

# India Investment Journal

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## Reforms Rush

### India's Big Foreign Investment Pitch

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inc.

ENGAGING  
LEADERS  
INCISIVE  
CONTENT  
IMPACTFUL  
EVENTS

**Nirmala Sitharaman**  
India's Commerce Minister

June/July 2016

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# MODI SAYS HEY PRESTO!

Just when criticism was mounting at the pace of reforms and foreign investors were getting jittery, the Narendra Modi government announced a raft of reforms to open up some of India's most protected and strategically sensitive sectors, such as defence and aviation to 100 per cent foreign investment and made it much easier for foreigners to invest in single brand retails, food products, e-commerce and others.

Two years after Modi rode to power, accompanied by loud cheers from international and domestic business lobbies, many foreign investors were beginning to wonder if he was indeed an instinctive reformer or an entrenched protectionist like many of his predecessors.

And then came the Hey Presto! moment. The depth and breadth of the recently announced reforms as well as the new sense of urgency evident in the government's actions have led to our cover story – Reforms Rush – for this issue of 'India Investment Journal'.

As Modi tweeted so empathically: "India now the most open economy in the world for FDI; most sectors under automatic approval route."

Protectionist tendencies look to be on the rise in the battered economies of the West, and now in particular Europe, the UK and the US. Britain's stunning decision to exit the European Union, similar "me too" murmurs in France, Denmark, Italy and some other European nations and the rise of Donald Trump in the US clearly point towards a return to competitive protectionism in the countries that have been the primary evangelists of the free market.

India is taking a diametrically opposite, economically liberal path. Foreigners have begun to embrace the catchphrase Sab ka saath... (as John Kerry, the US Secretary of State and others have oft repeated) but Modi's approach to governance is yet to be fully understood or appreciated in the same way that perhaps former Soviet leader Mikhail Gorbachov was through Glasnost and

Perestroika.

I'm also delighted that India's gritty commerce minister Nirmala Sitharaman took time out from her busy schedule to speak exclusively to India Inc. about the reforms.

But while the reforms will go some way in boosting Modi's drive to pull India up the World Bank's "Doing Business" rankings, Rita Ramalho, the World Bank programme manager charged with drawing up the scale annually, writes exclusively for this issue and calls for a more sustained pace of reforms.

The FDI announcement came just two days after India's dapper Reserve Bank Governor Raghuram Rajan announced that he would not be available for a second term. The howls of protests that followed proved short lived as sober analysts realised that India's institutions, however ramshackle they may appear at times, are still robust enough to weather the coming or going of any one individual dawned early.

As this issue of IJ explains in 'Rexit reality check: Investors don't have much to fear', Rajan's exit may cause some short term volatility in the stock and currency markets but the long-term India story remains intact. Indeed, just to prove the point, Modi went on to announce a major expansion and reorganisation of his council of Ministers, promoting "doers" and sidelining those that were perceived to be underperforming.

And finally, the rain gods have decided to shower their choicest blessings on Modi, finance minister Arun Jaitley – who has had to face the wrath of the heavenly powers in the form of two back-to back droughts – and indeed the rest of the country. At the time of going to the press, the Monsoon rains, after playing truant through most of June, was 1 per cent surplus – a pointer, hopefully, to a bountiful harvest and rural prosperity that could set off a virtuous cycle of consumption-led growth in the Indian economy.

I'll keep my fingers crossed on that!



# EDITOR'S NOTE



Aditi Khanna is the Senior Editor of India Inc.

It has been an eventful few weeks, which will undoubtedly go down in history as having changed the face of the world. Britain voted in a referendum to leave the European Union (EU), a result which sent shockwaves around the financial markets.

In this globalised and deeply interconnected world, India was not immune to any of these shockwaves. However, as many of the country's leaders were quick to point out, the economy's fundamentals were strong enough to weather this storm. As the initial tremors from what has been described as a seismic shift in the global economy begin to subside, the economic and political landscape will open up new vistas of opportunity. Could India and the UK finally take that much-talked-about special relationship to the next level? Could the India-EU FTA receive an added fillip? Is India ready to take its rightful place to attract some of the business that will inevitably be directed towards the Commonwealth?

These are some of the many questions that will have to be answered over time. Meanwhile, India was busy making some history of its own with a slew of reforms to open up many of its key sectors to even more foreign direct investment (FDI). It was

the kind of "Reforms Rush" many in the international markets had been patiently waiting for.

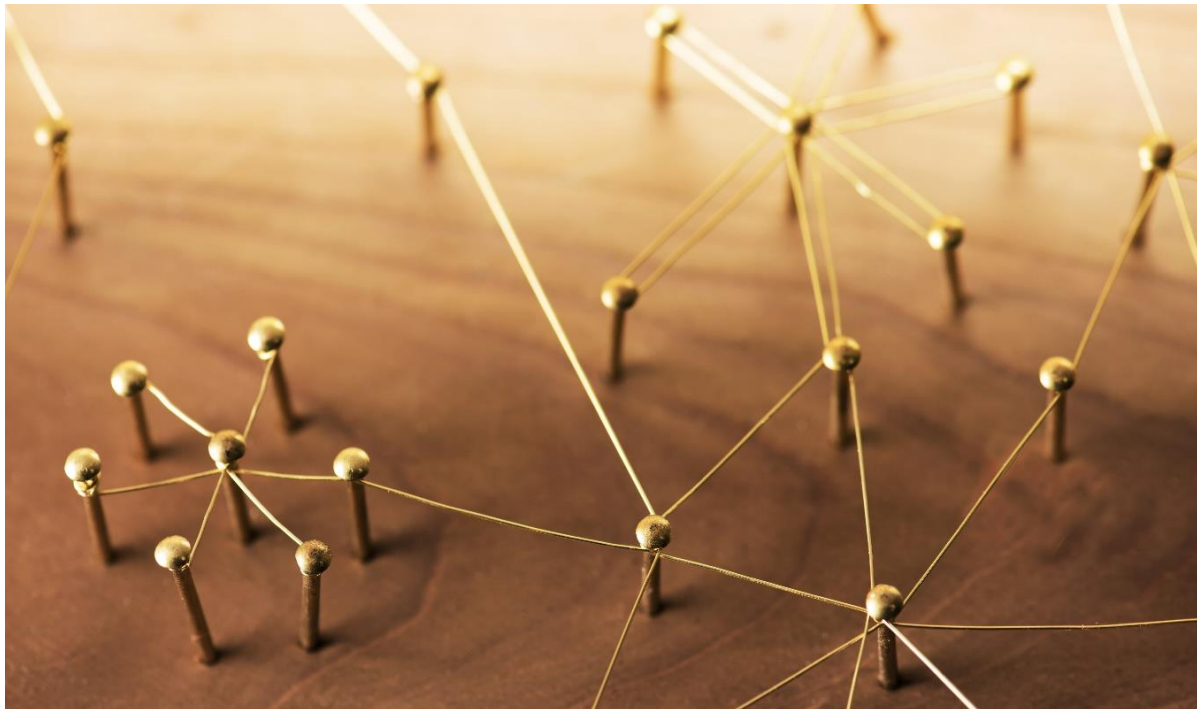
This edition of 'India Investment Journal' comes packed with all you will need to know about these reforms, what they mean for the Indian economy and, indeed, the world. We have an exclusive interview with the person right at the heart of some of these much-awaited changes, Nirmala Sitharaman. The commerce minister takes time out to not only give her insights into the recent announcements but also candidly delves into some very complex issues around India's place in the wider global economy.

Besides the central focus on the Narendra Modi led government's reforms agenda, we have the usual array of topics covered by a wide ranging panel of experts in their respective fields. We explore how India is doing on its ease of doing business pledge, weigh up if India really is 4G ready, track some generational trends in wealth management and analyse the funding prospects for Solar India.

There is some serious wealth of information in the pages ahead. Happy Reading!





