Size doesn't matter

Scale, supposed to be a competitive advantage, is not an unalloyed gift as voices against dominance rise across industries

ACROSS THE BOARD

SHAILESH DOBHAL

For months now, small vendors under the aegis of one or the other local and/or national traders association had been complaining that they have been edged out by the big boys of the $55-60 billion Indian ecommerce world — Walmart-controlled Flipkart and Amazon — who prefer dealing with large vendors directly or indirectly controlled by them.

Millions of consumers were getting better price, quality and delivery from these big-brand platforms, so no one really thought anything would change despite the growing cacophony of the Davids. But just then, the government changed the rules for foreign-owned ecommerce firms and made life more difficult for Goliaths to the extent that they are seeking extension of the February 1 deadline just to ensure business continuity. Clearly, a suboptimal solution to a valid problem of ensuring a level-playing field.

Look around and you will find sundry voices warning against the risk of dominance growing across sectors. This newspaper reported a proposal by the country's aviation ministry to limit landing slots an airline can hold in congested airports such as Delhi and Mumbai ostensibly directed at market leader IndiGo at the behest of smaller rivals and new entrants. There are some who are already saying that telecom, now dominated by the troika — Reliance Jio, Vodafone Idea and Bharti Airtel — is past the welcome "creative destruction" phase and that its oligopolistic structure may rapidly move towards a duopoly, and could eventually become a monopoly!

Consumers were getting better price, quality and delivery from these big-brand platforms, so no one really thought anything would change despite the growing cacophony of the Davids

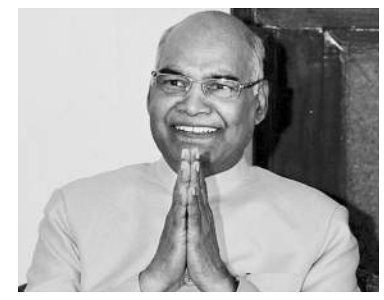
State after state is drawing up new rules to limit the number of cabs that big aggregators such as Uber and Ola can keep in their network, with Gujarat reportedly looking to cap it at 20,000 per aggregator. And though there has been unease across many states over growing dominance of hotel aggregators at the expense of small mom-and-pop hotels, Sikkim is the first where small hoteliers have stopped booking through big platforms such as Oyo and MakeMyTrip. And sooner or later these firms' scale will put their other issues such as worker rights vis-à-vis the laissez-faire of a gig economy under the spotlight here too much like the United Kingdom and Europe where Uber has been challenged for lack of "employment contracts".

Though still far from being dominant, people have started noticing the growing heft of organised retail. For instance, Kishore Biyani-led Future Group's hypermarket chain Big Bazaar accounts for almost a fifth of all modern trade fast-moving-consumer-goods sales. And Maruti Suzuki still sells one in every second car sold in the country. Big ad platforms such as Google and Facebook are at the centre of a media ire for creaming off almost three-fourths of all online advertising leaving crumbs for all others. Why, the emergence of Reliance Industries with a dominant telecom footprint into an integrated telecom-retail-ecommerce entity is raising fears of cross-industry dominance that may need a new regulation paradigm. Equally, some, such as Infosys CFO Mohandas Pai say that the entry of an Indian player such as Reliance will assuage fears of "data colonisation" in the ecommerce sector!

One may argue that the decade-old competition regulator, the Competition Commission of India (CCI), has cleared most of these big entities of any abuse of dominance, and in cases where the CCI did haul them up, they have been able to prove innocence in either appellate bodies or higher judiciary. So where is the case for hemming them in? Then, there is another view that holds that much has changed in the economy in the last 10-15 years when the Competition Act was enacted, and that many of its precepts may need complete overhaul. Definition of a "market" and "firm" for instance. The government's ongoing review of the competition law and the regulators ambit has not come a day early, given the rising complexities of the businesses and the economy and the need to herald genuine competition.

CHINESE WHISPERS

Breaking a rule



Rashtrapati Bhavan sources did not say whether it was the subject matter of the film or the presence of senior Bharatiya Janata Party leader L K Advani that made President Ram Nath Kovind (*pictured*) break one of the rules — that have come to mark his presidential tenure at Rashtrapati Bhavan — late last week. That rule is not spending more than an hour at film screenings and film award functions. In March 2018, this rule had caused controversy when artistes had protested against the President distributing National Film Awards only to a handful of the winners, and not everyone. On January 18, the Rashtrapati Bhavan held a screening of upcoming period drama *Manikarnika: The Queen of Jhansi*, with Kovind, his wife, the entire crew of the film, including actor Kangana Ranaut, watching it. Ashok Malik, press secretary to the President, confirmed that Kovind "was there for the entire length of the film". Advani, a self-confessed movie buff, also watched the film.

