Tech-enabled government

Modi 2.0 should strike a balance between quality access to technology and data security to ensure effective governance

NOT FOR PROFIT

NIVEDITA MOOKERJI

Interacting with bureaucrats for the first time in his second stint, Prime Minister Narendra Modi listed "more technology in government" as a priority area. Along with vision for a five-year plan and other goals such as improving the ease of living for citizens, any mention of technology could get lost in the larger scheme of things. But greater adoption of technology in the government can be a game changer for any country, as numerous research papers and surveys have shown.

Use technology to improve outcomes and efficiency in each department, the PM told the senior-most officials in the government. India's improved ranking in e-governance last year may have prompted him to keep tech in the top list. In 2018, the country moved 22 places up to be in the first 100 of the United Nation's E-government Development Index 2018. From 118th in 2014, it reached 96th in 2018. If the government is serious about making technology an integral part of governance and see real outcomes, it must look at Denmark, Australia, South Korea, the UK, Sweden, Finland, Singapore, New Zealand, France and Japan — the top 10 in the global index. While there's a direct corelation between income levels and e-governance performance, the development of online services contributed significantly to the overall score in the index in 2018.

Against that backdrop, quality access to internet data is the basic requirement for India's e-governance score to improve. And the access has to be device and technology agnostic; wireless and wireline. For that, telecom companies and the government need to be on the same page, or at least near about — whether it's on the date of the next spectrum auction, on the quantum or on the pricing. At this point, the message going out is that two leading telcos, Bharti Airtel and Vodafone-Idea, are reluctant to go for an auction this year, while Reliance Jio seems ready. The government, on its part, is looking at the last quarter of this calendar for holding the auctions. Going by the current level of internet connectivity, there's no doubt that telcos are either running low on the appropriate spectrum or they are not spending enough on the required infrastructure. Either way, the telecom operators, reeling under financial stress, must invest.

To come out with a successful e-governance model, the government needs telcos and other technology companies as partners. And therefore they cannot work in silos. A meeting of the Digital Communications Commission (earlier Telecom Commission) on Thursday is likely to give some clarity on the way ahead.

Whether or not Chinese major Huawei, caught in a massive global jam, can be part of the telecom universe in India will also tilt the pace of the government's tech initiative. India hasn't spelt out its stand on Huawei yet.

Digital India, a signature scheme of this government since it came to power in 2014, has seen mixed results so far. For it to stand out and blend with the PM's latest focus on "more tech in government", all ministries and departments must walk the talk on things like artificial intelligence, blockchain, internet of things and big data.

If the 2019 Lok Sabha election was fought on the might of online social media, similar internet-led services could be used for governance as well. PM Modi had begun his first stint with visits to top tech campuses in America's Bay Area and followed that up with meetings and interactions for collaborations towards ease of living and ease of doing business. The momentum was lost somewhere in between and tech majors such as Google, Facebook, WhatsApp and Twitter made headlines mainly for breaches ranging from data leak to inappropriate forwards to not having India representatives in place.

In fact, a draft e-commerce policy prepared by the Department for Promotion of Industry and Internal Trade a few months ago was largely dedicated to data localisation, sending confusing signals to stakeholders.

While data security is a priority for any government, Modi 2.0 should strike a balance to shift its goalpost towards quality access to technology, which will enable both effective governance and ease of living to the citizens of this country.

The deconstruction of Foodpanda

The company, which was bought to compete with UberEats, lost its way. But how?

PATANJALI PAHWA

It was a frantic call. "Where are the orders? You had promised 1,000 of them," said the owner of a popular dessert franchise in Bengaluru.

"Sir, they will come. It will be 1,000 before the day ends, I promise," says one of the area managers of Foodpanda. He left the company soon after this call.

"It is 5pm and there is not one order."

There was silence. The area manager was at a loss. Why was there not a single order? The dessert chain was in one of Bengaluru's busiest and most upmarket neighbourhoods. There were a mix of startups and residences. If anyone would order, they would. And especially because there was Crave Party on, which is a special offer Foodpanda ran offering deep discounts on food, especially dessert.

TAKE TWO

In December 2017, when Ola bought Foodpanda, it was the company's second attempt at food delivery. It had made one before via Ola Cafe, which didn't work. Ola had to shut it down and fire a whole lot of people. About two years later, Ola tried again, this time taking the acquisition route. It didn't work either. When Ola bought Foodpanda, Bhavish Aggarwal, founder and CEO of the ride hailing company, went on YouTube to announce that he would be asking his close ally Pranay Jivrajka to be CEO of Foodpanda and he would spend $200 million to make the company a force.

In May 2019, just one-and-a-half-years since that pledge, Ola decided it didn't want to be a marketplace anymore, it pivoted and became a cloud kitchen company. Where did the idea come from? It came from a small cloud kitchen company Foodpanda acquired in 2018 called HolaChef. The Mumbai-based startup had run out of cash and was forced to down shutters. Ola bought the company, essentially at zero value, after promising to pay off its dues. Ola is now adapting the model of that company for its new avatar.

What brought Ola (and Foodpanda) to this point?