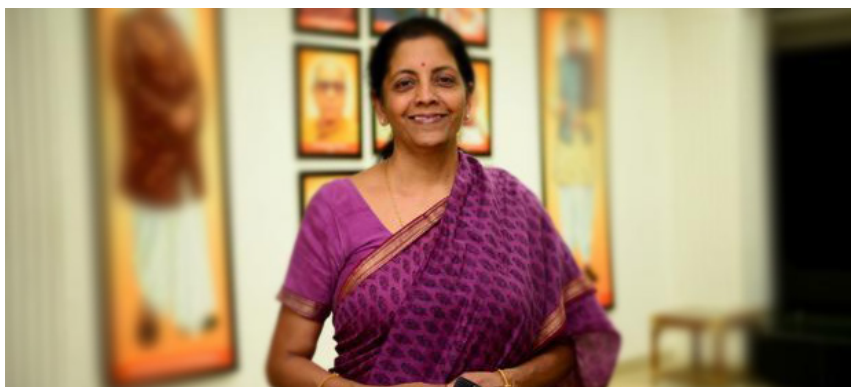


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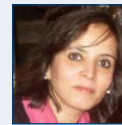
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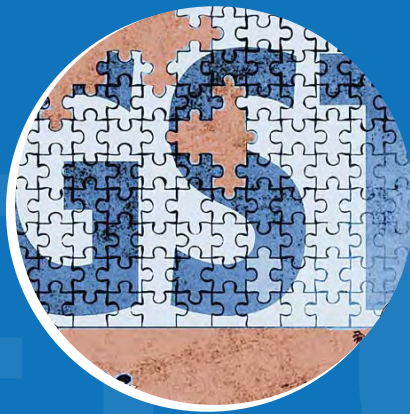
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# REFORMS RUSH

The Narendra Modi government is pushing ahead with economic reforms – with renewed vigour and welcome urgency. After appearing to be blind-sighted for a while by the obstructionist tactics and filibustering by the Congress and some of its allies, which surprised everyone by punching well above their weight, the ruling side has regained its mojo.

The momentum began to swing the government's way in the Budget Session of Parliament, when the Rajya Sabha, where the BJP-led National Democratic Alliance is in a minority, passed two reformist bills – the Insolvency and Bankruptcy Code, which promises to resolve bankruptcy proceedings within 180 days, and the Real Estate (Regulation and Development) Act 2016 – that had been hanging fire for years.

This was just the beginning. The Assembly elections that followed further emasculated the Congress's national footprint and, simultaneously, expanded the BJP's horizon, and shifted the momentum decisively the government's way. The elections to the Rajya Sabha also improved the equation, albeit only slightly, for the NDA.

The FDI reforms are, thus, in line with the direction being followed by the Centre. And now, the government has decided to push the long-pending GST Bill through the upper house – with Congress support if it can; despite Congress opposition if it must.

And along with momentum, the government's luck also seems to be changing for the better. After two successive monsoon failures, the weather gods have decided to smile on the Indian farmer. And if the monsoon is normal this year, the economy, riding the slew of reforms unveiled by the government, could get back on the high growth path in the very near future.



## MOMENTUM IS BEHIND EASE OF DOING BUSINESS IN INDIA

**N**irmala Sitharaman, India's commerce minister, maintains a punishing 14-15 hour daily work schedule. Over the last two years, she has been in the thick of the action and has earned a reputation for being a tough task master and a committed reformer.

She spoke exclusively to India Inc. Consulting Editor Arnab Mitra and discussed a wide range of economic issues in this exclusive interview.

**There have been mixed reports on how Brexit will impact India. What is the government's take on this issue? Does the government have a plan to maximise the opportunity and minimise the cost for Indian companies?**

The finance ministry, the Chief Economic Advisor, the Niti Aayog and other concerned ministries have been monitoring the situation even before the outcome of the referendum was announced. We have traditional and mutually beneficial trade and other relationships with both the UK and the European Union (EU).

About 800 Indian companies are present in the UK. They are creating jobs, both in the UK and the rest of EU and serving the entire region. I'm sure they, too, have a Plan B to deal with the situation. We are watching the situation very closely and foresee short-term and medium-term volatility. India is better placed than many other nations to face the turmoil generated by Brexit but the uncertainty may linger.

**The UK pulling up the drawbridge for our talent will not be good for India. What is the government doing about this?**

Much before Brexit, I'd gone to the UK and met the immigration minister on the high visa charges and other (restrictive) immigration policies. I also asked the minister about student visas and the cost of studies in the UK. Our High Commissioner to the UK brought up the issue of the UK denying work permits to Indian students who graduate from British universities as was the case earlier. That condition may continue for some time.

But now, post-Brexit, we hope our boys and girls will get better access to British universities and better conditions for students following their studies.

**We are seeing a rise of protectionism in the US. In particular, the issue of free movement of Indian professionals, especially the grant of H1B visas to Indian IT professionals, is once again becoming an issue. How is the government dealing with this issue?**

We have discussed the visa-related matter with the US at various levels. We have talked to US Trade Representative and US Commerce Secretary both during our strategic dialogue and later. We have also made it public that we may approach the WTO on increase in visa fees as this could be viewed as a non-tariff barrier. This is against the spirit of free trade practices on the movement of personnel. So, we may take the US to WTO.

## **India's exports have been falling for 18 successive months. What is the government doing to arrest this trend?**

The quantity of our exports hasn't fallen. But because of falling commodity prices, the value of our exports has fallen. But there is no across the board fall; several sectors, especially some labour intensive sectors, are holding out.

We can now hope for a steady revival. We are making efforts to find new markets. In this context, some new markets have opened up in Africa. Central Asia is another region that we're focusing on. Then, the interest equalisation scheme will reduce the cost of credit for exporters. We've also taken steps to encourage exports from small and medium companies. These measures will begin to show results in the near future.

## **Was the recent announcement of liberalised FDI [foreign direct investment] norms in nine sectors a reaction to Raghuram Rajan announcing his return to academia?**

These decisions couldn't have happened overnight. We announced the first tranche of FDI-related changes – what you call reforms – in November 2015. Since then, we have worked out how to ease FDI norms further and concluded that FDI under 49 per cent cap can be moved to the automatic route.

Such decisions across so many sectors cannot happen overnight. Work was going on and we announced the changes once it reached a logical conclusion. It just happened that the announcement was made on the Monday that followed the RBI Governor's announcement the previous weekend.

## **Isn't the further liberalisation of FDI norms in defence an admission that the previous norms were too restrictive? Instead of opening up the sector incrementally, why doesn't the government announce 100 per cent FDI through the automatic route? After all, this would be an improvement over importing entire systems from abroad.**

Even when we announced the FDI policy for the defence sector in November 2015, we made it clear that foreign investment up to 49 per cent would be permitted through the automatic route and any foreign stake beyond that limit would be allowed on a case by case basis if it brought in "state of the art", "cutting edge" or "modern" technology. This, we found, was creating confusion about what was "state of the art", "cutting edge" or "modern". So,

we have decided to remove the confusion. It is not incremental, but a simplification of an existing policy.

## **The liberalised FDI norms have been widely welcomed by industry and analysts. But some of your own allies have opposed it. Given this disconnect between the government and an important part of its support base, how united is the party on economic reforms?**

The party is completely united. We have been engaging with these groups and will be engaging with them on a continuous basis. The government's decision is in line with what the BJP manifesto said in 2014 – that we will push reforms, improve the ease of doing business and create jobs. So, these measures are not a violation of our manifesto.

## **The latest round of FDI reforms significantly liberalises e-commerce and single brand retail. Some say easier entry norms for foreign players in food retail could be the first step towards allowing MNCs into multi-brand retail – which, incidentally, hasn't been removed from the statute books. Your comments...**

I want to dispel this inference. What we have done is introduced a level playing field between ecommerce and brick and mortar stores. We have done nothing on multi-brand retail. That is a commitment in our manifesto.

## **The TPP [Trans-Pacific Partnership] is now a reality. The ASEAN [Association of Southeast Asian Nations] has been around for decades, as has the EU, despite Brexit. India is not part of any regional trade pact. Is the country losing out because of this? What is the way forward?**

India is actively engaging in negotiations with ASEAN-plus and the Regional Comprehensive Economic Partnership and hope to sign an agreement as soon as possible.

## **India has been negotiating FTAs with Thailand, New Zealand and the EU for a long time but nothing much seems to have come of these talks. Why is India shy of signing FTAs with our trading partners?**

India is not fighting shy of signing FTAs. India is a large market. We have a large middle class with substantial purchasing power. This makes India a very attractive market for anyone negotiating with us.

At the same time, we also have a large number of people who are poor. The government has to keep their interests in mind. Then, there are

*India is not fighting shy of signing FTAs. India is a large market... This makes India a very attractive market for anyone negotiating with us.*



sectors such as automobiles, auto components and pharmaceuticals, to name only three, in which India is globally competitive and in which our companies have earned global acclaim. When we negotiate trade deals, we have to ensure that our partner country gives us as much access in these and other sectors such as services as we give them.

There has to be a spirit of give and take when working out the details and we have to make sure we get a good deal that protects our national interest.

**India has laid out the red carpet for Chinese investments in our infrastructure sector. Several issues, such as security and other clearances have been eased. Yet, China continues to play hardball with India on terrorism and NSG entry. Does India have a Plan B to deal with this kind of behaviour?**

I'll deal only with that part of this question that concerns my department. We've had lots of exchanges with China and made it clear that we welcome its investments and goods. But we're also

ranked all the states on the ease of doing business. Now, we're discussing another 340 different other issues affecting the ease of doing business with the states. I urge your readers to go online and check the dashboard on ranking.

