Opinion

WEDNESDAY, JULY 24, 2019

ON RTI AMENDMENT

Congress leader, Sonia Gandhi

The Central government is hell-bent on completely subverting the historic Right to Information Act, 2005. This law... passed unanimously by Parliament, now stands on the brink of extinction

IL&FS exposes the rot in the rating agency system

Grant Thornton report clearly shows just how ratings were manipulated; some serious action must be taken

WHILE SOME RATING agencies mentioned in Grant Thornton's draft audit report—on how rating agencies favoured IL&FS and various group companies—have put out press statements pointing to inaccuracies in the report, there is enough in the report for the authorities to take some serious action against these raters. The charges range from consciously delaying giving the correct ratings on group firms for years to giving them favourable ratings, as a result of which the investor public had no idea of just how precarious the group's finances were; given this, it was easy for the group to amass a whopping ₹106,000 crore of loans. Just how big the hole in IL&FS's balance sheet is can be judged from the fact that the government estimates state-owned banks will recover just half their loans. It didn't help that, despite IL&FS's impressive parentage—LIC owns over 25% of its equity and Orix of Japan owns 23%—and its illustrious board, no one seemed particularly interested in letting anyone know the true state of the group's finances either. So between IL&FS's management, the auditors that failed to notice anything and some rating agencies who fudged ratings, a rosy picture of the finances was put out. The IL&FS annual report for 2018, for instance, gives the company's net profits of ₹584 crore within the first few pages, but it takes till the 210th page to know that group incurred a net loss of ₹1,869 crore that year; while the company's borrowings are ₹15,935 crore, it is only in the consolidated balance sheet—also in the annual report—that you get to know the group debt is ₹106,483 crore.

While Moody's has said that, contrary to what Grant Thornton alleges, it never asked for an additional fee for keeping its rating private—it says the fee for a private or a public rating was the same—the fact that a rating could be kept private allows the management to hide the truth from the investor public and the authorities. Indeed, Grant Thornton gives an instance of how an official of India Ratings also suggested that a rating it was giving could be kept private. The fact that the heads of both Care and Icra have been sent on leave makes it clear the boards of these firms are aware that the evidence against them is damning.

Just three firms of IL&FS—ITNL, IFIN and IL&FS itself—got 429 ratings done since 2011, so it is obvious that the group generated a lot of business; IL&FS had 347 group entities held through four levels of subsidiaries and the auditor fees paid rose from ₹4.5 crore in FY15 to ₹15.9 crore in FY17, before falling to ₹13.7 crore in FY18. While the group had good ratings till around the middle of last year, the Grant Thornton report indicates that rating agencies were worried about the group's exposure way back in 2011, but still didn't change their ratings; hardly surprising since, as the report shows, among other favours, the group helped a senior Fitch manager get a ₹44 lakh discount on a flat and donated another ₹25 lakh to a trust run by the chairman of ICRA. In December 2016, email records of IL&FS officials showed that Care was downgrading a group firm to BB+ with a stable outlook; after a round of discussions, this was bumped up to BBB- with a stable outlook! There are several such transactions that are spelled out in detail, but the real shocker is that in November 2011, Fitch had assigned a rating of AAA with a negative outlook for IL&FS; some discussions later, this became AAA with a stable outlook. Indeed, it wasn't just Fitch, internal IL&FS correspondence showed that Care and Icra had similar concerns pertaining to IL&FS's profitability, divestment, weak exposure in group companies, etc. Despite this, however, not a single rating agency indicated this; in one case, an IL&FS staffer edited the rating rationale given by ICRA. If no major action is taken against the rating firms who have been indicted by Grant Thornton, it would reflect very poorly on India's regulatory system.

Andhra for Andhraites ...

