidity, labour, labour reforms, generic reforms and sustainability.

When it comes to liquidity, the issue has been addressed through equity infusion, fund of funds and other channels. “While liquidity is being enhanced significantly on paper, efforts should be made to implement the measures announced in the package faster. Also, it should be made available at lower rates and the accompanying costs should not be passed on to the end users. We also need a moratorium on the payments,” notes Muralidharan Thyagarajan, chairman, TMI Group.

The next pillar that needs focus is labour. Migrant labour moving away to their native places has highlighted how we have ill-treated them. We should have taken better care of them. They have a key role in building the economy.

Labour reforms

Many labour laws are passed despite them being pending in the labour courts. The minimum wages paid to the labour should be enhanced to keep the labour engaged. Most of the time they are being exploited and this should stop. The compensation element should be increased significantly.

Generic reforms

There is a need for generic reforms. Some of them have been achieved. For instance, changing the definition of MSMEs. There is an inflation value which has to be taken into consideration. Over time, the actual value will change. Henceforth, there should be a review of the definition at least every two years.

Sustainability

He added, “The government is simply asking to take more loans and survive. It is pushing people and enterprises into a bigger debt trap. No lender will lend to those who do not have capacity to repay. No ways have been mentioned in the package to reduce the debt, costs incurred or the losses that happened due to the pandemic.” What we need is grants, we need methodologies and this has to be done. While there are loans-in-59 minutes for the urban dwellers, there is no such mechanism for farmers. There is a need for online platforms where farm data is available. Government should launch this platform so that farmers also have access to debt.

Government package

The government has only said take loans to survive. We should take loans and not pay and see what happens. The package announced by the Finance Minister at the best is only Rs 1.5 lakh crore to Rs 2 lakh crore and not Rs 20 lakh crore as is being announced. However, on the other hand, the structural reforms announced by the government are good. Government opened the door, Thyagarajan added.

Government is bankrupt now and it has no option but to borrow. It will get money if the economy improves, gets higher tax collections.

Where is the money to fund the package?

The actual stimulus component is small. Government has actually not given anything. There is no reduction in the cost structure or means to cope with the losses that have happened due to the lockdown.

Telangana Today

Revive MSMEs to revive economy

Only entrepreneurs and enterprises can lift the economy from the gloom that persists today

The MSME sector cannot survive with cosmetic and minor support. A Ficci survey revealed that approximately 60% of the MSMEs are already deeply affected. India is a country of entrepreneurs, some run MSMEs and most run self-employed enterprises. Major policy support is required on many dimensions. Before we list the key reliefs required, here's the current realities and why government's support to the sector is needed on a war footing:

Don't discriminate within MSME

There is a policy tendency to focus on micro because they are large and at the front-end of the lockdown impact. They are very vulnerable whenever there is disruption. But the small and medium are also severely impacted because they are closely connected with these micro-enterprises. Let me give our example. We are an SSI in human capital space but we support over 500 small and micro enterprises. If we are impacted severely, these micro enterprises also shut down. There is a close interdependency between the three sectors. There should be no attempt to sub-divide the MSME sector reliefs.

Recently, the Finance Minister made an announcement on payment of PF for MSMEs. But this comes with a restriction — only enterprises with less than 100 employees with 90% of these employees earning less than 15,000 per month. We don't know on what basis the three numbers – 100 employees, 90% employees and Rs 15,000 salary – came up. The idea is to deny benefits to SMEs who do not fulfil any of the three conditions. Such sub-division sabotages the MSME concept without realising that the small and medium actually support smaller and micro industries. Such announcements are of not much value.

Respect Them

Only entrepreneurs and enterprises can lift the economy from the gloom that persists today. These facts clearly establish this:

Fact 1: Employment of people is the only way for 450 million job-seekers in India to run their families with self-respect. Dole is closer to begging and anyway, a lot of it is denied due to corruption. Wage or self-earned income is the only dignified way of earning a living for our millions. This is possible only with the existence of MSMEs. We saw the impact during demonetisation when many MSMEs suffered and the people earning a living through them also suffered.

Fact 2: Government cannot carry out any social programme without enterprises. Currently, around 15% of the GDP is the government budget, which covers the salary of government employees and social programme budgets. Where does this money come from? Taxes – direct, indirect, municipal, property, etc. 90% of the budget comes from taxes. Who pays the taxes? Enterprises, people employed and supported by them. You kill the enterprises, you kill the entire tax system. This is evident in the GST and income tax collections, which are totally impaired due to the lockdown, except for essential goods and services.

Fact 3: When you want to revive the economy from the doldrums, someone has to take the risk to restart in a very unpredictable and unfavourable global and local environment. Who is that someone? The entrepreneur and the enterprises. Why do they do that? Because that is the only thing they know. They do a great national service.

Fact 4: Despite the key contribution of the entrepreneurs, they are the most vilified community. It is true that some members of the community are villains but to paint the whole community as villains is wrong. Behind every big crime of an entrepreneur, there is a politician or a bureaucrat. So if we vilify all the entrepreneurs, we should vilify all the bureaucrats and politicians as well.

Then we become a country of frauds and villains. A better approach is to increase penalties astronomically for fraud, increase the conviction rate and vilify the beneficiaries of the fraud. We must stop treating every entrepreneur as a potential cheat and treat them with respect.

Without reviving the MSMEs – micro, small and medium – we cannot revive the economy and uplift our poor.

Reviving MSMEs

This will happen only if the following four building blocks are supported on a war footing without caveats and without further sub-dividing the MSMEs:

Demand Pillar

- Lift all restrictions on movement of goods. Goods don't transmit. People do
- Reduce the GST on consumer goods because only consumption drives the economy

Manufacturing and Operations Pillar

- Allow MSMEs to restart manufacturing and service sectors with a caveat. They take safety precautions, including mask, gloves and decontamination procedures
- Pay each MSME a decontamination payout linked to number of employees and publish their claims to determine the fraud claims
- Allow employees to travel to work with social distancing and masks in place
- Allow migrant labour from Covid-cleared districts to move to specific work destinations under escort. Only male labourers should be allowed and the family must stay back for six months at least
- Create temporary labour camps in government lands with safety procedures

Finance Pillar

- Increase MSME working capital limit by 25% through a working capital term loan repayable in 3 years
- Reduce the interest to 4% per annum for the next one year through a subvention scheme with interest moratorium for one year
- Postpone all term loan repayments by one year. The extra interest due to moratorium of interest and the extension of principal to be recovered by additional 3 instalments at the end
- Allow MSMEs to file their GST returns GSTR 3B without payment of GST to acknowledge their liability
- Reduce GST delayed payment interest rate to 6%. This is the rate government pays for delayed I-T refunds
- All government departments must acknowledge their dues by accepting bills of exchange. There must be 30-day SLA (Service Level Agreement) for acknowledgement of dues and there must be penalties for delays
- If there are deficiencies of documentation for due claims, government must acknowledge bulk of the dues with a small retention money for completing the deficiencies
- Government must pay interest for delayed payment as per the MSME Development Act without victimising the claimants

Statutory Pillar

- All statutory compliances be extended by 12 months across the board, except for pollution, health and safety, without penalties
- No criminal or civil proceedings should be initiated in the next 6 months except for serious fraud and serious intentional default
- Reduce TDS rates across the board for this financial year because all MSMEs are likely to incur losses

(The author is Chairman, TMI Group – Talent Managers for Indians, WorldWide, and Member, National Board of MSME)

Telangana Today

T. Muralidharan

February 14, 2020

Treat industry well to build trust

The core of the trust deficit is the belief that the industry will cheat if not monitored closely

Finance Minister Nirmala Sitharaman recently stated that "the Centre is willing to do everything in its power to remove the trust deficit between industry and the government …Don't want a law that treats every business with suspicion". She said the government was working to remove criminal provisions that relate to penalty and jail terms in the Companies Act. But what is this 'trust deficit' and why does it arise?