The cumulative aggregation of scores is done in a totally transparent manner. It is a dynamic system that ranks states on various parameters on a real time basis. This is generating healthy competition among the states and we expect to perform much better this year. (Last year, India's rank had jumped 12 places from 142 to 130).

**FDI flows have increased, reforms are underway and GDP is growing at a fast clip. Yet, not enough jobs are being created. How long will India have to wait for the feel good factor to return?**

Investments typically create jobs with a time lag in most sectors. This has to be kept in mind. But the government's push towards job creation in the textiles and retail sectors and also in Tier 2 cities will begin to show results soon.



negotiating with them to give access to our pharma, IT, ITeS, seafood and agri products companies.

The presence of Indian banks would have helped Indian industries enter China. We're trying to put in place institutional arrangements to make access easier for Indian companies.

**What is the latest on ease of doing business? After the initial burst of announcements, things seem to have gone quiet on this front? How long will it take for India to break into the top 50 nations as envisioned by the Prime Minister?**

No, the momentum has not been lost. An initial list of 98 conditions to improve the ease of doing business have been fulfilled by states. We have

**There was a lot of disquiet over the manner in which Raghuram Rajan was hounded by a section of politicians. Do you think this has hurt India's image abroad?**

Both the Prime Minister and the finance minister have spoken on the topic. They have said they respect what Raghuram Rajan has contributed to the RBI, just as they respect his decision to leave after competing this full term.

**And finally, what big changes will we see in the Indian economy over the next one year?**

GST will be the next big thing. It will be a game changer for the Indian economy.

# AN INSIGHT INTO INDIA'S TOUGH BUT FAIR NEGOTIATOR

by Ashok Malik



Ashok Malik,  
Senior Columnist

As India's commerce and industry minister, Nirmala Sitharaman has two major mandates. The first is to promote Make in India, a programme of enhancing the role of manufacture in India's economy and integrating India with global supply chains. The second is to give political support to India's trade negotiators in a time when protectionism and "plurilateralism" are threatening the global trade order. Even Western countries that have long espoused liberal trade regimes are turning their backs on these.

These twin imperatives may appear to be sometimes contradictory, especially in a troubled world economy.

Yet, Sitharaman has taken to her task with characteristic determination and rigour, the very qualities she brought to her role as BJP spokesperson in the years leading up to the 2014 general election campaign, when she emerged as one of the party's most articulate and thoughtful voices on policy matters.

For those who have known her long, Sitharaman's performance would not be a surprise. Before she came into public life, she had a rich professional background. As an academic, she submitted a thesis on India-Europe textile trade within the GATT framework. Later, she was part of the then Price Waterhouse research unit in London, working on transferring western audit systems to post-Cold War Eastern Europe. In the 1990s she returned to Hyderabad with her economist husband to set up a public policy institute and gradually gravitated towards the BJP.

It was this CV that impressed Prime Minister Narendra Modi enough to give

Sitharaman the commerce and industry ministries, which had been under political veterans in the previous Congress-led government. It was not easy for Sitharaman as her rivals sought to attack her and rattle her in Parliament, especially as she took tough positions in the World Trade Organisation to protect Indian farmers. The issue of subsidies to India farmers is often exaggerated and deliberately misinterpreted by Western trade negotiators, ignoring the giveaways and preferential treatment to farmers in Europe and the United States.

This debate threw up an early challenge for Sitharaman but, backed by her prime minister and bolstered by her convictions, she battled on. In time, she has come to be recognised as a tough but fair trade negotiator, and is hoping to help conclude the Regional Comprehensive Economic Partnership (RCEP), the proposed free trade agreement (FTA) involving the ASEAN bloc and the six economies with which ASEAN already has FTAs.

While Sitharaman has been determined to negotiate or re-negotiate FTAs to suit India's interests, she has been equally zealous in throwing up Indian market opportunities to genuine investors. From defence hardware manufacture to single-brand retail, she has presided over, as industry minister, the most active phase of opening India's economy to foreign direct investment (FDI) since 1991.

Indeed, as both she and her prime minister have often said, India is the major economy that is perhaps most open to FDI today. As the FDI numbers tot up, the value of what Sitharaman has achieved will start to become even more obvious.





# OPEN SESAME: THE FDI MAGIC INDIA HAD HOPED FOR

by Arnab Mitra

“Today’s FDI reforms will give a boost to employment, job creation & benefit the economy,” Modi said on Twitter shortly after the announcement of the new FDI norms.

The Indian Prime Minister, who invoked his special powers to approve the guidelines, added that these will also improve the ease of doing business. “India now the most open economy in the world for FDI; most sectors under automatic approval route,” he said.

Reiterating that the latest round of reforms will boost the country’s growth rate significantly and generate jobs for the 12-15 million young Indians who join the country’s work force every year, Finance Minister Arun Jaitley said it would also reduce the role of the Foreign Investment Promotion Board (FIPB) as “overwhelming amount of FDI will come into the country through the automatic route”.

For foreign investors, this will mean less

bureaucratic red tape to deal with, fewer delays and faster entry into the Indian market.

“The twin objective is to attract more foreign investments to promote India as a manufacturing hub and to create jobs,” Commerce Minister Nirmala Sitharaman told the media, adding that the Department of Industrial Policy and Promotion will prepare a small negative list barring which every other sector would be opened up to automatic approvals.

## No links to Rexit

The decision to ease FDI guidelines came two days after Reserve Bank of India Governor (RBI) Raghuram Rajan announced that he would be returning to academia in the US when his tenure gives over in September. Senior ministers and officials, however, dismissed any links between the two events. The meeting on FDI was scheduled





**India is now the most open economy in the world for foreign direct investment.**

*Narendra Modi,  
Prime Minister of India*



**It would also reduce the role of the Foreign Investment Promotion Board (FIPB) as “overwhelming amount of FDI will come into the country through the automatic route”.**

*Arun Jaitley,  
India's Finance Minister*



**The twin objective is to attract more foreign investments to promote India as a manufacturing hub and to create jobs.**

*Nirmala Sitharaman,  
India's Commerce Minister*

much before Rajan made his announcement, they pointed out. Sections of the Opposition and some analysts had suggested that the government announced the liberal FDI package to assuage foreign investors who were upset at the news of Rajan's impending departure from RBI.

### **Easier entry into defence sector**

Till the latest revision in rules, FDI of up to 49 per cent was allowed in the defence sector under the automatic route. Higher levels of FDI were allowed on a case-by-case basis if it brought in “state of the art technology” into the country.

This policy has resulted in the inflow of only about \$167,000 of FDI in the defence sector. Large defence contractors in the US, Western Europe, Russia and Israel were obviously not keen on bringing in their latest technologies unless they were given a clear majority in and total control over the companies they set up or invested in.

By replacing “state of the art” with “modern”, the revised policy takes bureaucratic discretion out of the equation and makes it easier for foreign companies to retain control of their Indian ventures.

The norms for defence equipment will also apply to the manufacture of small arms and ammunition under the Arms Act 1959 in order to provide a fillip to this sector.

Over the next decade, India is expected to buy defence goods worth almost \$100 billion. At present, more than 70 per cent of all defence purchases are procured via imports.

The new norms are expected to lead to a surge in FDI in the defence sector, especially as the Modi government pushes indigenous arms production under its flagship Make in India initiative and lead to the creation of thousands of white and blue collar jobs within the country.

### **Flying high**

Foreign investors will be allowed to own up to 100 per cent of any airline in India, under the new FDI norms announced recently. At present, foreign airlines are allowed to own up to 49 per cent in any Indian airline. This cap will remain.

That means foreign investors – institutional as well as individual – can own shares in airlines where a foreign carrier already has a 49 per cent stake.

The icing on the cake is that NRIs will be allowed to invest 100 per cent in airlines under the automatic route.

The Indian aviation market is among the most attractive in the world. After years of being awash in red ink, most Indian carriers have announced profits on the back on falling fuel prices and rising passenger payloads. In April, domestic traffic zoomed almost 22 per cent, marking the 20th successive month of double digit growth.

# Easier Norms for Investors

■ New rule ■ Implication



## DEFENCE

- 100% under approval route
- FDI surge since India is expected to buy defence goods worth almost \$100 billion



## FOOD PRODUCTS

- 100% under govt approval route for trading including ecommerce
- Will lead to investments in backend & logistics thereby enabling the govt to increase farm incomes



## CIVIL AVIATION

- 100% in Greenfield projects under automatic route & 74% in Brownfield projects under automatic route
- Rising air traffic and falling fuel prices makes it attractive for investments



## SINGLE BRAND RETAIL

- Local sourcing norms eased for products having state of art and cutting edge technology
- Foreign companies like Apple & IKEA who want to open their own stores will benefit



## PHARMACEUTICALS

- 74% in Brownfield pharmaceuticals under automatic route & govt approval beyond 74%
- Affordable pharmacy tag of India will be given a boost but will also open doors for potential takeover of Indian generic drug producers

Source: Department of Industrial Policy and Promotion

This is in line with Jaitley's Budget statement liberalising investment rules in the food processing sector and sets the stage for multinationals such as Wal-Mart and Amazon to bring their formidable backend and logistics muscle to bear in this sector.

