Bold Move in World of Listless Finance

IDFC-Shriram merger spells long-term gain

Chennai-based Shriram group's proposed merger of its financial services business with IDFC Bank to create a financial conglomerate is a display of animal spirits in a financial sector that has been listless at best, of late. The merger will be of significant long-term gain to IDFC and to Shriram shareholders but only if three hurdles are cleared in the short term: obtain regulatory clearances, absorb Shriram's not-insignificant non-performing assets, and bridge the cultural chasm between suited-booted, high-paid IDFC employees and the frugal, man-in-the-street culture of the Shriram group. The pact, to be finalised within 90 days, will double IDFC's loan book to ₹1.5 lakh crore by 2020, expand the bank's retail footprint, and give IDFC a presence in multiple financial businesses, ranging from insurance to share-broking.

The management has projected about 10 million customers of Shriram Capital as the potential client base for IDFC Bank. Rightly, an increased asset base would also make it necessary for the merged entity to grow deposits at a fast clip to enjoy lower cost of funds to support the loan book growth. This wide support base will help IDFC face up to a not-improbable challenge to mainline banking from a new breed of fintech companies that are beginning to show their long-term threat to banking as we know it today. The deal remains subject to approvals by the boards, shareholders, regulators and third parties. If it fructifies, an NBFC, that financed trucks for people who had no access to formal finance, will disappear. This could play out in two ways. A large arm of formal finance could make a broad entry into the world of the previously unbanked. Or, the unbanked could lose a form of financing it used to have access to. It is devoutly to be wished for that the result would be to extend the reach of formal finance.

Apart from valuing Shriram group companies at levels that would make sense for their shareholders to approve the merger, IDFC would have to persuade the RBI to allow a common holding company to own both a bank and an NBFC, Shriram Transport Finance.

Islamic Stateless as Dangerous as the IS

The liberation of Mosul and Raqqa is an important turning point in the war against the Islamic State (IS), or Daesh. But the war against terror is far from over. Without territory as well, IS will continue to be a potent threat to the civilised world, which would need to redouble its anti-terror efforts.

The global coalition against terror must focus on its strategy for the day after: rebuild the liberated region, to prevent alienation of the Sunni populace once again. It must focus on defeating allied terror groups operating beyond Iraq and Syria, particularly in Africa and South and Southeast Asia. A stateless Islamic State, bereft of territory to harbour foreign fighters and resources like oil, is still a potent threat. It will try to follow the example of Al-Qaeda, of regrouping in hospitable territory such as Pakistan and Taliban-controlled Afghanistan. Yemen, which is in the midst of a humanitarian crisis, Somalia, and even Saudi Arabia with its strong Wahhabi leanings, could be other possible destinations. At this juncture, it is incumbent on governments to improve intelligence-sharing and call out countries that have environments permissive to terrorists. IS' online recruitment and incitement of self-radicalised lone wolves deserve special attention. The rest of the world must also address the political and economic conditions that facilitated the rise of IS in the first place.

A major challenge is that of rebuilding countries ravaged and hollowed out by war and distrust. Most importantly, rebuilding the region must balance the ambitions of the Kurds, Shias and Sunnis. The post-liberation state must ensure that these communities have voice and space in the rebuilding. Failure to put in place a balanced administration will lay the groundwork for IS 2.0.

Studies that claim chocolate is good for the heart raise false hope

The Bitter Truth About Health Chocolate

Eating chocolates is good for the heart, finds a study reported by a British medical journal. Before you shake off the customary burden of guilt that accompanies any indulgence of the palate once you have crossed the age of 21, after which your metabolic rate starts a long journey towards terminal decline, and reach for that slab of chocolate that has survived temptation for a week on the fridge shelf, please consider: among the subjects of the study, 55,000 Danes, those who ate chocolate tended to be those who were better educated and, thus, more aware of the benefits of impulse control and of exercise to offset the aftereffects of bingeing on delectable treats. So, was greater chocolate consumption responsible for the better health of the chocolate guzzlers or was it their greater proclivity to make amends for sins of commission against their waistline?

The only definite conclusion to emerge from this elaborate study that spanned 17 years is that more studies are called for. Studies tend to be conducted primarily by the educated, even if the subjects are mere hoi polloi. The more the number of studies, the greater the purchasing power of those who eat chocolates, the greater the consumption of chocolates by these elites. Where does that leave emerging market aspirants? Do they deserve only heartburn, and not better hearts?