Brewing a change

A senior tax official's experience at a tea shop at Bhopal's Raja Bhoj Airport will have an unintended, yet welcome, consequence for travellers to follow — more affordable cups of their favourite beverages. Recently, when the chief income tax (I-T) commissioner of Madhya Pradesh and Chhattisgarh, R K Paliwal, went to buy a cup of tea at the shop, he was shocked to learn that a cup of tea was for ₹143 and a cup of coffee was for ₹171. The 1986-batch Indian Revenue Service (IRS) officer, which is known for his simplicity, found the rates unacceptably high. He is said to have asked the shop owner to stop "looting the public as many lower- and middle-class people use flights these days". Concerned officials of the airport have now decided to install eight vending machines to make tea and coffee more affordable for travellers.

New calendars

In a departure from the trend, the Government of India calendar for 2019 highlights the government's flagship schemes and the corresponding dates when they were launched instead of highlighting festivals and gazetted holidays. Government calendars usually mark holidays, festivals, among others. Some of the schemes featuring on the calendar are Beti Bachao, Beti Padhao, Startup India and Pradhan Mantri Fasal Bima Yojana. These calendars are usually distributed in ministries and to government officials.

How insolvency is reshaping steel

It's helping the industry consolidate with investors keen to acquire assets that were once sound but turned insolvent due to poor financial management

KUNAL BOSE

TAKE TWO

Why should a steel group become insolvent if in the first place it has not gone wrong in procuring the best available machinery? Due diligence of nearly 30 million tonne (mt) of insolvent steel capacity shows the units concerned were done in by either over-borrowing, escalation in costs and time overruns or the sharp retreat in steel prices during 2015-16. From Vedanta group Chairman Anil Agarwal to Tata Steel Managing Director TV Narendran, no one has complained about the quality of steel assets that found resolution through bidding under the National Company Law Tribunal (NCLT). In every instance whether resolution was found, or stuck in litigation, the interest of bidders is based on a number of considerations. Industry leaders such as Tata Steel and JSW Steel will not let go of an opportunity to stack up on capacity that resolution of insolvent steelmakers offers, for that is one sure way of maintaining, if not growing, their share of the domestic steel market.

For Lakshmi Mittal, India, which continues to record buoyant steel demand growth, has held a long-standing attraction. Though he has quite a few significant acquisition trophies to his credit in other parts of the world, success has eluded Mittal in his quest to build a mega greenfield steel mill in India. That leaves him with the option to set foot in this country by acquiring a steel asset up for auction.

ArcelorMittal, with crude steel production of 93.1 million tonnes (mt) in 2017 derived from multi-location mills, claims "relevant credentials and experience" to become a strategic partner for Essar Steel with capacity of 10 mt. As it happens, ArcelorMittal nows finds itself twisting in the wind. First, promoter Ruias have come forward to settle the entire Essar dues of ₹54,389 crore to take back control of the unit. And now State Bank of India has put its entire Essar loan on the block ready to accept a major haircut.

In the meantime, acquisition of the Electrosteel Steels (ES) 2.5 mt capacity mill at Bokaro in Jharkhand by Agarwal is seen as natural progression from his being a producer of iron ore to a maker of steel. Off to a modest start with likely annual production of 1.5 mt at ES, Agarwal has committed investment needed to ramp up output to 2.5 mt first and then build an additional capacity of 5 mt in adjoining areas. Even though he does not have the benefit of experience in managing steel assets, Agarwal is never short on ambition. As he ventures in steel, Agarwal is banking on the support he is getting from Jharkhand Chief Minister Raghubar Das who wants him to create one more Bokaro — the reference is to the SAIL's modernised and expanded 7 mt plant — in the state.

Steel mills are looking to acquire stressed assets to maintain their market share

The Indian steel sector is once again showing exuberance of the kind seen earlier this decade which, however, faded out as it did in the rest of the world in 2015, when prices fell to levels last seen during the depths of recession in early 2009. Atanu Mukherjee, president of consulting group M N Dastur, says: "Exuberant as they had been to build steel capacity during 2004-12, Indian steel promoters were spot on in most cases in buying the best machinery. This holds good for steel groups, which found themselves in the insolvency bay. But I will not say that production processes and operational structures were organised in the best possible manner in all cases. There were techno-economic reasons for some of these new assets not working well."