Though a few groups of retailers have protested against the expected entry of these US retail giants into this sector, the gains to farmers, an equally powerful special interest group, as well as to the economy as a whole, is expected to ensure that the government stays the course on this measure.

At present, almost 50 per cent of all fruits and vegetables produced in India perish before they reach the market, resulting in a loss of billions of dollars. The entry of these two – and other foreign – players into this arena is expected to lead to large investments in cold storage chains, air-conditioned transport systems and other back-end infrastructure that will help the government meet its goal of doubling farm incomes.

And this will also provide huge opportunities for both Indian and foreign companies to invest in this back-end infrastructure.

Since food processing and distribution is a labour-intensive sector, it could generate millions of jobs over the next decade and absorb large parts of the army of youngsters who join the workforce every year.

With India poised to remain the world's fastest growing economy for the foreseeable future and with oil prices expected to remain low, the prospects of the domestic aviation sector look bright and offer an attractive investment option for NRIs and foreigners, especially if one or more carriers approach the international markets with a public offer to finance their expansion plans.

### From farm to fork

"It has now been decided to permit 100 per cent FDI under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India," the government said in a statement.

## Easier entry for Apple stores?

The government has relaxed local sourcing norms for foreign companies that want to open their own stores in India. Companies engaging in single brand retail with “cutting edge technology” have been exempted from local sourcing norms for three years and will be subjected to diluted local sourcing norms for five more years. Earlier, there was no time limit, which has now been set at eight years.

This easing of norms could encourage companies such as Apple and IKEA to open retail stores in India. “We will inform Apple to indicate whether they would like to avail new provisions,” said Ramesh Abhishek, Secretary, DIPP, at a press conference.

## Dollars for India's drug majors

Foreign investors will be able to acquire up to 74 per cent in existing Indian pharmaceutical companies through the automatic route. This is expected to give a fillip to the \$20-billion Indian pharmaceutical industry, which has helped position India as the world's affordable pharmacy. Investments beyond 74 per cent will require government approval.

Prior to this tweaking of rules, 100 per cent FDI under the automatic route is allowed in greenfield pharmaceutical units. In brownfield units, 100 per cent FDI was allowed with government approval.

There has been some criticism of this policy initiative and analysts have said large western drug companies could use these liberalised provisions to take over Indian generic drug producers in order to reduce the competition they face in world markets from cut price Indian medicines.

## The other sectors

The government has also allowed 100 per cent FDI in direct to home, cable networks and mobile TV under the automatic route. It has also raised from 49 per cent to 74 per cent the FDI limit in private security services. Investments of up to 49 per cent will be under the automatic route and any investments beyond this limit will be with government approval.

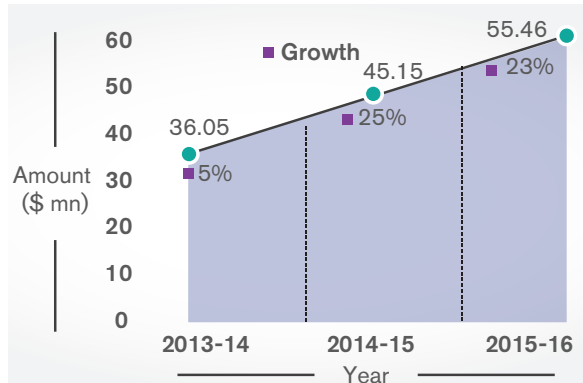
Globally, the \$220-billion security services industry has been growing at 7 per cent per annum. In India, however, the \$5.5-billion sector has been expanding at 20 per cent.

The government has also further liberalised norms for investments in pisciculture, apiculture, aquaculture and animal husbandry where 100 per cent FDI is already allowed. The requirement of “controlled conditions”, which was considered restrictive, has been removed.

All these sectors are labour intensive and higher foreign investment limits is expected to lead to a sharp ramp-up in capacity and generate hundreds of thousands of new jobs over the medium term.

In another major relief to foreign investors, the

## 2013-2016 FDI Trends



Source: Press Information Bureau

defence, telecom, private security and broadcasting sectors wishes to establish a branch office or liaison office or any other place of business in India, then it will not require separate RBI or security clearance if the FIPB has already given clearance.

## Walking the extra mile

Many of the reforms announced go far beyond what's allowed even in the West. For example, no other country allows 100 per cent foreign ownership of domestic airlines. Full ownership of defence units are also not allowed by any other country.

No wonder Modi said: “India is now the most open economy in the world for foreign direct investment.”

“The government has clearly demonstrated its intention that the reform process will go on. The Indian economy will continue to be on the upward path over the next few years,” Jaitley said.

## Rising FDI graph

In 2015-16, India received FDI inflows of \$55.46 billion compared to \$36.04 billion the previous year. In November last year, the government had liberalised FDI policy, making it easier for foreign investors to participate in the Indian defence, construction and banking sectors, among others.

The latest round of FDI reforms, along with the liberal norms notified earlier, will considerably ease the pain of doing business in India – a major grouse of foreign investors. Taken together with reformist legislations such as the insolvency and real estate laws, the expected passage of the goods and services tax bill in the Monsoon Session of Parliament is expected to set the stage for rapid growth of the Indian economy.

*Arnab Mitra, Consulting Editor, India Inc.*

# GST OFFERS SOME RENEWED HOPE FOR INDIA'S TAX REFORM

by Arnab Mitra

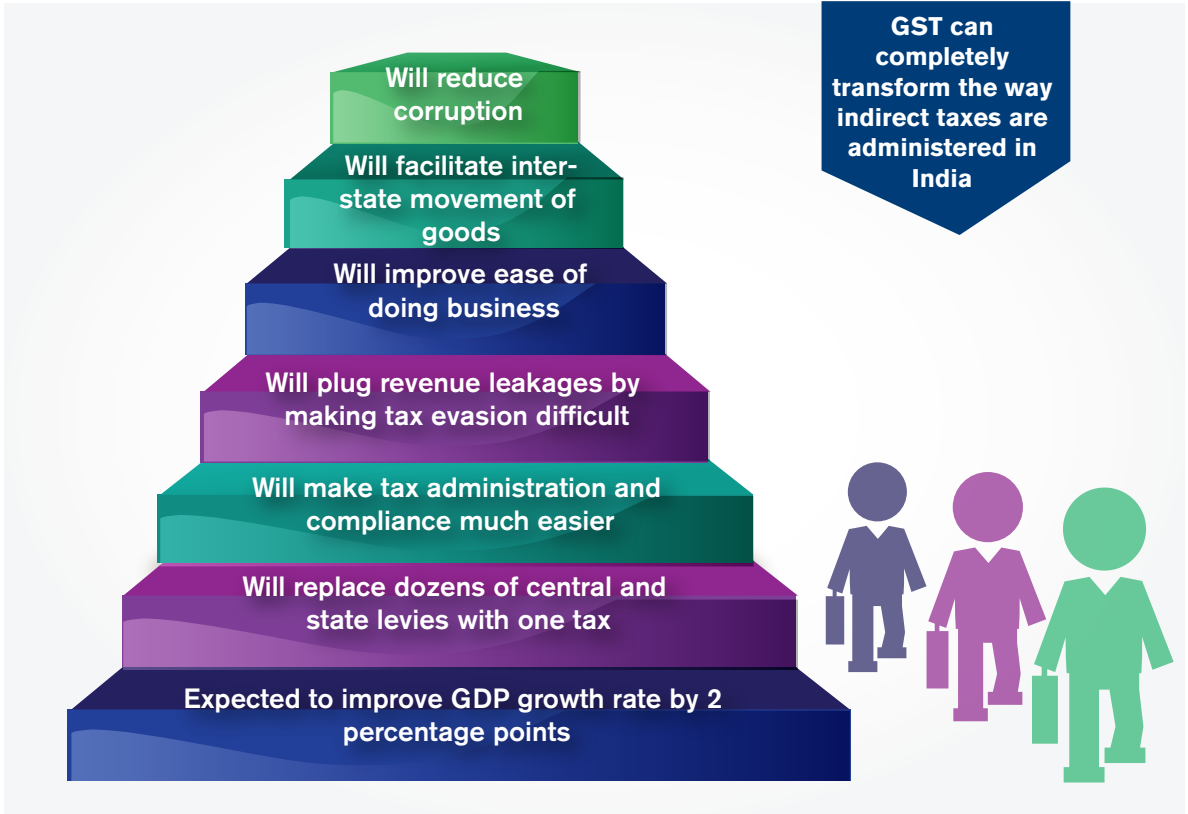
The Goods & Service Tax (GST) Bill, which has been held up in the Rajya Sabha for years, now stands a good chance of being passed into law.

