Opinion

TUESDAY, JUNE 18, 2019

ON RE-ELECTION CAMPAIGN

President of USA, Donald Trump

Only Fake Polls show us behind the Motley Crew. We are looking really good, but it is far too early to be focused on that. Much work to do! MAKE AMERICA GREAT AGAIN!

Minor fix on ESIC suggests no big labour reforms soon

Cutting payout to high-cost ESIC good but doesn't fix issues like giving workers a choice; little hope for big labour reform

REDUCING THE MANDATORY contribution to the Employee State Insurance Corporation—ESIC provides medical and other benefits to 3.6 crore persons today—by over a third will, undoubtedly, be a relief for workers. The move by the Narendra Modi government, however, appears quite timid when seen in the context of just how little ESIC gives workers. Indeed, that is why, in his 2015 budget, then finance minister Arun Jaitley had spoken of how ESIC—and EPFO—had hostages rather than clients, and promised to give workers a choice. In the case of EPFO, Jaitley spoke of the dormant accounts—workers have lost tens of thousands of crore as these haven't been transferred to their new jobs—and in the case of ESIC, he spoke of its low claims ratio. As a result of the low claims ratio—as compared to 95-100% for most medical insurance, that for ESIC is 37-50%—ESIC's surpluses have soared from ₹6,162 crore in FY16 to ₹14,936 crore in FY18. As a result, ESIC's reserves are around ₹75,000 crore today, and the bulk of this is kept in bank fixed deposits; ESIC has so much money, it is even building medical colleges, and all of this is funded by workers who earn an average of around ₹10,000-12,000 per month.

Given how group insurance costs a lot less, surely the government could have given workers more options that cost a lot less and probably give better cover. While LIC, for instance, charges a premium of ₹1,529 per annum to a 20-year-old for a 20-year cover for ₹6 lakh—going up to ₹6,273 for a 45-year-old—the group insurance Pradhan Mantri Jeevan Jyoti Bima Yojana scheme charges a mere ₹330 for everyone between 18-50. And, as compared to ₹100 per ₹1 lakh of personal accident cover from non-life insurers, the Pradhan Mantri Suraksha Bima Yojana charges a mere ₹12 per year for a ₹2-lakh cover. Group medical insurance—for 3-4 crore persons—would, similarly, cost a small fraction of what individual mediclaim cover does today.

Apart from ₹20,000-crore-plus in dormant accounts which represents a dead loss to subscribers whose money is stuck, even now, the bulk of EPFO investments are made in low-risk PSU bonds. And yet, the EPFO charges 2%—it was 4.4% in 2014—of the monthly contribution as an administrative charge, making it the world's costliest mutual fund, especially for government securities. Even equity MFs charge around 1% when money is invested directly. Also, while few see this as a cost for workers, the fact that EPFO gives workers just 8-8.5% return versus 12-13% in the National Pension Scheme also means their post-retirement corpus is much smaller if they are tied to the EPFO; at least so far, the government has not given workers the option to move from EPFO to NPS. Given the poor state of jobs creation, India needs a sharp burst of reforms that have to give more flexibility to employers as long as workers are compensated properly; in contrast, apart from steadily raising the minimum wages, state governments even put a cap on how much overtime can be done, and at what wage. While it was hoped the Union government would move on this, especially given the poor state of employment growth in the country, the weak moves on ESIC don't augur well.

A chronic illness

WB medical crisis a symptom of underfunded public health

THERE IS NO doubt that the West Bengal government could have handled the doctors' protest in the state—following a junior doctor receiving a non-fatal, but grievous, injury at the hands of a patient's family alleging medical negligence—a lot better. For one, the olive branch that chief minister Mamata Banerjee eventually extended should have come right at the protest's germination. Instead, Banerjee gave the striking doctors an ultimatum, of joining work within four hours of her announcement or risking sacking. Thanks to the shoddy handling, doctors across the country struck work in solidarity, tripping the country's already limping public healthcare system. And, of course, this allowed the issue to become politicised in an unbecoming manner. But, for all of Banerjee's faults, the fact is that the pressure on the public health infrastructure and talent in the country is crushing and nurtures the conditions that lead to such patient-medico clashes, especially with an effective grievance redressal mechanism summarily absent.