Trust deficit arises when the government thinks the private sector is willing to do anything for maximising its profit, including cheating the public, government and banks. It has surfaced because of recent developments – rising credit defaults to banks and cases of fraud input credit claims in GST. Hence, the government has concluded that all entrepreneurs must be treated with suspicion. This has resulted in a spate of action by tax authorities which the industry calls 'tax terrorism'. The core of the trust deficit is the belief that the industry will cheat if it is not monitored closely

Why Trust Deficit

Trust deficit arises from three mistaken notions. The first: "I have seen one, I have seen them all". This is like saying that a few government officers were caught taking a bribe or giving a large contract fraudulently and so all government officers are suspect. "Painting all entrepreneurs with the same brush" is the first root cause of this trust deficit.

The second is "the solution to every deviation is to make a new rule to fix it". The logical solution to any deviance is to study the root cause and the prevalence of the deviance. If the prevalence is high, then a new rule is required. The government instead of dealing with fraud entrepreneurs with an iron hand, treats every entrepreneur with an iron hand.

The third is "if the business is not doing well, it is because of the mismanagement of the entrepreneur". A good example of this is the Supreme Court's intervention in the telecom industry resulting in a real possibility of Idea-Vodafone business failure. By no stretch of imagination can anyone claim that both these companies were mismanaged.

Painting Same

Why does the government paint every entrepreneur with the same brush? The answer is there is no scientific way to discriminate. For example, if you believe that an entrepreneur doing well today is a "good" entrepreneur, then you will be surprised when you discover that the success has come from shortcut methods or due to crony capitalism. So, there must be a scientifically reliable way to differentiate between entrepreneurs' methods of achieving success and their compliance record.

Mahatma Gandhi (Young India, Dec 1924) wrote: "Where conventional thought suggests that the ends justify the means, the importance of the means – how we do it – over the ends – what we want to happen– must be emphasised." We admire success irrespective of the means adopted. And when such a successful person defaults, we are surprised and the government officials are hurt that they have been taken for a ride. This excessive focus on success without studying the entrepreneurial methods has to change.

One way to do it is by measuring and categorising entrepreneurs by their compliance track record. For example, Section 149 of GST Act, 2017, has provided for compliance rating though it is not yet implemented. Compliance rating is the need of the hour and all government departments — IT, GST, PF, ESIC, Labour – must develop models for measurement and implement it. The lack of appreciation by government and society to the "risks" entrepreneurs take is the main reason why the industry is upset with the government. Let's start with the income tax department.

Systemic Issues

I have resolved many tax issues with the officers of the department. They have a great deal of understanding towards entrepreneurship challenges. So when I mean the I-T department, I mean the "system" and not the officers. Many times, officers have no choice but to toe the line out of system compulsions. I am, of course, excluding the corrupt officers because I don't want to make the same mistake of "painting everyone with the same brush".

The I-T department has built an "entitlement" mindset with regard to taxes. For example, it thinks that timely TDS and I-T remittance is their birthright and any infringement of this is a culpable offence on the part of the entrepreneur. This is reflected in the criminal and penalty provisions of the I-T Act.

Nirav Dama of Footcandles Film Private Ltd was found guilty of delaying payment of Rs 25 lakh TDS, deducted by the company in 2009-10. The court refuted the submission that the delay was due to financial losses faced by the company. "TDS is the government amount, it cannot be used for personal purposes by the accused. Therefore, the reason of financial crisis and loss to company of the accused is not sufficient reasonable cause for such failure," the Additional Chief Metropolitan Magistrate said.

Strange Partnership

The I-T department has never asked who has created the profit from which the tax arises. What is the nature of the relationship between the I-T department and the taxpayer? Is it a customer relationship where the department considers the taxpayer as its customer? No. It is a higher level of relationship – one of a unique partnership. It is a "one way" and "no investment" and "minority" partnership. "One way" because when you make profits you give the department a minority share of 25-30% profit share. When you make a loss, it's all yours. Of course, the I-T department is generous because it allows you to carry forward the losses! And this partnership comes without investing a rupee!

But this is valid only one way. If you delay TDS payment, you will have to pay 18% per annum interest, penalties and even have to go to jail. The same rule does not apply when the I-T department owes you refund ie, return your money collected by them, back to you.

First, the department (Central Processing Centre) needs six months to review your online submission and hence no interest is payable till the beginning of the next assessment year. Thereafter, the department will take its own time to refund and it may take 2-3 years. And the interest it will pay will be 6%, with no penalties, no punishments. Because at play is the most innovative technique for improving the department's revenues — delay refund. Pay 6% interest. The taxpayer will now default on the TDS; charge him 18% interest. "The more the department delays your refund, the more money it makes due to interest differential".

Building Bond

The irony is that the government's contribution is limited to giving permission to start a company. The entrepreneur has to put his own money, borrow from banks and juggle every minute to make genuine profits. The I-T department is a partner of the business because it gets profit share without investing a rupee. The majority partner's prime expectation from the minority partner is supportive help when the going is tough and not attack you. The trust deficit will only bridge when the government recognises that genuine entrepreneurs risk all to create wealth and employment and also pay taxes.

(The author is independent journalist and serial entrepreneur)

Telangana Today

T. Muralidharan

Friday, January 24, 2020

Reward genuine taxpayers

The current approach is only driving taxpayers up the wall along with the evaders

In India, there is no incentive for being honest. On the contrary, you pay a price. Let me explain. Last week, I was travelling in Gujarat. One of the hotels, a small one, was keen to take cash. Many of the establishments are not accepting credit cards though some of them were accepting Paytm. This is despite the huge government campaign to move to digital payments to minimise leakage of tax collections.

In a recent meeting, the Chairman of the State Bank of India in response to a question said that the trust of the bankers in the entrepreneurs was at an all-time low because of the high quantum of default by the corporates. But he also conceded that the genuine borrowers have to pay a high interest rate to cover up the cost of default. So, the genuine borrowers have a double disadvantage – they pay for defaults and also face a low trust quotient from bankers to end up with a huge amount of compliance. In fact, this double discrimination will drive any genuine borrower to become a fraud customer.