Will spur similar demands in other states, a bad idea

ANDHRA PRADESH CHIEF minister Jagan Reddy has dealt a big blow to the idea of a pan-Indian market for all goods and services—and for people migrating from one state to another in search of jobs—by passing a legislation that says 75% of all jobs, including in the private sector, have to be reserved for local youth; factories have three years to comply and, if adequately skilled people are not available, firms will have to train local people with the required skills. Some other states have similar stipulations, but that is for industries that are set up after availing of financial incentives from the state government. While it is early days yet, what is worrying is that some other states are also looking at laws similar to what Andhra Pradesh has just passed. Soon after he was sworn in, Madhya Pradesh chief minister Kamal Nath also suggested a law reserving the bulk of jobs for the local population. Apart from what this will do to states like Uttar Pradesh and Bihar that have a very large number of people migrating in search of jobs, what is more worrying is the potential spillover to other areas. In the power sector, for example, several state chief ministers are reluctant to let electricity be 'exported' to other states by units that are located within their boundaries—not allowing this 'export' lowers domestic prices—and moves such as the Andhra-for-Andhraites will only spur similar moves by other states. Indeed, last year, both Andhra Pradesh's then chief minister Chandrababu Naidu and Karnataka's then chief minister Siddaramaiah raised the issue of southern states subsidising the northern ones by contributing more to the central tax kitty.

Passing a law and implementing it, though, are not the same thing. Even in the case of Andhra Pradesh, the new law exempts industries like fertilisers, coal, pharmaceuticals, petroleum and cement for now; and it is likely that the stipulation does not extend to the IT industry. Maharashtra, similarly, introduced a law over a decade ago on reservations for those units that availed of state incentives, but the law was never really implemented. And when Karnataka planned a 100% reservation for Kannadigas in blue-collar industries—both infotech and biotech were kept out of its purview—this was given a quiet burial later. At a time when all states are competing to attract investment, it is difficult to see how such a policy that makes it more difficult for industry to work can possibly be implemented in both letter and spirit. Also, if it is implemented in earnest, it is unlikely it can stand legal scrutiny since it violates both Article 14 (Right to Equality) and Article 16 (Right to Equal Opportunity). It seems more a political ploy right now, but it is a good idea to keep a close watch on how things pan out.

RelatedMATTER

Related party transactions falling could be a sign of improving corporate governance in the country

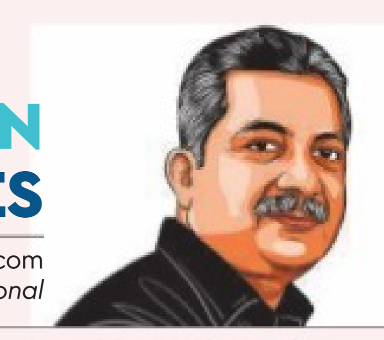
GIVEN MANY corporate fraud cases have had one or the other connection to related-party transactions (RPTs)—Satyam, WorldCom, Enron, Jet Airways, amongst others—RPTs are a tightrope for both corporate governance and regulation. RPTs have been eyed with suspicion in India because Indian business houses are often promoter-led. So, from the Bhabha committee (1952) and the JJ Irani committee (2005) to the Companies Law committee (2016), all have suggested some form of control; the Companies Act 2013 vested significant power to adjudge RPTs with the shareholders. According to the Act, RPTs, in general, require the approval of the company's board and audit committee. In cases where RPTs exceed a certain amount—10% of net worth or annual turnover—the majority of the shareholders, excluding the interested parties, have to give their approval. However, when a RPT is done on arms-length basis, then such approvals are not needed.

Now, thankfully, India Inc seems to be moving away from RPTs—as per *Business Standard* that cites Capitaline data to the effect, RPTs have seen a decline over the past year. According to the annual profit and loss statements made public by S&P BSE 100 companies, RPTs accounted for 11.5% of net sales in FY19—down from 15.4% in FY18. The reason, as experts argue, could be that companies are now facing increased scrutiny with regards to such transactions. This bodes very well for corporate governance and also controlling fraud. While the decline in RPTs is an outcome of enhanced corporate governance—be it via enhanced scrutiny, questioning, or the rise in awareness amongst shareholders regarding such transactions—the fact is that there nee to be provisions to guard against activist investors vetoing RPTs wholesale, even when one makes eminent business sense without running afoul of compliance.