According to the latest National Health Profile (NHP), the average government doctor in India caters for 11,082 patients. In West Bengal, this ratio stands at 1:10,411—while this may seem palatable in comparison to the national average and the worst-performing Bihar's 28,391 patients per doctor, the WHO's ideal doctor-to-patient ratio is 1:1,000. As per reports, India's 462 medical colleges produce 56,748 MBBS graduates every year. Yet, to meet the needs of a population of 1.4 billion, and growing at around 26 million per year, this woefully inadequate—India falls short by as many as 600,000 doctors. Primary health centres bear the worst of this burden, lacking 10,112 female health workers, 11,712 female and 15,592 male health assistants, as well as 3,000 doctors. Close to 2,000 such primary health centres operate without a single doctor, and there is a shortfall of 5,000 surgeons in community health centres—this means nearly all the burden is on the district and municipal hospitals, government medical colleges/hospitals and medical research institutions in the metros.

The crisis of health workers is not limited to doctors; government hospitals in India are short-staffed on paramedical and nursing staff, too, which affects the quality of healthcare delivery. As per the WHO, the minimum is of 22.8 healthcare workers per 10,000 people, and India is among the 83 countries that fail to meet this standard. India lags behind the globally accepted standard for nursing assistants too—despite 3,123 training institutions graduating 125,764 nurses annually, India operates with only 0.1 nurses per physician, or one nurse per 10 physicians, as opposed to the norm of 2.8 nurses per physician. While the central government claims that these shortfalls shall be overcome by 2022 as the number of seats at medical colleges have been increased, government investment in healthcare remains abysmally low. Compared with the global average of 6%, the government intends to invest only 2.5% of the national GDP in healthcare by 2025. According to the 2018 NHP, the investment currently stands at 1.02% of the GDP—or ₹3 per person per day in absolute terms, as per an IndiaSpend analysis. This, of course, places a heavy burden on the patient—nearly 70% of the expenditure on health in India is met out of the patient's pocket while the global average for out-of-pocket expenditure is 18%—and therefore the crushing pressure on the existing public healthcare infrastructure, including research institutions.

GreaterEVIL

Plastic is a significant environmental threat, but its replacements pose other environmental risks

A REPORT BY Denmark's ministry of environment and food highlights the environmental impact of cotton totes have vis-à-vis low-density polyethylene bags (LDPE). It says, considering all factors besides marine litter—plastic is nearly the sole contributor to this—cotton totes are worse for the environment. The ministry estimates that a cotton tote would have to be reused 7,001 times more than a LDPE bag to prove an effective substitue, thanks to the environmental footprint of cotton cultivation and the manufacturing for the bag. The report also says that transitioning to cotton or paper bags will also affect the environment adversely—because this involves deforestation, ozone depletion, unsustainable usage of water, and toxicity.

The report says organic cotton is even worse—bags from organic cotton must be reused 20,000 times to prove effective as a substitute for LDPE. Cotton is a very water-intensive crop and cultivation could draw a lot of fossil-fuel based power. Similar issues also arise in case of paper, wherein large scale deforestation must occur to cater for that need. For instance, the need to make toilet papers soft has taken a toll on Canada's boreal forests. As of now, 127 countries favour a ban on single-use plastics. The world has to come to terms with the idea that anything 'single-use' will affect the environment drastically; but a ban plastics will not deliver the environmental boon we seek.

BUDGET STALEMATE

ANY COUNTERCYCLICAL ACTION COULD EXPOSE THE ECONOMY TO UNMITIGATED RISKS. IF THE CENTRAL GOVERNMENT OPTS TO DEVIATE FROM THE NEW GLIDE PATH, THE DEBT WILL FURTHER ACCUMULATE

Modi 1.0 exhausted all fiscal space

RENU KOHLI
Delhi based economist
Views are personal

A DECISIVE POLITICAL MANDATE and a fragile economy have raised expectations for a power-packed FY20 budget. This is anticipated to be significantly different from the interim one. As Modi government 2.0 prepares to reshape revenue parameters in view of the sharp shortfall in FY19 and reorient expenditures accordingly, it is tempting to seek recourse to structural deficit and defer fiscal consolidation permitted by the amended FRBM Act (2018). Many, wary of such a move, counsel restraint. But before adjudicating on the most appropriate fiscal policy in the current context, especially with the financial sector in considerable turmoil, a medium-term macroeconomic risk analysis is called for!