Mukherjee is referring to a melange of technologies and processes of iron and steelmaking at a single site. Consider Essar's 10 mt mill at Hazira in Gujarat where you find blast furnace, Midrex and Corex technologies operating side by side. The mill is a long distance away from operating at capacity. Moreover, the government's failure to make the promised gas supply on the basis of which Essar and two other groups built large gas-based sponge iron facilities painted them in a corner.

The 1 mt speciality long products mill at Jamshedpur of Usha Martin, which fell victim as much due to running up big debts as well as a split in the promoter family, has also been unable to normalise operations for having a combination of sponge iron units, electric arc furnaces and BF-BOF. Tata Steel subsidiary Tata Sponge, which is acquiring the Usha Martin steel business, will also have to seek resolution of regulatory issues concerning indiscretions of the erstwhile owner's operation of captive iron ore and coal mines.

Insolvency resolution is helping the cause of capacity consolidation, which happened in fits and starts in the past. Steel has always been a kind of pendulum industry, whose fortunes oscillate with that of the economy. Steel prices have been softening since November, so steelmakers stand a better chance to withstand price shocks through a process of capacity consolidation.

ON THE JOB

Hopes on Kumbh

MAHESH VYAS

Fifteen or twenty million devotees took a dip in the Ganga in Prayagraj on Makar Sankranti which was on Tuesday, January 15. Assuming that these are not kids, and also assuming that one-third of these were women and elders, the number implies that about 2.5 per cent of India's labour force was on the banks of the Ganga taking a holy dip.

Estimates suggest that 150 million would visit Prayagraj for the Kumbh *mela* over the 48 days from January 15 through March 4. This could imply that about a quarter of India's labour force would be visiting Prayagraj over about ten weeks.

Less than six months ago we witnessed 30 million *Kanwariyas* trek the Himalayas to fetch Ganga water for their local Shiv temples. Now, many more have descended into the plains to take a dip in the Ganga, ostensibly to wash their sins.

Estimates vary wildly from one million to 3 million on the number of people who attended the political rally in Kolkata on January 19.

It is amazing that millions of people move in different directions for different purposes in India all within a week. This is only possible if the unemployment rate is high.

Melas and rallies are an interesting barometer of unemployment. The larger the *melas* and rallies, the higher we expect the unemployment rate to be. We don't measure unemployment by counting the numbers that attend these *melas* and rallies or, the number of people who apply for a government job. But, their numbers do reflect the same problem — the problem of unemployment.

It is much easier to mobilise large numbers of people for religious or political events if the unemployment rate is high compared to times when unemployment is low.

If everyone had decent meaningful jobs, the rally *maidans* would be largely empty and, save for the *Akhara babas* and curious foreigners and the devout senior citizens, not very many would spare time for the Kumbh.

The unemployment rate has averaged 7.3 per cent in recent times. Urban unemployment has been rising sharply but, rural unemployment has been declining equally sharply.

The worrying factor is the sharp rise in the urban unemployment rate. This had risen to a two-year high of 7.6 per cent in December 2018. By January 20, this is estimated to have scaled much higher at 8.7 per cent. This is a rather sharp increase of over 100 basis points in just 20 days. In the past, we have not seen such a sharp increase in the unemployment rate in urban India even over a month. Such a sharp increase in 20 days is, therefore, a bit alarming.

While urban India seems to be seeing a sudden increase in unemployment during January, urban Uttar Pradesh has been witnessing high unemployment rate for several months now. Urban unemployment rate in the state was at a 25-month high at 11.9 per cent in December 2018. In the past six months, urban unemployment rate has averaged at 10 per cent.

The Kumbh *mela* itself could have provided substantial employment to locals in preparation for the *mela* and also to participate in the commerce associated with the event. It is therefore likely that the current 11.9 per cent unemployment rate could rise once the effect of the Kumbh wears out in March or April.

Unemployment in rural India has dropped — from 7.25 per cent in December 2018 to 6.5 per cent by January 20. Prices of agricultural commodities have risen in recent weeks and farmers are possibly making the best of the situation given that the rabi crop is not doing very well. Farmers hope to make the best of the rise in prices by maximising output from a not-very promising crop.

Uttar Pradesh saw a big jump in rural unemployment in December. The rate doubled from 5.4 per cent in November 2018 to 10.8 per cent in December. Farmlands around Prayagraj have been temporarily acquired to accommodate a temporary township. Farmers will be compensated for this. In the meanwhile, the farmers could be unemployed although there would be plenty of Kumbh *mela* associated employment opportunities.

Reports from the state suggest that the December rise in unemployment could be a temporary phenomenon caused by the end of the rabi sowing season.