We are a country of 1.4 billion people with low propensity for compliance. In fact, you are frowned upon by your fellow countrymen if you insist on standing in a queue. If we can, we will prefer a cash bill without GST, we will break a queue, will ask our MLA for favours for "out of turn" allotment, will bribe the electricity meter man to reduce our electricity bills, "manage" a larger "illegal" water pipeline to our house for municipal water.

The Indian Constitution recognises citizens and persons. Persons are also called artificial persons, which includes companies, trusts, labour unions, foreign residents etc, in addition to citizens as defined in the Indian Citizenship Act 1955. The law-breaker mindset is prevalent amongst all, including citizens and persons (Hereafter persons to refer to both).

Demanding Compliance

Our policymakers and administrators will make a new law whenever an evasion happens — to cover the loophole. Every exception results in a new law. Since we will try to break the rule every time and hence over a period of time, we develop the most demanding compliance system in the world. But who will comply? The law abider.

Who are the two people who benefit from excessive compliance? First the evader – they will "manage the system" and get a competitive advantage. Many small traders, it is alleged, have collected and not paid their GST dues and got an additional margin. Second the taxman — because they will always find a small non-compliance and thus get the "the competitive advantage" in their negotiations with the taxpayer.

Penalising Taxpayers

The current narrative on tax terrorism is driving the genuine taxpayers up the wall along with the evaders. In fact, every time there is a pressure on targets, the genuine taxpayers get the attention first. Why? Because they are visible, will pay to the exchequer the entire money due without follow-up while the evaders will pay only partly – based on the deal with the taxman. If this trend continues, we will push all the genuine taxpayers, unwittingly, to become fraudsters.

We must change this now before it is too late. How do we identify law-abiding persons and genuine taxpayers? Genuine taxpayers are those who build systems to account for every tax liability – whether they can afford to pay or not. They will account for their dues to the department and end up accounting for huge interest when they delay payments due to cash flow issues. They will shun cash transactions. They open up their entire accounting system to tax audit or scrutiny. They do not coach their employees when tax auditors come. In fact, they welcome tax audit /scrutiny as an opportunity to learn and correct their systems. If they agree with audit/scrutiny findings, they will immediately submit and pay up. They will dispute audit comments strongly if they feel that they are right and will go all the way to the appellate level to prove their point. They work with expert consultants to get their systems right from the beginning. If there is a tax raid, they will cooperate and will not compromise.

THE GOVERNMENT SHOULD DO THREE THINGS TO RECOGNISE GENUINE TAXPAYERS

COMPLIANCE RATING FOR DIRECT AND INDIRECT TAXES

The government has a huge amount of data in each taxpayer's historical records and can easily assemble them if required to ascertain the characteristics mentioned above. For example, the audit history in the case of excise/service tax and income tax scrutiny history is a good place to start. The tax department team getting free access to taxpayer's accounting teams and computerised system is another indicator. The extent of cash payments is the third indicator. It is obvious that this compliance rating mechanism has to be transparent, objective and measurable. As a first step, GST compliance rating vide section 149 of the GST Act, 2017, must be announced in the Budget and rolled out immediately. Income Tax should commit to launching a similar compliance rating system in the next 12 months.

ANNOUNCE BENEFITS FOR HIGH COMPLIANCE PERSONS

The following benefits must be announced for high-rated genuine taxpayers:

- Give them a Gold card identity
- Amnesty for genuine mistakes – if the amendments are made pronto — no penalties
- Provide for separate portal access and faster resolution on tax issues
- Reduced delayed payment interest. Today the department charges 18% interest when the taxpayer delays. But when the department delays the refund, they pay interest at 6% (by Income Tax and 9% by GST). Interest for delayed payments should be at the same level both ways
- No arrest threats for delayed payments
- No property attachments for delayed payments
- Self-service model for concessional TDS
- Encourage all government departments, which run on taxpayer's money, to recognise the rating and set up preferential treatment for them

HAVE RATING REVIEW BASED ON A PUBLISHED SCORECARD

The department must publish the rating scorecard. Taxpayers can do a self-assessment against the rating scorecard. Every year, there should be a rating review for upgrades or downgrades. To retain the ratings, voluntary information-sharing with the tax department on a structured format is essential. For example, each taxpayer can voluntarily submit statistics of her/his adoption of payment through the digital mode. This will put pressure on taxpayers to retain or upgrade their ratings by being prompt and also help in receiving additional information voluntarily

Telangana Today

T. Muralidharan 27th Jun 2019

Reward compliance, reform GST

Policies that differentiate law-abiding citizens from black sheep must form the fulcrum of systemic improvement efforts

This story was narrated by a friend. He was frustrated by the 'every day' call he was getting from a government team to enquire about monthly GST payments and filing of GST returns. First, it used to be for the overdue return. Then they started following up on his 'not yet due' return, ie, the current month's return. While on the one side, he was pleasantly surprised that the revenue team has become pro-active, on the other, he realised that he was in trouble because he was behind in his GST payments by two months and so was unable to file GST returns. Of course, as provided in the GST Act, he must pay 18% interest for late filing.

Now comes the interesting part. Why was he not current?

Two reasons:

- The Service Tax Act, the precursor to GST, was amended in July 2011 whereby tax will be due based on invoicing. Earlier, it was due on collection. So, he was now supposed to fund GST, which is a huge burden for SMEs like his because customers don't pay on time.
- The bigger cause is the government. His I-T refund had grown to over Rs 2 crore and it was overdue for 3 years. He was unable to get through to the Central I-T Processing Unit at Bengaluru and the contact centre was giving the same mechanical reply 'refund is in process' for the last 12 months

Strange System

The pity is that the government has no penalty for delaying tax refund because they pay interest at a nominal 6% (while GST and even the I-T department charges 18% when I delay). This is money-making by the government – first don't pay on time and force your tax payers to delay your payment, and you make money due to interest differential.

Why should one suffer due to government inaction? The icing on the cake is – he gets threatening calls from tax authorities that if he does not pay, they will freeze his bank accounts!

There is a theory prevalent among senior government officers that most citizens will break the law if they can get away with it and that they are the only party standing between the crooks and public interest. This version is not entirely true. There are many citizens who will follow the rules partly because they are scared of the consequences and partly because of their parental upbringing. Clearly this number is dwindling. Why? Because these citizens see law-breakers are getting away due to connections and bribe, but they are penalised. We must reverse this trend immediately.

Punishing Honest

In the pre-GST era, State governments used to collect VAT and excise on which they had greater control due to past experience. Earlier, service tax was a Central revenue collected by the Centre and shared with the State government. Suddenly the GST era changed all that.

Service tax assessments have become very complicated due to State GST and Central GST. So the State government officials are unable to forecast the collections accurately and have decided to chase those they know are large tax payers, ie, compliant tax payers. So everyone is chasing the same set of people. Segregation and grading may help in chasing the people who are the real defaulters. All this call for corrective action.

