

# Role of Government in Digital Era

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# Governments

- Apart from the classical requirements of presence of government, in a digital economy sphere, government are much needed to protect the vulnerable segment of society “Consumers”
- Consumer data is the new asset that the private companies are looking for, procuring, purchasing, analyzing consumer behavior & psychology, and devising strategies
  - New product & service development
  - Enhancing existing customer experience
  - Developing new market segments

By many measures, the first two decades of the 21st century have been a time of opportunity and abundance — notwithstanding the 2008 global financial crisis. Our world has been transformed by the internet and smartphones. A billion people have come out of poverty. Employment relative to population in OECD countries is now above 70% — a record. And most economies are once again expanding at a steady if not spectacular clip.

For **consumers**, technology and globalization, along with deregulation, have substantially reduced the cost of many discretionary goods and services, from communications to clothing. Data costs have dropped almost 90%, as usage has surged tenfold.

# Consumers

# Consumer behavior

Decisions of all kinds are increasingly made on screens – and with that shift comes an often-ignored consequence: the design of the digital world can profoundly, and often unnoticeably, influence the quality of our decisions.

A review of recent research provides clear evidence that many organizations are currently undervaluing the power of digital design and should invest more in behaviorally informed designs

Examples:

Buying a health insurance online ~ Policy Bazaar

Buying a tourist package online ~ Make my Trip

Buying a rental accommodation ~ Magic Bricks

- Increased availability of digital footprints are calling for increased attention from government's perspective.
- Are we (India) ready with the Data Protection Mechanism??
- A privacy notice is an important way to help customers make informed decisions about the data companies are collecting and using data.

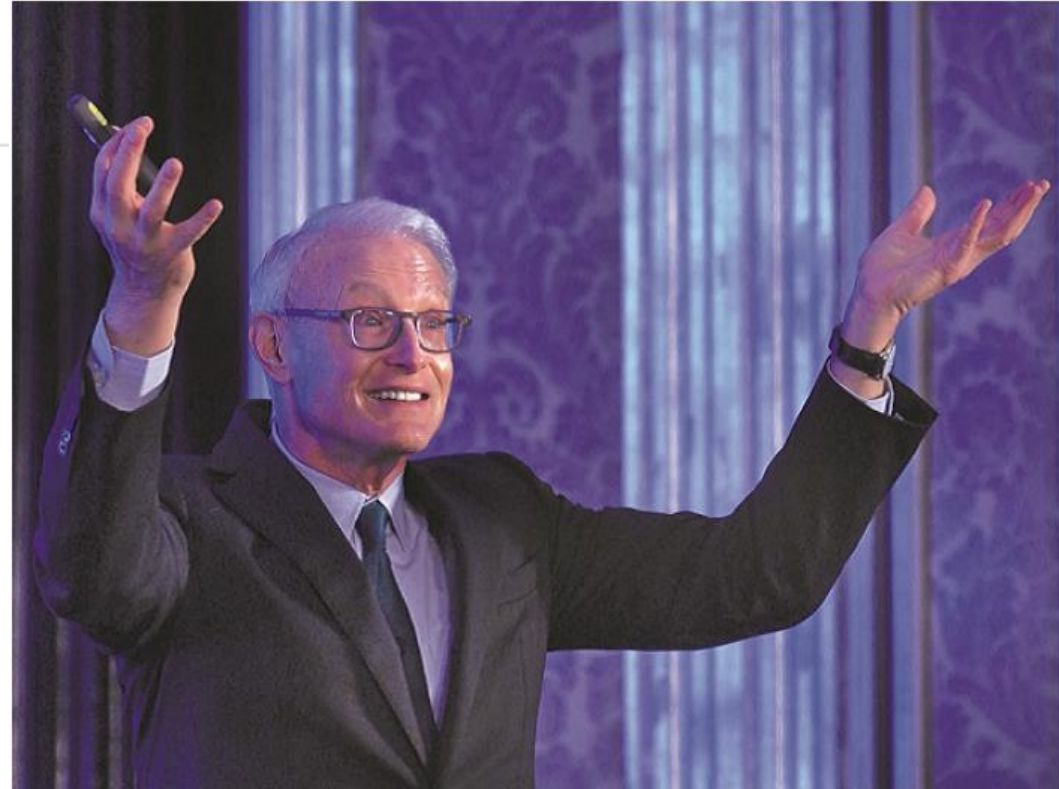
# Evolving relationships of government and business

- Business Environment

- Business involves the transformation of inputs ('factors of production') into outputs (goods & services) to meet particular needs or wants of people in society (consumers)
- Business environment is a conditioning and interactive situation that a business house confronts in its micro and macro operations.
- It may be internal, national, and international in orientation.
- It is a type of relation that a business firm establishes or has to negotiate with the whole complex of factors and forces that affect its business activities, strategies, and policies.