To reignite investment, policymakers must see success and failure as two sides of the same coin

Enterprise as Manthan

Sanjaya Baru

There is now a widely held view that for some time now, the 'animal spirits' of Indian enterprise have remained subdued. The unwillingness of the rate of investment to pick up after it tumbled down to the low 30s, from the high 30s of the first decade of this century, has been attributed to fiscal restraint, high interest rates and a loss of appetite for business risk in the debt-burdened corporate sector.

During the tenure of the second Manmohan Singh government, this holding back of investment was primarily attributed to 'policy paralysis'. However, the persistence of a lower investment rate over the last three years, in spite of the policy activism of the Narendra Modi government, suggests that apart from unfavourable global economic conditions, fiscal restraint and a conservative monetary policy continue to act as dampeners.

Nothing much can be done by policymakers about the global environment. But they have been slow to pick up the fiscal and monetary policy tools. Hopefully, we will see increased public spending and an easing of monetary policy in weeks to come. What of the persistence of a lack of business appetite for risk?

Government spokespersons draw attention to a variety of initiatives taken over the last couple of years to facilitate the 'ease of doing business'. Yet, domestic enterprise still feels more needs to be done to revive their 'animal spirits' for risk-taking. This perception gap needs to be quickly bridged.

The idea of 'animal spirits', forwarded by John Maynard Keynes, describes the 'emotional and irrational' factors that shape the investment decisions of entrepreneurs. Private investment is not a function of rational calculations alone. It is often influenced more by expectations based on sentiment than hard data. It is the sentiment issue that Indian policymakers have yet to adequately address.

Even as the government seeks to ease the business environment, judicial activism and bureaucratic inertia continue to dampen sentiment. A new problem seems to be raising its head. This is best described as the emergence of a 'Regulation Raj' in the name of good governance. Every time a new person takes charge of a regulatory institution, the urge is to demonstrate that one is tougher than the predecessor.

Not a Cheat Code

It has become commonplace to regard business leaders as cheats. Sure, the visible lifestyle choices of some of our business leaders contributes to the public willingness to think of them as social parasites. However, if an environment is created in which entrepreneurs and business leaders feel unwanted at home, they will only migrate their investments. This has been happening. A number of Indian companies are investing abroad because it is possible and beneficial to do so. If Indians will not invest in India, will a foreigner?

In one of his first public statements, the newly appointed adviser in the ministry of finance Sanjeev Sanyal has deployed a helpful metaphor to explain the nature of enterprise. Enterprise and risk-taking are like 'samudra manthan' (ocean churn), Sanyal told a business gathering recently. They generate poison, failed ventures and bankruptcy, as well as nectar, profit-making, growth-generating business.

Give it the heave-ho: Samudra Manthan, circa 1870

FILE PHOTO

The government, he says, should be like Lord Shiva. It must have policy instruments at hand that will enable it to consume the poison and turn it into nectar. Sanyal believes the new bankruptcy law is one such instrument.

What I find attractive is the idea of 'enterprise as manthan' — that success and failure are two sides of the same coin. It is a commonplace idea in modern capitalism, but one that Indian policymakers and public commentators must get used to. The Indian penchant for a 'Regulation Raj' to deal with corporate failure, and the public vilification of those who bet wrong, can have the opposite effect of discouraging enterprise and, thereby, limiting the number of new ventures.

It is not an accident that Indian enterprise was unleashed in the wake of the 1991 liberalisation when PM P V Narasimha Rao lent a new sense of public confidence in Indian business leadership. The Narasimha Rao and Atal Bihari Vajpayee governments allowed the full flowering of new enterprise in new areas like information technology, media and communications. That phase of enterprise-led business development ended a decade ago.

If the rate of economic growth has to return convincingly to the 7-8% range, then it is necessary that visible action be taken on all three fronts: a liberal fiscal policy that increases public investment in employment-generating sectors like construction, a supportive monetary policy that revives appetite for business risk and, equally importantly, the visible end to an incipient Regulation Raj.

Invest, So Shall You Reap

If the government succeeds in reviving the sentiment of Indian investors and local enterprise, foreign investors will rush in. Foreign direct investment (FDI) does not, and cannot, substitute domestic investment. FDI complements domestic investment. Global finance is desperately looking for productive avenues and India will be one when Indians act accordingly.

The coming year is crucial for the economy. If by the end of the current fiscal year, the investment rate shows an upward trend, the rest will follow.