Corrective Action

Segregate complaint citizens: The first step is to grade the tax payers or contributors to any government revenue based on their compliance track record and treat them differently based on their rating. Today, even honest government officials refuse to help the compliant because they are scared that they may be victimised later.

Compliance Rating must: We need compliance rating for I-T, GST, property tax and all revenue departments. Even banks and financial institutions must grade their customers on compliance record. Both Central and State governments must do it. But is it possible?

International Experience

The Organization for Economic Cooperation and Development (OECD) in 2004 categorised tax payer attitudes into disengaged, resistors, triers and supporters and devised a compliance strategy for each. (see infographics)

The same document suggests the following treatment strategies for tax administrations:

i. Compliance programmes need to provide a calibrated response to compliance behaviour — making it easy for those who want to comply and applying credible enforcement to those who don't

ii. Acting at all times with integrity and in a manner perceived to be fair and reasonable will encourage voluntary compliance

iii. Treatment needs to address the underlying drivers of compliance behaviour

iv. Enhanced capacity to influence taxpayer compliance behaviour often comes through strategic alliances and partnerships with other agencies, industry bodies and tax advisers

RIGHT TIME

Because of two reasons. This is the Budget time where policy announcements are made. Second, this is the second term of Narendra Modi, who wants to change the system fundamentally and has a clear mandate to do it.

Section 149 of the Central GST Act 2017 (No 12) has a special provision for rating tax compliance. This section, which is yet to be implemented, states:

1. Every registered person may be assigned a GST compliance rating score by the government based on his record of compliance with this Act.

2. Rating score may be determined on the basis of such parameters as may be prescribed

3. Rating score may be updated at periodic intervals and intimated to the registered person and also placed in the public domain in such manner as may be prescribed

MAKING IT BETTER

- Reduce delayed payment interest rate in GST and I-T to 12% per annum and increase tax refund interest rates to 12%. First rule of tax compliance is to have the same set of rules for both the tax payer and the government
- Delink filing of GST returns from paying GST taxes. Taxpayers, unable to pay their dues, can pay later with applicable interest. But timely filing will mean acknowledgement of dues and help in the tracking of GST transactions
- Set a timeline for implementing Section 149 of the Central GST Act
- Issue rules relating to the parameters of the rating in the Budget along with the benefits of high rating. The benefits should include incentives and reliefs for the compliant
- As referred in the OECD paper, the approach of tax authorities should be to 'make it easy' and 'assist to comply' for the top two categories of persons
- Implement compliance rating in I-T too
- Customers with high compliance rating must be given a long rope when they have genuine difficulties and the senior officials must be empowered to make exceptions for them. Government officials should be authorised by statute to differentiate taxpayers, based on the rating. This is critical to grant relief without fear of victimisation
- Enterprises with high compliance scores should be allowed to use this information to their advantage while seeking loans and bidding for contracts
- Citizens should be encouraged to carry their rating on their sleeves. Imagine that you are the most compliant citizen and you are invited to the Republic Day parade alongside the foreign dignitaries!

(The author is Member, National Board of MSME, Ministry of MSME, and Chair, FICCI Telangana State Council)

Telangana Today

T. Muralidharan

8th Jun 2019

Exempt skills training from GST

Treating it on a par with school or college education and not charging GST will attract youngsters

Prime Minister Narendra Modi while launching the 'Skill India Mission' on July 15, 2015, said, "If China is like a manufacturing factory of the world, India should become the 'human resource capital' of the world. That should be our target..." He also said that India has the potential to provide a workforce of 40-50 million to the world if the capabilities of the countrymen are honed through proper training in skills.

The Centre has announced a mission of skilling over 400 million people by 2022. Assuming an investment of Rs 15,000 per person, Rs 6 lakh crore would be required for it. The demand for skilled labour is estimated to be over 128 million between 2017 and 2022 in 34 sectors across industries, according to the Skill Development and Entrepreneurship Ministry's annual report for 2017-18. Over 18 million youth enter the workforce every year, including 6 million who exit agriculture in search of gainful employment. Clearly, skilling is a national priority.

There is a need to treat skill education on a par with school or college education for GST purposes. The rationale for concessional or nil GST for all forms of education is the same — it must be accessible and affordable to every citizen. Funding for skills training can be put into four categories based on who is paying – government, employer, student or through CSR.

1.Government-funded Skilling

The GoI has been funding skill training since 1948. But this grew rapidly after Modi's announcement of Skill India Mission. PM Kaushal Vikas Yojana was approved on March 20, 2015, with an outlay of Rs 1,500 crore. It was expanded to Rs 12,000 crore for 2016-2020, to impart skill training to one crore people over four years to be spent through the National Skill Development Corporation (NSDC). Apart from the Skills Ministry, 17 more Ministries were given budgets for vocational training. In the last five years, heavy investments have been made, and various programmes launched. The total sector outlay for 2017-18 was pegged at Rs 17,273 crore.

But the government-funded schemes had one fatal flaw. The two key stakeholders — student and employer — who employed the trainee had no skin in the game. The schemes' cumbersome checks and balances killed all incentives for innovation. The government cannot find the Rs 6-lakh-crore required to fund skilling. So these programmes cannot be sustained in the long-term and other funding models must be encouraged.

2. Employer-funded Skilling

Employers, especially in the Banking Financial Services and Insurance sector, skill and hire fresh graduates under their HR budgets. Since large employers hire mainly graduates, this funding model has been limited.

3. Student-paid Skilling

Millions of students in the IT industry pay for their own training. In fact, a large number of working professionals from the IT industry have to be upskilled in 'future skills' like Machine Learning, Artificial Intelligence and Data science in the next few years and these costs upwards of Rs 1 lakh per person. Many students will seek educational loans and, hence, this model will work only if the courses are aspirational and the salary after training is attractive to help them pay back the loans. But this is the best model in the long-term because the key beneficiary knows what is best for her/him.

4. CSR-funded Skilling

Companies must spend at least 2% of the net profit on CSR. CSR activities listed in Schedule VII of the Companies Act, 2013, include skill education and employment and livelihood support activities. The cumulative spending in the four years of FY15-18 has crossed Rs 50,000 crore, and includes Rs 34,000 crore by listed entities, according to a Crisil report. But the unspent amount is higher at Rs 60,000 crore during the same period underlining the need to improve the framework, says the report. This model has a lot of potential since the money available under CSR is bigger than government-funding

Sustainable Skill Model

In any country, school education and skilling are mostly funded by the government. This is because they are the foundation for human capital development. In a few countries like Singapore, the government even funds upskilling of working professionals. But our problem is the huge numbers to be skilled requiring Rs 6 lakh crore. How can India find this when we have to spend billions of dollars on defence, education, welfare and healthcare? So, any sustainable model for skill finding has to be a balance of all the four types of funding.