To spend or not to spend

Contrary to Modi government 1.0's fiscal consolidation claim, the central government's debt-GDP ratio has inched rather modestly towards 40%, which is what the newly amended FRBM Act (2018) targeted by FY25. Moreover, it piled up much more debt outside the budget, raising extra budgetary resources (EBRs) flagged by the CAG and widely reported in the financial press. Analysts estimate the general government deficit (Centre and States), including these EBRs, at 8.5-9.0% of GDP. The NK Singh FRBM review committee had estimated available total financial resources (domestic and foreign) at 10% of GDP; its broader proposition was for equal distribution between public and private sectors, or 5% of GDP each. Analysts worry that if the largest dissaver, the government, is appropriating about 90% of the economy's financial surplus, then what is left for the private sector.

Thus, the big picture is amply clear—the resultant high cost of capital is real and crowding-out of private investment a distinct possibility. Many economists, including this author, who were highlighting the role of structural rigidities in obstructing monetary policy transmission, missed this point until the gigantic amount of EBRs came to light. But now, the loop appears complete—lending rates (cost of capital) are high because of high bank term-deposit rates, which compete with small savings, interest rates on which are linked to treasury yield with high term premium. The elevated term premium, in turn, reflects market's worry about general government debt piling up as financial savings dry out! It is unfortunate the monetary policy committee (MPC) and RBI have been reluctant to flag this.

The fallout has deprived the economy of reaping the dividend from lower inflation. Some analysts advocate that RBI infuse more durable liquidity in the system. But such prescriptions are, at best a short-term solution, raising long-term inflationary concerns. Many also advise the government to lower small savings rates. But here, too, one is not sure if this could trigger a flight of savings to mutual funds and stocks for better yields as long-term inflation expectations remain unanchored. The most sustainable way forward, therefore, is for the government to retreat from further EBR accumulation and stay the course as per FRBM Act, 2018.

What could go wrong?

If the central government opts to deviate from the new glide path or does not rein in EBRs, then debt will further accumulate and inevitably require even sharper corrections in coming years to meet the 40% debt-GDP ratio target for the centre in FY25. If growth concerns persist into FY21, the government might be forced to amend the FRBM Act once more (already revised in 2015, pushing the 3% fiscal deficit target to March 2018, which remains unachieved), further delaying the road map. This would risk credibility, impacting the term premium. It could also complicate the 16th Finance Commission's job of prescribing fiscal austerity to state governments, which is essential to achieve the general government debt-GDP ratio target of 60% in FY25.

Of course, it could be argued, as indeed some do, what is so sacrosanct about a 60% debt-GDP ratio! If inflation hasn't flared up despite such massive government borrowings in the last five years and the current account deficit remained within 2% of GDP (considered sustainable through capital account financing), then why should the government worry? After all, the government deferred the consolidation path thrice in the last five years and heavens will not fall if it did so one more time!

> **If growth concerns persist into FY21, the government might be forced to amend the FRBM Act once more; further delaying the road map**

What if growth slowdown is structural not cyclical?

Most analysts characterise the current slowdown as cyclical, which could persist for two quarters before a recovery in H2:FY20. RBI projects a gradual recovery from Q1:FY20 itself, in fact, with GDP growth returning to 7% and above in the second half. But circumspection is required about the nature of new GDP estimates: while consumption moderated somewhat, investment fell quite sharply in the last quarter. Why should that happen? While slower consumption was anticipated following the NBFC stress and consequent lending slowdown, investment was expected to pick up in line with bank credit growth and steadily improving capacity utilisation through FY19.