# Business environment in India is better but not good: Michael Porter

Porter says the societal needs we live in the middle of are business opportunities



*Michael Porter, Business strategist and economist*

# Business environment in India still relatively difficult compared with peers: Thomas Rookmaaker, Fitch Ratings

Post a Comment

Talking to *ET Now*, **Thomas Rookmaaker, Fitch Ratings**, says the business environment is not just a function of the *ease of doing business* indicator and they look at it from a broader perspective.

*Edited excerpts:*

We have seen a lot of structural reforms in the past – **GST**, demonetisation.. last week, there was the mega PSU bank recap booster shot. It is something all of you at rating agencies have been very worried about, the performance of the PSU banks -- the overhang, the black hole of the NPAs. After the mega recap plan, do you think **India** deserves an upgrade?

Yes, when we affirmed the ratings in May, we also indicated that reforms are important for



*We look at two issues in particular – the improvements in the business environment and also the fiscal position.*

# Thinking about the business environment

- Diversity of business – e.g. public and private
- Internal/external – the environment is both inside and outside organisations
- Complexity – e.g. political, economic, social, technological
- Spatial levels – from the local to the global

# Thinking about the business environment

- Dynamic environment – businesses must respond to constant change
- Interaction – businesses influence and are influenced by their environments
- Stakeholders – businesses have to take account of stakeholder interests and power
- Values – business in society involves values

# Characteristics of business environment

- Business environment comprises economic, social, political, technical, legal, cultural, and demographic environments.
- The effects of environmental factors are usually objective as they will have some quantitatively definite impact on the business world, and the direction of the impact is known on a priority basis. However, in some cases, it could be subjective also.
- The real effect of the changes in business environment depends on the nature of the business, the location of the business, the destination of products, and many other parameters.

# Micro economic environment

- Value Premises of Business Entity
- Internal Power Structure
- Command over resources
- Firm-level Capability

# Macro business environment

- Two macro business environments for a firm –
  - Domestic macroeconomic environment, and
    - Nature of the economic system
    - Economic growth and income distribution
    - Sociocultural and demographic environment
    - Institutional environment
    - Competitive environment
    - Macroeconomic stability
    - Political and legal environment
    - Economic policies
  - Global macroeconomic environment
    - Influence on trade and capital inflows
    - Positive windfall

# Determinants and Dimensions of Business Environment

- The micro-macro dimensions of the economy: the size of the economy and resources endowments
- The size of the market (place)
- Possibilities of production (inputs and outputs)
- Participants in productive activities, suppliers, and other stakeholders as well as consumers
- Risks and uncertainties of various types
- Government policies including fiscal and monetary policies
- Possibilities of future gains and benefits (prospects)

# Analysis Tools

## The Environment of Business

- Porter's 'Five Forces':
  - Current competitors
  - New entrants
  - Substitutes
  - Power of buyers
  - Power of sellers

# Environmental analysis

- The purpose of business decisions is to ensure that the organization operates successfully in its environment, e.g. to make a profit
- This requires understanding of the ‘surrounding conditions and circumstances’ and processes of change
- Businesses face uncertainty and have limited knowledge
- Environmental analysis helps to fill the knowledge gap and guide business decisions

# Environmental analysis (cont.)

- Analytical techniques:
  - PEST
  - SWOT
  - Alternative scenarios
  - Trend extrapolation
  - Expert opinion
  - Stakeholder analysis

# Paytm: Building a Payments Network

~ (Harvard Publishing)

- **PAYMENT THROUGH MOBILE ~ paytm**
- **By September 2017,**
  - Paytm, a mobile payments company that started in 2010, became India's largest mobile payments platform with over 142 million users and \$5 billion valuation.
  - Could Paytm become a \$100 billion company its founder Vijay Shekhar Sharma envisioned it be?
- **Serving this country ~ cashless economy**
  - Bring half a billion Indians to main stream economy.
- **By April 2017,**
  - Currently 215 million subscribers, 200 million transactions (every month)
    - Valuation – 6 Billion Dollars