CHLOROPHILE

EFFECTIVE COLLATERAL ENFORCEMENT IS CRUCIAL IF FARMERS ARE TO MAXIMISE PROFITS BY STORING THEIR PRODUCE IN SCIENTIFIC WAREHOUSES AND BORROWING FROM BANKS

Agricultural growth needs warehousing reforms



VIVIAN FERNANDES

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Views are personal

HOLDING THE ESSENTIAL Commodities Act (ECA) in abeyance except in emergencies for, say, 10 years, is one of NITI Aayog's proposals for agricultural marketing reforms, its member Ramesh Chand said, articulating a demand of the warehousing industry. These will be considered by a committee of chief ministers that has just been set up. It is headed by Maharashtra chief minister Devendra Fadnavis. But, the founder of a start-up that can be called the Oyo of warehousing says it is not just the ECA, the difficulty in enforcing collateral is also deterring organised sector investments in commodity management and lending against agricultural produce.

Apart from low commodity prices, uneconomical holdings and a consumer-centric policy of holding prices down, one of the reasons why farmers who have made the country food secure, are themselves financially insecure is because produce markets are not decoupled from credit markets. Farmers borrow from input dealers or commission agents who force them to sell and clear their dues soon after the harvest, when prices are low.

If farmers could store their produce in scientific warehouses and borrow from banks against warehouse receipts, they could gain when prices rise. But, Sandeep Sabharwal, Group CEO of Sohan Lal Commodity Management (SLCM), says that enforcing the collateral "is the biggest problem" because "to liquidate the collateral I have to take it out of the warehouse *aur wahan par dus strongmen aake khade ho jaate hain* (strongmen prevent the stuff from being taken out)." The police, he says, are unhelpful. They say, "you are a company, he is a small farmer, *woh bechara mar jayega* (the poor guy will die)." He gives the analogy of a car and scooter accident, where the car driver is presumed to be in the wrong. "I have empathy, but if you have taken a loan and you are not servicing it, I cannot sit and say I will get a waiver from somebody. I have to enforce that collateral."

It is like music, video and computer software piracy, which was once thriving but has been brought under control because of the initiative of aggrieved corporate players. By making the police aware of the laws that protect intellectual property and providing actionable intelligence, they have smoked out the offenders. Since policing is a state subject, the chief ministers' committee could focus on collateral enforcement too. Getting the police to act against politically-influential agricultural borrowers will be difficult, but is necessary if farmers are to get a wider choice of organised lenders.

The problem cannot be trivial when voiced by a company that claims to have handled 764 million tonnes of produce so far through the equivalent of 1,155 football fields of space (66.5 million square feet) across 4,081 warehouses—700 of them active—and none of which it owns. SLCM also has a finance company that lends only against the security of agricultural produce. In the last three years, Sabharwal says, it has given loans worth ₹1,975 crore against 44,522 warehouse receipts. That works out to an average loan size of ₹4.43 lakh. But Sabharwal says lending against small lots does not make commercial sense, though in a pilot project in Gujarat on behalf of a trust, it had lent against 10 kg of castor. To defray the expenses and make money on a lending rate of 12.5%, Sabharwal says the collateral offered should be 300-500 tonnes and the loan size about ₹50 lakh.

This is where aggregators come in. That task is now performed by *arhatiyas* or commission agents. But companies that abide by the law cannot deploy their methods of collateral enforcement.

Sabharwal says managing real estate is not what differentiates players like SLCM. Getting the desired space at fine rates is no doubt important. But, it is the knowledge of the science of preservation of the collateral that sets the winners apart. The produce may gain excessive moisture in the monsoons, or lose moisture below the thresholds levels in summer and depreciate in value. It may get infested with bugs. Food-grade quality may deteriorate into animal feed. Preservation of the collateral in a form that makes it liquid or saleable at all times requires multi-year weather data of the storage location (temperature and humidity) to be paired with fumigation and aeration techniques that are unique to a commodity. The safe limits of exposure to fumigants vary. If it is an export commodity, the laws of the importing country will apply. If the produce has been grown organically, chemicals cannot be used. The collateral manager has to keep a tab of prices; if the value of the collateral falls below the comfort level, the borrower will have to top up. Curbing pilferage is very important. Warehouses must be monitored round-the-clock (remotely and centrally to check costs). Not only is access to them controlled but also readings from produce samples taken randomly are fed into GPS-enabled, hand-held devices and uploaded to a central repository. The warehouses are also secured with unique (plastic) seals.