The Congress, which has been opposing the bill in its current form with support from like-minded parties, looks politically isolated following the change in the composition of the Upper House, where the ruling National Democratic Alliance (NDA) now has more members than the Congress-led United Progressive Alliance (UPA) after biennial elections on June 11 and a profound change in the political mood

in the country after the last round of Assembly polls, in which the Congress was routed in four states.

This has brightened chances for the passage of the GST Bill, which proposes to replace a welter of central and state-level taxes with a single levy that will make tax administration easier and stitch India's 29 states and seven Union Territories into a single market.

## Why GST matters





**The Congress, AIADMK and the Left have several objections to the GST Bill**

## Sticking Points

### The Congress wants

The GST rate capped at 18% and wants this to be part of the Constitution amendment bill

Disputes between states and/or Centre to be resolved by the judiciary

1% additional inter-state tax levied by producing states to be scrapped

### The AIADMK wants

Adequate safeguards that it will not lose any revenues

### The Left wants

The GST Bill scrapped as it feels it interferes with the rights of states to levy taxes



The bill, which many have called the most ambitious tax reform ever undertaken in India, has already been passed by the Lok Sabha but is held up in the upper house because of Congress objections to some of its provisions.

Being a Constitution amendment bill, the GST legislation has to be passed by a two-third majority by both houses of Parliament. In the 245 member Rajya Sabha, it needs the support of 164 members if all members vote on it.

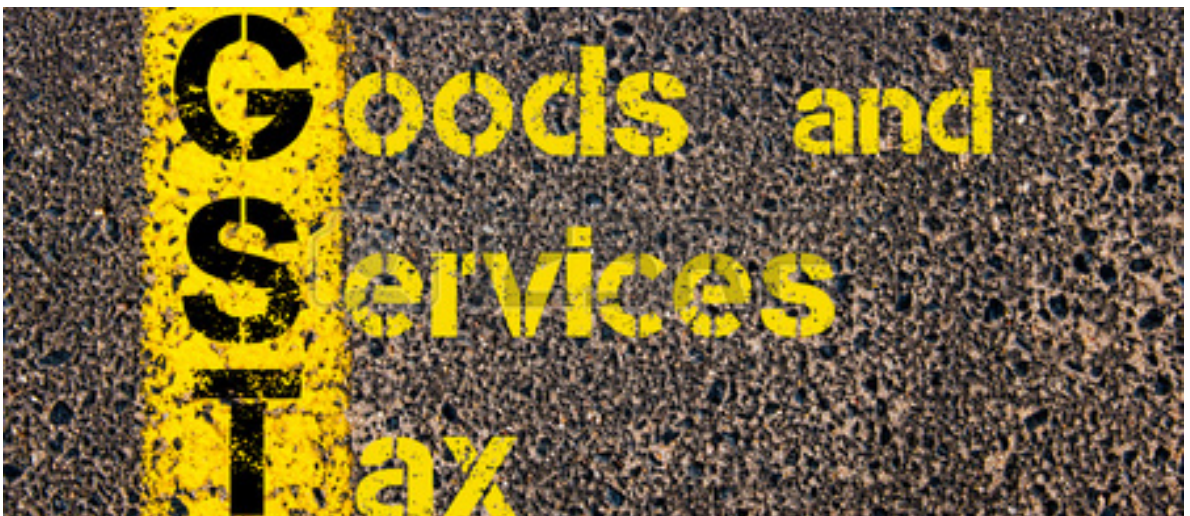
Addressing the media after a meeting of state finance ministers on GST in Kolkata, finance minister Arun Jaitley said all political parties barring the Congress and the Jayalalitha-led AIADMK, which rules Tamil Nadu, have extended support to the bill.

Speaking to TV channels soon after returning to power with a thumping majority on May 19, West Bengal chief minister Mamata Banerjee said her party would support the passage of the GST Bill as

“it was an election promise”.

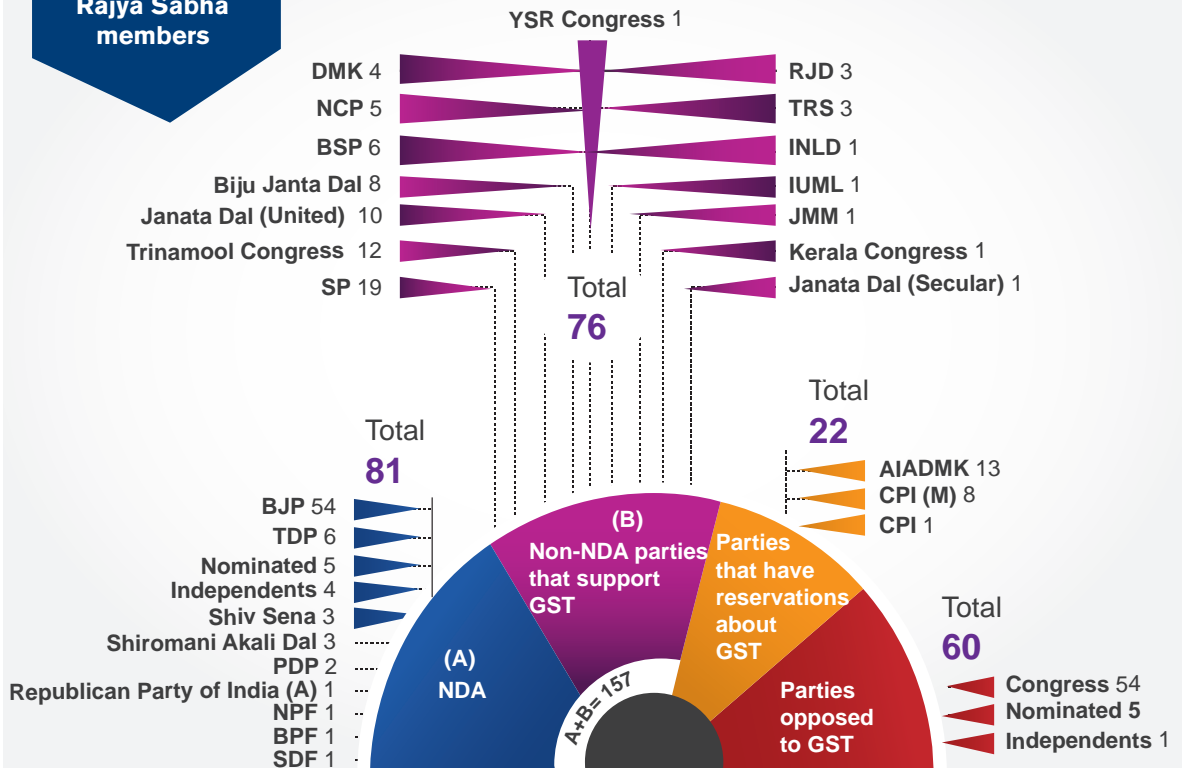
The Left parties, which have been making common cause with the Congress in opposing the bill, seems to be coming around. Newly elected Kerala chief minister Pinarayi Vijayan has openly declared that the introduction of the goods and service tax will be good for his state and said his party should support its passage.

But given the proximity of CPI(M) general secretary Sitaram Yechury with the first family of the Congress party and his less than cordial ties with the Kerala leadership of his party, it is not clear which way the Left's nine Rajya Sabha MPs will vote. So, as things stand, the NDA has 81 committed votes for the GST Bill. Then, there are another 76 members from various opposition parties who have publicly supported the legislation. That's 157 votes for the bill.



# The RS Arithmetic

**GST seems to have the support of a majority of Rajya Sabha members**



On the other side of the aisle are the Congress, with 54 members and other smaller parties and Independents who account for another six votes.

Government managers are confident that even if the Left finally votes with the Congress, they can convince the AIADMK, which has 13 members in the Rajya Sabha, to at least abstain. This will bring the effective strength of the House to 232 and the two-third mark to 156.

And if Vijayan can convince his comrades to break ranks with the Congress and vote in favour of the bill, Jaitley will not even have to break into a sweat to ensure the passage of the GST Bill.

Of course, the Congress could still disrupt the House on one pretext or the other to try and stall the

legislation but it would risk a serious public backlash if it is seen as the only party opposing a law that is expected to raise the GDP growth rate by two percentage points over a period of three to four years.

In a sign of its confidence, the government has announced that it will introduce the bill in the Rajya Sabha during the Monsoon Session of Parliament that begins on July 18.