- Establishment, Business Model, and its sustainability
- Competitive landscape
- Impact of Government Policy (Demonetization)
- Next transition to Payment Bank and way forward

Preferred Banks

I Cash Card

Oxigen Wallet

Mobikwik Wallet (Offers)

BHIM / UPI / USSD

Paytm Wallet (Offers)

Freecharge Wallet

SBI Buddy

Multiple Payment Service  
(Credit & Debit Cards/ Netbanking  
/Wallets / International Cards)

OLAMONEY Wallet

Airtel Money

Debit Card with PIN

Add as Preferred Bank

Net Banking

Bharat QR / Scan & Pay

Wallets/ Cash Cards

IRCTC Prepaid

IRCTC eWallet

Pay On Delivery / Paylater

Payment Gateway /Credit /Debit  
Cards

Preferred Banks

Credit & Debit cards / Net Banking / Wallet (Powered by Paytm)

BHIM / UPI / USSD

International cards (Powered by ATOM)

Multiple Payment Service  
(Credit & Debit Cards/ Netbanking  
/Wallets / International Cards)

Credit & Debit cards / Net Banking / Wallet (Powered by ITZ)

Debit Card with PIN

Credit & Debit cards / Net Banking / Wallet (Powered by PayU)

Net Banking

Credit & Debit cards / Net Banking / UPI (Powered by Razorpay)

Bharat QR / Scan & Pay

Add as Preferred Bank

Wallets/ Cash Cards

IRCTC Prepaid

IRCTC eWallet

Pay On Delivery / Paylater

Payment Gateway /Credit /Debit  
Cards

# Special Economic Zones in India: Public Purpose and Private Property (A)

- In 2005, the government of India enacted the Special Economic Zones (SEZ) Act in order to attract investment, generate export revenues, and create manufacturing jobs.
- However, several planned projects faced difficulties in acquiring land for setting up the SEZ.
- In December 2007, the government introduced a new piece of legislation, which proposed to extend the power of eminent domain to allow the government to acquire land for SEZs.
- Was this the right response to the land acquisition problems of private firms?
- Was the SEZ strategy the right one for India's economic growth?

# Questions

- (1) Should the Indian government change the law on eminent domain, so that they can acquire land for SEZs?
- (2) Is setting up SEZs the right development strategy for India?
- (3) What could Tata Motors have done in their Singur Project to mitigate the protests from farmers?
- (4) Under what circumstances and to what extent should the government intervene in market transactions?

- **Learning objective:**

- Discuss the right balance between protecting private property and ensuring national development, and the limits to government intervention in private markets.

- To understand the underpinnings of a private property system include protection against expropriation by the state as well as other individuals, and that violating such protections, even for a ‘public purpose’, can lead to an erosion if perceived security of property
- What are the limits to private property rights, and the circumstances under which governments should be allowed to acquire private property.

- The logic behind setting up Special Economic Zones as a development strategy, and the pre-conditions needed for this strategy to succeed.
- The factors driving political risk with regard to land acquisition in emerging markets, and the necessity of involving all stakeholders, not just the current government.

## Do you support changing the law on eminent domain?

YES	NO
Solves the hold-out problem	Why not use the market mechanism to solve this issue.. If price paid is high enough, there will be no holdout problem.
Will help to generate investment and growth	Implicit transfer of rents from agriculture to industry – when agriculture employs the majority of the workforce
Signals strong commitment to industrial sector	Risk of political and social instability if too many farmers protests
Get support from capitalists/ industrialists	Signals strong commitments to private property rights by refusing to intervene; good for FDI because it ensures that their property rights (real estate or intellectual property) will be protected in future as well.
Signals to foreign investors that govt. is effective at implementing announced policies (important to attract FDI).	

# Private Property

- Control
  - Protection against confiscation by others (guaranteed by state)
  - Protection against confiscation by the state (ensured by 'due process' clause in US constitution and fairly restrictive eminent domain laws in India)
- Alienability : right to sell to someone else
  - Ensured by commitment to free markets in land
  - Encourages people to invest in the land and improve its value
- Security in the Future
  - Guarantee that 'control' and 'alienability' will hold in future as well
  - Essential to stimulate investment, esp since land investments are long-term projects

Note ~ this proposed reform sends a negative signal regarding (3) , and hence indirectly regarding government's commitment to 'control' and 'alienability'

# Indian Context

- **Economic**
  - Majority of population (60%) still working in agriculture
  - Agriculture is less productive: employs 60% of workforce but generates only 21% of GDP
  - Young and growing population => growing labor force, need to find mass scale jobs
  - Export performance is not great (Trade deficit of 3% of GDP in most year)
  - Investment levels have exceeded 30% of GDP only in the last 4 years
  - FDI levels are low, compared to portfolio investment: in 2006 FDI inflows were \$7 bn, while portfolio investments were \$12 bn. India gets less than a third of China's FDI.