In late August 2018, Foodpanda launched a too-good-to-be-true offer called Crave Party. It offered desserts at ₹9, snacks at ₹19 and biryani at ₹79. These prices, Foodpanda's decision-makers believed, would be able to take orders away from Swiggy, Zomato and especially UberEats. Once customers saw the superlative delivery standards and the prices, Foodpanda would become their default app. They already used Ola twice a day, they'll keep opening the app for food.

"The plan within the company was to make Ola like Grab," said a senior Ola executive. Grab is the south east Asian ride-hailing company that bought out Uber from the region and has a food delivery, ride-hailing and concierge service. If Foodpanda worked, Ola planned to extend Foodpanda and expand it to grocery delivery as well. Very similar to another failed experiment, Ola Store. This was the entire plan. But this is how it unravelled.

Let's go back to the call. While there was these few seconds of uneasy silence, the area manager went through everything he had done. Did he miss anything? He hadn't. He promised the owner he would get back to him within the hour. "I panicked and called head office in Gurgaon. They didn't know why," the former Foodpanda employee said.

To a few small restaurants in Gurgaon, Foodpanda promised a revenue of ₹1 crore

Over the next few hours, the employee got three more calls from other restaurants all saying the same thing. You promised us 1,000 orders. "I was later told the same thing was happening in other cities," he said. The area manager was told that it was tech issue. A lot of restaurants who had signed exclusive deals with Foodpanda appeared offline to the customer. For that particular dessert chain, the restaurant didn't come online for 21 days. The restaurant had to throw away the excess dessert it had ordered. "It wasn't just that the restaurants had to throw out food," said another senior former Foodpanda executive. "It was the deals that Foodpanda struck." The food tech company was footing most of the discount bill. "If an ice cream cost ₹90, they were giving it at ₹9. Who was paying the balance ₹81?" he asked. In most cases, it was Foodpanda. "Sometimes, if a sales manager was good, he would strike a deal in which the restaurant would give a 20 per cent discount. But the majority of that discount was still being paid by Foodpanda," he said.

In other cases, Foodpanda made minimum guarantees in which the company promised restaurants that they would get a certain amount of business and if they didn't, Foodpanda would pay 50 per cent of the shortfall. To a few small restaurants in Gurgaon, Foodpanda promised a revenue of ₹1 crore. If Foodpanda could generate, say, ₹25 lakh in the year. Foodpanda would pay the restaurant 50 per cent of the balance ₹75 lakh. This happened a lot and it meant the cost per order in the larger sense rose.

While the temporary loss per order could be absorbed, it opened up a new problem for the company. "We were mapping who was ordering at these prices. And they were not those fancy startups in Koramangala, but those from lower income neighbourhoods," another former Foodpanda employee said. "There is nothing wrong in them ordering but if the majority was them then it starts to be a problem," he added. The surge in orders that Foodpanda would see would fall away once the discounts were scrapped. Those customers were not the Foodpanda target audience. "It would be 10 per cent of peak. Not 10 per cent less but 10 per cent," said a Mumbai-based former Foodpanda executive.

Along with discount-driven traffic, Foodpanda also had to battle delivery executive unrest. "When it started, we were late to the game," said one of the Foodpanda executives. Most delivery executives had signed up with Zomato and Swiggy. To poach them Foodpanda offered ₹50 per delivery and some incentive per week. That's when some delivery executives started to game the system.

"Ok, so this was funny. The delivery guy would place an order for biryani at ₹70 while standing next to the restaurant from one phone and immediately get the order on his other phone. He would basically be getting a full biryani for ₹20," said one of the former executives mentioned above. Foodpanda realised that this was expensive and then changed the fee structure. This meant that Foodpanda delivery executives, who were promised that they would make upwards of ₹30,000 a month would get half that. *Business Standard* reported that delivery personnel were intending to strike. Foodpanda managed to avert that by ceding to their demands in part. The others just left the platform. During the unrest, a lot of Foodpanda orders would get delayed. "So even if we had managed to get a few customers, they would drop off too," said one of the employees.

During all of this, Swiggy and Zomato were able to burn faster and smarter. Foodpanda, meanwhile, struggled to keep its head above water. Soon, executives started to leave, investment in the company slowed down and Aggarwal and Jivrajka decided the best way to make good of a situation such as this would see if they could imitate the Faasos model of multi-brand cloud kitchen — that is, kitchens that have no dine-in or takeaway service but run on home delivery — and not list any other restaurant at all. And that's where it is right now, $232 million later.

Reports now suggest the company may open food kiosks at tech parks to drive up traction. Something Faasos already did and went back on because the rent and overhead costs were not covered by deliveries or in-restaurant seating. In a statement emailed to *Business Standard*, an Ola spokesperson said, "We want to take a holistic approach towards the food-tech segment that isn't limited to food delivery. With our food business, we are aiming to build India's most loved food brands across multiple categories."

Meanwhile, the erstwhile area manager still gets calls from restaurants saying their dues haven't been settled.

CHINESE WHISPERS

High drama in Congress meet

Senior Congress leaders appear utterly helpless in containing fights among local leaders. A meeting chaired by party general secretary Jyotiraditya Scindia, AICC in-charge of west Uttar Pradesh, apparently ended up in fisticuffs among members, which continued even after the members emerged from the party's war room at 15 Gurudwara Rakabganj Road in Delhi, and moved to another location. In the meeting held on Tuesday, some leaders raised questions over ticket distribution and blamed senior party leaders for the poll debacle in the state. An argument on the issue quickly descended into an exchange of blows, bizarrely in the presence of national leaders like Scindia and Raj Babbar.