"We are still hoping that the Congress will support the bill so that it can be passed by consensus and we will continue every effort to bring the party on board. But if it remains adamant

on opposing the bill, we will go ahead without it as we have the numbers to pass the legislation," a senior BJP leader said.

*Being a Constitution amendment bill, the GST legislation has to be passed by a two-third majority by both houses of Parliament. In the 245 member Rajya Sabha, it needs the support of 164 members if all members vote on it.*

# MONSOON WATCH: GREEN SHOOTS OF ECONOMY AWAIT GROWTH SPURT

by India Inc. Staff

Indian finance minister Arun Jaitley, his team at North Block, farmers, analysts and investors will have one eye peeled firmly on the skies. Will rain gods be bountiful this year? After two successive years of drought, which have hampered the government's concerted efforts to revive the economy, there is hope for a normal Monsoon – and a sharp economic recovery – this year.

An IMD spokesperson said: “A 12 per cent deficit in June is par for the course considering that the monsoon hit the mainland only on June 8. The deficit has reduced progressively from 25 per cent on June 16 to half that amount by the end of the month. Our modelling shows a considerable pick-up in rains this month. We expect very heavy rainfall across India in July, which will wipe out the deficit completely.”

## Seasonal Rainfall (in mm) from 1 June to 3 July 2016

Region	Actual	Normal	% Departure from Long Period Average
All India	178.6	189.3	-6%
East & Northeast India	297.1	396.4	-25%
Northwest India	93.1	84.0	11%
Central India	179.6	192.8	-7%
South Peninsula	214.6	179.9	19%

Source: INDIA METEOROLOGICAL DEPARTMENT

The operative word here is hope, not certainty. India's official weather forecaster, the Indian Meteorological Department (IMD) has predicted an above normal Monsoon. But the Monsoon rains, which reached India eight days late – on June 8 instead of June 1 as earlier forecast – was 12 per cent deficient at the end of June.

This has affected the sowing of crops in the ongoing kharif season. According to government data, total area under cultivation till July 1 was down about 23 per cent to 21.59 million hectares compared to 27.93 million hectares on July 1 last year.

The good news is that sowing operations, which got off to a slow start this year because of the delayed arrival of the Monsoon, is picking up pace fast as the monsoon rapidly makes up for lost time by covering more parts of India.

True to the forecast, torrential rains across the country in the first week of July has changed the picture completely. As of July 7, it was 1 per cent surplus. The distribution of rains across the country is also very good. IMD says it expects rains in July to be 107 per cent of the long term average. This means the monsoon is back completely on track.

Traditionally, July, which receives the maximum rains during any monsoon season, is the most important month as most of the kharif sowing is done in this month. Experts expect the area under cultivation to at least touch,

if not exceed, last year's figure.

A normal Monsoon is critical for India's economic well-being as 60 per cent of farmlands across the country do not have irrigation facilities and so, are dependent on the weather gods for timely and adequate supply of water for the sowing and survival of crops.

Rural India accounts for almost 50 per cent of all motorcycle and television sales, 25-30 per cent of car sales and 100 per cent of tractor sales in India. It also accounts for a large proportion of sales of textiles, readymade apparels, footwear and a wide range of other fast moving and durable consumer goods.

It must be borne in mind that the rural economy is much more than agriculture. Apart from farm-related trade and industry, there is a huge ecosystem of rural artisans, service providers, industries



**46%**  
Rural economy  
accounts of  
Indian GDP



**8%**  
Good monsoon  
could lead  
GDP growth



**57%**  
population  
supported by  
farm sector

and professionals completely unconnected to the farm value chain that accounts for two-thirds of India's rural economy. But since the farm sector still supports about 57 per cent of India's population, its fortunes critically impact consumption and demand in the economy and, hence, the country's overall GDP growth.

Then, good harvests typically lead to a spurt in rural house and other construction activity, providing a fillip to the cement and construction materials sectors.

This will have a multiplier effect as demand for industrial products and materials from rural India will boost jobs and prosperity in urban clusters, leading to a virtuous cycle of consumption demand, investments, jobs and prosperity.

A caveat will be in order here. A good Monsoon will undoubtedly lift the fortunes of India's economy and will almost certainly lift the GDP growth rate to 8 per cent and more, but many analysts feel it will take at least two years of normal Monsoons to overcome the stress created by two successive droughts.

For example, there are high levels of delinquency

in loans taken for the purchase of tractors and two-wheelers in rural India. A good harvest and higher rural incomes will enable large sections of the rural population to pay off or at least substantially reduce their liabilities, thus, setting the stage for all round rural prosperity next year if the Monsoon is normal once again.

But a bumper harvest will feed the green shoots of recovery that have started sprouting in various key sectors such as cement, commercial vehicles, power generation and diesel demand. And this will mitigate a lot of stress in the rural and urban economies.

Then, many of the government's flagship schemes such as Make in India, Mudra, etc could not reach their full potential as the rural economy, which accounts for as much as 46 per cent of Indian GDP, was running on empty. A good monsoon will allow the economy to benefit from them as well.

The building blocks of a broad-based recovery are, thus, in place. It needs a spark to set it off. And that spark could come in the form of the rain gods showering their bounty on the parched Indian mainland.







# REXIT REALITY CHECK: INVESTORS DON'T HAVE MUCH TO FEAR

by India Inc. Staff

The shrill reactions have subsided. Knee jerk reactions like “After Rexit, ruin,” have, fortunately, proved premature and alarmist. Rexit, of course, borrowing a reference from Brexit or Britain’s exit from the European Union (EU) to reflect Raghuram Rajan’s impending exit as Reserve Bank of India (RBI) governor.

Now that the dust is beginning to settle over Rajan’s surprise announcement that he will be returning to academia at the end of his term as India’s central banker, it is a good time for a reality check on how his decision will impact the Indian economy.

Let us begin by acknowledging his stellar role in rescuing and



“ Rajan’s decision to move on from RBI will not have any negative impact on the economy. ”

*Rakesh Jhunjhunwala,  
Indian Investor & Trader*

stabilising the Indian rupee, which was almost in free fall when he took over as RBI chief in September 2013. Since then, he has kept his focus firmly on inflation control, declared a war on crony capitalism and launched a much-lauded attempt to clean up the stressed balance sheets of the entire Indian banking system.

If India, which was being counted as among the Fragile Five economies three years ago, is once again the toast of global investors, the credit should go as much to Rajan as to Finance Minister Arun



debt problem of the Indian banking system under control. He has issued new bank licenses as well as licenses for payments banks that promise to broaden the financial system and take forward the goal of universal financial inclusion. And finally, he has restored global respect for the integrity of the Indian financial system, which has ensured that the value of the rupee remains stable.

These measures have led to an institutional strengthening of the Indian financial system that is expected to outlast his tenure. So much so, that foreign investors, who, many said, would wind up their dollar investments in the country and withdraw to safer climes, are staying firmly put. Leading foreign investment firms such as CLSA, Nomura, BofA-ML, Credit Suisse and Barclays, among several others, have predicted short-term turbulence in the Indian stock and currency markets but have been unanimous in their view that long-term fundamentals and, indeed, the “India story” remains intact.

Ace investor Rakesh Jhunjhunwala, who is often called India’s Warren Buffet, also feels Rajan’s decision to move on from RBI will not have any negative impact on the economy.

The World Bank, too, feels the banking reforms begun by Rajan will continue after his departure. “I really want to point out that India has really strong macro-economic policies and an effective and conservative supervisor. So, there is no reason to expect banking reforms to change,” said Onno Ruhl, World Bank’s India Country Director, reacting to Rajan’s impending departure from the central bank.

The next RBI chief will have a tough act to follow but there are one or two areas he may want to differ with his rock star predecessor.

*“After Rexit, ruin,” have, fortunately, proved premature and alarmist. Rexit, of course, borrowing a reference from Brexit or Britain’s exit from the European Union (EU) to reflect Raghuram Rajan’s impending exit as Reserve Bank of India (RBI) governor.*

An agreement signed between the government and the RBI on inflation targeting set the consumer price index (CPI), and not the traditionally followed wholesale price index (WPI), as the benchmark. Since the CPI (rural and urban combined) allocates a high 46 per cent weight to food items compared to a weight of less than 25 per cent in the WPI, retail food prices began to play a disproportionately important role in determining monetary policy under Rajan.

Now, inflation can result from both demand side and supply side factors. For example, if excessive supply of cheap loans fuels a housing price bubble,

Jaitley and the rest of his team. His presence and his international profile provided investors with added assurance and confidence.

But the howls of protest against the government that greeted Rajan’s decision not to seek a second term look more emotional than rational. It also underlines the outgoing RBI governor’s rock star status among analysts and commoners alike. Whenever a superstar moves on, his legions of admirers despair for the future. We’ve seen it in the cases of legendary corporate and banking leaders such as Jack Welch, Louis V Gerstner Jr and Alan Greenspan. Their shoes, big as they were, have all been filled by men of very high calibre, albeit lacking in similar star value.