- **Political**
  - Democracy => agriculture has more votes than industry
  - Federal vs state policy making
  - Very restrictive labor and land regulations

# Should India set up Special Economic Zones

YES	NO
SEZ will attract new investment, from domestic and international sources.	Why not remove existing obstacles to industrial development? SEZ policy does not address key drawbacks like the speed of legal system or inefficient bankruptcy procedures, where India lags behind, or restrictive labor laws. This is therefore not going to make a big impact in attracting business.
Shift external investment towards more stable FDI rather than portfolio. FDI is good for getting new technology, business practices etc.	Loss of government revenue due to tax incentives, in the face of insignificant fiscal deficits.
India needs large scale manufacturing to create jobs, and move growing workforce away from agriculture	Inherently unfair: why should some people get better infrastructure/ faster approval than others?

# Cont.

YES	NO
Politically cheap way to get around restrictive policies	Benefits new entrants/ foreign investors at the cost of established/ domestic industrial incumbents => may cause a political backlash
Easier to provide good infrastructure in small 'zones of excellence' rather than on a large scale	135 out of 207 SEZs are in IT and electronics => likely to increase education related income differentials.
Like China, think of this as an experiment, and evaluate after a while	Most SEZs have been set up in the richer states of southern and western India => likely to further increase income gap between rich and poor states
	Likely to further increase inequality between rural and urban sectors => risk of political and social unrest
	SEZ implemented through expanded eminent domain may not work, since it signals govt. willingness to interfere with private property rights and market mechanism.

## Could Tata Motors have avoided the debacle in Singur?

YES	NO
Did not do due diligence on how govt had acquired the land.	Cannot be expected to know details of the process of govt land acquisition from 7000 farmers
Did not pay enough attention to social political context of acquiring prime agricultural land in a communist-ruled state	Tata was not wrong to believe official govt guarantees.
Did not reach out to local community on their own by offering jobs or shares	It is the govt which is at fault, and Tata should be compensated for their losses
Did not reach out to politicians from the opposition party as a means to blunt their willingness to make this a political issue	
Could have done better ex-post public relations than writing a critical letter in the newspapers	
Look poised to make similar mistake by taking Gujarat govt's offer at face value.	

- Land acquisition in India is currently governed by The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act 2013, came into force from Jan 1, 2014.

**Madhya Pradesh Housing & Infrastructure  
Development Board: affordable housing via public-  
private partnership mode**

# Questions

- (1) What are the advantages of EPC model and involvement of private sector in providing affordable housing?
- (2) Analyse the possible scenarios in terms of number of housing units MPHIDB can get if it decides to go for PPP. Identify the possible risks associated with the project and mitigation techniques of the proposed site.
- (3) What kind of product mix is feasible at the proposed site and why?
- (4) Should the MPHIDB go for the PPP mode or not? If yes, how should they go about structuring the PPP process and what should be the bidding parameter?

# What are the advantages of EPC model and involvement of private sector in providing affordable housing?

<b>Advantages of EPC model</b>	<b>Advantages of private sector</b>
<ul style="list-style-type: none"><li>• Govt. is able to better manage regulatory risks such as land acquisition, clearances from other govt. agencies.</li><li>• Govt. can raise funds at lower interest rates due to lower risk of default.</li><li>• Govt. being non-profit and welfare oriented can provide housing at affordable prices to underprivileged sections at subsidized rates.</li></ul>	<ul style="list-style-type: none"><li>• Creativity in designs</li><li>• Efficiency in project delivery via better management of labour and materials.</li><li>• Reduction in cost and time overruns due to lower bureaucratic hurdles, lower statutory compliance requirements.</li><li>• The above advantages can translate into lower per unit cost of housing.</li><li>• Private sector does not have to worry about awarding contracts to L1 bidder. They can go for best quality construction.</li><li>• Tight monitoring of projects and personal interest of the owners and managers.</li><li>• Lower corruption levels in awarding of contracts.</li></ul>

- Analyze the possible scenarios in terms of number of housing units MPHIDB can get if it decides to go for PPP. Identify the possible risks associated with the project and mitigation techniques of the proposed site.