> Farmers borrow from input dealers or commission agents who force them to sell and clear their dues soon after the harvest

Sabharwal regards his business more like that of insurance. SLCM has developed a piece of software (patent-pending for seven years) that throws up a check-list of things to do when a hand-held device is fed with essential information about the collateral. He says his company is properly into managing risks. If warehousing losses (around 10%) are brought down (as he claims) to 0.5%, he should get to retain a part of the value of the averted losses. Customers initially allowed him to do so, but when they realised he was gaining more than the warehouse rents, they renegotiated the contracts.

Sabharwal has the build of a sparrow and the intensity of a kite. He is steeped in the art: his grand dad, Sohan Lal, did the only thing he knew: run a dal mill which he set up in Delhi's Kishanganj after fleeting Pakistan during the Partition. His father took over the reins thereafter. Sabhwaral stepped him when his father fell ill. He interrupted his MBA training in the US and completed it in India while running the business.

SLCM has eight private equity investors who have put in ₹300 crore in five rounds of investment. On a topline of ₹3,600 crore last year, it made a profit after tax of ₹11 cr, says Sabharwal. He began with ₹16 lakh in capital and four employees. Currently, he has 1,500 persons on the payroll.

Growth for a company like SLCM can come from partnering with the government which is the largest procurer, transporter and holder of food grains. Despite acquitting itself well in dealings with the Bihar and MP state warehousing corporations, Sabharwal says he has to contend with inertia. The government chooses warehousing service providers on the basis of the lowest bids and not for their skill in assuring quality or reducing losses.

One of the reasons why the government resorts to policing methods to check speculative stocking, or hoarding, as it calls it, is because it lacks information about the stock of a commodity in the country. If warehouses were networked and posted their stock positions daily to a central registry, the government could regulate supplies and have a better grip on price s. That can happen when warehouse management is done substantially by organised players.

Let's choose the best person to lead IMF

If the IMF has to achieve its mission of ensuring international financial stability, global leaders should end this stitch-up and choose the best person for the job. They must also do more to depoliticise the fund

ASHOKA MODY

Bloomberg

NOW THAT CHRISTINE Lagarde has announced her resignation as managing director of the International Monetary Fund, German chancellor Angela Merkel says Europeans "again" have a "claim" to fill what is arguably the world's most important economic job. Merkel is invoking a decades-old political deal, which gives Europe the IMF leadership in return for allowing Americans to run the World Bank. If global leaders want the IMF to achieve its mission of ensuring international financial stability, they should end this stitch-up and choose the best person for the job. They must also do more to depoliticise the fund.

Although Europeans have run the IMF since its inception in 1945, this wasn't a foregone conclusion. In 1955, the fund's shareholders offered the job to at least two non-Europeans—Bank of Canada Governor Graham Towers and CD Deshmukh, previously governor of the Reserve Bank of India and long-time finance minister. Then, in 1963, the stitch-up began. The political bargain has ill served the Europeans and the world. Consider the IMF's role in the creation of the euro. In 1997, then-Managing Director Michel Camdessus, formerly governor of the Banque de France, said without a shred of evidence that the euro would deliver a great economic bounty. He waved the single currency through, ignoring non-European members of the fund's executive board and the warnings of scholars such as Barry Eichengreen. US authorities, complicit in the stitch-up, didn't resist. During the more recent European debt crisis, too, the IMF failed to play an independent role. Under former French finance minister Dominique Strauss-Kahn, the fund lined up with Europe's plan to bail out the Greek government's private creditors while imposing disastrous fiscal austerity on the government—a policy that Lagarde (also a former French finance minister) supported when she took over on 2011. The IMF under Lagarde also failed to ring the alarm bells when the European Central Bank raised its policy interest rate in July 2011 and then went into a huddle in 2013 and 2014 while a deflationary psychology settled in. Through those terrible years, Groundhog Day-style, the IMF predicted every several months that euro area and global growth would soon pick up, each time attributing the failure of those forecasts to "temporary" factors.