Rabi sowing was up by 0.8 per cent in Uttar Pradesh till end-December.

Possibly rural unemployment in Uttar Pradesh could decline in the coming months. But, urban UP may continue to see high unemployment rates for some time.

Finally, hopefully, some part of the vast infrastructural arrangements made for the Kumbh *mela* would survive and help Prayagraj become a city of better facilities and this in turn may help in alleviating the state's unemployment problems.

The author is managing director and CEO, Centre for Monitoring Indian Economy P Ltd

LETTERS

A diet for tomorrow

This refers to "Scientists reveal ideal diet that can prevent 11 million deaths each year" (January 20).

Many researchers have pointed out the economic value of health benefits associated with more plant-based diets and this is comparable with, or exceeds, the value of the environmental benefits. The growing population of the world needs to reduce red meat consumption by more than 50 per cent, increase fruit and vegetable consumption by 25 per cent, and simply consume 15 per cent fewer calories. Globally, we're raising and slaughtering about 56 billion animals each year and that means we're killing 1,776 animals for food every second of every day. That doesn't even include fish and other seafood. The United Nations expects beef and pork consumption to double between 2000 and 2050 because of changing food habits and the growing population. Ruminant livestock, such as sheep and cows, release substantial amounts of methane, a greenhouse gas 25 times more powerful than carbon dioxide, according to Environmental Working Group, a Washington-based environmental research firm. The carbon footprint of eating four-ounce beef generates the same amount of greenhouse gas emissions as driving a car for six miles. There is no shortage of food and, according to the United States Department of Agriculture, there is no shortage of protein in vegetarian foods either. It may not be feasible to go vegetarian or vegan for the vast majority of meat eaters. Some suggest that we should go flexitarian and so the number of days of eating meat can be reduced thereby making a more contributory impact to our health and on our environment. It's well known that being a vegan or vegetarian has major health perks. It could also offer benefits for the environment.

H N Ramakrishna Bengaluru

Why the hurry?

In the last few days of the winter session of Parliament recently, many Bills were passed, especially by the Lok Sabha. These included important Bills such as the one giving 10 per cent reservation to the economically poor among the general category and the Citizenship Amendment Bill. It is true that the major role of Parliament is to make laws for the benefit of the people and the country. However, what is extremely disturbing is that, in most cases, the ruling dispensation did not allow the public, in general, to debate, and discuss these Bills before these were passed. Hurriedly passed Bills, almost always, have suffered collateral damage in the long run. Most importantly, participation of citizens is an integral part of a democracy. Alas, the government of the day, continues to neglect this primary pillar of democratic participation.

A Bhuyan Nagaon

A blot on the Congress

The drunken brawl between two Congress MLAs at a resort in Bidadi represents a new low in Karnataka politics. Legislator Anand Singh who spilled the beans that his party colleagues in the Karnataka Assembly were planning to jump ship to the Bharatiya Janata Party, went berserk when he was allegedly attacked with a liquor bottle by fellow MLA J N Ganesh. The incident is a blot on the Congress party which is already on a sticky wicket and the party would do well to severely reprimand the erring MLAs.

N J Ravi Bengaluru

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HAMBONE

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Retrospective changes

Changing policy midstream turns off investors

Government attempts to micro-manage the economy are always vulnerable to capture by special interests, and may well turn counter-productive. This is especially true when there is no consistency in policy across time — which is sadly not uncommon in India. Consider the efforts made of late to indigenise the production of electronic items that are commonly imported — particularly mobile phones. The phased manufacturing programme (PMP) of the government wanted to force mobile phone companies to start local manufacturing of components any time in the coming financial year of 2019-20. However, this has now been changed by an order issued earlier this month, which said that mobile phone companies should comply by February of this year, or face an import duty of at least 10 per cent. Even companies that had sought to comply with the earlier PMP order, such as Samsung, are now reportedly thinking of scaling back manufacturing in India because of the change in policy.

Midstream changes in policy are not only unfair, they reduce investment in the long run. India is already seen as a risky location for investment precisely because of a lack of policy clarity and because there seems to be no appeal against arbitrary government moves of this sort. Samsung may be willing to give up on whatever investments it has already made because of this unexpected policy change; other manufacturers will learn from the experience and avoid trusting the Indian government because of fears that they too might lose their investments because of a policy change that is made once the money has already been spent. Nor is this the only sector in which the government has been guilty of midstream policy changes. There is also the high-profile e-commerce sector, which is already subject to unnecessary and crippling government regulation. Even that was tightened recently, when the government said this month that online marketplaces — such as amazon.in — which are funded by foreign direct investment cannot be more than just "platforms" connecting buyers and sellers. In particular, they cannot aid with inventory management.

