The giant's growing pangs

Changes in management, poor pilot planning and growing faster than expected are making the market leader's ride bumpy

OUT OF THE BLUE

ANJULI BHARGAVA

The last few weeks have been harrowing for Indian fliers. On the one hand, Jet Airways — gasping for life — has withdrawn from many domestic routes and cancelled as many flights as it liked. Adding fuel to fire, IndiGo, the market leader, started cancelling flights all of a sudden. Together, this led to chaos, frayed tempers and haywire schedules at many airports across India.

While Jet's troubles are well known, IndiGo seems to have partly created its own problems and is bearing the brunt of it. The airline grew at breakneck pace and operates a fleet of 208 aircraft including 14 ATRs. Contrary to what was widely reported, the airline has no shortage of captains or first officers. It is operating with a total of 1,263 captains and 1,154 first officers. This works out to close to six captains per aircraft, a very comfortable number and higher than many rivals.

The so-called shortage is artificially created — thanks to a sharpening disconnect between flight operations and roster making and poor pilot management — leaving a pilot body that is growing increasingly unhappy and recalcitrant. What has led to the spate of cancellations is more about the unavailability of flying pilots.

Let me elaborate. For several years, IndiGo pilots flew for 11 weeks and then got two weeks off. This ensured that the pilots had a reasonable work-life balance and enough rest. As the airline grew and more captains than were available were needed, the airline started paying more for extra flying. While this worked well for all concerned for a while, it ultimately led to many pilots hitting their 1,000 hours in the first 10 months of the year itself, leaving two months where they are not permitted to fly.

It also led to cumulative pilot fatigue. Pilots may earn more but their work-life balance gets thrown out of gear.

Moreover, the airline is operating with skewed numbers across many bases, which often results in pilots having to fly to a different base to operate, adding to the nights out of home.

The problems are compounded by a computerised and intransigent roster that fails to account for real-life situations. As one former employee of the airline points out, if the roster fails to accommodate pilots, the pilots refuse to cooperate with the roster. In February, with uncooperative weather in north India, some pilots chose to call in sick even when they were not.

Overworked but highly paid pilots are unhappy due to other reasons too. They claim they have received no increment for over two years now, that expats are being treated better and that the airline places "inhuman" demands on them. A senior commander who called in sick one day was asked to report at 4 am the next morning for a flight. "As per their expectations, I should be fighting fit by midnight which is unreasonable", he points out.

Pilots also argue that they prefer a former pilot as their head, someone who understands their situation as he would have been in it himself. The current head who was brought in from AirAsia Berhard is not in their best books. "I was Jasoned" is a polite pilot speak for being poorly handled. They retaliate by refusing to cooperate. Parties and off-sites fail to compensate for all that.

Another change introduced by the airline was separating operations from rostering and bringing it under airport operations control centre. As a result, the flight operation section flies its own kite and sets its own schedule without being fully aware of the pilot availability position. It expects the roster to comply.

The biggest change, perhaps, has been the exit of former top and senior level executives — several of whom were better versed with the Indian ethos and culture and had managed the airline from its inception almost. Four expats have replaced Aditya Ghosh and Sanjay Kumar. There have been other senior level exits that have led to creases in the smooth functioning of the leader.

The entry of several foreigners at the top has led to some confusion over accountability and delineation of responsibilities. This showed up in the last two weeks in the poor public relations management of the present crisis with top-level executives pointing fingers at each other and nobody being held accountable. The expats are not yet fully integrated into the system and for some of them the Indian environment is still alien.

In conclusion, the Indian media's reaction to IndiGo's mini crisis — as with everything else — has been over the top. SouthWest Airlines and Ryanair a few months ago cancelled flights en masse with little ado. Heavens won't fall with a smaller number of aircraft in the sky.

SBI: A steady climber

The surge in debt inflows and EPFO money has catapulted SBI MF to the podium. Can it bag the top spot?

ASHLEY COUTINHO

SBI Mutual Fund has had its share of ups and downs during its nearly 32 years of existence. As the second fund house to set up shop after UTI in 1987, the fund house enjoyed a dream run between 1987 and 1993 piggybacking on the performance of its closed-ended schemes. The entry of private sector players in 1993, however, spoiled the party of public sector-sponsored asset management companies (AMCs), including SBI MF.

Unlike other public sector peers which lost their way, SBI MF was back on its feet a few years later and enjoyed a good run in the early to mid-2000s as the equity market picked up steam. The fund house found itself in rough weather in the aftermath of the financial crisis as performance started to slip and internal attrition began to bite.

All of which prompted the fund house to rejig its processes and take steps to foster greater transparency. Navneet Munot was roped in as the chief investment officer in December 2008 and a new investment team was put in place.