Current status of GST on skills

Government-funded programmes: Skill training undertaken by NSDC partners and implemented by NSDC under the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) skill training programme are exempted under GST. But there are quite a few restrictions. First, only training partners of NSDC are exempted. Second, training should be approved and implemented by NSDC. Further, even if the government issues skill contracts without payment of GST, the GST on the inputs cannot be set off and hence training partners end up absorbing the GST on inputs.

Employer-funded programmes: These attract 18% GST but input credit is available. GST can also be set off against GST charged by employers to their customers.

Student-funded programmes: Educational services provided by an educational institution – pre-school to higher education – are exempt from GST provided it leads to a qualification recognised by law or an authorised vocational course. Interestingly, a few key inputs needed by educational institutions like catering, security, housekeeping, entrance test administration are also exempt from GST so that the input credit is minimised — because the input credit cannot be set off against nil GST rate on the output.

Unfortunately, training programmes, camps, yoga programmes and other events are considered a commercial activity and are liable for GST. Hence, student-paid models for skilling will be treated as training and subjected to a GST levy of 18% unless the course is approved under the National Skills Qualification Framework and is certified.

CSR-funded programmes: CSR payments are considered as grants and as such are exempt from GST. CSR grants can be given to only non-profit organisations with a three-year track record. Since skill training must result in placements in the private sector, many of the skill training partners are 'for-profit' entities as per the design of NSDC and hence cannot receive CSR grants directly. So many of the CSR contracts are treated as works (service) contracts attracting 18% GST. As per the works contract notification, four CSR services are specially exempted from GST, but skill training is not one of the four. Hence CSR-funded projects end up with 18% GST even though nil rate is applicable.

What's Needed

Skills education needs huge funding and the government needs to encourage all the four modes of funding. Skill education should easily be accessible at the lowest cost. So skill training should be treated differently from commercial training and must be exempted from the 18% GST. This will help skill trainees from the lower middle-class who self-fund. CSR funding can save the 18% GST, which will enable more beneficiaries. Inputs for government-funded skilling must be exempted from GST as in the case of school education. The alternative is to reduce the GST to 5% for all the four categories of skill funding to make the compliance easy. This will also allow claim of Inputs GST Credit for government-sponsored schemes.

(The author is Chairman, TMI Group and Member, National Board of MSME, Ministry of MSME)

Telangana Today

T. Muralidharan

28th May 2019

Consider GST amnesty for the upright

Confusion in GST laws, frequent changes and cumbersome processes make this necessary for genuine players

The Goods and Services Tax (GST) is an indirect tax (or consumption tax) on the supply of goods and services. It is a comprehensive, multi-stage, destination-based tax–comprehensive as it has subsumed almost all indirect taxes, multi-staged as it is imposed at every step in the production process (but is refunded to all parties at the various stages of production except the final consumer) and destination-based as it is collected from point of consumption and not of origin like previous taxes.

The GST regime, which took effect on July 1, 2017, is a welcome change for the economy in the long-term. In the short-term, however, it has created huge challenges such as confusion in the GST laws and problems in the portal. The first filing of annual returns for July 2017 to March 2018 for audit and assessment is due on June 30, 2019.

There is a need to not penalise genuine players and use the first year audit as a learning opportunity for all. The government should consider amnesty for genuine players with only procedural defaults.

Why Amnesty

With just 10 months between the enactment and the effective date, there was little time for businesses to understand nuances. There is a GST Council, consisting of States' and Central representatives to decide the GST rates through consensus –a huge ask in our federal structure. Industries faced challenges ranging from understanding concepts, managing complex documentation, unclear treatment of several common transactions to high rates of certain goods and services.

A major area of concern is the functioning of the compliance portal. Initially, there were dozens of detailed forms to be filled every month. There were glitches in the software and its processing capacity, which resulted in frequent deferment of due dates of returns in the initial months.

The GST regime has three taxes – IGST, CGST and State GST. These have major implications for the service industry requiring them to set up multiple GST registrations in each State. There were five GST slabs with confusing exemptions. The input credit was expanded from direct inputs to all inputs.

The GST Council reduced the GST rate for some items like tractor parts from 28% to 18% and fertilizer from 12% to 5%. The initial cut was for enterprises with a turnover of Rs 20 lakh per year, which on being too low was revised to Rs 40 lakh per year. Many small enterprises didn't have adequate computerised systems to match the strict data needs of the GST regime. Moreover, the procedure was so complex that in just the first 10 months, there were 357 amendments and as of May 1, 2019, this has reached 627. An unprecedented state of flux has prevailed.

Genuine Vs Frauds

Audit in indirect taxes plays the same role as assessment in Income Tax. Deficiencies are pointed out in an audit report and assessees are given an opportunity to comply, failing which a chargesheet is filed.

So for the assessees, it is an opportunity to get clarity on government policies and correct their internal systems for compliance; for the GST department, it's a crucial procedure to verify the self- assessment done by the assessee, to identify the gaps in understanding the rules between the assessee and the department, to identify wilful defaulters to ensure their compliance and provide an opportunity to the assessees to correct their mistakes.

In any compliance audit, we come across three types of players:

• Mostly large companies that try to be 100%compliant because they account for everything in white money and want to be on the right side of law. They rarely default except when there is a genuine difference of interpretation.

• Many small and medium size companies that try to be 100% legal but are deficient on complying with procedures due to limited understanding. When procedures are cumbersome or changing continuously, they are lost and need guidance. These players account all their GST transactions in their books on time but miss out on their interpretations of input credit or supporting documents required to claim input credit. They have no intention to commit fraud. They correct their accounting and GST systems as soon as they realise their omissions from audit reports.

• The third are wilful defaulters. They do fraud transactions, create fictitious entries to align GST and Income Tax records to exploit the tax system. They are habitual defaulters and are on tax department radar. A review of past audit reports will easily identify them. The leadership of these companies attempt to cut deals with the department.

Dealing with Defaulters

The first two types are genuine long-term players. They would have accounted for the GST transaction in their accounting books and the input credit transactions would have been genuine.

Often the tax department treats the second and third type of players similarly, mostly in the following two ways. First make a deal — force the defaulter to admit default in part and let go of the balance default. The second approach is to threaten to treat them as habitual wilful defaulters with severe penalties.

The department heads, who come with IRS pedigree, many a time refuse to differentiate between wilful and non-wilful defaulters. It is a tragedy that the department supports wilful defaulters subject to making deals but does not help genuine players. So, the law abiding assessees pay the price while others get away. This must be corrected.

All the three types of players also delay their GST remittances due to the cash crunch. GST has to be paid immediately whereas the payment may be received over a period of 4-6months.

Helping Hand

• Treat defaults as genuine (unless proven otherwise) and hence defaulters as genuine

• Give opportunity to correct the mistakes without penalty

• Delayed payments and under payments are due to the state of flux. Waive interest on delayed payments or reduce to 6 % on a par with I-Trefund interest paid by government

• Provide 12-month instalment payment for delayed interest payment without penalties

• Based on the findings across multiple audits, identify common mistakes, issue circulars clarifying errors, initiate training for the assessee

(T Muralidharanis Chair and Sudhir VS is council member, FICCI Telangana)

Telangana Today

T. Muralidharan 15th Jan 2018

Questions that must not be ignored

It can't get more serious than four senior-most judges of Supreme Court publicly pointing to the survival of our democracy.