Restricting foreign investment to just marketplaces was in any case overly harsh, reducing the benefits to consumers and suppliers. Now the government has, midstream, made the rules even harsher. It has also forbidden exclusive merchandising deals — in other words, Amazon India, for example, cannot tie up to exclusively sell a particular smartphone. This had enabled cheap and promotional roll-outs, which benefited consumers. Here, again, the government waited for big investments to come in before changing the rules — changing the return on capital and ensuring thereby that investors feel cheated. Walmart has just put billions in Flipkart, for example. Only days after the government's policy change, Reliance Retail and Jio announced they would roll out an e-commerce venture. In order to insulate itself from charges of favouritism, the government should not only rethink its ham-handed attempts at protection, which will always be seen as favouring big business, but also seek to avoid changing rules in this unfair and retrospective manner.

Losing credibility

Poor data hurts policymaking and accountability

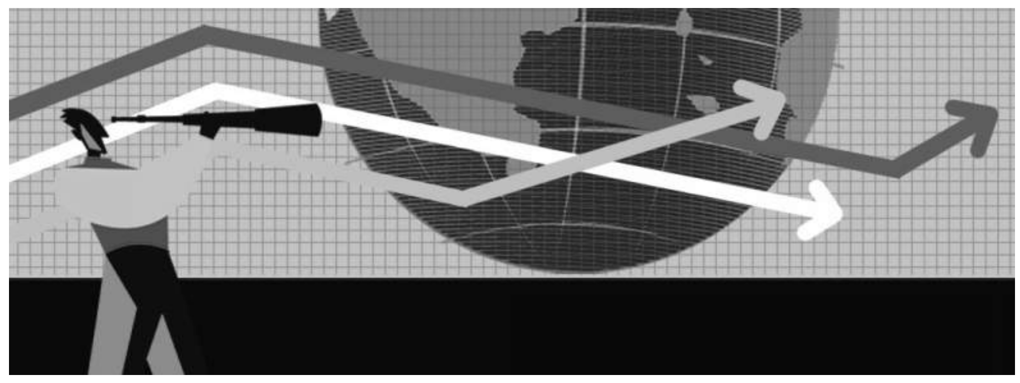
There are many ways in which the Indian state has failed to develop sufficient capacity, but historically the gathering and availability of data has not been among them. Partly because of the colonial legacy and partly because of the power held by central planners in the early years after Independence, Indian economic data has largely been timely and reliable. This has added authority to government policymaking and directives and has also ensured a degree of accountability. However, in recent years, this is no longer completely true. Much has already been written, for example, about the back series computed for gross domestic product (GDP) under the new method — the numbers neither pass a basic smell test of believability nor are they theoretically robust, given the questions around their use of deflators.

It is unfortunate that some of the most politically sensitive issues at the moment are also being discussed without there being good-quality data available to inform the conversation. What is worse is that these data releases seem to have been held up, delayed, or cancelled. Consider, for example, the matter of foreign direct investment (FDI) in India. The government has often held up robust FDI numbers as a sign of the strength of the Indian economy. Yet, the Department for Industrial Promotion and Policy, or DIPP, has not, in fact, published data about FDI since August 2018, when it provided figures from the quarter beginning in April. This data from DIPP was previously made available on a quarterly basis. However, FDI had been slowing for some time. As a consequence, questions will be inevitably asked if the data is being held back because of a decrease in FDI flows, which does not reflect well on the government. This is not a good development.

There are concerns about the quality of the data available as well. For instance, a major point of debate and discussion at present is the question of unemployment and job creation. The Opposition has accused the government of not living up to the promises regarding job creation that were made during its successful general election campaign in 2014. The government, meanwhile, has pointed to several indicators — including the number of provident fund accounts — as a sign that employment is, in fact, growing. Ideally, this matter should be settled one way or another through the availability of good-quality, high-frequency survey data about both formal and informal employment. But, as a panel led by former chief statistician T C A Anant has found, quarterly enterprises surveys on jobs provided by the Labour Bureau suffer from poor coverage and quality. It has instead suggested that such surveys be scrapped and replaced by what would be a first-of-its-kind Employment Index, formed on the lines of the Index of Industrial Production (IIP) and the Consumer Price Index (CPI).

Several Union ministers and even the prime minister have complained about the paucity of good data about issues such as unemployment. As such, the government should renew its efforts not only towards alleviating the data drought where it exists but also boosting the quality of economic data. Otherwise, the current slide on the quality of data will also undermine policymaking and accountability.