The writer is distinguished fellow, United Service Institution of India (USI)

The Indian penchant for a 'Regulation Raj' to deal with corporate failure, and the public vilification of those who bet wrong, can discourage enterprise

WIT & WISDOM

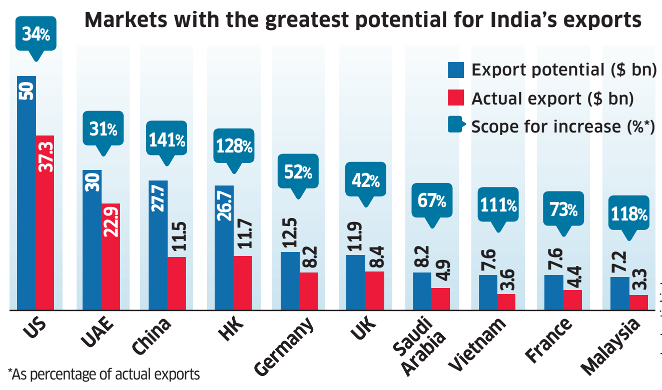
"When all is lost, ask the IRS – they'll find something."

Douglas Horton
Clergyman

Export Potential

India has the potential to increase its exports by around $209.9 billion, according to an export potential mapping tool developed by International Trade Centre, a joint agency of the UN and the WTO. And the top three markets with the greatest potential for Indian products are the US, the United Arab Emirates and China...

Markets with the greatest potential for India's exports



*As percentage of actual exports

The above projection is based on an economic model (covering 222 countries) that draws on trade, tariff, GDP and geographic data, helping evaluate countries' potential to ramp up exports

Source: exportpotential.intracen.org

MEME'S THE WORD

FOOD WASTAGE

A Loss Difficult to Digest

Asitava Sen

Global agriculture is facing new challenges, in terms of climate change, unstable food prices and labour shortage, amid conflicting demand for arable land for producing more food, animal feed and biofuel, which limit the effectiveness of a purely production-focused strategy. The critical policy imperatives of the day are how to feed a rising global population with shrinking resources such as land, water and labour, and how to increase farmers' income, a goal that sometimes may conflict with producing more.

The Food and Agriculture Organisation (FAO) estimates that globally one-third of all food produced is wasted from farm to fork. Food loss and waste is responsible for 8% of global greenhouse gas emissions — six times more than the global aviation sector. While one in nine people remains malnourished worldwide, we use land equal to the size of China to grow food that is lost or thrown away.

At $940 billion annually, food loss and waste is more than the entire GDP of Indonesia. In reality, we already produce enough food to feed 10 billion people, the projected population by 2050.

The World Bank estimates that a reduction in post-harvest loss of just 1% could lead to output gains of $40 million every year. It is also relatively more cost-effective to preserve food than to produce more. However, only 4% of the total investments in global food and agriculture goes toward reducing food loss. This apathy could be due to a lack of standardised and accurate measurement and visible impact of food loss and waste.

In developing countries like India, over two-thirds of food loss happens pre-harvest in the field or in the post-harvest supply chain. About $15 billion worth of harvest is lost in India. Six crops — rice, wheat, banana, tomato, onion and potato — comprise around 40% of the overall food loss.

India is one of the top global production hubs. But traditionally, it's smallholder-dominated and infrastructure-starved. Unless addressed seriously, increasing urbanisation will further increase food miles. And rising protein intake in diet, including dairy, fresh fruit, vegetable and meat, will require greater care in handling and logistics.

An integrated cold chain is believed to be the most obvious solution for reducing post-harvest perishable food loss. While in the US, over 70% of perishable food gets refrigerated, in India, it's less than 4%. Ironically, India has the largest capacity of refrigerated warehouses in the world at 130 million cu m, 60% of which is concentrated in two states, Uttar Pradesh and Bengal, and over 75% used for potato alone.

But to keep the integrity of the cold chain from farm to fork, India also needs near-farm pack-houses for onward transport and refrigerated vehicles. According to a recent study by the National Centre for Cold Chain Development (NCCD), India needs about 70,000 pack-houses, while currently there are only about 250. India has less than 10,000 refrigerated vehicles, while the need is estimated at 62,000.

Travel safely to the plate

FILE PHOTO

Ministry of food processing industries' proposed new scheme for supporting investments in 'forward and backward linkages' to address these gaps is a move in the right direction.

Agriculture marketing policy also needs to be further reformed uniformly across states. Farmers should not only be allowed, but also encouraged, to access direct linkages with private sector exporters, processors and retailers, thus creating a more integrated 'food system'. This will result in more demand-based production and a better economic case for co-investing for reduced food loss.

Allowing large-scale modern commercial agriculture through leasing of land could attract suitable investments for reducing food losses. Organising farmers and connecting them to markets is another step towards this supply chain integration. Connecting R&D to the field and building capacity for farmer training and advisory are also essential.

