THE ASIAN AGE

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Generating jobs for youth must be top development agenda

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meanwhile

Generating jobs for youth must be the top agenda for development of India. For this, India must achieve unhindered double digit GDP growth for two decades. The GDP will grow through hassle-free operation of existing productive assets and thereafter adding new capacities.

Simultaneously, India must invest heavily in infrastructure assets. Failing which, growth will not be efficient and not sustainable. India must invest at 40 per cent of the GDP; that the government can't do alone. The country needs a team of entrepreneurs to invest in seed capital and manage assets. Capital market must support providing equity. Banks must provide low-cost debt in business-friendly manner.

Currently, financial sector regulations are deviating from these objectives; those need reforms giving emphasis on the developmental outcome. Mistrust must end; mutual faith and team spirit must prevail.

Raising equity from capital market has become too difficult. Number of public issues is abysmally low; that too, limited to mega corporate houses. Even the government is facing problem in disinvestment target. What to speak about small and medium corporate? Too many regulations for listed company have crafted barriers on the new entry. Capital market needs structural reforms; so that risk capital is easily available to economy, particularly to small and medium corporate. Normally, they depend upon debt route; which is no more business friendlier.

In India, borrowing rate for an average midsized company is about 13-14 per cent. Repayment tenure is 5-7 years, except for infra projects. Debt servicing outflow (interest and repayment) is exceeding 30 per cent per annum in most cases; that is too high compared to other countries. In developed countries, borrowing rate is below 5 per cent and repayment tenure is flexible, matching to need. Hence in India, temporary defaults in debt servicing are unavoidable. Such instances have increased with long recession. The problem is somewhat aggravated with capital intensive industries, real sector and infrastructure projects. Infusing liquidity and relaxing non-performing asset (NPA) norms are the emergent needs. Failing which, several casualties may happen and new investment will not mature. More so, banks will also land into problem; that will shake the Indian economy.

No doubt, regulations should prevail protecting the depositors. But it is equally important to protect borrowers; those have invested family's entire savings and mortgaged personal assets. Failing which, entrepreneurs will stop borrowing. Those will be converted to financial investor. Similar thoughts are already cultivating; that is never good for the growing economy. For growth, we need a team of entrepreneurs; those can invest risk capital and manage productive assets.

Every regulator is worried on rising NPAs in banks. But there is no worry for the industries; those are in deep stress. Instead of resolving the problems, responsibility is shifted to entrepreneurs and bankers. On top of it, policing action has commenced. An environment of mistrust is prevailing and genuine problems are being overlooked. This is indeed demotivating both bankers and entrepreneurs. With this, how can India develop?

As per current regulations, one day delay in debt servicing downgrades credit rating and blocks new loan. Three month's delay converts loan account to NPA and shuts all doors, making the unit sick. Fine prints of rule book pose many other problems. For SME, new rules are notified categorising delay of 30 and 60 days as SMA-1 and 2, somewhat similar to NPA. Temporary delays are causing permanent stress on productive sector. All such stiff norms are instigating frustration among entrepreneurs; that will be indeed fatal for the economy.

India adopted these norms from developed countries overlooking the developing phase of those countries. Why don't we adopt their interest rates and repayment tenures? Whether India's economic policies and business laws are comparable with those countries? Are we comparable on the global index of "Ease of doing Business" and "Global competitive index"?

The writer is an economist and author of Turn Around India