If these estimates are indeed closer to reality, the presence of some structural elements in deceleration of both consumption and investment cannot be ruled out. Some leading indicators for April-May 2019, for instance, further contraction in motor vehicle sales, slower air traffic growth and deceleration in credit off-take, support such apprehension! For evidence, look at the press analyses of Q4 results: most corporates faced a sharp increase in interest expenses that significantly impacted net profit margins—early signs of balance sheet stress. If firms could not pass on their costs due to demand constraints, then why should they invest, irrespective of where capacity utilisation stood! If GST, the biggest reform, and the construction of miles of roads and railways under Modi 1.0 have not yielded the efficiency gains to offset the rising cost of capital, then surely it is time to introspect! Under the circumstance, should the government take on more debt to increase the misery of the private sector?

Eternal trouble makers: Oil prices and Capital flows

Another issue flagged above is if the fiscal deficit during Modi 1.0 was no less than the UPA-II period, then how did inflation not flare up? To us, the answer is very simple: because private investment demand was near-dormant, aggregate demand remained somewhat controlled. As capacity utilisation gradually moves towards a threshold, one would expect private sector investment to revive. But, if the government continues to borrow more, pressures could build up. Luck has favoured the government with low oil prices and abundant capital inflows, but to expect these two volatile elements to remain benign in the medium-term is risky. Global trade and finance is being pushed into layers of uncertainties each day and one can only hope these do not suddenly turn into a volcano, forcing major trading countries towards competitive devaluations! Better to prepare for such eventualities by creating the space for private sector to borrow within the domestic economy.

It is time for reckoning: Set realistic tax and non-tax revenue targets—recognise that ambitious tax revenue targets germinate tax terrorism in non-linearly. Restructure revenue expenditure to create space for capex. Stay the course on borrowings to avoid any unmitigated risks and allow monetary policy to work its way.

Climate change is an undeniable reality

A constantly changing climate is all that most people on Earth know. Perhaps it's not a surprise that politics is catching up, and perhaps policy will as well

NATHANIEL BULLARD
Bloomberg

IN MAY, THE Toronto Star launched an in-depth series on climate change in Canada, with a straightforward title: "Undeniable." It's an apt description of the evidence within the reporting and elsewhere in publicly available data.

"Undeniable" might be a useful descriptor, but let's frame climate change differently: how this reality manifests itself within the human experience, and how politics are being shaped by that experience. Let's begin with global average temperatures.

Global surface temperatures have surpassed the 1951-1980 average every year since 1977, which means anyone born since has lived their entire lives in an already changed climate.

In 2015, the global median age was just below 30, so a changing climate is the only thing most people on Earth have known.

Different age groups have contrasting views of a climate of constant change and volatility. A recent Gallup poll separated Americans into three climate change cohorts:

■"Concerned believers" are highly worried about global warming, think it will pose a serious threat in their lifetime, believe it's the result of human activity, and think news reports about it are accurate or underestimate the problem.

■"Cool skeptics" hold the opposite views on the same four questions: They worry little or not at all about global warming, do not think it will pose a serious threat in their lifetime, think it's attributable to natural environmental changes, and think the news exaggerates the problem.

■Those in the "mixed middle" hold a combination of views. For instance, some believe global warming is caused by humans but aren't worried about it, while others express the reverse perspective—saying warming is a natural phenomenon, but they are highly worried about it.

Those cohorts generally map to age: The younger the person, the more likely it is that they are a concerned believer.

But extreme weather is moving public opinion on climate change, too. University of Illinois professor Scott Irwin showed just how dire this year's intersection of extremely wet weather and the Corn Belt's planting season is. By the 22nd week of the year in three previous years of extremely late corn planting, at least 80% of the crop was already in the ground. This year, the corn crop was only only 67% planted.

That slowing planting progress comes as the U.S. just endured its wettest 12 months since 1895. There's a trend in this pattern, too, similar to that in global surface temperature: above the 20th-century average not for years, but for decades.

According to the National Weather Service, the Mississippi River's June 9 crest in St. Louis was the second-highest, behind the 1993 record, and six of the river's 12 major crests on record have occurred since 2013. For someone living in the area, those river crests probably don't feel like outliers; they might begin to register as the new normal. *The Economist*, reporting from flooded Illinois, says "floods and storms are altering American attitudes to climate change."