Offering a credible alternative

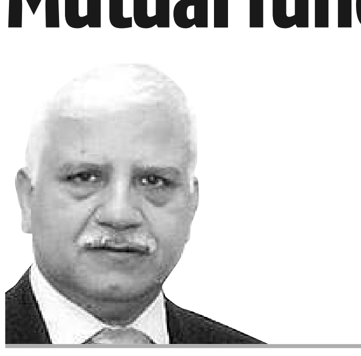
The Communist Party of India (Marxist) has had a terrible Lok Sabha election. It is now hoping to align with the Congress party in West Bengal. At the meeting of its central committee, the CPI (M) said the Congress unit in the state committed a mistake by not aligning with the Left parties, which led to their supporters voting for the Bharatiya Janata Party (BJP) in the state as they did not think of either of the two as credible alternative to the Mamata Banerjee-led Trinamool Congress. The CPI (M) is hopeful that the Congress state unit will see reason and join hands with it for the next Assembly polls, due in the first half of 2021. However, many in the CPI (M) and Congress believe the Banerjee-led government might be dismissed and election held under central rule earlier than 2021.

No power cut at 'power centre'

Unscheduled power cuts have become an issue of great concern for the Madhya Pradesh government. As expected, a blame game has ensued. Chief minister Kamal Nath has accused "BJP-minded" officials of sabotaging power supply; the Bharatiya Janata Party, on its part, has labelled the government "inefficient". But there is good news from the Chief Minister's home district, Chhindwara. On Tuesday, as the rest of the state suffered intermittent power cuts, Chhindwara faced a minor outage, of just 38 seconds. The nearby districts of Jabalpur and Siwni faced at least an hour of power cut each. Nath has represented Chhindwara eight times in the Lok Sabha. After he took over as CM, his son Nakul Nath is representing the seat in the lower house. The state produces 19,000 MW of electricity every day and its average consumption, in summer months, is 9,500 MW.

INSIGHT

Mutual funds vs the Sebi



J N GUPTA

Looking at the headlines over the past few weeks if one gets the impression that all is not well between the Securities and Exchange Board of India (Sebi) and the mutual funds, one wouldn't be too off the mark. The question is, why is it so when both have a similar objective — that is, to develop the mutual fund industry, while protecting investor interest. The crux lies in a crucial difference: MFs have a commercial objective as well — they not only earn for the investor but also for themselves. The Sebi has no commercial objective.

At the root of the present spate of show-cause notices issued by the Sebi to various MFs lies the failure of promoters of Zee Media to honour their repayment obligations upon the maturity of debt instruments, where the security were the shares of the Zee Group. While the Sebi as a regulator understands that risk of failure cannot be ruled out in any transaction, it had problems with the actions of the MFs, before and after the default. The MFs, however, claim they had acted in the best interest of the investors and that their actions speak volumes about their commitment to the investor and to the need to avoid losses.

While the argument of the MFs appears genuine and in accordance with the role expected from trustees, questions are being raised on the Sebi's lack of "sensitivity". It is believed that any other action by the MFs would have been against the interest of the investors. Does the Sebi want investors to suffer? The answer is a big no. While the Sebi is being made out to be the villain of the piece, it certainly is not — at least not in this case.

The question is whether investors were made aware of the risks involved and the consequences. This is more of a case of disclosures, transparency and procedure. Were the investors aware that investments by MFs could become bad debt? Can MFs enter side agreements with borrowers and roll over maturity of a fixed maturity plan (FMP)? It must have come as a shock to investors to find out one fine morning that the maturity proceeds of their FMPs, which were due in the coming days, won't be coming, and that if at all they did, the investors did not know how much they could expect and when.

The Sebi's objections concern the roll-over of maturity (extension of maturity) and a private deal to allow time to the borrower without proper disclosure in the scheme to investors. The argument from the MF side is that not all situations can be envisaged and that many MFs had offered various options to investors. The question is, whether a notice or information to investors post an event is as good as prior information and disclosure. The answer is, post event information or disclosure has no meaning and is just fait accompli.

It is not as if the Sebi hasn't made provisions in the law for such a contingency. Way back in 2002, the Sebi had envisaged that such events might happen, and that on or before maturity date an asset might turn illiquid or an NPA. Sebi circular clearly laid down what MFs can to do in such an eventuality. In fact, the said circular provided two-years' time to realise and distribute proceeds, if any, from the NPAs.

Based on the demand from the industry and realising that instances of default and illiquidity could rise, the Sebi in December 2018 permitted side-pocketing of money market and debt instruments in case of a credit event. The circular detailed the conditions and the procedure. The heart of the circular was facilitating MFs while protecting the interest of the investors and ensuring transparency. One condition was that the scheme document must have enabling procedure for side-pocketing. All that was required was an amendment in the scheme document enabling MF trustees to create a side-pocket portfolio, if the eventuality so narose. Obviously, this enabling provision was required to be incorporated before and not after the event.