TAKE TWO

There have been no major wobbles since. In the past five years, the AMC has clocked a growth rate of 40 per cent, with its AUM up nearly four times. It moved up two places to number three last year, helped by the surge in debt inflows, steady performance across schemes and the money from the Employees' Provident Fund Organisation (EPFO), a mandate it got in mid-2015.

Managing director and CEO Ashwani Bhatia, who took charge last year, attributes the AMC's steady climb to the robust systems and processes the fund house has put in place. "We are competing with the best of the private sector. Our products are good and we have earned the trust of customers,"says Bhatia.

Does SBI MF have what it takes to bag the top spot?

Culture

"The AMC has worked on bringing in experienced people and creating a conducive corporate culture. This has translated into greater consistency in the process plied across the fund house;" says Kaustubh Belapurkar, director of fund research, Morningstar Investment Adviser India.

Barring a few top officials, most of the talent is recruited from outside the bank. It may not be one of the best paymasters in the industry but the fund house has an incentive structure for managers and began doling out employee stock option plans two years ago. "Within the group we are the only company to give stock options. Our attrition rates are low and it's our culture that makes people stay;" says Bhatia.

Key personnel such as the chief investment officer, head of equity and head of fixed income have been with the fund house for over a decade. While the AMC may not have entirely shed its public sector culture, it is more attuned to market realities. Sources say the fund has spent a tidy sum in increasing its digital marketing prowess and improving its reach through social media.

"We have used the public sector image as a strength. First time investors, in particular, have a lot of trust in the brand equity," says executive director and chief marketing officer DP Singh.

Performance

SBI MF has built up a decent track record in some of its equity and equity-oriented schemes. "SBI's equity funds have largely been in the top two quartile in terms of performance but can be volatile," says Vidya Bala, head-MF research, FundsIndia.

"Their investment management team is not exceptional and their approach is conservative. It's like going to an SBI bank branch; even five years later their style of functioning will remain more or less the same,"; observes an industry official. "But, in investment, consistency always pays."

Some market participants, however, believe that SBI's equity performance has rotated and the schemes have not performed well across cycles. SBI Bluechip, one of their flagship funds, for instance, is now lagging and has underperformed its benchmarks over one-year and three-year periods, data from Morningstar shows.

"They have a fairly momentum-led portfolio, which is quite volatile. But the brand association with SBI does give a perception of stability which, according to me, is not the case," says a wealth manager, requesting anonymity.

SBI MF has beefed up its credit research team in the past few years and has built a mechanism for credit approvals and limits sanctioning. "We conduct our own credit research and focus on risk-adjusted returns instead of chasing absolute returns. Our conservative stance on credit has kept us in good stead over the years;" says Chief Investment Officer Munot.

The IL&FS default hit AMCs hard last year. The ensuing risk aversion, however, has benefited a few AMCs such as SBI Mutual Fund, whose debt schemes are perceived to be safer than many other fund houses. "With the debt crisis unfolding, SBI MF is expected to be one of the biggest beneficiaries of this trend. I wouldn't be surprised if the fund house reaches number two this year;" says the wealth manager quoted above.

The AMC bucked the trend of degrowth in debt assets seen by most industry players last year. At the end of 2018, it had 0.54 per cent of its overall assets in papers below AA+ compared with an average of 0.99 per cent for the top 15 players.

Gaps and opportunities

The AMC has not adequately leveraged its army of distributors. The general perception is that the AMC mostly piggybacks on its parent State Bank of India to sell its schemes. In FY18, SBI earned the most in commissions after NJ Indiainvest and HDFC Bank, pocketing nearly Rs 558 crore.

SBI MF, for its part, insists that it does not rely solely on its proprietary channel for distribution and is reaching out to National Distributors (NDs) and Independent Financial Advisers (IFAs) as well. The parent distribution channel contributes just about 20 per cent of its MF sales, says Singh.

Critics point out that the asset manager's growth minus the EPFO assets do not look as impressive. SBI MF would be at number 5 after excluding the EPFO assets of over ₹55,000 crore. Fund houses typically charge 100-150 bps for managing equity schemes; Fees for managing EPFO assets are 5-7 bps.

To be fair, SBI MF is not the only top fund house handling government money. ICICI Prudential MF and Reliance MF manage Bharat 22 ETF and CPSE ETF respectively, while UTI MF manages EPFO money. That said, the dependence on EPFO money could be perceived as negative, especially if the AMC sees an asset erosion in its flagship SBI Bluechip Fund or SBI Equity Hybrid Fund; schemes with assets in excess of ₹20,000 crore each.

Industry observers feel that it's time that SBI MF highlights the performance of its fund managers other than CIO Munot. "Now that you are a top 3 player, the market would like to know your bench strength. Who are the other people driving fund performance?" says Amol Joshi, founder, PlanRupee Investment Services.