Now, the Europeans are threatening to anoint as Lagarde's successor Jeroen Dijsselbloem, the former Dutch finance minister. Dutch voters booted Dijsselbloem along with his Labour Party in the March 2017 elections. His appointment would be a sop to the social democratic parties that, although a fading force, cling to positions of privilege. Dijsselbloem's main claim to economic wisdom and diplomatic skills is his famous advice to governments and citizens in southern euro area countries: "You cannot spend all the money on women and drinks and then ask for help." There's no shortage of supremely qualified non-European candidates. Consider Hyun Song Shin, chief economist of the Bank for International Settlements and a preeminent expert on financial markets and systemic risk. Or Raghuram Rajan, University of Chicago economist and former governor of the Reserve Bank of India. Both represent nations that are growing in economic and political heft but have been marginalised in the global dialogue. Or why not an American, such as Randall Kroszner, an expert on banking regulation and former member of the Federal Reserve's Board of Governors?

The IMF needs a managing director of the highest caliber, chosen through an open competition not evidently tainted by national politics. But that would only be the first step. The fund should also replace its politically appointed deputy managing directors with technocratic deputies, also chosen through a competitive process. And this core team should be supported by a Council, in the style of the Bank of England's Monetary Policy Council, comprising world-class economists and policy makers.

With such a decision making body at the top, the IMF, backed by its outstanding staff, could have the credibility to make tough lending decisions during crises, and to speak "truth to power" in assessing national and global economic conditions. Such a structure would allow the IMF's often-controversial policy recommendations to benefit from sound economic thinking, rather than being swayed by the foreign policy and financial interests of the US and Europe.

To complete the structure, the IMF should get rid of the executive board that has, for decades, largely rubber-stamped decisions made in Washington and European capitals. Its members could retain an advisory function, and the fund's management could periodically answer to them for its decisions—just as central bank governors report to national legislatures. The world economy is entering another perilous phase. Trade is hardly growing. China is slowing down. The US is coming off the sugar highs induced by President Donald Trump's tax breaks. The euro area is threatening to grind to a halt, and possibly tip into a recession that the ECB lacks the firepower to combat. Italy, the euro area's third largest economy, remains on the verge of a crisis that could have repercussions throughout Europe and beyond. This is not the moment for another backroom deal. The IMF needs a fresh beginning.

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LETTERS TO THE EDITOR

Big zero?

While auditors have an end-accountability to ensure non-conformances are addressed in order to mitigate risks of corporate-delinquency and safeguard stakeholder-interests, the buck also stops at clients to preserve market-goodwill and attain business-continuity. Stringent action against negligent/absconding fiduciaries can limit occurrences of wilful-defaults, money-laundering/round-tripping and compromise on CSR initiatives. More than the reactive micro-monitoring and due diligence, regulators/authorities need to facilitate a business-culture where teething-troubles are encouraged to be suppressed at their source via improved transparency, disclosures and timely flagging of grey-areas. The last thing that markets, resiliently hovering near the higher-end of the range, need is an inconsistent approach towards subprime lending, security-breach, redundant corporate actions and trade-malpractices. As it becomes increasingly difficult for underperforming entities to conduct business and thrive in the economy, authorities must also remain cognisant of the conflicting objectives, which more often than not confront the fiduciaries, i.e., acting in good-faith to preserve stake-holder interests versus not being too rigid on whistle-blowing to protect clients from potential losses. The latest pressure from the regime comes amidst crackdown on audit firms for allegedly overlooking corporate governance lapses in some companies. It is prudent to discourage cartelisation, especially in an ethical-sector, to avoid creation of entry barriersor a high-orientation towards profit-generation.

— Girish Lalwani, Delhi

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Industry doesn't need sops; it needs clarity in procedures

Over vegetarian lunch, the executive chairman of Chennai-based Murugappa Group tells **Sushila Ravindranath** how the group has been able to keep steady focus on agribusiness and financial services

M MURUGAPPAN, THE executive chairman of the Chennai-based Murugappa Group—one of the largest family-run conglomerates in the country—is a fourth-generation member of the family. He took over from A Vellayan, who stepped down last year from that post when he had turned 65. It is mandatory for the chairman to retire at that age, and the Murugappa family strictly abides by the rules and values that have been passed down generations.

Since 2009, Murugappan was the group's vice-chairman, spearheading technology, innovation, environment, health and safety initiatives across the group. I am meeting him for lunch at the dining room at the top floor of the group's headquarters at the Dare House building in Chennai. One of the landmark buildings of Chennai, Dare House was inherited by the Murugappa Group when it took over EID Parry, an old, fading British company.