ILLUSTRATION BY AJAY MOHANTY



Long-term global economic outlook

India is set to benefit from its demographic dividend, whereas China is expected to slow tremendously

Capital Economics, a highly respected and independent economic research consultancy, recently released their forecasts for the global economy for the coming 20 years. They provided forecasts for the global economy as a whole, specific EM (emerging markets) regions as well as more granular country specific details, for 10 major countries including India.

Their forecasts are quite interesting, as in a major break from the current sell-side consensus, they do not believe that the future belongs to China. They are on the contrary more bullish than most on the US and India, both for different reasons.

Some of the interesting highlights of their study are as follows:

■ They believe that over the coming 20 years (till 2040), World GDP will average about 3 per cent growth, compared to 3.5 per cent over the last 20 years. The world economy will expand by 80 per cent at PPP (purchasing power parity) exchange rates during this period. The GDP of the advanced countries of the West will increase by about 50 per cent, while the EM cohort will see a 100 per cent increase. EM countries will account for about 70 per cent of the world economy by 2040, compared to 60 per cent today and account for nearly 80 per cent of global growth.

AKASH PRAKASH

■ While the EM cohort as a whole will do fine and gain share of the global economy, there will be major divergences in economic performance among individual countries. China will be the largest EM economy, but will slow tremendously over the coming 20 years. According to Capital Economics, China faces severe structural challenges, with its working age population declining by 12 per cent in the coming 20 years and slowing capital accumulation. The country already has more public capital stock per capita than any other economy in history at this stage of its development. With seemingly limited appetite for structural reforms, which could improve capital allocation, reduce the role of the government, and hence boost productivity, the authors predict that China's sustainable growth rate will drop to near two per cent in the forecast horizon from current levels of near 6 per cent. With a declining working age population and slow productivity improvements, slowing growth is just simple maths. The study projects that China's share of global GDP will actually drop from 19 per cent today to 17 per cent by 2040 (on PPP basis). Again this goes counter to all conventional wisdom. Most reports talk of this being the Chinese century. While China's GDP per capita will increase by 70 per cent in the coming 20 years, this is a far cry from the near five-fold jump in this metric in the last 20 years, as China dominated global growth. The study projects that for China, its GDP per capita will level out at about one third of US levels, from where the convergence will slow dramatically.

On India, the paper is far more bullish. The authors expect India to deliver growth of 5-7 per cent for the next 20 years, making it the fastest growing major economy by a large margin. On these projections, the Indian economy will triple in size, and its share of global GDP will increase from 8 per cent today to 15 per cent (PPP basis). Even on market exchange rates, India will be the third largest economy in the world. India's GDP per capita will move from 10 per cent of US levels to almost 25 per cent, the biggest increase among major EM economies.

The bullish view on India's growth is based on the surge in working age population (India will cross China in size of labour force by 2025) and an improving female labour force participation. They are also bullish on the outlook for productivity, given the scope for catch-up and convergence, as India deepens its capital stock and moves workers into higher productivity jobs. Slow and steady structural reforms, already under way, will improve capital allocation and economy wide productivity. The report marks out India as the star performer among all EM countries.

■ The report is also very positive on the US. The authors expect productivity to accelerate across all the advanced economies, but with the US leading the pack. New technologies like AI, robotics and autonomy are expected to have significant impact on labour productivity across the economy as these technologies move towards mass adoption. The US will lead the way given how competitive and open its product and labour markets are. The pickup in productivity growth will more than compensate for the ageing population and retirement in the baby boomer generation.

Since 2005 productivity growth in the US has slowed to just about 1 per cent, compared to 2.3 per cent during the mid 1990s. In the report, the authors project that US productivity will once again accelerate, rising slowly to 2 per cent by 2030.

The surge in productivity, will lead to an acceleration in GDP growth for the US from the 1.5 per cent we have seen in the past decade to 2.6 per cent in the mid 2030s. Almost no one is expecting a growth revival of this magnitude in the US. Capital Economics and their focus on an expected productivity surge linked to mass adoption of new technologies is out on a limb here. They are actually projecting that the US will overtake China in terms of growth rates by the mid-2030s, a controversial view to put it mildly.

If Capital Economics are right in their forecasts, then not only will the US maintain its position as the most wealthy major economy in terms of GDP per capita, but actually increase the gap with other advanced countries.