Rajan’s successor, who will be stepping into very large shoes, will have to ensure that his unfinished initiatives are seen through to their logical end. That will not be an easy task.

### **The RBI governor has three primary responsibilities:**

- Controlling inflation
- Regulation and supervision of India’s financial system
- Issue of currency and monitoring of its value

Rajan has gone full pelt against inflation and brought it under control. He has also declared a war on crony capitalism and initiated measures to bring the bad

the real estate sector can be “cooled” by raising interest rates. This is an example of how monetary policy can be used to control demand side inflation.

But supply side inflation is much less amenable to



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*Onno Ruhl,  
World Bank's India Country Director*

such fiscal interventions. In India, for example, food and vegetable prices rise and fall seasonally. Prices can spike sharply in case of supply side disruptions like freak weather conditions, strikes or hoarding. There is no way such price hikes can be controlled by raising interest rates.

This doesn't matter when WPI and CPI move largely in tandem but problems arise when they

diverge on a massive scale. In November 2014, the WPI entered the negative zone and remained there for almost one-and-a-half years. Retail inflation, meanwhile, continued at high levels. The divergence between the two reached a high of about 9 per cent by the early months of 2015.

This meant real interest rates for Indian industry and many individual borrowers (nominal interest rate minus WPI) was in double digits as the RBI was setting its benchmark

repo rates with reference to the CPI – clearly an economically unviable and unsustainable situation. Consider this: in the latter half of 2015, most banks had a base lending rate of about 10 per cent. WPI was at -4 per cent. The real interest rate for many borrowers was, therefore, around 14 per cent – and that too at a time when they were facing deflationary pressures when selling their goods. When Indian

industry was complaining about excessively high cost of funds, it wasn't entirely unjustified. And those who alleged that Rajan was behind the curve on cutting rates – and encouraging growth – were not entirely wrong. This has contributed, at least partially, to the

persistent sluggishness in the Indian economy. This situation could have been avoided if the RBI had benchmarked

the repo against a combination of the two indices.

The new boss of India's Mint Street may, therefore, want to take a closer look at how RBI tracks inflation. The Modi government has been criticised for the perception that it wanted Rajan to cut rates. But as an elected government with a specific mandate to increase growth rates and create millions of new jobs, the government can well feel justified

in expecting the RBI to be a little more accommodative of its compulsions – without in any way sacrificing the autonomy that the central bank enjoys.

Then, Rajan may also have erred in trying to combine the roles of banking regulator and public intellectual. By commenting on political issues such as the debate over tolerance in the country and taking public

positions on issues outside the remit of his formal job description, Rajan had clearly overstepped his brief. Yes, he was cheered on by India's intellectual elite but the political overtone of that support was unmistakable. This could be another pitfall the next RBI Governor may want to avoid.





Amy Hariani is Director and Legal Policy Counsel as well as the Head of Policy for the US India Business Council (USIBC). She leads the council's Legal & Professional Services Committee, advises on legal issues, and works on intellectual property and international trade.

*Here she shares her views on India-US ties exclusively for India Inc.*

## A US PERSPECTIVE ON WHY IT HAS BECOME EASY TO DO BUSINESS IN INDIA

by Amy Hariani

In 2016, India moved up several places in the World Bank's 'Doing Business' Rankings. Why the quick leap? In part, because of the government of India's singular, constant, and relentless focus on making India a welcome destination for Foreign Direct Investment (FDI) and for business.

Prime Minister Modi started, early in his administration, with a top down approach: meeting with senior bureaucrats to convey a message that they too had to be and act friendly to business. Those US-India Business Council (USIBC) investors that regularly interacted with these bureaucrats saw a monumental shift in attitude and receptivity among Secretaries and Additional Secretaries within the government of India. Companies' meeting requests were eagerly and quickly accepted. The meetings

were scheduled promptly and the officials were prepared. The tone and tenor of the meeting quickly focused on the question: "What is the investment issue and how can we fix it?"

The immediate receptivity and willingness of the government of India to meet with, listen to, and work with investors to fix problems was apparent and word started to spread quickly that Modi's new government was open for business. And any senior-level bureaucrat that did not follow this mantra was quickly replaced, thereby setting a tone of "Minimum Government, Maximum Governance."

The other reason the government of India has had such success in the improvement of its World Bank east of 'Doing Business' ranking is because despite political setbacks, the government has not wavered



from its mission and mandate. For example, after the electoral loss of the BJP in Bihar, the government quickly announced a slew of FDI reforms. The government of India has incrementally and periodically announced FDI reforms and measures that are intended to make business easier in India.

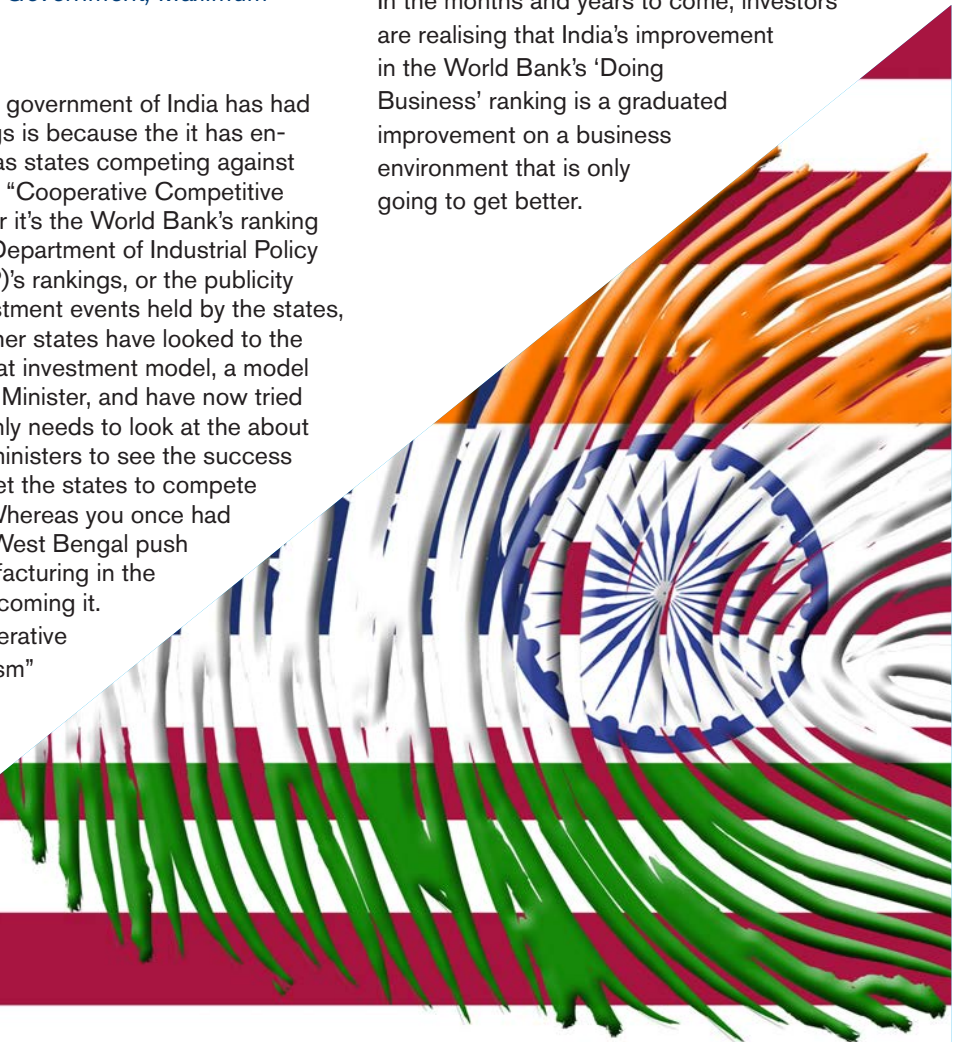
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Lastly, the reason the government of India has had success in its rankings is because the it has enacted a model that has states competing against each other, known as "Cooperative Competitive Federalism". Whether it's the World Bank's ranking of Indian states, the Department of Industrial Policy and Promotion (DIPP)'s rankings, or the publicity surrounding the investment events held by the states, it is no secret that other states have looked to the success of the Gujarat investment model, a model created by the Prime Minister, and have now tried to replicate it. One only needs to look at the about turn of certain chief ministers to see the success of the campaign to get the states to compete against each other. Whereas you once had the chief minister of West Bengal push out automotive manufacturing in the state, she is now welcoming it. The mantra of "Cooperative Competitive Federalism" has also been reaffirmed by the NITI Aayog. The

leadership of the agency, including Arvind Panagarya and Amitabh Kant, regularly hold the proverbial state's "feet to the fire" by measuring progress and success of state level reforms. Intelligent and motivated government officials like these also deserve the credit in India's success.