Ironically, the MFs failed to create side-pocketing provisions in their schemes and when they got hit by a credit event, they took decisions in desperation, which might have been in the interest of the unit holders, but were technically non-compliant.

While the Sebi needs to be complemented for providing a legal framework to deal with a credit event, MFs will get their share of bouquets as well as brickbats. Bouquets because notwithstanding the chance of facing regulatory ire, they chose what they felt was in the best interest of the investors. Trustees behaved in the manner they would have done if their were dealing with their own investments. They had the choice of ignoring investors' loss and liquidate investments at whatever value possible and honour the commitments. While this could have saved them from regulatory ire, they would have had to face agitation from investors and possible loss of reputation and confidence. Reputational loss due to regulatory action was a risk they chose to accept. It is well-known that when a problem is an industry-wide problem, adverse impact of regulatory action is minimal. So this was a calculated gamble.

The industry deserves brickbats for the simple reason that it failed to visualise that in the prevailing atmosphere the chances of a credit event crystalising were real. So why did the industry fail to act and incorporate a simple side-pocketing provision? It is not difficult to guess. If it was mandated and was done by the entire industry, investors would have been agnostic. Any fund taking the first step would have given out a wrong signal — of an inherent problem — and run the risk of avalanches of redemption request, potentially having a cascading effect. This business risk is too big to take. The industry or its associations have not developed the wherewithal to take up issues with the regulator.

My experience tells me that we have yet to mature and establish a healthy regulator-regulated relationship, where communication can flow without fear of reprimand. I can almost definitely say that the fear in the minds of the regulated entity is absolutely misplaced. Most of the time, choices offered are not taken up and everyone waits for the other to act first, a la *"pehle aap"* (you first). My conversations during my stint at the Sebi gave me the impression regulated entities were hamstrung by the "please make it mandatory and we will do" syndrome. Culturally, we want regulatory fiat in everything.

While the Sebi is technically right in pulling up the MFs, it must also take into account the intent of the MFs. They must not work at cross-purpose. The Sebi must take into account the phenomenal growth that the industry has achieved over the past few years, where the industry-level assets under management have almost tripled. With reduced avenues to deploy incoming funds, the risk for both the investor and the industry have multiplied. Unless safe profitable avenues for deployment are available/created both the investor and the industry are at risk.

While accepting that challenges exist, non-compliance cannot be brushed away and the Sebi has to take an action, which may even be symbolic. Going forward, the industry and its association, the Association of Mutual Funds in India or the AMFI, must improve their communication with the Sebi. The AMFI must become a vehicle to ensure compliance as well as good governance. Every crisis is an opportunity to become better and the industry must not miss it. The Sebi and the MFs might be at the cross-roads, they are certainly not at cross-purposes. The regulator must support MFs as much as the latter support investors as both can only exist and prosper together and not in isolation.

The author is MD, Stakeholders Empowerment Services

LETTERS

Jagan: A model CM

At a time when some chief ministers of non-Bharatiya Janata Party states are interested only in locking horns with the Centre rather than concentrate on good governance in their respective states, the bonhomie between Andhra Pradesh Chief Minister Y S Jaganmohan Reddy *(pictured)* and Prime Minister Narendra Modi is noteworthy. The two belong to different parties having different ideologies and principles but setting aside all differences, the two leaders have shown respect for each other and good mutual understanding. Even though the YSR Congress Party is not part of the National Democratic Alliance, the way Jagan went to meet Modi immediately after the election results were announced and requested help for his state is commendable. Modi was also given a warm reception by Jagan during his Tirumala visit. Only time will tell if Jagan's party will be part of the NDA, but what really matters is the way in which the chief of a state is ready to shake hands with the Centre keeping in mind only growth, welfare, progress, development and prosperity of the people and the state.

It is for this reason that Jagan can be regarded a model chief minister. There are some who have time only to fight and combat with the Centre because of ego and ideological differences. There are some who are mere opportunists, who start spitting venom at the Centre when things don't go their way. Jagan has shown he is a leader ready to carve a niche of himself in the political world. His goal is to work for the betterment of his state and its people.

M Pradyu Thalikavu Kannur

Letters can be mailed, faxed or e-mailed to:
The Editor, Business Standard
Nehru House, 4 Bahadur Shah Zafar Marg
New Delhi 110 002
Fax: (011) 23720201 · E-mail: letters@bsmail.in
All letters must have a postal address and telephone number

Business Standard
Volume XXIII Number 215
MUMBAI | THURSDAY, 13 JUNE 2019

A reality check

Ex-CEA makes a strong case for re-examining growth numbers

Recent research work from former Chief Economic Advisor Arvind Subramanian, which has now been published as a Harvard University Centre for International Development working paper, has reignited the debate over the quality and credibility of Indian data. In this paper, Dr Subramanian examines the so-called "new series" of data regarding the Indian economy and compares its estimates for gross domestic product with those under the previous system, which also had a different and earlier base year for calculating real GDP. He discovered that the new series of GDP was much more disconnected from other indicators of the economy than the old series, and that this level of disconnection, in fact, rendered India an outlier among comparable economies. The paper presented a difference-in-difference regression comparing the old and new series and data from peer economies, and estimated that GDP growth might, in fact, be several percentage points lower than estimated. It is important to note that the former CEA did not use either the "back series" recently released by the NITI Aayog for growth in the 2000s or the revision of the new series for recent growth, and argued that both of those would, in fact, further overestimate recent growth. The years affected cover both the National Democratic Alliance and United Progressive Alliance governments, so it is unfair to impute a political motive to the research.

