Elephant Bonds – A 'Robin Hood strategy' to rescue India from economic crisis

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India is a nation, which on one hand tops the charts in counting of billionaires and on other hand ranks 49 on poverty index. According to experts, India's income inequality gap is set to widen – compliments to COVID pandemic, which has struck at the heart of human civilization and adversely affected the economies of all nations – India being no exception. The undisclosed wealth of many rich Indians stashed overseas add to the woes and contributes to widen the gap even further. As of 2012, India's Central Bureau of Investigation estimated that Indians have USD 500 billion of unaccounted funds in foreign havens (which is approx. 20% of India's GDP and is nearly double of the COVID stimulus package announced by the Government).

The **Elephant Bonds** may catalyze as a Robin Hood strategy to channelize the said unaccounted wealth of rich Indians for the benefit of poor and ensuring economic revival. Floating of such bonds would have dual benefit of bringing the undisclosed wealth back to the country and availability of low cost funds for economic needs -– here is how.

Quick look at the problems and effective practical solution

In today's times of COVID and followed lockdown, Government of India (GoI) has many concerns to address including workers migration between states, ever-increasing surge in the rate of job loss, broke down of supply chains resulting in shortage of essentials etc.

A **strong infrastructure** set-up may prove to be a viable solution to these problems. Nearly 2/3rd of country's population and 70% workforce reside in rural areas[1]. The main cause of migration between states is lack adequate infrastructure to enable economic activity in these rural areas. Investment in infrastructure projects will enable GoI to shift economic activity and industrial clusters to sparsely populated rural areas. Further, nearly all sectors, from transportation, logistics, energy, communications to hospitality and real estate rely on strong infrastructure set up. Infrastructure boost in these sectors is bound to solve the challenge of job loss and income generation, enable creation of demand and bring resultant financial stability.

To this end, the much celebrated "**5-i vision**" where one of the '**i**' denotes '**Investment in Infrastructure**' presented at G20 summit by GoI sounds promising. However, to realize this vision, GOI would have to take effective and focused steps for mitigating the challenge of deficit in infrastructure financing. As per Economic Survey 2017-18, India need about USD 4.5 trillion in next 25 years for infrastructure development. The large public sector banks of India do not have much experience of project financing and their asset-liability position may not support large-scale infrastructure exposures. The State Bank of India, India's largest bank, already warned[2] to abort infrastructure financing following February 12, 2018 circular of the Reserve Bank of India, which changed the norms for non-performing assets.

Where is the finance?

Elephant Bonds may prove to be an effective tool to bridge the infrastructure-financing gap. These bonds may be practically strategized as long-term infrastructure bonds with a set of focused investors (i.e. rich Indians who have their undisclosed wealth lying abroad). Take clue from China, which has already issued long-term special bonds worth 1.08 trillion yuan to support infrastructure projects. On similar lines, Indonesia has also issued Asia's first 50-year dollar bond to raise nearly USD 4.3 billion to fund the COVID relief efforts.

Salient features of Elephant Bonds of India

The salient features of Elephant Bonds may comprise of the following:

(i) 15% of the total disclosed amount (wealth) to be deducted at source as tax by the authorised dealer banks at the time of receipt of the foreign currency;

(ii) 35% of the disclosed amount (wealth) to be immediately credited to the declarant's account (in INR) and would be tax free;

(iii) Balance 50% of the disclosed amount (wealth) shall be compulsorily invested in Elephant Bonds;

(iv) The bonds should be issued as INR bonds with fixed coupon rate (not exceeding 6% per annum);

(v) Interest earned on the bonds to be taxable;

(vi) Long maturity period (for 20-25 years) depending on the average life of the underlying project and issued only for infrastructure projects;

(vii) Issued in dematerialized form and privately listed;

(viii) The bonds may be managed by a professional body which may be selected by way of a global auction process. The manager would be selected by giving 80% weightage to the track record (technical capability) of the applicant and 20% weightage to the cost proposed to manage the bonds (financial capability).

While in first place, Elephant Bonds projects as tax-relief scheme for the investor, the same should not become a means of tax evasion. This may be ensured by adjusting the coupon rate and maturity period in such a manner that, eventually, the total tax-free amount (i.e. 35% of the total disclosed wealth) which declarants receive on current date **plus** the net present value of amount invested (i.e. 50% of the total disclosed wealth)[3] **is not greater than** 60% of total disclosed amount. To an extent, the longer maturity period of 20-25 years, as proposed, is catering to this need, as longer the maturity period, the lesser is the NPV of the amount invested.

Safeguards

While framing a scheme for Elephant Bonds, GoI should take due safeguards to ensure that constitutional validity of such scheme is not challenged like in the case of Voluntary Income Disclosure Scheme (VIDS) launched in the year 1997 . Moreover, given that previous Governments have filed an affidavit in the Supreme Court, reflecting Government's commitment to not implement schemes like VIDS in future, the scheme should be designed in a manner to keep it outside the purview of the said affidavit.

To ensure maximum participation and avoid ambiguity, complete disclosure related to the bonds shall be made upfront. The scheme should also provide immunity from actions under all civil and criminal laws, including, foreign exchange law, black money and taxation laws. Further, confidentiality should be maintained regarding particulars of declarant with assurance of no further enquiry against the declarant. Depending upon the response received, the scheme may be extended to also include undisclosed domestic income and assets.

Conclusion

To summarize, the proposal for investment in Elephant Bonds may prove to be a win-win situation for both GoI as well as the declarants. The Government would benefit by having immediate access to the funds at lower cost for its infrastructure projects. The declarants, on the other hand, would benefit as only 15% of their income would be subject to tax , 35% amount directly credited to Indian bank account (which declarant would be free to use) with simultaneous earning in the form of fixed rate of return on the balance 50% of the amount invested.

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1 https://niti.gov.in/writereaddata/files/do cument_publication/Rural_Economy_DP.pdf

2 https://timesofindia.indiatimes.com/business/india-business/banks-will-have-to-abort-lending-to-infrastructure-sector-especially-power-companies-warns-sbi/articleshow/65626171.cms#:~:text=MUMBAI%3A%20The%20nation's%20largest%20lender, such%20loans%20have%20turned%20sour.

3 In present configuration of the Elephant Bonds, the net present value of INR 50 invested in the bonds would be 24.4 assuming discounting factor as 6.50% and coupon rate as 2.50%.

4 All India Federation of Tax Practitioners v. Union of India (228 ITR 68/ 93 Taxman 737)