It is a few days after the presentation of the Union Budget. I am keen to know his views and how the group has been dealing with difficult times—its focus areas are agribusiness, such as sugar and fertiliser, and financial services, which are not easy businesses to run.

My dietary preferences have already been noted and we are served a delicious vegetarian lunch. We start with a light tomato soup. I ask Murugappan how did he react to Nirmala Sitharaman's Budget. "I always think of the Budget as a document that sets directions. The government tells us what it wants to do, and I am sure a lot of it will be done in due course of time. The industry needs no sops to make in India. What it requires is more clarity in procedures. Then there will be more enthusiasm, which will have a cascading effect on job creation, skill development and better quality of education. It is very important that the national policy percolates down to states, and we keep the dialogue going," he replies.

EID Parry, the company that the group took over in 1981, is the largest sugar manufacturer in south India. But sugar, one of the group's major businesses, has been shaky in the last few years. There has been oversupply and low prices. In fact, the company has had to shut down manufacturing at its Puducherry plant and also at two of its Tamil Nadu units.

Over some sprouts and grilled vegetable salad, Murugappan explains how the group is dealing with the situation. "We have nine sugar mills—five in Tamil Nadu and Puducherry, three Karnataka, and one in Andhra Pradesh. Wherever there is water, farmers are able to plant sugar cane. Nellikuppam in Tamil Nadu is suffering from drought-like conditions and the availability of sugar cane is very low. Even in Karnataka there is shortage of rain. The three major oil marketing companies have released tenders for supplying of 329 crore litres of ethanol. We have permission from the Tamil Nadu government to convert impure spirit to ethanol at Nellikuppam and Sivaganga plants in the state. We are doing it in select areas where molasses is available."

All the sugar manufactured by the group is supplied to institutions with particular needs, helping make more downstream products. "We look at ourselves as a food manufacturing company. Selling sugar directly to the end-customer is a tough task," he says.

> Sugar, one of the group's major businesses, has been shaky in the last few years. It has had to shut down manufacturing at its Puducherry plant and at two of its Tamil Nadu units

Our main course consists of mixed rice, *rotis* and vegetables, along with crisp *vadais*. I want to understand whether the group will hold on to sugar business or not? After all, it has shed some unprofitable businesses earlier. "As long as we have a viable strategy to take forward, we will continue to be in the sugar industry. Our current strategies are good for the long term. We have a large stakeholder community, the farmers, and we can't let them down."

The Murugappa Group has 800-plus retail outlets to sell fertilisers and agriproducts largely in Andhra Pradesh, Karnataka, Telangana and parts of Maharashtra. "In the last few years, we have hired a large number of agronomists working with farmers to improve customer needs. On the manufacturing side, we constantly improve the quality of inputs," he says.

He adds that there are concerns because of the monsoons. "We will do our best working closely with the farming community. We have to constantly follow the developments in agriculture in the country. There has been no growth in arable lands, but farm productivity has increased. There has been significant improvement in horticulture, fruit and vegetables. However, water is going to be a major challenge. We have to learn to conserve and preserve water."

He says the country has to think through all this. "There are changes taking place, but not fast enough. If more corporate farming happens in certain areas, it will help. There are many issues like storage to be dealt with. I am hoping changes will happen without being pushed to the wall."

As we are about to finish the main course, I ask him how Cholamandalam Finance, the group's financial services company, has not only survived the crisis the NBFCs have faced, but has also done well. "I would say it is due to discipline, prudence and conservatism. We stick to what we do best. Asset liability remains matched. We have a good equation with banks. It is the fastest growing part of the Murugappa Group."

I am given a choice of three desserts—fruits, ice cream and *ras malai*. Having had a healthy lunch so far, I opt for ice cream and Murugappan orders fruits. We talk about the group's other businesses, most of which are steady performers. Companies on the engineering side such Tube Investments and Carborundum Universal (CUMI) will be transforming themselves to make products for emerging areas such as electric vehicles. "Last year, CUMI applied for 47 patents. We are moving towards providing comprehensive solutions to customers," he says.