This changing attitude can also be seen in the field of Democratic presidential candidates. Elizabeth Warren, who "has a plan for that," has "My Green Manufacturing Plan for America." Joe Biden has "Joe's Plan for a Clean Energy Revolution and Environmental Justice." Washington state Governor Jay Inslee has not only America's Climate Mission, but also a plan for Global Climate Mobilization. In the same way that a changing climate is the reality for most people, it is becoming a political reality.

A constantly changing climate is all that most people on Earth know. Perhaps it's not a surprise that politics is catching up, and perhaps policy will as well. Markets, too, are catching up, as we'll explore next week.

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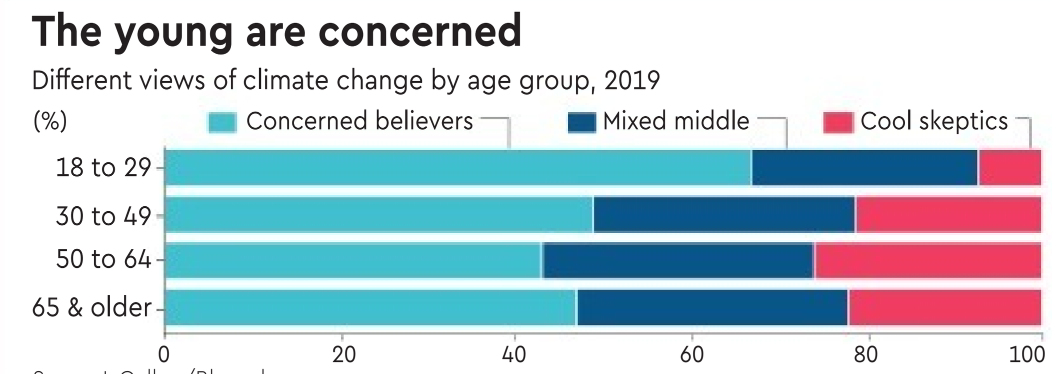
The young are concerned

Different views of climate change by age group, 2019



SourceL Gallup/Bloomberg

LETTERS TO THE EDITOR

Encephalitis deaths

It would seem that India is not a country for poor children. The outbreak of encephalitis has claimed the lives of as many as 83 children in the 1 to 7 age group in Bihar's Muzaffarpur. It is a human tragedy linked to food security and health care systems. It would be a betrayal of humanity if we ignore the child deaths or develop a sort of mental resistance to them or accept them as a normal state of affairs in our country. Clearly, the victims were undernourished infant children from impecunious families. It is not sufficiently appreciated that chronic malnutrition and abysmal health care make young children especially vulnerable. Politicians promise much in food security and health care, but deliver little. Possibly they don't show the political will because they attach no great value to the lives of the poor and even consider them 'sub-human' and 'expendable'. Saving the lives of children, an enormous task, must get priority. Many Indian children suffer more malnutrition than in sub-Saharan Africa. Children everywhere and of all nationalities should get nourishing food. If we are truly patriotic, we cannot wait to provide our underfed, anaemic children the required daily calorie-intake. Mere full-throated chanting of Bharat Mata ki Jai won't do. We cannot be proud of being the 'world's third largest economy' and 'on the brink of global success' when children die for want of food and health care. A 'superpower' cannot have the 'largest concentration of impoverished citizens on Earth' or countenance child deaths in any of its geographical area.

—G David Milton, Kanyakumari

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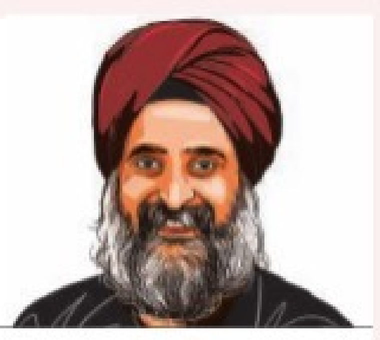

Economic challenges for the new government

The four major challenges are fixing the country's financial sector, especially its banks; continuing to reform the tax system; reducing outflows of funds due to loss-making or inefficient government enterprises; and truly reforming the agricultural sector

NARENDRA MODI AND the NDA won a famous electoral victory last month, consolidating political power in a manner that many had not imagined was possible in contemporary India. The country of a "million mutinies" seems to be increasingly aligning with a particular vision of national identity. But political power is no guarantee of success in economic policy. Improving the material well-being of India's long-suffering masses will require focused attention to the nation's economic challenges. What are they?