January 12, 2018, will go down as a historic day for Indian judiciary and Indian democracy. The four senior-most judges said many things and left many things unsaid. Their statements need to be read and understood in totality.

I have six key observations on the matter and let me raise them because, as the judges said, "it is a matter pertaining to democracy and hence it is of public interest."

1. Did these four judges err in going public?

Many have argued 'yes'. But I believe that they have not erred. Let's just imagine that these four judges were asked to decide on an important constitutional issue and all of them unanimously gave a judgement. Would we question their judgement? No. Because all of them have impeccable integrity, they are the senior-most and have applied their mind. Then, why are we questioning their judgement of going public?

I believe we are all scared that the institution that we hold sacred may not be as sacred. Already there are serious doubts about the integrity of other pillars of democracy — Legislature and Executive. Media, the fourth pillar media, is also being compromised. Judiciary is the last pillar standing. So, we don't want anyone to throw stones at it.

To me, when four senior-most judges of high integrity, one of whom is scheduled to be the next CJI, makes a judgment call to go public, I defer to their collective view. Instead of questioning their decision, we should probe what forced them to take this desperate step.

2. Why did they take this extreme step?

Many of us have said that this is unprecedented, unexpected and unwarranted. But don't these judges know what judicial impropriety is? Are we wiser than these four judges – remember, not one disgruntled judge but four judges of sagacity – believed it is a right step. Of course, they do know better and they also said that they are very much aware of the risk of going public. So why did they do it – risking retaliation by the CJI, executive, legal community and media? In my mind, the answer lies in what happened between the CJI and these four judges when they met on the same morning.

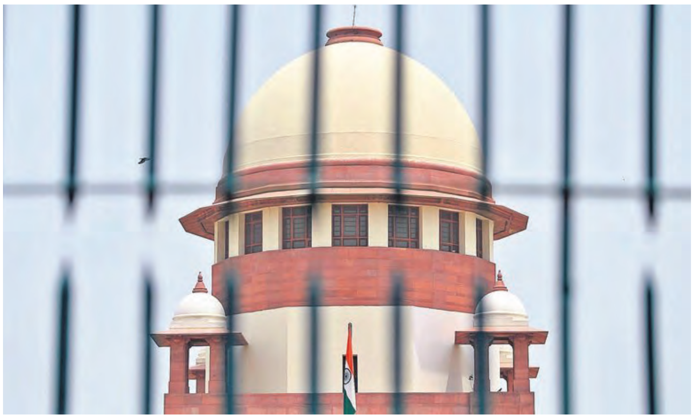
Imagine that you are the editor of a newspaper. In the morning, four senior-most journalists, who are highly respected, come to your office and point out that your editorial policy is biased and can impact the integrity of the publication. What would you do? Will you not recognise that it is a serious issue and promise to take corrective action and assuage their feelings?

But if you argue against them, then there can be only two reasons — either you are defensive because they are telling the truth or because you believe that your opinion is more important that the collective wisdom of the four. If you take the stand that you are the chief editor and claim that it is your right to overrule, what would your top journalists think? What conclusion would they reach? What action would they take? All these judges came to the same conclusion.

All these judges came to the same conclusion — when you are only the first among the equals, and when four equals tell you something is wrong and you deny it — that what they feared may be true.

3) Is this just an administrative matter?

Absolutely no. If it was so, why did Justice Chalameshwar use the words to the effect that democracy is in peril and that if they keep quiet, it will be akin to selling their souls? These are big words. Do remember that judges write judgements every day and words communicate their judgement. Every word in a judgement is interpreted. So, the judge, being the senior-most, is aware of the meaning.



More importantly, does it mean someone is selling his soul? If the answer is yes, we have a very huge issue on hand.

4. Is assignment of cases linked to judicial independence and integrity?

Let's understand the deep implications of selective case assignment. First, the CJI has some interest in the case and wants some outcome. Second, the judges to whom it should have been assigned in the normal course, in the opinion of CJI, are either prejudiced or based on facts, are likely to give a judgement against the outcome the CJI wants. Third, and this is the most serious issue, is the judges to whom the cases are being assigned are malleable and can give favourable judgments.

Are the four judges pointing their fingers at the CJI or are they pointing at the judges to whom the cases are selectively assigned by the CJI? The implications are ominous to say the least.

5. Is the CJI interested in a particular outcome?

We go to court to seek justice hoping that our version of the case will be heard in an unbiased manner and the judge does not have any preconceived notion nor is prejudiced in favour of an outcome. This hope is the foundation of any judicial institution.

Is there anyone who is putting pressure on the CJI? Is the Executive behind this? If the Executive is behind it, how can they put pressure on the CJI who is independent of the Executive?

6. Is there any political conspiracy?

My God. The D Raja story is in bad taste, it should not have been aired. Can you imagine that a politically defunct CPI can influence four senior-most judges to defame the CJI? The insinuation made in the story must be condemned.

Let's hope and pray

The first serious outcome of last Friday's disclosure is the fracture of the five-member collegium, now divided one to four. How will the judicial appointments happen now? How will the CJI and the four judges work together hereafter?

All these questions are far more serious than the issue of administrative overreach by the CJI and I pray that the advice of senior advocates like Soli Sorabjee to put these matters under the carpet is ignored.

I also fervently hope that all the above uncomfortable questions are misplaced and there are simple answers to what happened — either it is an ego tussle between the CJI and the four judges or the CJI made an error of judgement on the seriousness with which the four judges perceived his actions. We pray that all five of them will have the sagacity to sit down, arrive at an acceptable conclusion and issue a clarification that answers these questions.

Any superficial clarification will only reinforce the public opinion that 'all is not well' with our judicial system. It will completely negate the extraordinary decision of these four judges to go public.

In fact, in other systems, like in the BCCI case, the Supreme Court insisted on a complete overhaul of the system. Now, we have a strong case for a complete overhaul of the judicial system of appointment of judges, allocation of cases, review of judgements, court budgets, fast-track court and case pendency. The best outcome would be if this incident triggers the appointment of a judicial commission to judge the judges and usher in major reforms.