The Murugappa Group's turnover was ₹36,093 crore for the year ending 2018-19. It has 28 businesses, including nine listed companies traded at both the NSE and BSE.

Lastly, how does it feel running a legacy company that was founded as long ago as in 1900? "I feel a great sense of gratitude for being given this opportunity. All my predecessors have played very important roles in taking the group forward. We all subscribe to a common set of values. The fifth generation is always welcome to work for the group. If they want to do something else, we will not discourage them," he replies.

As we walk towards the lift, Murugappan tells me that he believes in four simple themes in running a business, which are: Is my order load increasing? Is the quality of my customer engagement improving? How do I increase the quantum of profit and cash flow? Am I providing a safe working environment with happy and satisfied employees?

"I believe in keeping things as simple as possible," he says.

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INDIA'S TRAJECTORY

An innovation powerhouse

CHANDRAJIT BANERJEE

The author is director general, CII

From low-cost vaccines to a frugal space project, India is known for innovation

INNOVATION IS THE key driver for sustenance and prosperity of start-ups or conglomerates or governments trying to maximise their service delivery, or institutions excelling in research and academics. Innovation is the process for measurable value-enhancement in any activity. The process can be a breakthrough or disruptive one, ushering in game changing business practices. It could also be incremental or iterative one, resulting from continuous improvements for better customer satisfaction and market share. Disruptive innovation brings something 'new to the world' and hence it is associated with higher business risk. On the other hand, incremental innovation introduces something 'new to the market' and thus it is fraught with less risk.

Innovation has been defined as commercially successful exploitation of new technologies, ideas or methods by introduction of new products or processes or by improvement of the existing ones. As it is important for companies to understand business and societal challenges to sustain in the long run, they need to keep abreast with game changing scenarios and embrace them with innovative solutions. The need for creating a well-structured innovation ecosystem has been appreciated by many countries to establish competitive edge and to improve the quality of life of their citizens. Governments in developed countries have a range of instruments to stimulate innovation by individuals and firms, and reduce their risk perception.

Realising the importance of innovation and its economic implications in terms of wealth creation and employment generation, the Indian government has taken steps for creating a favourable ecosystem for innovation. A conducive ecosystem paves way for entrepreneurial minds to unlock their potential and start new ventures, thus creating a competitive environment. India needs to boost its innovation ecosystem by intertwining among various stakeholders like the government, industry, academia and society to transform India as an attractive innovation destination.

> India must aspire towards reaching the club of top-25 most-innovation-driven economies in the world

The Confederation of Indian Industry (CII) has been orchestrating initiatives towards creating and fostering innovation among the Indian industry and encouraging entrepreneurial ventures. As per the Global Innovation Index (GII), of which CII is the founding knowledge partner, India has moved up to 57th rank (the country was ranked 81 in 2014). And it is natural for India to aspire for reaching the club of top-25 most-innovation-driven economies in the world very soon.

In fact, GII has been instrumental for many countries to reshape their policies and design an actionable agenda for innovation excellence. This year's annual GII report and ranking of their innovation performances are awaited by all the participating countries—India's position on this index is also being watched carefully by the stakeholders, including the government and industry.

This year's GII theme "Creating Healthy Lives: The Future of Medical Innovation" is important and relevant for India because we would need a strong focus on medical innovation towards the goal of bringing healthcare and its delivery to all Indians. Over the years, the GII report has been launched from various cities across the world, but this year, for the first time, the report would be launched from India—on July 24, 2019—in New Delhi. This is a proud moment for the country and the countrymen.

India is well-known for its tryst with innovation, especially in developing low-cost vaccines and their widespread application, to a frugal space programme indirectly touching millions of lives by providing effective advance data on cyclones, etc. In addition, India's global leadership in information technology has positioned the country as a software superpower. I am hopeful that this year's GII report will positively influence India to embrace innovation in all spheres, ranging from governance to business excellence to various facets of technology.

The daddy trap

Fathers face higher penalties for taking parental leave than mothers do

AN OVERWHELMING NUMBER of studies show that working mothers face a motherhood penalty—resulting in lower earnings and poorer evaluations from superiors—while men receive a fatherhood bonus. Stories abound of women struggling to balance motherhood and a career, while stories of men failing to balance children and a career are largely absent. A new study helps to explain why. According to research by Kate Weisshaar of the University of North Carolina at Chapel Hill, opting out of work to care for children has negative consequences for both parents, but it is considerably worse for fathers who choose to stay at home in competitive job markets.