The specific estimates presented for the amount by which growth has been overestimated are arguable. But whether real GDP growth is 4.5 per cent or higher is not the point. The paper merely shows systematically what was already known or suspected, that the official GDP growth numbers are out of line with independent economic variables like exports and freight movement. Dr Subramanian had, in fact, made that point even when he was the CEA, arguing that it was rare to see growth in an economy where exports and credit and investment were stagnant or decreasing. This has serious implications for both investors and policy-makers, and should no longer be dismissed or denied. Officials have argued that the new series follows internationally accepted statistical methods. This may well be true but does not address the core questions of comparability and reliability. Whatever the process or method being utilised, the end results have to be subjected to a reality check — and it is clear that the current growth methods do not pass that test.

An independent re-examination of the methodology and results being used for official statistics is the only way out if their reliability and credibility is to be restored. The Economic Advisory Council to the prime minister has termed parts of Dr Subramanian's research report as a "most unusual exercise" and said that it would issue a "point-by-point rebuttal." This may well be a valuable contribution to the academic debate, but it cannot be an adequate response. Dr Subramanian has provided a strong case for a re-examination of the new GDP estimation process as well as the high-growth assumptions guiding policymaking over the years. Thus, a proper response would be to accept that a cloud hangs over Indian growth data which will only be dispelled by greater transparency and investigation of its disconnect with reality.

Overflowing granaries

Shanta Kumar panel's recommendations have been ignored

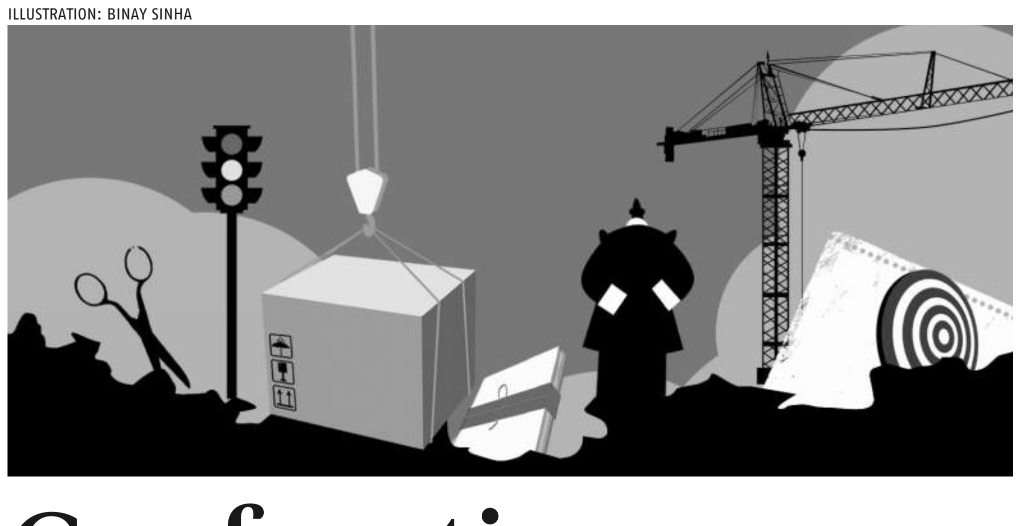
With the government's foodgrain coffers brimming over and more stocks pouring in regularly, thanks to an open-ended grain procurement policy, the country's food surplus has become unmanageable. By official reckoning, the total inventories in the Central grain pool are close to twice the desired stockpiling of 41.1 million tonnes in the beginning of June. Though the fiscal load of the excess stocks is hard to assess precisely as it keeps varying with size of inventories, duration of storage and procurement incidentals, rough estimates put it at over ₹1 trillion. The carrying cost and the interest on the funds spent on its acquisition and upkeep by the Central and state level food handling agencies are in addition to this. All this ultimately inflates the food subsidy.

A sizeable part of the food stocks is held in the states where these have been purchased on behalf of the Centre. The governments of these states, notably Punjab, Haryana and Madhya Pradesh, are pressing the Food Corporation of India (FCI) to expedite evacuation of these grains as their godowns are overflowing and monsoon is approaching. The FCI's own warehouses, too, are bursting at the seams. A part of the procured grains is, therefore, lying in the open under the improvised Cover-and-Plinth (CAP) system of storage where these face a high risk of rain damage and pilferage.

Overstocking of foodgrains could be justified in the past on grounds of food security, but not in today's stable food surplus economy. This year, too, the FCI and the state agencies have mopped up 76.1 million tonnes of staples (33.8 million tonnes wheat and 42.3 million tonnes rice) though the anticipated requirement of the public distribution system and welfare schemes is only around 61 million tonnes. Such imprudence in handling the food economy is untenable. The Shanta Kumar Committee on the FCI and food sector reforms had specifically cautioned against overstocking in its report presented in 2015 and pointed out that it entailed heavy costs without serving any purpose. It suggested offloading inventories in the domestic or export markets as soon as these tended to exceed the buffer stocking norms. But this wise counsel has gone unheeded along with many other sound recommendations of this panel. Only last week, an indication came from food minister Ram Vilas Paswan that the functioning of the FCI would be streamlined as per the recommendations of this committee.