Among the eurozone economies, the authors are very negative on Italy. It has the worst demographic profile in Europe and a poor track record on productivity. Its economy will stagnate, and will remain a stress fracture for the whole eurozone. While France and Germany will have decent productivity growth, their demographics will remain a huge headwind.

When one goes through reports like this, the long term bull case for India seems intuitively obvious. The country is riding on demographics, productivity catch-up and the quality of entrepreneurship and aspiration among the young. Structural reforms, while slow, have been put in place. Economic growth and corporate earnings should accelerate. It may be helpful to keep all this in mind as we go through the next few months. It is likely to be an ugly election. Many statements of economic intent will be made by all political parties. There is a risk of some very populist sound bites from across the political spectrum. Like always, investors need to focus on actions and not words. All investors need to be anchored in the long term potential of the country and not get swayed by the sound and fury of the coming election sloganeering.

The writer is with Amansa Capital

The revolution will not be subsidised

"An energy revolution is under way. Globally, investments in renewables-based electricity capacity have beaten fossil fuels consecutively for the past two years. In India, too, renewables have dominated power sector investments since 2015. By some projections, global clean energy could grow by 1 terrawatt, or 46 per cent, during 2018-2023. What India is attempting in seven to 10 years took Germany more than two decades to achieve. This is nothing short of revolutionary. Like freedom, this energy transition will not come for free. It will need large sums of strategic investment.

As in any revolution, there are counter-revolutionaries. The first is structural inertia in energy systems. Electricity is only 20 per cent of global energy supply. Solid fuels in manufacturing, liquid fuels for transport, and gaseous fuels for cooking and heating buildings all rely (to the largest extent) on fossil fuels. Even with renewables winning at the margin in electricity, fossil fuels have stubbornly held on. Ten years ago, fossil fuels accounted for 81 per cent of global energy. Their share remains the same today. A structural shift in energy systems will happen with growing electrification and by substituting cleaner energy sources (biofuels, for instance) in non-electric energy applications. Capital investment has to be nudged away from locking into fossil fuels.

INFLEXION POINTS

ARUNABHA GHOSH & KANIKA CHAWLA

The second counter-revolutionary is embedded bias. Emerging economies are not getting their due share of capital. The sun shines the most between the tropics, yet the bulk of renewable energy investment continues to flow into temperate regions. Advanced economies are circulating capital amongst themselves. Institutional investors in OECD countries, alone, manage up to $84 trillion in assets, of which only 1 per cent is invested in infrastructure — and that too in developed countries.

The distortion can be attributed to the perception of risk. Institutional investors list a litany of risks when considering renewable energy projects in emerging economies. Research at the Council on Energy, Environment and Water (CEEW) has identified that the ranking of risks varies across countries such as India, Indonesia and South Africa. In some cases, these are project-specific and include delays in land acquisition or completing construction of a solar or wind farm. In many cases, the perceived risks are systemic: offtaker (whether utilities will pay for procured power); foreign exchange fluctuations; and political uncertainty.

Reality is less exciting than perception. On average, default rates are much lower for renewable energy projects than for thermal power. Returns on investment in clean energy markets have been higher for equity investors. This is not to say that there are no genuine concerns. Last week, Moody's downgraded the Indian Renewable Energy Development Agency (IREDA) from stable to negative, courtesy the stress in general on non-banking financial corporations and the all-too-common problem assets in the power sector. Even as IREDA's net non-performing assets remain under control, this downgrade could gravely impact investor mood.

The response, thus far, has been inadequate and imprecise. In order to build investor confidence and tap into new sources of capital, as well as existing capital at improved terms, there is an urgent need to make clean energy investments more secure. Multilateral development banks (MDBs) have an expanding focus on climate financing. But there is limited focus on directing public money into initiatives that could make clean energy markets more attractive to private investors. Out of the record $27.9 billion that MDBs invested in climate mitigation projects in 2017, less than 20 per cent was directed to policy-based financing and guarantees.

Worse, the instruments currently deployed lack precision to solve specific problems. Instruments like credit enhancement mechanisms or partial credit guarantees may enhance the credit rating of individual projects, but do little to isolate individual risks and build investor comfort at the sectoral level. The perception of risk continues to be in excess of the real risk in such cases.

Bespoke solutions, which respond to specific impediments to investment flows, are needed. At CEEW, we have worked on two such solutions, the Common Risk Mitigation Mechanism (CRMM) and the Grid Integration Guarantee (GIG). The CRMM addresses political risk, forex risk, and offtaker risk for solar projects in solar resource-rich but finance-constrained economies. GIG is designed to address the risk of integrating a growing share of renewables in the electricity mix, whether due to the technical limitation of the grid or the commercial limitations of utilities.