The foremost challenge, I would argue, is fixing the country's financial sector, especially its banks. Finance is both the fuel and the lubricant of the economy's engine: fuelling growth by channelling funds to productive investment, and lubricating transactions and day-to-day economic activities. The overhang of debts that are on the balance sheets of banks and other financial institutions, but will almost certainly never be repaid, prevents new investment taking place to the degree it needs to. The new bankruptcy law, and the Reserve Bank of India's attempt to make it operational and effective, has run into obstacles, which, if not removed, will allow the situation to linger and even worsen, rather than the hoped for improvement. In that case, the skyrocketing ranking in the World Bank's Ease of Doing Business measure will be meaningless. Whether additional new laws or new regulations are needed is up to the experts, but clearly there has to be political will to move quickly through a process that will inevitably be painful.

The next challenge lies in the country's tax system. India is closing in on three decades of reform of what used to be a devastatingly inefficient tax system. But it remains an underperformer in terms of its tax-to-GDP ratio, adjusted for its per capita GDP. The goods and services tax (GST) still needs to be simplified and implemented fully. Simplification, and possibly even lowering of rates, can improve both compliance and enforcement. Continuing to broaden the income tax base, and working out an effective and non-capricious way of collecting corporate taxes—especially from multinational corporations—both have to be done. Recent governments have resorted to retroactive tax judgements that undermine certainty and trust, and will only discourage investment. While local and other subnational taxes can often be inefficient, the Centre should consider allowing local and even state governments to increase their tax authority, even by piggybacking income tax surcharges on central collections. This last measure would need a constitutional amendment, but improving the assessment and collection of property taxes requires no legislative change, just political will and administrative competence. Property taxes are relatively progressive and should be difficult to avoid. In any case, increasing public resources in ways that are non-distortionary and non-extortionate is an imperative. The need for these resources to clean up the financial sector mess adds to the urgency.

On the other side of the government's accounts, reducing outflows of funds due to loss-making or inefficient government enterprises is a third urgent challenge. Air India is the most obvious case, since it burns taxpayer money in a market that serves the relatively well-off. But there are problems across many sectors, including electric power, hospitality, and, of course, banking. There is a vicious circle at work here, since there are many existing jobs at stake, while new jobs are not being created rapidly enough. But it is better to sell off such enterprises with restrictions on immediate job cuts, than to perpetuate value destruction: creative contracts are needed. This avenue of reducing government ownership will be important for a sustainable financial sector, beyond the short-run clean-up of balance sheets.

A fourth challenge lies in the agricultural sector. Rural India, where the majority still reside, remains relatively poor and is falling further behind. Restrictions on marketing and trade often constrain the ability of farmers to get the most value for their crops. Intermediaries continue to exert disproportionate power in markets for inputs and products. Crop procurement schemes are inefficient and also subject to intermediary capture. Insurance that reduces risk and uncertainty barely exists, exposing farmers to unsustainable debts that, then, lead to fiscally costly loan waivers. Agricultural extension has not kept up with the needs of modern agriculture. Thus, the government intervenes inefficiently and in the wrong places, often not doing things where it could really add value. This has been a common theme in Indian economic policy, but agriculture has reformed the least, under cover of protecting the poor, but actually keeping them in relative poverty.

> **Rural India, where the majority still reside, remains relatively poor and is falling further behind ... agriculture has reformed the least, under cover of protecting the poor, but actually keeping them in relative poverty**

There are other challenges as well, of course, but even tackling just the above four effectively would make an enormous difference. The vice-chairman of NITI Aayog, Rajiv Kumar, spoke of a priority list of "big bang" reforms right after the election results. It included most of the above list, along with other reforms such as ones aimed at labour and land laws. So nothing in the above is particularly original. Further, he spoke of making progress in the first 100 days, which would be remarkable if it happened. Of course, proper formulation and implementation can take time, but even strong public commitments to tackle specific challenges can be useful.