The oversupply of foodgrains is attributable also to steady uptick in the output of cereals in the absence of a reliable export outlet. The need, therefore, is to reorient crop production in favour of high-value and export-worthy products. Paddy can easily be substituted in the north-western non-rice consuming region with crops like basmati, cotton, maize, soyabean and others which are in demand at home and abroad. Haryana has already begun doing so by offering cash incentives and free seeds of alternative crops. Similarly, procurement as a means of lending price support to a crop can be replaced with systems like price deficiency payment and direct income support to farmers. Unless policies are modified on such innovative lines, especially in the regions where the food stocks are facing the risk of rotting for want of safe storage, the country's granaries might turn into graveyards of grains.

ILLUSTRATION: BINAY SINHA



Confronting macro challenges

With key macro indicators flashing amber or red, business as usual is not an option

As the freshly mandated National Democratic Alliance government prepares its first Budget, it confronts a daunting set of macroeconomic challenges, with every key macro indicator (except, importantly, inflation) flashing amber or red:

■ Recently released official data show that GDP growth slowed markedly in the final quarter of 2018-19 to 5.8 per cent, the slowest in 20 quarters, thus bringing down the full year growth estimate to 6.8 per cent, the slowest in five years. This confirmed the sharp slowdown signaled earlier by many high frequency indicators such as the Index of Industrial Production, trade statistics, auto and consumer goods sales, purchasing managers' indices, corporate earnings and so forth.

■ Real investment growth in 2018-19Q4 tumbled to 3.6 per cent, manufacturing to 3.1 per cent and agriculture to minus 0.1 per cent. Private investment has been stagnant.

■ On the same day, the government finally released the Periodic Labour Force Survey report by NSSO for 2017-18, which confirmed that the employment situation in the nation was the worst in several decades, with just under half the working age population actually working or seeking work (the labour force participation rate or LFPR). The LFPR for females was down at a dismal 23 per cent (one of the lowest in the world), and that for female youth at a pitiful 16 per cent. Among those in the labour force, unemployment was at a 45-year peak of 6.1 per cent, with very high rates among youth, ranging up to 27 per cent for urban females.

■ The nation's external financial balance is under stress, with the current account deficit in the balance of payments at an uncomfortably high 2.5 per cent of GDP. Worryingly, the single largest credit item, merchandise exports, has been stagnating since 2011-12, leading to a drop in its share of GDP to 12 per cent in 2018-19, compared to 17 per cent seven years ago.

■ The country's fiscal balance remains under pressure, with the combined deficit of the Centre and state governments at about 7 per cent of GDP, and the Public Sector Borrowing Requirement (PSBR) estimated at around 9 per cent of GDP. The latter yardstick has become more relevant given the growing propensity to manage fiscal deficit targets by transferring government expenditure (and associated borrowing needs) to public sector entities such as the Food Corporation of India. The government debt-to-GDP ratio is close to an uncomfortable 70 per cent of GDP and contingent liabilities are rising.

A PIECE OF MY MIND

SHANKAR ACHARYA

■ The financial sector has been highly stressed for several years because of the "twin balance sheet" problem of high levels of non-performing assets (NPAs) of commercial banks and the correspondingly high burden of unserviced debt obligations of companies (mainly) and households. There were some signs of having turned the corner over the past year, until the dramatic implosion of the hydra-headed Infrastructure Leasing and Financial Services (IL&FS) company last September, which has spread substantial contagion in the universe of non-bank finance companies (NBFCs) and beyond.

■ Finally, the global economic environment of volatile energy prices and major trade wars is not conducive for an early economic recovery in India.

So what can be done to revive growth, investment and employment, improve macro balances and strengthen financial stability, both through the forthcoming Budget and outside it? Let us consider the usual macro level policy tools.

Fiscal policy: Given the high levels of the combined fiscal deficit and PSBR, there is no room for additional fiscal stimulus. As it is, they are preempting all of the annual flows of household financial savings. Any further increase would simply crowd out private investment and shore up the already high levels of real interest rates on medium- and long-term loans. Given existing expenditure commitments, unprecedented recent revenue shortfalls and growing payment arrears, it will be a challenge to keep the Centre's fiscal deficit at the already budgeted 3.4 per cent of GDP. Ideally, a modest reduction would be desirable. Strengthening the revenue yield of the Goods and Services Tax (GST) through procedural reforms and rate adjustments will be crucial, as will be the broadening of the base of direct taxes.

Monetary policy: Through three successive policy statements (the most recent last week) the RBI's Monetary Policy Committee has reduced the policy repo rate by a cumulative 0.75 per cent, of which it estimates only about 0.2 per cent has been successfully transmitted to fresh bank loans thus far. This is hardly surprising, given the high levels of government borrowing (to fund fiscal deficits), which keep the long rates high. The overhang of high NPAs in public sector banks (mostly) and the elevated costs and risks associated with these, as well as the stresses in the NBFC sector, are also impeding transmission and reducing any positive impact on investment. Basically, fiscal dominance and financial sector stress are undermining monetary policy. These have to be resolved or reduced before expansionary monetary policy can become really effective.