In the same spirit, a dedicated facility is needed to design fit-for-purpose, market-ready instruments, which could help crowd in hundreds of billions of dollars into clean energy in emerging economies. The CEEW Centre for Energy Finance (CEF) aims to play the role of a non-partisan market observer and driver — to monitor, develop, test, and deploy financial solutions to advance the energy transition.

Inertia is more than a law of physics; it is a reality in financial markets. The bulk of energy subsidies continue to go to fossil fuels. Yet, we are witnessing a global energy revolution. Energy transitions in emerging economies are and will be distinct from those in more developed markets. They will need distinct interventions too. Existing efforts, neither by private investors nor by development banks, are adequate to accelerate financial flows. The revolutionaries need guerilla tactics to beat the incumbents. The tactics start with smart finance for smart energy.

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Creating the calm corporation

BOOK REVIEW

SANJAY KUMAR SINGH

The authors of this book say, and perhaps you have experienced it too, that the corporate environment is turning crazy. Deadlines for completing assignments are getting shorter, teams are shrinking, and the workload on each employee is rising. Even though many people today work longer hours on weekdays and put in extra effort during weekends, they flounder. Higher stress levels are leading to higher employee churn. The authors, who are co-founders of a US-based software company, say it doesn't have to be this way. By making the right choices, it is possible to build a company that is perhaps less ambitious, but is profitable, gentler on its employees, and true to its customers.

A key reason for the current craziness is the "high growth at any cost" mantra that has overtaken the corporate world. Like medieval emperors, who were said to be consumed by earth lust, today's corporate leaders suffer from ambition hyper-inflation. They often set arbitrary growth targets. The entire workforce then becomes obsessed with meeting the numbers. In this quest, many suffer burnouts. Often shortcuts are taken, books cooked, and integrity and customer satisfaction sacrificed. If the numbers for one quarter are achieved, they are ratcheted up further for the next quarter, and the nightmare begins all over again.

Employees are also unable to complete their tasks within the designated eight hours per day and 40 hours per week because the office has turned into a minefield of disruptions and distractions. It has become almost impossible to work uninterrupted for a few hours. First, there are the meetings. The authors say that companies squander their employees' time and attention span in meetings as if it is a limitless resource. When 10 employees attend a meeting for one hour, that is 10 hours wasted. Second, there are the communication devices, like phones, emails and chat tools, and the culture of instant response that companies foster devour workers' limited time and attention span. Third, the open office is a noisy space where accomplishing any work that requires hard thinking is a challenge.

By making the right choices, it is possible to build a company that is perhaps less ambitious, but is profitable, gentler on its employees, and true to its customers

It is to have better control over their time, pace and the environment in which they work that many people today prefer to be consultants rather than full-time employees, even if it means taking a 50 per cent salary cut.

What then are the answers to these issues? One, of course, is to scale down growth ambition. Instead of worrying about constantly expanding their market share, corporate leaders need to be okay with being consistently profitable, and need to give equal weight to goals like having happy employees and satisfied customers. Of course, doing this is only possible if the decision makers have control over their destiny. The authors say that they deliberately avoided taking money from venture capitalists to avoid the pressures that inevitably follow in its wake.

The authors also suggest minimising the time spent on status-check meetings. At Basecamp, employees write daily and weekly updates of what they have achieved on the Basecamp software (a tool that helps teams meet their communication needs), and that's it.

Companies also need to provide greater flexibility to their employees in the matter of how much time they spend in the office. The traditional thinking is that if an employee is not in office he is not working. The authors counter-argue that a lot of employees do not work even though they are in office all day. Supervisors, they say, should focus on whether their direct reports deliver on what they promise.

Another idea that many companies, especially the younger ones, will find worth emulating is that a company's organisational structure, culture and practices should not be cast in stone. Great software, the authors say, is built through iteration, and so is a great company. Treat your company, too, as a product. Try something new. If it works, retain it, and if it doesn't throw it out. Do not stick to practices just because "it has always been done so around here".

To create a serene office environment, employees need to conduct themselves as they would in a library and be mindful of disturbing others. They also need to respect the fact that a colleague may be engaged in important work and will reply to their message in a few hours, instead of badgering her right away.

Many of the ideas in this book are eminently sensible and practicable. They are worthy of consideration because they come from a duo that has created a successful global company. Even if you could implement some of these ideas at your team level, you could create an oasis of calm. It doesn't matter then if you lack the influence to do anything about the craziness besetting the corporate world at large.

IT DOESN'T HAVE TO BE CRAZY AT WORK
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