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BULKING UP

- SBI Funds Management is a 63:37 is a joint venture between SBI and French asset manager Amundi
- The fund is number 3 with assets of ₹2.64 trillion as of Dec 2018
- Trails ICICI Prudential MF (₹3.08 trillion) and HDFC MF (₹ 3.35 trillion)
- Was fifth most profitable fund house in FY18 with a net profit of ₹331 crore
- The AMC has signed the UN-Supported Principles of Responsible Investing
- First AMC to adopt the CFA Institute Asset Management Code of Conduct
- Fund had entered into a JV with Societe Generale Asset Management in 2004

CHINESE WHISPERS

Colour doesn't matter

TWITTER: @AITCOFFICIAL

West Bengal Chief Minister Mamata Banerjee has just flagged off the Pink Taxi Services as part of her women's empowerment plan. Around 1,000 taxis — pink and white — driven exclusively by women would be able to avail of the state government's Gatidhara scheme. As opposed to a subsidy of ₹1 lakh for other cars, the Pink taxi-owners will get ₹1.5 lakh. More than 36,000 have already availed of the Gatidhara scheme. Though women car owners would now have an edge under the scheme, passengers need not worry, as all were welcome to take a ride.

Shoeshine boys and stocks

Stock investors are always on the lookout for buy and sell signals. There are theories on when it is a good time to buy and when to sell your equity investment. One such is that it is time to sell when your shoeshine boy starts giving you stock tips. This means the market is so overheated that even a layman can guess what is going to happen. Hedge fund manager Samir Arora believes to take full advantage of the theory one has to always wear leather shoes. "Otherwise you won't get to meet a shoeshine boy, so won't even know what he is talking about," he says.

A meeting of equals

Madhya Pradesh women and child development minister Imarati Devi is back in the news, but for the wrong reasons. During a meeting with *anganwadi* workers in Shivpuri district, she was confronted by a dissatisfied worker who complained they receive a very small honorarium for all their hard work. The minister told her that the honorarium depends on the person's educational qualifications. The worker shot back and demanded to know the minister's qualifications, which left her fuming. According to the government website, the minister has passed her higher secondary examination. Incidentally, the minister was in the news a month ago when she fumbled while reading aloud a speech at the 70th Republic Day function in Gwalior. In a video clip that went viral, she was seen passing the papers to the district collector and saying, "*aage collector sahab padhenge*".

ON THE JOB

Building bridges

MAHESH VYAS

India's official stance with respect to collection and dissemination of data on employment/unemployment is getting increasingly uncertain.

According to a report in *The Indian Express* last Friday, the government seems to have "junked" results of the National Sample Survey Organisation's Periodic Labour Force Survey (PLFS). Such a decision was reportedly taken in a meeting between NITI Aayog and the Labour Ministry. Till Monday noon, there was no statement from any of these agencies or the Ministry of Statistics and Programme Implementation refuting this report.

If this report is therefore true, then it raises a question whether the Standing Committee on Labour Force Statistics has examined issues of comparability and methodology of the PLFS as stated by the Chief Statistician of India in an article in *The Indian Express* just a week earlier on February 14. The expectation was that the PLFS report would be released after the Standing Committee's examination. But, it now appears that the report has been rejected by the government, not just withheld.

The government has reportedly decided to use information on Mudra loan beneficiaries available in Labour Bureau's household survey and extrapolate all direct and indirect employment estimates available from this survey over all Mudra loan accounts to estimate the jobs created in recent times.

If this is true, then we can infer that the government considers the Labour Bureau's household survey as reliable. If it is reliable then it can be argued that the report should be made public.

According to *The Indian Express* report, it is NITI Aayog again that is intervening over matters related to official statistics. If this is true, then we may also infer that the official statistical agencies have implicitly surrendered their independence to the Aayog by succumbing to its intrusions. This is a very sad outcome of an aggressive attempt to control the narrative on jobs.

It is hard now, to not accept the hypothesis that the government is only interested in data that show its performance in good light with respect to jobs creation and that it is not interested in any professional, established statistical systems or institutions that do not show good results — whether these are of the government or of private agencies such as CMIE.

But, lets keep hope alive.

None of those involved in the sordid drama of employment statistics in India would have liked events to pan out the way they have. If we can trash those memories and chart a path of building a better environment of professional institutions, reliable data and healthy discussions, we may find solutions to our problems more easily and we may also enjoy our successes better.

While CMIE regularly publishes estimates of employment and unemployment it strongly believes that the need for an independent professional official statistical machinery is imperative.

It is apparent now that unemployment estimates produced by CMIE's Consumer Pyramids Household Survey (CPHS) are broadly in line with estimates of the PLFS. The PLFS estimates an unemployment rate of 6.1 per cent and CPHS estimates it at 5-7.5 per cent for the same period depending upon the definition of the the unemployed. Differences in methodology, sample and execution reflect the different objectives of the two surveys. CPHS aims to generate fast-frequency time-series of employment and unemployment while NSSO's quinquennial Employment/Unemployment Surveys (EUS) aimed to get a deep understanding of the labour markets as of a point in time.