Having a strengthened government with significant continuity of expertise and decision-making can certainly help in moving forward more expeditiously than is typical for India. Perhaps we will see some truly positive developments in economic policy over the course of the monsoon season.

FLEXI BENEFITS

Offering holistic employee wellness

ARMAAN SETH

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Employers must see themselves as facilitators of benefits, not just providers

THE SHIFTING PRIORITIES of today's workforce, rapid evolution of technology and an increasingly competitive talent landscape have contributed to significant adjustments in business models globally. From adoption of smart technology to the rise of automated processes, the business world is becoming more agile by the day. The modern workplace is characterised by technologically-advanced tools, untethered workspaces and the influence of the millennials. To remain relevant in this changing landscape, many organisations are shifting to a more flexible workforce model.

Flexible benefit plans have become increasingly popular with employers these days, as organisations are tapping into the increased functionality, giving employees an opportunity to customise it to their unique lifestyle and needs. According to the recent Deloitte's study of millennials in India, by 2020, India is touted to have 64% of millennial workforce in the working age group.

The millennial generation is the largest age group to emerge since the baby boomers, and as this group grows significantly as a proportion of the workforce over the next 20 years, organisations will need to make major adjustments in their engagement models. Considering that health and childcare expenditures have risen tremendously over the past several decades, this has had a major effect on businesses' ability to offer benefits. These allow employees to customise their selection based on their needs and requirements, which are constantly changing. These employee benefit plans may include health insurance, retirement benefit plans, and reimbursement accounts that employees can use to pay for out-of-pocket health or dependent-care expenses. Today's workforce is hungrier to advance and is more opportunistic than previous generations, and flexible health benefits have become much more pronounced in their minds.

To attract and retain top talent, organisations offer holistic employee wellness through these programmes that suit individual needs as well as provide transparency and flexibility. Offering flexibility gives employees and recruiters more options, and creates a greater pool of talent for them to choose from when looking to hire new people. A key advantages of consumer-driven health plans is these offer current employees better quality of life, and develop mutually-beneficial relationships. Benefits tailored to individual needs can improve employee satisfaction. From the employer standpoint, this flexibility means employers can save money by not spending on benefits that individual employees do not value. This type of plan structure may allow smaller employers a way to offer more benefits without excessive expenditures. But moving to a flexible benefits programme is not easy. It involves redesigning the benefits package with professional employee communications. To justify such a large-scale HR project, the programme must deliver on containing costs and increasing employee satisfaction.

A flexible workforce model addresses concerns specific to each generation. Knowing that baby boomers are looking ahead to retirement or reduced working hours, Generation X is looking for work-life balance and millennials are drawn to work that inspires them, adopting a flexible work model can allow businesses to appeal to a diverse range of talent.

To specifically address the treatment and care of LGBT employees and to provide benefits coverage equally to all employees, organisations have revisited their health benefit programmes to ensure that LGBT couples are eligible for the same company benefits as others. LGBTQ-supportive flexible policies can have an instant effect on individual employees, consequentially creating less workplace discrimination and improved comfort about being openly LGBTQ at work.

In a nutshell, employers are starting to see themselves as facilitators of benefits, not pure providers. They are realising they can get more value by allowing young employees to choose the benefits that suit them best. A healthy person at the beginning of her career, for example, is more likely to want flexible benefits that support an independent lifestyle. In contrast, a long-time employee who is nearing retirement is likely to favour a more predictable structure weighted towards retirement savings. Flexible health benefit packages stand out as one area that can be made more appealing to the millennial workforce, thereby improving employee engagement, attract and retain talent that delivers better outcomes for both employee and employer.

NEW GOVERNMENT

How will PE/VC investments fare?

BFSI, healthcare, renewables, FMCG present significant opportunities for deal-making

IQBAL KHAN

The author is partner, Shardul Amarchand Mangaldas & Co

EVEN WITH ALL THE EUPHORIA around India's election results, the country's key economic indicators remain depressed. If the economists are right, one of Asia's largest economies seems to be losing its glitter and sheen. Sales data across consumer goods, automobiles and tractors have slumped. The Index of Industrial Production is virtually stagnant and unemployment is upwards of 7%. Based on overall economic data, India's economy grew at a six-quarter low of 6.6% in the October-December period. GDP growth for FY19 is pegged between 7.3% and 7.5%, depending on whose estimates you rely on.