- **Scenarios under Different Assumptions**

<b>Scenario - I</b>	<b>Valuation Based on Collector Guideline Rate for Undeveloped Agricultural Land</b>
<b>Scenario - II</b>	Valuation Based on Collector Guideline Rate for Developed Residential Land
<b>Scenario - III</b>	Valuation Based on Open Market Rate
<b>Scenario - IV</b>	Valuation Based on Collector guide Line Rate for Commercial Use
<b>Scenario - V</b>	Valuation Based on Forecasted Increase in Market Rate*

- Risk assessment and Mitigation Measures

Risks Identified	Possible Mitigation Measures
<p><b>Type of Product Mix</b>  <b>Villas and bungalows / High Rise Apartments</b></p>	<p>Project needs a balance of the varied product mix to reduce the capital expenditure and for gauging considerable interest from different customer segments.</p> <p>High rise apartments may ensure large number of units for financial viability but its demand is quite low</p>
<p><b>Availability of Trunk Infrastructure</b></p>	<p>Trunk infrastructure like water supply availability is absent.</p> <p>Availability of ground water resources should be ascertained in greater detail.</p>
<p><b>Last Mile Connectivity</b></p>	<p>Connectivity through public transport mechanism is absent; this is among the basic requirements for project execution.</p>
<p><b>Area to be reserved for construction of EWS/ LIG Units</b></p>	<p>Optimum percentage of land area for EWS &amp; LIG component should effectively be balanced with the remaining land for Private Developer.</p>
<p><b>Detailed specifications &amp; Regulatory Requirements</b></p>	<p>Detailed specifications of EWS &amp; LIG component and regulatory requirements such as guidelines on land use conversion, land title, and clear &amp; encumbrance free land possession should be explicitly provided to the Developer.</p>

- What kind of product mix is feasible at the proposed site and why?
  - Given the SWOT analysis and 'Reaction from Developers' and number of housing units obtained in various set of scenarios, a typical product mix at the developer's component should be 2BHK, 3BHK, or 4BHK row houses (Villas/ Bungalows). Flats can be ruled out in this location considering the issues mentioned below.

<p><b>Strengths:</b></p> <ul style="list-style-type: none"><li>• Area of the site</li><li>• Nature &amp; terrain of the land parcel (flat)</li><li>• Accessibility and proximity to few important landmarks</li></ul>	<p><b>Weakness:</b></p> <ul style="list-style-type: none"><li>• Ground water level and lack of availability of trunk infrastructure</li><li>• Currently outside city planning area</li><li>• Distantly located from the major economy centers of the city</li></ul>
<p><b>Opportunities:</b></p> <ul style="list-style-type: none"><li>• Upcoming residential location &amp; one of the preferred destinations for residential projects</li><li>• First mover advantage</li><li>• Affordability of land parcel</li></ul>	<p><b>Threats:</b></p> <ul style="list-style-type: none"><li>• Weak demand for similar projects in the vicinity</li><li>• Major residential projects are coming up in South Bhopal</li><li>• Lack of any proposed growth corridor in the near future</li><li>• Lack of water supply schemes in the future</li></ul>

- Should the MPHIDB go for the PPP mode or not? If yes, how should they go about structuring the PPP process and what should be the bidding parameter?
  - If Housing Board goes for the PPP mode, the essential element of success is the attractiveness of the project to the bidder. Before that, MPHIDB has to create sufficient level of interest among the private developers and set the right bidding parameter. In this case bidding parameter is decided by the PPP policy, 'premium per count'.



- Given the location constraints and basic infrastructure issues, there might be difficulties during the near period but later that will get resolved with the rise of housing demand and infrastructure development.
- Scenario-IV, valuation based on Collector guideline rate for commercial use, with an ongoing rate of 4650Rs/sqm seems to be a profitable deal for both MPIDB and private developer.
- Scenario-IV is giving a reasonable 12.6 % plus land for EWS and LIG units (617 number of EWS and LIG housing units) and remaining 87.4 % of land will be given to private developer, which can further be used for residential or commercial purposes.
- Depending on the private builder's valuation, MPHIDB will receive premium. If MPHIDB sets higher valuation for land, the project may not be attractive to the builders and it will not receive competitive bidding.
- If it turns out that 87.4% of land is attractive to them, it will be reflected in premium. MPHIDB would learn from this experiment and can fine tune its approach in future projects.