It is easy to see that the EUS and CPHS complement each other. It is also easy to see that it is not possible for a single survey machinery to simultaneously be a fast-frequency longitudinal survey and also be a deep-dive cross-sectional survey at the same time.

It would be much better for the government to improve the EUS with a larger sample and a bigger investment into creating a stronger internal cadre. A stronger internal cadre is arguably the most important requirement to resurrect the Indian Statistical Service to its past glory. A strong cadre will also ensure that the ISI will keep its professional freedom unencumbered.

It is perhaps a good time to look at a new way forward. Partnership with private agencies is not a bad idea. Fast-frequency measures on employment/unemployment are available for free from CMIE. The government should capitalise on these and concentrate its resources on the EUS and on building strong human capital.

Disclosure: The author is the MD & CEO of CMIE

LETTERS

Not a viable move

Union water resources Minister Nitin Gadkari's *(pictured)* decision to "stop" India's share of water of the three rivers — Ravi, Beas and Sutlej — that used to flow to Pakistan, was anger over the Pulwama terror attack or another vote bank opportunity is debatable. What Gadkari said — that in the last 54 years, India and Pakistan have gone to wars, but nobody spoke about scrapping the Indus Waters Treaty — is not completely true. In this Treaty, we have divided six rivers. Three rivers on the eastern front (Sutlej, Beas and Ravi) are given to India, on the western side, three rivers (Indus, Jhelum and Chenab) have been given exclusively to Pakistan.

Though such type of announcement is nothing new, a similar demand for scrapping the Indus Waters Treaty was raised in the aftermath of the attack in Uri in September 2016. When all over the world the Treaty is referred to as most successful, how will scrapping this treaty teach Pakistan a lesson? In reality and technically, it is not possible. Even if we put infrastructure to do so, it will take six to 15 years to build canals to divert the water. Like millions, I am also aggrieved, saddened, and outraged by the deaths of 40 *jawans* by Pakistan-fed terrorists and believe that crime against criminal is worth worshipping. But interrupting life-sustaining supply of water to a nation or human beings, or even animals, is a crime against humanity.

Bidyut Kumar Chatterjee Faridabad

Strengthen the banks

A strong banking system capable of meeting all financial requirements is essential to support the economy that is on the path of growth and social development. The price of deposits and loans are crucial for the growth of household savings, credit expansion and investment. The source of funds to create credit has to come mainly from the deposits, and therefore, the price of the deposit products need to be attractive to face the competition from other savings products available in the market. In order to promote investments, banks have to lend at affordable rates. Striking a proper balance between the two is imperative to ensure a viable net interest margin. Albeit the repo rate cut by the monetary policy committee, the banks are unable to transmit the benefits to the end beneficiaries.

The elevated level of bad assets is one of the factors adversely affecting the growth of the net interest margin. The resolution, recovery and improving the quality of assets are imperative to boost the earnings as well as the net worth of the banks. A sizable amount of the capital infused in the public sector banks has been used to meet the increasing provision coverage of bad assets, resulting in a marginal improvement in the capacity to lend. Any restraints on lending negatively impacts the growth of the economy particularly at a time when it is in the path of economic growth. At this juncture, banks must be provided with sufficient capital in accordance with Basel norms to augment their capacity to lend. Also, banks must proceed aggressively to recover the bad assets. The resolution of the bad assets that have been referred to the National Company Law Tribunal (NCLT) are showing sluggish progress. Many cases are pending with the NCLT beyond the stipulated 270 days.

The Insolvency and Bankruptcy Code is of paramount importance and as such it must be strengthened with amendments to ensure swift resolution of bad assets. In accordance with the requirement, the capacity of the NCLT needs to be strengthened too.

VSK Pillai Kottayam

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HAMBONE

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Tax boost for real estate

But selective exemptions distort the GST regime

The Goods and Services Tax (GST) Council has provided a big relief to the real estate industry by cutting the rate on under-construction housing to 5 per cent from an effective 12 per cent, providing relief to homebuyers ahead of the Lok Sabha elections in May. The Council has given an even deeper cut, of 700 basis points, for the affordable housing segment by reducing the effective GST rate to just 1 per cent from 8 per cent. The rate cuts should lead to real estate prices coming down by as much as 6 per cent, according to industry calculations. The dip in prices is expected to boost overall demand by improving affordability and convincing fence-sitters to finally take the plunge and buy a house. The decisions will surely give the much-needed breathing space to the real estate sector, which has been struggling since demonetisation and the introduction of the GST.