Despite the lacklustre economic data, India remains a bright spot in an otherwise uncertain global economic narrative. Now armed with the BJP's overwhelming victory and decisive mandate, India has a real opportunity to shine brighter. There is a weight of expectations from the new government's Union Budget to be presented in July, with the hope that a bold set of reforms will help kick-start private consumption, rejuvenate the rural economy and accelerate public expenditure in areas like infrastructure development.

Even as we anticipate what the inaugural Budget will hold, the market for PE investments in India remains positive. In fact, 2018 was watershed year for PE/VC investments, with investments peaking at $35.8 billion and exits at $26 billion. Fundraising by PEs/VCs rose by nearly 40% year-on-year, adding to the vast reserves of dry powder already available in the market. Private equity in India is indeed at a historic inflexion point.

Early data from 2019 suggests that the country's M&A landscape is off to a strong start, thanks to a number of enabling factors. The first on the domestic front is renewed political certainty after the BJP's overwhelming win. Foreign investors, in particular, have long remained wary of fragile coalition governments, so a majority win should be a source of comfort. The second factor on the international front is escalating trade tensions between the US and China. The trade war could lead to significant dislocation in the international markets, with countries like India standing to gain, provided we can transform the economy into a production hub.

The third factor lies in the increasing divestiture of non-core assets as Indian companies seek to reposition themselves to focus on their core business. A recent EY survey showed that 81% of companies planned to divest assets within the next two years, providing plenty of opportunity for both PE investors and strategics. Finally, India's PE deals have come of age and have demonstrated the potential for successful and well-structured exits: this year will likely see larger and more complex deals, given the assurance investors now have that the Indian market can deliver reliable returns.

In my assessment, the banking and financial services, healthcare, technology, renewables and FMCG industries will continue to dominate the narrative in 2019, and will present significant opportunities for deal-making this year and beyond. In all such sectors, there is a huge potential for large, complex transactions, focused towards acquisition of control and buy-outs as Indian promoters themselves become more comfortable with the idea of ceding control. Within the healthcare sector, we see new opportunities in pharmaceuticals, particularly in view of the recent developments between the US and China.

The 'trade war' between the two economic superpowers has given a new lease of life to Indian API manufacturers who are now seeking to gain a stronger foothold as China moves from APIs towards innovation. Another significant opportunity for prospective investors within the pharma space is the market for pharmaceutical distribution. India's pharma distribution market is extremely fragmented and is in urgent need of consolidation. An opportunistic investor could find greater value and opportunity in leading the consolidation process and extracting efficiencies from a newly-created supply chain network.

The renewable energy sector is yet another potent investment theme. India now ranks fourth in the world in wind power-based capacity, and sixth in solar. And yet the addressable market opportunity in renewables is massive—90% of India's energy still comes from fossil fuels and nearly two-thirds comes from coal. India has pledged that renewable energy will be 40% of its electricity generation capacity by 2030, but vast gaps in the achievement of this target remain. There is at least a $17 billion shortage of equity, and a $36 billion shortage of debt, highlighting an attractive market opportunity.

As with all opportunities, it is best for investors to approach the market with cautious optimism rather than unbridled enthusiasm. While deal volumes look promising, a repeat of 2018 is less likely. An abundance of dry powder and a significant increase in the number of PE players mean valuations will remain high. Investments in IT services will need to be well-thought-through because of the increasing pressure on margins—Indian IT service providers are forced to hire locally due to visa issues.

Additionally, investment activity and deals will remain closely linked to much-needed reforms in the IBC process (for example, introduction of pre-packs and US-style 363 auction sales would substantially increase deal certainty, proper asset valuations and restructuring certainty), and will have to respond to the ongoing liquidity crunch that has followed the retrenchment of PSU banks from the overall economy. If the new government can rise to the challenges of these reforms, it can ensure a healthy pipeline of deals and exits in India. PE investors will then have plenty to write home about.