(The author is Chairman, TMI Group. www.tmigroup.in)

AN ARTICLE ON

UNDERSTANDING COVID WITH DATA ANALYTICS

Telangana Today

T. Muralidharan | Hyderabad | Page 06 | Monday, May 10, 2021

Make big decisions differently

The Prime Minister must rely on scientists and experts while making the big and non-routine decisions

Of late, there has been a lot of criticism about how the Modi government is managing the second Covid wave. Arundhati Roy wrote a powerful piece asking him to step aside, stating India needed a Government. A telling comment on her piece reflected many moderate Indian views. It said: “Despite being an ardent Modi supporter, I hold him and his team responsible for completely ignoring the humongous calamity of the second wave of Covid-19 and being driven by the hunger for power and diverting full focus on elections. However, we cannot ignore the amount of valuable legislation and reforms by him in the last seven years. Arundhati Roy and the international media are trying to tarnish Modi’s and India’s image”

OUR CURRENT FAILURES ARE DUE TO DECISION-MAKING BY THE KITCHEN CABINET OF THE PM AND THE PMO’S EXCESSIVE RELIANCE ON BUREAUCRATS

LET’S ACCEPT A FEW FACTS

- Modi is the most decisive PM in recent times
- By articulating his views publicly, he won a decisive majority
- His reforms in many areas were long overdue — GST, faceless assessments, labour code, tax code. There is also talk of total revamp of Criminal and Civil code along with revamp of judiciary and bureaucracy
- He talks to many people before deciding; has no personal and family agenda
- He drives his ministers and people to work hard like him

BIG DECISIONS

The biggest criticism of the PM is that he has centralised-decision making in the PMO and most of his Ministers, except the Home Minister and a few others, look up to the PMO for the decisions. The three big decisions he made — demonetisation, GST and now Covid management — have largely failed while many others like Jan Dhan accounts and direct cash transfer were effective. We know the saying “throwing the baby with the bathwater”. The problem is not the PM but the way he makes the big non-routine decisions.

Little published material exists on how decisions are made at the national level. Some of these decisions are routine — like allocation of a budget for a department or appointments to key positions. Some are non-routine but smaller like building a dam which will dislocate hundreds of people. Many BJP supporters believe, and I think the PM himself believes that making big decisions is his forte. How does the PM make these big non-routine decisions? What can we learn from these decisions?

CHARACTERISTICS OF BIG DECISIONS

Here, I would like to quote Barack Obama: “One of the first things I discovered as President of the United States was that no decision that landed on my desk had an easy, tidy answer. The black-and-white questions never made it to me — somebody else on my staff would have already answered them”. Hence, decisions at the PM-level are often difficult and have many sides to it. Some characteristics of big decisions are:

- Long-term consequences
- Dependency: Many things must fall in place for the outcome
- Complexity: There are many pros and cons
- Irreversibility: Very expensive or impossible to reverse
- Can go out of control during execution
- Scale is huge. Often has international consequences like on Covid

Non-routine decisions occur rarely. The past experience of the team in “other” decisions cannot be extrapolated here and this is the moot point here. Big non-routine decisions have to be recognised and made differently.

BETTER BIG DECISION-MAKING

• **Beware of Blind spots:** “But like every leader, I had my blind spots” says Obama. And adds “Our choices reflect and determine who we are”. This is the hardest part. The leader must recognise that his past determines his decision-making. This is the blind spot. For Modi, his education, past experiences as the CM of Gujarat, his past with RSS may colour his decision-making.

• **Look for a sound decision-making process based on the best information available at that time:** Obama explains, “in just a few short weeks on the job, I had already realised that because every tough decision came down to a probability, then certainty was an impossibility — which could leave me encumbered by the sense that I could never get it quite right. So rather than let myself get paralysed in the quest for a perfect solution or succumb to the temptation to just go with my gut every time, I created a sound decision-making process — one where I really listened to the experts, followed the facts, considered my goals and weighed all of that against my principles. Then, no matter how things turned out, I would at least know I had done my level best with the information in front of me”.

• Fallacy of past successful decisions: Even expert doctors are conditioned by the profile of the patients they see often and their decision-making can fall into a pattern and miss out exceptions. Most of the big decisions are like exception cases

• Really Listen: Obama says, “listen to others. For me, that meant asking everybody in a meeting what they thought about the problem at hand”.

• Listen to experts: The problem is that experts rarely agree in the first instance and may not be aware of ground realities. But this cannot be an excuse for relying on bureaucrats and even on self. The answer is in pushing a team of scientists and experts, including those who can speak for the victims of the decisions, to come to a consensus based on probabilities and working with the bureaucracy to implement it.

• Expect things to go wrong: Recognise that in big decisions, things can go out of control. What can go wrong must be listed and Plan B and even plan C must be developed. The same expert team must be tasked to develop and implement them.

• Track outcomes in transparent manner: Creating metrics in advance to track in real-time, looking for contra data seriously, creating failure scenarios, early warning systems for failure, designing data collection process and report systems in advance and how the expert teams must review the reports frequently to identify course corrections are essential. This must be done in a transparent manner and this is where our PMO has failed.

• Plan and accept reversal of the decision: All big non-routine decisions are based on probability and hence failure can occur. Be prepared for a reversal of decisions when contra data is revealed and do not allow ego, vested interests to conceal the contra data

• Change decision makers: Never allow the same team that makes small decisions to make big decisions because of extrapolation and patterning risks. We need scientific and expert decision making and trust their assessment and due diligence

Our current failures are due to decision-making by the kitchen cabinet of the PM and the PMO’s excessive reliance on bureaucrats. Now is the time to change. Scientists and experts must be tasked with non-routine and big decisions. And they must behave like true experts and not toe the official line.

(The author is Chairman, TMI Group. Views are personal)

Telangana Today

T. Muralidharan | Hyderabad | Page 06 | Saturday, May 01, 2021

An exclusive app for Covid patients

An integrated app where data is filled-in by patients themselves for their own reasons is needed urgently

Two decades ago, we recommended to a world leader in manufacturing baby nappies that they should launch a website for pregnant women, which will guide them through pregnancy - step by step - so that when the baby is born, the mother will trust and buy the company's nappies. The point is simple. A first-time mother is anxious about her health during pregnancy and she needs a lot of resources to read and understand to reduce her anxiety and she must connect with recent mothers to receive positive support during and after pregnancy. Today Pampers and many others operate exclusive sites for guiding pregnant women — step by step.

Similarly, the moment you are diagnosed Covid positive, your anxiety goes through the roof. Your physical contact with your immediate family is stopped instantly and you are quarantined. You start visualising worst case scenarios. You start visiting the web and, unfortunately, the media is full of doomsday scenarios and this aggravates anxiety.

On the other hand, there are a lot of complaints on realtime and reliable data on Covid patients. Government data is delayed and is often accused of under-reporting. We are unable to predict hospitalisation and need for oxygen beds and don't have a way of preventing unwanted patients from crowding hospitals. We desperately need a new approach to solve these problems.

Covid Apps are Piecemeal

WebMD is a repository on many health issues and I found many apps for tracing symptoms, tracking, monitoring BP, disease prevalence apps, telemedicine apps, etc. The government of India has apps like Aarogya Setu and CoWIN to contain the disease and track vaccination. Jotform in Feb launched a patient data app for health providers to collect and manage data from patients. Thus there are many apps to meet the objectives of the launching organisation, but all of them are piecemeal. There is none from the standpoint of the Covid patient.

Exclusive App

We need an app (I am calling this

as MYLIFE App) for the exclusive use of Covid patients.