Lack of demand in the sector meant the unsold inventory of under-construction houses kept piling up. What made the situation worse was that properties where construction was completed attracted stamp duty, but no GST. According to industry estimates, close to 600,000 under-construction houses are lying unsold in India's top seven cities at present. The cut in the GST rates changes the scenario substantially, especially in the affordable housing space. The Council made liberal changes in the definition of carpet area in affordable housing. So properties costing up to ₹45 lakh will now be considered "affordable". Those with a carpet area of 60 square metres in the metros and 90 square metres in non-metros will now come under this category. The effect will be wide, as the government has asserted that about 95 per cent of the flats in small cities and about a third in the metros will now fall in the "affordable" category.

All this is good news. What is not is that real estate builders in this space will not be eligible to claim input tax credit. At one level this means that the construction costs of the builders would rise, thus hitting their profitability. More importantly, the absence of input tax credit will make it difficult to trace the invoicing trail. In other words, it opens up the possibility of the generation of black money in the sector. Also, in effect, the Council has turned the clock back to the earlier indirect tax regime with its share of ad hoc exceptions and exemptions. The concept of input tax credit has a critical role in making sure that there is an economic incentive for everyone in the chain to pay tax. It also reduces the distortionary impact of the tax regime in economic decision-making. The new tax regime was designed to eliminate the cascade of indirect taxes that products bear now and allow manufacturers to claim credit for all the taxes paid on inputs across the value chain. Exemptions break the GST chain, raise the chances of evasion, and create systemic inefficiencies. There is no rationale to exempt some sections from the GST because it leaves the scope for others to make a similar demand. The need is to move to a clutter-free tax system. But selective exceptions from the input credit system distort the entire architecture and undermine India's most ambitious tax reform.

Whose land is it, anyway?

Mass evictions of tribals make little sense

The Supreme Court's recent order to state governments to provide data on evictions of tribals and forest-dwellers against rejected land claims under the Forest Rights Act (FRA) of 2006 has underlined the inconvenient truth of the systemic indifference to a marginalised section of India's population. Signs of tribal discontent with the way the FRA, which seeks to recognise forest-dwellers' rights, was administered were evident in the "long march" of rural folk from Nashik to Mumbai in March 2018 last year. At the time, tribal leaders voiced complaints of a high rejection rate of claims under the FRA. Instead of correcting this anomaly or defending this critical law, which sought to reverse British-era forest legislation that overrode customary rights, the Central government displayed startling apathy by neglecting to send a lawyer for the hearing in response to a PIL (public interest litigation) petition from wildlife groups. On Monday, the Bharatiya Janata Party finally tried to make amends by asking all its chief ministers to file a review petition against the court's order. This came soon after Congress President Rahul Gandhi's direction to the government of Chhattisgarh, the state with a high proportion of "at risk" tribal households, to do it. All this may well be an election gimmick, but for India's beleaguered tribals, the move by both the national parties has not come a day too soon.

That's because as a result of the Supreme Court's February 13 order, which has set a deadline of July 27 for states to comply, nearly 1.9 million tribal households in 16 states face the threat of eviction. Some activists say the order need not lead to homelessness and landlessness. They say many of the claimants are already landholders who have extended their agricultural fields into the forest. These arguments may be valid for some tribal households, but such statements ignore the fact that the qualifying rules have been so absurd as to exclude almost half the claimants, defying the objective of the FRA. In a nutshell, the claimant has to prove that he or his household has primarily resided in forest lands and depended on the forest and forest land for "bona fide livelihood needs" for 75 years, or is a member of a scheduled tribe. It takes no rocket science to understand that furnishing proof of three generations of habitation for a barely literate tribal is well-nigh impossible.

Many of these claims are currently under review by *gram sabhas*, the village assemblies that decide these applications under the law. The Supreme Court's eviction notice could well impede this process. Recent history also offers an ominous precedent of the impact, admittedly unintended, of a 2001 Supreme Court order. This forbade the Centre from regularising encroachments without the court's permission in a case involving the destruction of forests by commercial interests and lobbies. The ministry of environment and forests chose to interpret this as a direction to evict encroachers, and state governments were instructed to do so for those who had "encroached" after 1980. Between 2002 and 2004, this order triggered a massive drive that uprooted some 300,000 households from land they had inhabited for generations. Many of them were victims of brutal state violence — their homes were burnt, women sexually assaulted, and thousands illegally detained. It was against this background that the National Advisory Council, under the United Progressive Alliance, framed the contours of tribal rights. The FRA, thus, was to have been a major corrective had poor and unimaginative rule drafting not defeated its intent.