Trade and exchange rate policy: The government needs to urgently reverse the past two years' trend towards higher customs tariffs and overvaluation of the rupee and also engage more proactively with regional trading arrangements, notably the Regional Comprehensive Economic Partnership. Only then will the declining share of exports in GDP be reversed, India's participation in global value chains enhanced, import substitution efficiently encouraged and growth impulses strengthened.

A reforms thrust: The best way to trigger higher private investment and growth is to launch a much-needed set of economic reforms. Even though the pay off will take time, clear and credible announcements of a package will revive "animal spirits" and spur investment in the short-run. The key reform areas include: Measures to overhaul labour laws and regulations to make them simpler and incentivise fresh employment in the organised sector; initiatives for easier land acquisitions for non-farm uses; a big push on agricultural marketing reforms and an overhaul of the very costly and distortionary public foodgrain procurement and distribution system; and strengthening the Insolvency and Bankruptcy Code process.

Ease of doing business : Much has been done; but much more needs to be done, especially with regard to exports and imports (trade facilitation).

None of this is new. But it's all still necessary to revive growth, investment and employment. Business as usual risks the perpetuation of low growth, poor employment, financial fragility, and vulnerability to volatile oil prices and external capital flows.

The writer is Honorary Professor at ICRIER and former Chief Economic Adviser to the Government of India. Views are personal.

The insular world of Indian business

About two decades ago, three corporate gurus wrote a book called *World Class in India*. Two of the authors were Indian: The late Sumantra Ghoshal, who was then founding dean of the upcoming Indian School of Business (he died in 2004 at the absurdly young age of 56), and Gita Piramal, a respected historian of Indian business. The third writer was Christopher Bartlett from Harvard Business School who co-authored other books with Ghoshal on the nature of global corporations.

The book made waves not least because of the chain-smoking Ghoshal's electric presence at seminars in the run-up to the launch of McKinsey-promoted ISB. Those were also heady days of hope for India Inc. Indian business had, contrary to the dire predictions of the early nineties, survived the tides of global competition. The powerful industry lobby CII under the quietly charismatic Tarun Das was being heard at the highest levels of policy-making. Chandrababu Naidu, then chief minister of undivided Andhra Pradesh, had created the novel image of the investment- and tech-oriented politician with a "corporate" approach to development, long before Narendra Modi made it a national phenomenon. From airports and roads to flashy new TVs and mobile phones, India Inc seemed poised to become China's rival soon.

World Class in India underwrote that mood of general optimism. It presented case studies of a range of companies in India that appeared to have the qualities to qualify for the tag. The list included Reliance, Ranbaxy, Wipro, Bajaj Auto, Hero Honda, HCL, Infosys and Hindustan Lever (those are the names I can recall — my copy of the book is in the possession of a truant borrower). These companies, the authors said, combined a focused management strategy with an emphasis on people and processes, all the hallmarks of future greatness.

From the distance of two decades, at least some of those names would raise a wry smile. Ranbaxy was embroiled in multiple scandals that had a deleterious impact on the Indian pharma industry for at least a decade and has had two owners in six years as a result. Its original promoters hog the headlines with controversies that are breathtaking, and sometimes comical. Hero and Honda ended a quarter-century relationship and went their separate ways though both retain their top two positions in terms of market share. The IT giants have been in the headlines as much for management changes — Infosys (controversially) and Wipro in particular — as for their efforts to move up the value chain of global IT services. And Hindustan Lever has lost its reputation as the giant of India's fast moving consumer goods market.

SWOT

KANIKA DATTA

Ghoshal et al's list demonstrates the risks of predicting corporate greatness in a world of constant flux. Seen from that distant vantage point, it would have been difficult to foresee the rise of corporations such as Titan, IndiGo, Airtel, Paytm, Flipkart, Oyo, Bharat Forge, Royal Enfield, Sun Pharma, GMR, GVK and a raft of strong private sector banks.

Equally, though, yesterday's optimism seems naive when you survey the corporate Indian scene today: In 2000, Jet Airways was a feted competitor to Air India (then Indian Airlines) and IL&FS the infrastructure financing juggernaut of the future. Companies and institutions once hailed as exemplars of Indian business' animal spirits are either bankrupt, have defaulted or embroiled in some sort of fraud or the other today.

Admittedly, this crisis is principally the result of decades of poor policy-making, cronyism, the misguided activism of some public institutions and the sheer inefficiency of others. But in the welter of headlines that appear almost daily, it is possible to overlook one other endemic weakness in corporate India: Nearly three decades after the shackles on competition were loosened, few Indian companies can be considered truly world class. Just as in the seventies and eighties, the most powerful corporate giants in India are but minnows on the global scene (with honourable exceptions, of course).

Prima facie, there is something illogical about this trend. The sub-standard ease of doing business milieu (which is far worse than the World Bank metrics suggest) should have driven India's largest companies to invest their capital in less challenging geographies, you would think. Servicing the vast, expanding Indian market from overseas was always an option as tariff barriers came down. This is what a host of foreign appliance makers — of TVs, mobile phones, household electronics and so on — have done, powering out Indian incumbents in no time at all (who remembers Onida, Videocon or even Micromax).