Its objectives must be:

- Guide patient during the period of Covid illness with latest information and, more importantly, on action items
- Remind, push and cajole patient to follow recommended actions and record them
- Provide positive motivation during the quarantine period
- Connect all relevant, latest and authentic resources required during illness
- Capture key patient and treatment-related data for research and predictive analytics
- Centralise and get realtime data for policy analysis

Data that can be captured by the app for day-by-day action:

- Personal and demographic profile, including age, gender, income, immediate family, location, pin code, contact details, along with Aadhaar and contact validation
- Consulting doctor details
- Pre-existing co-morbidities
- Symptoms
- Vaccination details
- Details of Covid diagnostic reports
- Details of home treatment recommended
- Daily tracking data like oxygen levels, BP
- Actual treatment undertaken details
- Expenses details
- Hospitalisation details
- Any other details from standpoint of research and policymaking

Why would a patient fill it?

The patient will fill it only if it is of use during illness, and the data is used immediately for giving customised advice.

The patient will fill in data because the app will do the following:

- Give personalised regime of homecare - day by day based on co-morbidities
- Set reminders and cajole patient to follow the daily treatment regime like steam inhalation, oximeter measurement, and ensure realtime recording
- Automatically escalate to the doctor if the tracking parameters are out of line
- Provide latest authentic information on treatment to consulting doctor and patient
- Connect patient with key resources required during home isolation like drugs, home-delivered food, doctor and psychologist counsellor
- Connect home isolation patient with volunteers from recovered patients of similar profile for motivational support
- Guide caretakers and children of patients on what they should do
- Share top 10 positive recovery stories, every day
- Maintain a tracker of all key information and organise the same — for easy use of doctors during treatment
- Help patient track treatment expenses and make insurance claims
- Help patient identify "overcharges" on any account, including doctor fee, medicine and hospitalisation - by comparing with data submitted by other app users
- Guide on how to manage time during isolation, including appropriate exercises

In short, the app will be a patient's friend, guide, mentor, consultant and record keeper during the toughest period in one's life.

Policymaking and Research

What we lack now is realtime accurate data on Covid patients for policy-making and research.

This app data can be useful for:

- Active caseload monitoring – pin code wise, age group wise and other demographics wise to link hospitals and doctors to patient
- Prediction of hospitalisation and oxygen and critical care based on disease progression data of patients
- Maximising homecare treatment with right and timely inputs
- Getting valuable research data on disease correlations with co-morbidities and other factors during home isolation; on actual treatment in hospitals
- Communicating right and timely information with caregivers
- Will help in higher motivation and compliance of patients during home isolation and reduce hospitalisation

Can it be Done?

Yes. Because we have seen large-scale centralised apps like CoWIN and Aarogya Setu succeed. In addition, there are apps for food delivery and medicine tracking already in use. The lacuna is the lack of an integrated app where data is filled in by patients themselves — for their own reasons. It can be an independent source to validate data from government sources.

Role of Government

The government of India need not create this app. Large IT companies can create this app quickly. It can be managed by private entities like the FICCI. But the government must popularise this actively and use its data to cross-validate the data coming from other sources.

(The author is chairman of TMI Group and FICCI Telangana. Views are personal)

Telangana Today

T. Muralidharan Hyderabad, Page 2 | 7nd August, 2020

High recovery, low mortality in TS big plus

Predictive model of the pandemic projects State doing right things to tackle the crisis

'State has adequate infra'

> The great initiative of TS has been the collective efforts by various institutions to improve plasma donation
>
> — T Muralidharan
>
> FICCI ChairmaN, Telangana State Council

CITY BUREAU

Hyderabad

Telangana State is in the right direction and far better prepared than many other Indian States to have a good containment strategy when Covid-19 outbreak peaks in the country, said Chairman of Federation of Chambers of Commerce and Industry (FICCI) Telangana State Council, T Muralidharan.

During the release of the 'FICCI, ASCI, FTCCI Study in projections for Covid and recommendations for Treatment management in Telangana State' on Thursday, Muralidharan said that a slew of measures from the State government in addressing the ongoing pandemic is a clear indication that Telangana is already on the right track in its fight against Covid.

"The State government has always prioritised health sector and has shown a lot of commitment to fight the Covid pandemic. The government has also allocated additional Rs.100 crore for fighting the pandemic. More manpower is getting deployed across various State-run health care institutions in the State," he said. Conservative estimates through modelling has indicated that Telangana has adequate health infrastructure to meet a peak on Covid-19, which is expected in September 30, Muralidharan, who is also the Chairman of TMI Group, said.

"One of the greatest advantages of TS is its high recovery rates and low mortality. Another great initiative has been the collective efforts by various institutions in TS to improve plasma donation. I agree there are challenges but I am pretty sure with a bit of hard work, the State will successfully emerge on top of Covid-19," he said. Commenting on the need to have such predictions, Muralidharan said it was an important exercise aimed at helping the State government plan for the future.

"It is important for us to make predictions and access the present capacity and compare it with the predictions. Such an exercise helps us identify gaps in the infrastructure and gives us a direction on how to take action and address such gaps," he said.

The aim of the study was to have a short-term prediction up to September 30 because long terms predictions will be difficult and quite unpredictable.

‘Joint efforts must to flatten Covid curve’

Speakers at a webinar organised by Telangana Today pitch for multi-sectoral approach to improve present state of industries and influence behaviour of community

Media narrative created fear psychosis

T MURALIDHARAN
Chairman, FICCI Telangana State Council, and Chairman, TMI group

The narrative of the media on issues related to Covid-19 has ended up creating a fear psychosis among the public. Lockdowns are very expensive, and there are estimates that suggested that we lost Rs 18,000 crore per day during the lockdown while some even put the loss at close to Rs 30,000 crore. It impacted those at the bottom of the pyramid like street vendors, small traders and daily wagers. The key to understand Covid is to understand how the data is presented to us, which helps in determining the seriousness of the disease. A lot of people are talking about the death rate.

The mortality rate in highly advanced countries like France is 14 per cent. It is 14.45 per cent in Italy and 13.97 per cent in UK. The average world fatality rate is 4.9 per cent while in India it is 2.97 per cent. Compared to advanced countries, despite the poor hospital care and late detection due to low testing, the death rate in India is just 2.97 per cent. India bears 32 per cent global burden of respiratory diseases.

The global burden of disease study says that about 33.6 per cent could be attributed to ambient air pollution, 25.8 per cent to household air pollution and 21 per cent to smoking.

What could happen going forward?

All predictions show up to 300 million Indians will contract Covid-19

All predictions show up to
300
million Indians will contract Covid-19

- Most will recover without hospitalisation
- Real panic is of hospital bed availability
- How to change the media and public narrative from ‘avoid Covid at all costs’ to ‘living with Covid’?
- How do we improve post-Covid communications?

Daily fatalities due to respiratory diseases are 2, 834 per day, which is 6.5 times Covid-19 deaths. Despite such a huge burden, we did not shut down India for pollution.

TMI GROUP

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