Deriving India's democratic dividend

The country's steady march from competitive populism toward competitive good governance will benefit the common man

PAHLE INDIA

RAJIV KUMAR

Watching the final session of the 16th Lok Sabha on February 13, I was overcome with a sense of deep pride. Ours is one of the very few, if not the only, country which, having achieved its independence from colonial rule after World War II, has managed to sustain and even strengthen its democracy over the past seven decades. Some will argue that in doing so, we have incurred significant costs in terms of lost opportunities for higher economic growth. Even if this be true, we must recognise that, for India, there was and is no alternative to a full-fledged and unconstrained parliamentary democracy, with its constitutional guarantees for fundamental freedoms and rights. However, it has indeed been an enormous challenge to undertake our economic transition based predominantly on market economy principles and private entrepreneurship in the context of an intensely contested parliamentary democracy. Readers would do well to ponder on how many other countries, in human history, have been successful in implementing their economic transition from a poor economy, while affording full democratic rights to all its citizens.

Now, as we approach our next general elections, in themselves an exemplar to the rest of the world for the sheer scale and relative peace in which they are conducted, I have a feeling that we are on the cusp of a major breakthrough and transformation on multiple dimensions. Over the years, and especially during the last five years, we can discern a steady move from competitive populism toward competitive good governance as the principle driver of electoral success. Parties are increasingly getting elected or thrown out of office on the basis of their overall and, in particular, their economic performance. Other factors, like caste equations and regional loyalties may well have their role in determining electoral outcomes but the primacy of economic performance and the underlying good governance just cannot be denied. This is a tremendous change, the import of which will hopefully become clearer in the coming years.

There is now a competition among states to attract private investment, improve their physical as well as social infrastructure and go up the inter-state rankings in ease of doing business, health and nutrition outcomes and educational achievements. This is the essence of competitive federalism that has been greatly encouraged by the several sector inter-state rankings brought out by NITI Aayog. Moreover, the rising aspirations of our young population are compelling administrations at all levels to improve performance and show better results. As the trend towards competitive good governance strengthens in the coming years, the common Indian will stand to benefit from greater transparency, accountability and efficiency in governance. Finally, after seven decades of suffering the adverse consequences of a weak, soft, crony and predatory State (as various authors have characterised governance in India), Indians stand to benefit from the establishment of a development state, which recognises its responsibilities and acts to deliver them efficiently and transparently.

Second, the rules of the game that drive economic activity have been decisively changed. With the implementation of the Benami Transactions Amendment Act, Real Estate Regulatory Act (RERA) and the Insolvency and Bankruptcy Act, it is no longer possible for fraudsters, disguised as investors, to game the system and generate unaccountable income and wealth and get away with dumping banks and other creditors with assets that have been rendered non-performing either because the project is gold plated or the equity has been covertly sucked out. Now investors have to share both the downside and upside risks. Cleaning up the Augean stables of 'ghost companies' by shutting down more than 2.5 lakh such companies has sent a strong signal against those who used these entities principally for either dodging due tax or for money laundering.

Those who play the fair game are being rewarded with increasing simplification (through digitisation) of the direct tax regime and the effective lowering of tax rates for 95 per cent of the corporate tax payers. India's moving up the global rankings for ease of doing business, a remarkable move from 142 to 77 in four years, and on the competitiveness and innovation index has further improved the investment eco-system. With the implementation of investor perception based inter-state rankings for ease of doing business, as is being undertaken by the Department for Promotion of Industry and Internal Trade, significant improvement can be expected in the coming period. FDI norms have been liberalised and virtually all production sectors, including defence and real estate, opened up for majority foreign investment. The economy is more formalised and the licence and control *raj* has been decisively pushed back. The honest investor can now hope to thrive without having to be on the 'inside track' with the bureaucracy either at the Central level or in the state capitals. Crony capitalism and its counterpart, phone banking, have been given a decisive push-back.

Finally, the macroeconomic foundations for sustained rapid and inclusive growth have never been more robust. Never before has an average 7 per cent real GDP growth been achieved over five years, with a headline inflation of lower than 4.5 per cent! This is partly a result of government's decision to give RBI the statutory authority and responsibility to achieve a targeted inflation rate. The fiscal rectitude exercised by the government has also surely contributed to this stable macroeconomic condition. This augurs well for ramping up economic growth in the coming period and permanently shifting to a higher, more inclusive and sustainable growth paradigm. Moreover, with the distinct improvement in delivery of public services and direct transfer of benefits, growth has been accompanied with greater inclusion and rising income levels of those at the bottom of the pyramid.

Yes, it is true that much remains to be done. But with these three fundamental transformations, we can expect this momentum to continue. The good news surely is that henceforth, India can expect its economic transition being propelled forward by twin dividends— demographic and democratic. Credit flow from commercial banks is beginning to flow again. With credit-to-GDP ratio languishing at around 50 per cent, new investment demand can be easily met. The Indian economy may be entering a sweet spot which could push its growth higher towards double digits.

The writer is an Indian economist and is currently the vice-chairman of the NITI Aayog. Views are personal

Energy access: Are you being served?

INFLEXION POINTS

ARUNABHA GHOSH

India has made remarkable progress in recent years in extending energy access to hundreds of millions of people. The supply-side push has bridged the gap between political promises and policy execution. Now, we have to bridge the gap between policy execution and lived reality.