India could leapfrog the cold chain revolution by adopting solar and other renewable energy technologies. Precision agriculture with satellite imaging-based analytics could also help in early detection of pests and waste. Consumer groups could be identified who are willing to pay a premium for quality and sustainability.

Urban consumers could be sensitised about the impact of food loss through large-scale information campaigns. 'Zero waste' or 'premium quality' branding might help pay for refrigerated storage and logistics. Other initiatives could include financial incentives to supply chain partners for adoption of food loss reduction practices.

Finally, wasted food material could be recycled to produce bio-fertilisers or packaging material, which can help enhance shelf life. There are a number of innovative technologies already available worldwide that can be scaled up through public-private partnerships.

The writer is senior agribusiness adviser, International Finance Corporation

Citings

Digital-Age Marketing

PRASHANT GANDHI ET AL

A strong brand voice is a living, breathing manifestation of your brand promise. This voice comes from a much deeper place than stringing together clever words and phrases to sell products. An authentic brand voice solves problems, delivers a great customer experience, and stands for something.

That's as true in the digital age as it was in the analogue one. The problem is that it's much harder to have a strong and consistent brand voice in the digital age. The very breadth of consumer interactions with a brand…has fragmented and complicated how brands connect with consumers. At its core, the issue is that many brand organisations haven't caught up to the realities of the digital age.

While consumers swap out devices and surf across channels without thinking about it, many businesses are stuck in siloed functions. The brand team is off doing ad buys, while the direct marketing team is making Search Engine Optimisation decisions, and the customer-service teams are reading from their own scripts.

Even with the best of intentions, coordination is challenging because of separate reporting structures, narrow performance incentives and no clear accountability.… It's hard to provide a winning customer experience when the left hand doesn't know what the right hand is doing. That just leads to uncoordinated plan execution, frustrating customer experiences and unfulfilled growth.

From "Five Questions Brands Need to Answer to be Customer First in the Digital Age"

the speaking tree

Life's True Reflections

ROBERT CARR

Trying to be something that you are not is not possible. The very want is no different than any other want that we might have. The Sanyasi wants to find liberation, the poor man wants to be rich, and you want all this and heaven, too. The wants you have are not yours but your gurus have created the want to be in some other state that you think will solve all your problems that you think you have.

But why do you say the gurus have created the wants in me? Down the ages, man has tried to discover life's meaning, the purpose of living, whether there is a God or release from suffering… and to attain to some spiritual state where all the questions are understood by some experience, a transcendent mystical union with the ultimate.

What you are is the past. That knowledge is colouring your perception with images that are just the memories that mankind has collected and put before you as the goal to reach. So, the goal that you have is using you to express the wants of others.… What you are saying is too much; you are asking me to put an end to searching. You cannot stop the momentum that is pushing you to struggle and try to find the answers to your questions.

What you are is just a continuity of thoughts, thoughts that belong to the deep stream of consciousness that we are all part of. That consciousness is only interested in continuing its pattern of repeating over and over what it knows. That knowledge is misery; the struggle to keep intact all the memories, beliefs and that is the content of our culture.

Chat Room

GST is for Goods, What About Us?

Apropos the news report, 'Trucks Zip Along the Line of No Control' (Jul 10), while GST is reducing the transport time for companies by more than 30%, and the turnaround time for transporters and drivers, harassment by the RTO is not over just yet. One Country, One Rule doesn't come into play here. Try crossing into another state in a hired, yellow-board car and you need a permit. Why? All domestic vehicles should be given all-India permits so that citizens can save time and money, and avoid being stopped at checkposts. The perception of one nation may also solve some of our interstate disputes.

G H VENKATESH MURTHY
Chintamani

Don't Kill the Spirit of GST

This refers to the report, 'Spoiler Alert: State Levies & Actions may Crash GST Party', and the Edit, 'Unfinished Agenda of Rolling Out GST' (Jul 10). Some of the states that are adding more levies are morally bound not to do so as signatories to GST reform. It is all the more important because the Centre has agreed to compensate the states for any shortfall in tax collection. The timing too is inopportune. The sincerity and earnestness of the states should be visible fully for the success of the GST regime.

K RAJENDRAN
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Growth Matters, & Freedom Too!

A study conducted by the Harvard University has ranked India on the top of a list of fastest-growing economies, ahead of China. That's great news, but the economic system embraced by different countries is not the same: China is a socialist economy and its citizens do not enjoy basic freedoms; India has embraced a mixed economy and gives freedom to its citizens to start any business or work in any profession. Let data be just an indicator and not the sole criterion.

S RAMAKRISHNASAYEE
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