NPA Monster to Expel Entrepreneurs and Disrupt Economy

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"India must revisit NPA norms for protecting productive assets as they generate public income and government revenue. All productive assets must be treated as national assets. India cannot afford permanent closures for temporary illnesses. Financial economy must supplement, not disrupt real economy."

The monster of NPA (Non-Performing Assets) is spreading sickness among many industries and infra-projects. Hence, private investment in these sectors is tumbling. Coercive actions will neither save the banks, nor the industries. Instead, there will be irrevocable damage to industrial assets disrupting the Indian economy. Prudent solution exists in modifying NPA norms, suited to Indian conditions, instead of following developed countries blindly. At best, we can look at the norms adopted by those countries during their developing phases. Business laws, policies and overall environment in India is not as conducive for implementing such stringent NPA norms. It is deterring entrepreneurial spirit, thus leading to damage in future investments and development journey of India.

It is the productive sector which generates public income. Infrastructure spending ensures growth to be competitive and sustainable. All productive assets must be treated as national assets irrespective of management control. Priority must be given to lending for productive and infrastructure assets instead of consumption spending. More so, interest rate for productive sectors must be lower or at par with consumption lending, whether private or public. Burden of cross subsidy on productive sector due to differential interest will make India non-competitive. Repayment terms must be flexible to match the needs. During adversity, loan restructuring for viable projects must be liberal. Applying NPA norms and abolishing productive assets is never a prudent option. Protecting capital assets must be the motto of a capital starved country like India.

Presently, if any borrower company fails in serving debt for three months, its account is declared a NPA ignoring genuine problems, whereas lenders convert entire loan as 'loss' in their books. There is no mechanism to diagnose the root cause to resolve problems and revive the companies. SICA Act is diluted and powers of BIFR are curtailed. Does there exist any business that never encounters loss? If not so, should we extend support at such time or allow closure?

Temporary default downgrades credit rating of the company and is reported to CIBIL. After that, the company is barred from raising new loans from banks and equity from capital market. Even restructuring of loan is not allowed so easily. As such, a temporary illness is converted to a permanent sickness, very simply, due to want treatment. Nobody is accountable for the consequential loss to the nation. Silo working culture prevails among all regulators, lenders and taxmen. Responsibility is simply shifted to promoters and coercive actions begin with full vigor. Their past contribution to the nation's prosperity is totally ignored. This is causing deep frustration among entrepreneurs.

It is strange. How can India afford terminating productive assets and entrepreneurs? They are the key drivers of growth and also the job creators. Financial economy must supplement and not dominate real economy. Any law, rule or regulation is not sacrosanct. It must be dynamic with a sole motto of developmental outcome. In the process of development, there may be some side effects, but India must not deviate from its goal of achieving development.

A simple analysis will reveal that India has not yet come out from its past legacy, which is not in favor of private investment. Anybody who dares encouraging private investment through a business friendly policy, is labeled as corrupt and is caught up in media trials. We must leave this legacy behind for true transformation of the nation. Public campaigns must be run about the important role of entrepreneurs in generating public income. Right up to district level administrators and regulators must be trained for knowing the economic needs of the nation.

Post 1991, private investments were partially liberalized by Shri Narsimha Rao and Shri Vajpayee's governments. Pro-business policy continued in UPA-1 government. As a result, India witnessed a glimpse of the golden era during first decade of the 21st century. Post 2010, investors' sentiments deteriorated due to re-entry of the past legacy. Over reaching of judicial commission and central audit added fuel to fire. Agitations by civil society made a final blow, disrupting economy. Legislators became mute spectators. Somehow, the media did not play positive role. Hence, growth began rewinding 2011 onwards.

In the year 2014-15, growth rewinding was paused with a hope of betterment. After a long recession, most of the industries particularly, the core sectors were bleeding. Several SME entrepreneurs invested sizeable risk capital and borrowed from banks expecting fast-forward movement of the economy. However, in the absence of adequate demand, they were caught in the wrong foot.

Inadequate raw materials, global slowdown, infrastructure deficit, high cost of energy and logistics aggravated their problems. High interest rates and tight credit policy multiplied their miseries. Several sectors are trapped in regulatory and policy hurdles. Taxmen activism has dampened animal spirit. This was the time for addressing these problems and transforming India. But alas! Past legacy is still dominating.

At this time, lenders should infuse liquidity and restructure debt as per commercial prudence. This will protect banks' money and save productive assets. But alas! Lenders did just the reverse. They became rulers instead of facilitators or business partners. Industrial credit is tightened, ignoring sickness and causalities. Probably, lenders are afraid of their personal accountability. It is an outcome of the hype created about NPA. Unfortunately in India, any pro-industry policy is viewed as pro-rich and as a synonym for corruption. Such view blocks true reforms for transforming India to a comparable position with peers.

It is well established that high industrial growth is essential for generating job opportunities and augmenting government revenue. Even banks can't survive on consumption lending. Looking back at the economic history of the western countries - Japan and China, industrial revolution in these countries pulled up their economies in to a high income bracket with better living and adequate infrastructure. India's short experience during 2002-2010 also confirms this. If so, why do we embrace industries from all corners? Providing band aids when the injuries are deep will not be sufficient. Now, the time has come for extending full support with political will, along with regulatory easement and monetary support.

In the event of delay, India will be losing entrepreneurs. Many of them are frustrated and are repenting investing their life time savings in industrial assets. They don't find any exit route. Despite genuine intentions, they are branded as defaulters and what not? A time will come, when no SME entrepreneur will invest in industrial assets. Most of them will become lenders, traders or job seekers, somewhat similar to the old economy. Gradual exodus of entrepreneurs in these years is indeed, not a good sign for our nation.

India must take a call, whether industries are only for personal gain of the promoters or for the public income (GDP) and public interest? If no public interest is envisaged, India must nationalize all industries. If yes, impediments must be removed, overcoming past legacy. A firm approach is needed for consistent and hassle free growth and development of the nation. ■