When the Sustainable Development Goals were adopted in 2015, India had about 40 million households without electricity connection and more than 100 million homes used firewood and cowdung cakes for cooking. India had the dubious distinction of being home to the world's largest number of energy-poor citizens.

Then came a big push. Under the Saubhagya scheme, launched in October 2017, almost every willing household has been connected to electricity — a whopping 25 million households. Under the Ujjwala scheme, 65 million households received their first liquefied petroleum gas (LPG) cylinder. LPG penetration has jumped from 60 per cent of households in 2015 to more than 85 per cent today. Let us give credit where it is due.

But energy access goes beyond connections. Just as poverty can no longer be assessed only based on incomes, several metrics matter to understand energy poverty. Connection to the grid is no good if no electrons flow through the wires. Households will continue cooking with traditional biomass if LPG cylinders are unavailable in rural areas. They could regress back into energy poverty if consistent energy services are missing.

Moreover, minimum thresholds for energy access will rise with time. A functional light and fan could yield to demands for refrigerators or televisions. If small enterprises ran from household premises (say, tailoring), they would need reliable power supply for sewing machines. With rising aspirations, what is good enough today (as energy services) will not suffice tomorrow.

The Council on Energy, Environment and Water (CEEW) developed a multi-dimensional, multi-tier framework to evaluate energy access. For cooking energy, the Council considered availability of primary cooking fuel, health impacts of cookstoves and fuel use, quality of cooking, convenience of cooking, and affordability (expenses on all cooking fuels). Electricity access is also multi-dimensional: Load capacity of the power connection, duration of supply, quality of power (high-voltage days that damage appliances and low-voltage days that restrict appliance use), reliability (number of blackout days each month), affordability, and legal status of the connection. Each dimension is assigned a tier (ranging from 0 to 3). A household's overall tier corresponds to the lowest tier across all dimensions, so that policymakers and on-ground personnel know the weakest link that needs attention.

CEEW used this multi-dimensional framework for its flagship ACCESS survey (in collaboration with Columbia University in 2015; in 2018* with the Initiative for Sustainable Energy Policy and National University of Singapore) across rural areas in Bihar, Jharkhand, Madhya Pradesh, Odisha, Uttar Pradesh, and West Bengal. With five million data points, this is the largest panel data on multi-dimensional metrics for energy access in India (and possibly in the world).

This consumer-centric approach yields granular insights. For instance, whereas 60 per cent of rural households in Jharkhand used grid power for lighting (up from 20 per cent in 2015), median hours of supply barely budged (from eight to nine hours). UP saw three-fold increase in homes primarily using electricity for lighting, but also has the highest share of unelectrified households that do not want a connection, even if provided for free. West Bengal — best performer in terms of connections and duration of supply — also witnessed deterioration in reliability and quality of power supply since 2015, relegating many households back to lower tiers.

For cooking energy, 42 per cent of households that graduated from tier 0 since 2015 were Ujjwala beneficiaries. Yet, two-thirds of them are stuck in tier 1, due to continued use of freely available biomass, inability to afford refills, long travel distances to refill LPG cylinders, and intra-household decision-making dynamics. For instance, in rural West Bengal women had an equal or exclusive say in reordering cylinders in 59 per cent of households. The proportion was only 16 per cent in Madhya Pradesh. Mere connections cannot guarantee that women will be empowered enough to exclusively shift to cleaner cooking fuels.

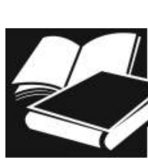
A consumer-centric view also helps with policy design. The ACCESS survey revealed that 84 per cent of households preferred subsidies on solar lanterns in lieu of kerosene subsidies. Or that most households want increased LPG subsidies and improved LPG distribution in rural areas.

Systemic problems, too, gain new perspective. Take electricity theft. Another recent CEEW-ISEP survey** in UP revealed that 84 per cent of rural and urban consumers took a dim view of hooking wires (*katiya*) to steal electricity. Instead, poor metering and billing is resulting in weak compliance with electricity payments. Only 45 per cent of rural households are metered in UP. If bills are not sent monthly, most rural consumers do not believe that the bill is based on meter readings. The result? Lack of trust between utilities and consumers. When frequently billed, rural consumers are as likely as their urban counterparts to pay on time.

Energy access is not a binary. Let's not ask, "Are you connected, yes or no?" Let's ask, "Are you being served — and how?" Energy needs will evolve with time. Declaring victory in connecting homes indicates that one mammoth battle has been largely won. The battle to improve household experience — and win consumer trust — will take longer.