So what explains the instinctive insular worldview of Indian business? The answer appears to coalesce around the depressing truth that cronyism at every level offers a handy short-cut through the labyrinths of red-tape. For those who master this game, cronyism spares the entrepreneur the hard business of strategic thinking to compete on equal terms. The un-level playing field has its illusory attractions, but recent business history has shown that it serves Indian entrepreneurs and consumers poorly in the long run.

Coalition *dharma* and *karma*

BOOK REVIEW

ARCHIS MOHAN

A book on the history of coalition governments at the Centre and in states, their contradictions, failures and successes, may seem incongruous, even anachronistic, when the Indian electorate has delivered a single-party majority for a second successive Lok Sabha election. The last time this happened was in 1980 and 1984.

Senior journalist Sunita Aron may have written the book on the assumption that Narendra Modi-led Bharatiya Janata Party (BJP) would struggle to attain a majority in the 2019 Lok Sabha polls and that India would return to the era of coalition politics.

Ironically, the author has dedicated the book "to the Indian voters, whose political acumen has failed the best poll pundits in the country". That does not take away from the interesting insights, delightful anecdotes and political prophecies in the book. It is also a ready reckoner of the history of coalition politics in India.

Chapter three, "The Bihari Fusion", tracks how George Fernandes and Nitish Kumar, after parting ways with Lalu Prasad in the mid-1990s to launch the Samata Party, knocked at nearly every door, from the Communist parties to Mulayam Singh Yadav and Kanshi Ram, but were turned away.

Fernandes and Kumar, the author writes, eventually aligned with the BJP, with the blessings of socialist leader Chandra Shekhar, who had won the 1996 Lok Sabha polls from his stronghold in Uttar Pradesh's Ballia with the BJP not fielding a candidate against him.

The Samata Party–BJP alliance did away with the political untouchability the Atal Bihari Vajpayee-led government, which had fallen after 13 days, had faced in 1996. Fernandes' presence in the National Democratic Alliance (NDA) helped the BJP get the requisite number of allies in 1998.

Ms Aron writes that if the United Front government of 1996 to 1998 laid the first mechanisms on how to run a coalition government — a common minimum programme and steering or a coordination committee — the Atal Bihari Vajpayee-led NDA coalition should be credited with introduction of "groups of ministers" and chief ministers' conference as coordination devices.

With an all-powerful Prime Minister's Office under Mr Modi, the spirit of coalition politics appears to belong to a different era.

Ms Aron obviously wrote the book before the Lok Sabha results, but her reading of Bihar Chief Minister Nitish Kumar and likely developments in that state ahead of Assembly polls in 2020 is perspicacious.

The author writes that the BJP could want the chief minister's post for itself in Bihar, while Mr Kumar "harbours the ambition of being the prime minister". The author states that Mr Kumar "cultivated" Rahul Gandhi and Sonia Gandhi but "overstepped" during the presidential polls of 2017.

Mr Kumar had then wished the opposition declared him the head of their coordination committee, which would have meant the opposition accepting him as their leader to challenge Mr Modi in the 2019 polls. Those close to Mr Kumar argue the Congress first family was "arrogant" in not offering him the political space he justifiably deserved. A couple of months later Mr Kumar ditched his allies to align with the BJP. His Janata Dal (United) now has 16 Lok Sabha members and his archrival Rashtriya Janata Dal none. Interesting developments could be in the offing in Bihar politics over the next year.

Ms Aron remains one of the most authoritative political observers on India's most populous state, and the three chapters on political developments of the last three decades in Uttar Pradesh make for an interesting read. The Samajwadi Party (SP)-Bahujan Samaj Party (BSP)-Rashtriya Lok Dal grand alliance in UP failed to stop the BJP's juggernaut in the 2019 Lok Sabha polls, but continues to be formidable with a cumulative vote share of 38.89 per cent.

The book tracks the events leading up to the first SP-BSP alliance in 1993, when industrialist Jayant Malhotra and a couple of politicians from south India brought SP's Mulayam Singh Yadav and BSP's Kanshi Ram together. The differences between the two leaders started even before the Uttar Pradesh Assembly polls of 1993, Ms Aron writes.

She has argued the media and BSP has unjustifiably vilified Mr Yadav for causing the break-up of the alliance in 1995, when BSP's Mayawati had taken to issuing provocative statements routinely during that time. On transfers and postings of bureaucrats during the SP-BSP alliance government, Ms Mayawati had taken to say that if "Mulayam (Singh Yadav) is CM, I am super CM."

Mr Ram had approached leaders, including Mr Vajpayee, to help him unseat Mr Yadav, the author writes. In almost a repeat of the current scenario, the BSP was routed in the mid-1995 zila parishad elections and Assembly by-polls and blamed the SP for not ensuring a transfer of its votes.

The Mulayam Singh government soon fell and Ms Mayawati, who by now had BJP's support, was administered the oath of office on June 3, 1995. About the SP-BSP-RLD alliance of 2019, Ms Aron wrote how their politics "is dominated and driven by personal ambitions to grab power". The people of UP appeared to have agreed.

BALLOTS AND BREAKUPS: The Games Politicians Play
David Robson
Sunita Aron
Bloomsbury, 342 pages, ₹499