To analyse this effect Ms Weisshaar distributed thousands of fictitious cover letters and CVs to real job postings in 50 American cities for five different types of job. These fictional jobseekers were all parents with similar credentials. They differed only in their work history and in their gender. While some said they had jobs in the cover letter, others said they were unemployed as a result of lay-offs. The third group declared that they had been stay-at-home parents.

The study found that parents who had opted out of work to care for children were least likely to receive a call back for an interview. Whereas 15% of employed parents and 9-10% of unemployed fathers and mothers received interviews, only 5% of parents who had taken time out of the workforce to care for children were called back. The depressed responses were not simply a result of unemployment. Parents who opted out of work were about half as likely to get an interview as parents who were unemployed because of lay-offs.

According to Ms Weisshaar's study, Americans see opting out to care for children as a sign of lower commitment to work and even flakiness. Employers are least likely to hire fathers who are caring for children when the job market is competitive. In less competitive markets, 7% of these fictitious stay-at-home dads got interviews. In more competitive ones, fathers received only one-third as many callbacks. By comparison, 5% of mothers received callbacks, and the rate was not affected by how competitive the market was.

Whereas mothers who take time off to rear offspring face difficulties when returning to work, opt-out fathers may fare worse, says Scott Behson, author of a book called "*The Working Dad's Survival Guide: How to Succeed at Work and at Home*". America has a workaholic culture, he says. Mothers who put their families first eschew that culture, resulting in costs to their careers. But fathers who do so are violating both the workaholic culture and traditional gender norms.

According to the Pew Research Centre, women are the sole or primary breadwinners in 40% of American households, and 15% of mothers with children younger than 18 earn more than their husbands. In heterosexual unions, families often decide that a father should stay at home because he has been laid off from work or the mother has a higher-earning career, says Brad Harrington of the Boston College Centre for Work and Family. In 2016, 6% of fathers were stay-at-home. That number is likely to grow as women achieve higher levels of education than men, and American jobs shift away from male-dominated professions to female-dominated ones. Unless norms about who should be responsible for what change, the opt-out penalty will become a bigger problem as more fathers make the choice to stay at home.

THE ECONOMIST

Fast tracking economic growth

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WITH A VISION to make India a \$5-trillion economy and to support long-term economic growth, the Modi 2.0 government is focused on investing massively on building infrastructure—railways, roads, aviation, ports, smart cities, power, and intracity connectivity. This will have a multiplier effect, including creation of jobs at various levels. In fact, the government intends to invest ₹100 lakh crore in the infrastructure sector over the next five years.

For the railways, the government plans to mobilise ₹50 lakh crore worth of investment by 2030. Between 2018 and 2030, the amount will be spent towards connectivity and expansion of the sector. This will also help boost India Inc's last-mile connectivity.

The government has proposed to prepare a blueprint for regional airports. Currently, under the UDAN scheme, more than 100 airports are operational. This will lead to inclusive economic development.

Then there is a plan to launch the second phase of the Bharatmala scheme. The roads ministry is already developing 35,000-km of roads under phase 1 of the scheme, at an estimated cost of ₹5,35,000 crore. In addition, the outlay on metro projects has increased from ₹14,265 crore to ₹17,714 crore. And 1.25 lakh km of road length will be upgraded under the Pradhan Mantri Gram Sadak Yojana (phase 3) at an investment of ₹80,250 crore.

To harness India's 7,500-km coastline, the Sagarmala scheme will look into the development of ports and related infrastructure to reduce the high logistics costs for exports as well as for domestic trade with minimal infrastructure investment, which will also increase the overall efficiency of the supply chain sector. In India, logistics costs as a proportion of total business costs are in the range of 14-16%, compared to 8-10% of the total business cost in developed countries.

All these announcements concerning the overall infrastructure sector are pro-growth, realistic and backed with a plan.

Infrastructure is the foundation of a strong economy, and infra investment would have an enhanced and positive impact on supply chain, connectivity, productivity, and overall socio-economic development of India.