*The writer is CEO, Council on Energy, Environment and Water (http://ceew.in). Follow @GhoshArunabha @CEEWIndia * Jain et al (2018) Access to Clean Cooking Energy and Electricity: Survey of States 2018, CEEW Report, November. ** Ganesan, Bharadwaj, and Balani (2019) Electricity Consumers and Compliance: Trust, Reciprocity, and Socio-economic Factors in Uttar Pradesh, CEEW Report, February.*

Islam's great divide



BOOK REVIEW

HASAN SUROOR

The origins of the Shia-Sunni divide are so arcane that, let alone non-Muslims, even many ordinary Muslims will struggle to explain if you asked them. It's not surprising, therefore, as John McHugo points out that until not long ago this ancient dispute was "virtually unknown" in the West outside specialist academic circles. Nobody really cared, or attached to it the kind of significance it has come to assume in recent times. It received "almost no attention" during India's Partition debate" and was "clearly of little significance", he writes.

Today, however, it's on everyone's lips as a shorthand for the many crises around the world, not the least the chaos in West Asia. What started off as a little sectarian difficulty 1,400 years ago (a succession feud after Prophet Mohammed's death in 632) has come to define Islam for the modern world thanks to the geopolitical dimensions it has taken with Shia-Iran and Sunni-Saudi Arabia competing for the Muslim world's leadership.

Both sides have their proxies on the ground in various sectarian hotspots notably Syria, Iraq, Yemen, Egypt, and Lebanon. But, more importantly, both also have their respective Big Power patrons— the Saudi-Sunni alliance is backed by America, and Iran by Russia. A rather obscure centuries-old religious rift has become a convenient peg on which to hang "today's many disasters in the Middle East", Mr McHugo says, questioning the popular narrative that all the Muslim world's ills are down to the Shia-Sunni rivalry.

Rather bravely, he accuses important Western figures, including Barack Obama, of fuelling "this kind of simplistic perception" . Because, he argues, it is a "very convenient narrative" and deflects attention from external causes of conflicts in the region. He refers to Obama's 2016 State of the Union address in which he stated that "the Middle East is going through a transformation...rooted in conflicts that date back millennia". Mr Obama's assertion, he says, could only be a reference to the Shia-Sunni divide. On other occasions, too, Mr Obama suggested that "ancient sectarian differences" were behind the turmoil in the Arab world.

Mr McHugo warns: "A simplistic narrative is in danger of taking firm hold in the West: that Sunnis and Shi'is have engaged in a perpetual state of religious war and mutual demonisation that has lasted across the centuries; and that is the root cause of all that is wrong in the Middle East today. This is a very convenient narrative."

The reality, he contends, is that Shia-Sunni tensions are mostly "entwined with political issues". "The way to stop today's bloodshed is to sort out those political problems. Unfortunately, that runs up against the vested interests of many players," he writes, alluding to the role of Western powers and their local proxies.

To illustrate his point, he offers a lengthy analysis of Iraq's descent into sectarian bloodshed after the 2003 American invasion. The Americans completely failed to understand Iraq's fragile social and cultural make-up: A patchwork of ethnic tribes or clans held together by a strong/authoritarian central government.

"Paul Bremer, the man chosen by Washington to govern Iraq for the immediate future (after toppling Saddam Hussein), had no knowledge of the Middle East. Even more crucially, he had no understanding of Arab or Muslim society," Mr McHugo writes. Later, we saw a similar lack of American/Western arrogance and cultural insensitivity in Libya in 2011.

All this, of course, is well known and has been widely commented upon. What is new is Mr McHugo's stress that the Shia-Sunni differences were not the primary cause of the post-invasion mayhem in Iraq that later spread to other parts of the region. It was the invasion that reignited old sectarian resentments. And once they were reignited they were "exploited by those seeking to destabilise the country".

His essential argument—and an important one—is that there was nothing inevitable about the sectarian conflicts in the Muslim world, as the popular Western narrative would have you believe. The Shia-Sunni divide was stoked instead by foreign players to suit their own ends.

Mr McHugo is a liberal British scholar of Islamic studies, currently a Senior Fellow at the Centre for Syrian Studies at St Andrews University. His well-argued critique of Western attitudes towards the Muslim world and West Asia forms only a small part of the book. Much of the rest of it is a potted history of the Shia-Sunni schism, which has left no Muslim country unscathed. Even Indian Muslims have not been able to escape its toxic influence. Muharram processions taken out by Shias to mark the martyrdom of Hussein ibn Ali, grandson of Prophet Mohammed, in Karbala are frequently marred by clashes. Some don't eat at the other's place suspecting the food may be contaminated! Incidentally, it's wrongly presented as a religious dispute. It began as a quarrel over who should succeed the Prophet as he died without naming a successor — and spiralled out of control. This book is a handy guide to an elementary understanding of the "hows" and "whys" of this running sore.

(The reviewer is a Sunni Muslim)

A CONCISE HISTORY OF SUNNIS AND SHI'IS
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