The state level reforms are also supported by the Modi administration's unrelenting focus to pick up greater control within the states and thereby the Rajya Sabha. This includes winning state-level elections, which would in turn result in greater control of the Rajya Sabha and an easier avenue to continue to push reforms.

With Prime Minister Modi's determination, CEO-like management style, and hard work, he has managed to reinvigorate India's bureaucracy. In the months and years to come, investors are realizing that India's improvement in the World Bank's 'Doing Business' ranking is a graduated improvement on a business environment that is only going to get better.



# SOME GAINS ON EASE OF DOING BUSINESS, BUT MORE NEEDS TO BE DONE

by Rita Ramalho



Rita Ramalho is the program manager of the World Bank Group's Doing Business, which provides objective measures of business regulations for local firms in 189 economies and ranks the economies in 10 areas of business regulation, such as starting a business, resolving insolvency, and trading across borders.

The private sector is often described as the 'engine of economic growth', given its critical role in creating jobs, which enable citizens and countries to prosper. However, several factors, such as lack of access to finance or burdensome processes for starting a new business, can undermine private enterprise and, if left unaddressed, can impede growth.

For India, job creation and fostering entrepreneurship that creates formal jobs are of particular importance, given the country's demographic profile – 744 million working age people, of whom 326 million are youth aged 15 to 29 years.

Studies show that creating a regulatory milieu that enables private enterprise, especially small firms, to function and be creative has a large positive impact on job creation and is, therefore, good for the economy. It is in this spirit that the World Bank Group's 'Doing Business' report shines a spotlight on the main regulatory constraints affecting domestic small and medium-size enterprises in 189 economies from around the globe, including India.

While the report does not measure many factors that are important to a well-functioning business environment, such as macroeconomic stability or the availability of a skilled workforce, 'Doing Business' covers

several critical factors throughout the life cycle of a small and medium enterprise (SME). The areas of business regulation covered by the report's 10 indicators are: Starting a Business; Dealing with Construction Permits; Getting Electricity; Registering Property; Getting Credit; Protecting Minority Investors; Paying Taxes; Trading Across Borders; Enforcing Contracts; and Resolving Insolvency.

**Based on data collected every year, the annual 'Doing Business' report presents results for two aggregate measures:**

- The ease of doing business ranking, which compares economies with one another; and
- The distance to frontier (DTF) score, which shows the absolute progress made towards best practice.

In the latest 'Doing Business' report, published in October 2015, India's ease of doing business ranking is 130, compared to 134 in the previous year, while its DTF score is 54.68, up 2 points over the previous year.

The improvements on both measures were driven mainly by reforms in both Mumbai and Delhi (the two cities covered by the report)



World Bank Group's programme manager for the 'Doing Business' rankings writes for India Inc.

## India vs The World

Economy	Year	Ease of Doing Business Rank	Overall DTF *	Starting a Business rank	Starting a Business DTF *	Getting Electricity Rank	Getting Electricity DTF *
Bangladesh	DB2015	172	42.71	111	81.36	189	12.99
Bangladesh	DB2016	174	43.10	117	81.72	189	15.31
China	DB2015	83	62.81	127	77.43	86	68.52
China	DB2016	84	62.93	136	77.46	92	68.66
India	DB2015	134	52.67	164	63.69	99	64.39
India	DB2016	130	54.68	155	73.59	70	74.56
Mexico	DB2015	42	72.15	63	88.85	76	70.64
Mexico	DB2016	38	73.72	65	88.94	72	73.27
Russian Federation	DB2015	54	69.26	34	92.17	53	77.89
Russian Federation	DB2016	51	70.99	41	92.35	29	84.22

Source: World Bank

\* DTF - Distance To Frontier

across two 'Doing Business' indicators, namely "Starting a Business" and "Getting Electricity".

To make starting a business easier, India adopted amendments to the Companies Act that eliminated the paid-in minimum capital requirement. Now, Indian entrepreneurs no longer need to deposit INR 100,000 (\$1,629), which is 111 per cent of India's income per capita in order to start a local limited liability company. The amendments also ended the requirement to obtain a certificate to commence business operations, saving entrepreneurs an unnecessary step and five days.





















In the area of "Getting Electricity", utility companies in Delhi (TATA Power Delhi Distribution Limited) and Mumbai (Bhrihan Mumbai Electricity & Transport Undertaking) eased the process for obtaining a new electricity connection. As a result, it now takes less time for a business to connect to the grid in both cities.

These reforms, coupled with others undertaken by India over time, are encouraging. Indeed, India has recorded a total of 25 reforms easing business regulation since 2004 (when the first edition of 'Doing Business' was published) in all areas measured by the report, except in the area of Enforcing Contracts. These have led to tangible improvements for budding small businesses in India.

### Three examples come immediately to mind:

1. Since 2004, India has made starting a business easier by reducing the time required for obtaining the permanent account number (PAN), speeding up the process for obtaining a tax registration number; and establishing an online system for value added tax (VAT) registration. As a result, considerable gains have been recorded. Ten years ago, for instance, it took an entrepreneur in Mumbai almost 100 days and cost 62 per cent of GNI per capita and required a paid-in minimum capital equivalent to 352 per cent of the GNI per capita. Now, the process can be completed in just 29 days, it costs only 17 per cent of GNI per capita and there is no paid-in minimum capital required.
2. A little over a decade ago, an entrepreneur seeking a loan to grow his business would have had little luck, because financial institutions lacked access to information systems to assess his credit-worthiness. Today, thanks to the creation and expansion of a national credit bureau offering credit scores and coverage on par with those in some high-income economies, a small business in India with a good financial history is more likely to get credit and hire more workers.
3. In 2014, India strengthened minority investor

## India's Scale of Improvement in Doing Business

Topic	2015	2016	Change
 Getting Electricity	70	99	 Up by 29
 Starting a Business	155	164	 Up by 9
 Dealing with Construction Permits	183	184	 Up by 1
 Registering Property	138	138	 No change
 Enforcing Contracts	178	178	 No change
 Protecting Minority Investors	8	8	 No change
 Resolving Insolvency	136	136	 No change
 Trading Across Borders	133	133	 No change
 Getting Credit	42	36	 Down by 6
 Paying Taxes	157	156	 Down by 1

Source: Doing Business 2016

protections by – among other things – requiring greater disclosure of conflicts of interest by board members and introducing additional safeguards for shareholders of privately held companies. As a result, India is in the top 10 on the Protecting Minority Investors indicator and minority shareholders benefit from strong protection from conflicts of interest and enjoy extensive rights in major corporate governance.

*To make starting a business easier, India adopted amendments to the Companies Act that eliminated the paid-in minimum capital requirement. Now, Indian entrepreneurs no longer need to deposit INR 100,000 (\$1,629), which is 111 per cent of India's income per capita in order to start a local limited liability company:*

average of 14 procedures. In “Enforcing Contracts”, it takes 1,420 days to settle a commercial dispute through local courts in India, which is more than double the global average.

A study of ‘Doing Business’ data shows that the countries that have reformed the most over the past 12 years (i.e. Georgia and Rwanda), have also increased their national per capita output and firm creation. So, too, can India reap the benefits of a thriving private sector by providing a better business framework for entrepreneurs.

However, while India leads the South Asia region in the number of reforms undertaken historically, the pace of reforms has been irregular over time. For instance, India did not record a reform in ‘Doing Business 2014’. Going forward, India’s renewed efforts to improve the country’s performance on ‘Doing Business’ measures will need to be sustained over some time. And, while businesses in India continue to face a wide array of challenges, the biggest improvements need to be made in the areas of “Dealing with Construction Permits” and “Enforcing Contracts”. For instance, on “Dealing with Construction Permits”, an entrepreneur faces an average of 34 procedures, compared to a global



# INDIA JUMPS UP GLOBAL RETAIL INVESTMENT CHARTS



In a clear indication that the Narendra Modi led government's reforms agenda is bearing fruit, India jumped 13 positions from 2015 to be ranked second, after China, in A.T. Kearney's Global Retail Development Index (GRDI) for 2016.

India's retail sector has expanded at a compound annual growth rate of 8.8 per cent between 2013 and 2015, with annual sales crossing the \$1 trillion mark. India has also become the world's fastest growing economy. That coupled with a large population base and the easing of FDI regulations in the sector has made it an even more attractive market, the global management consulting firm reports.

India's retail sector has also benefited from the rapid growth in e-commerce. India is the world's second largest internet market and the increasing internet and smartphone penetration is contributing to the expansion of e-commerce. As Indian consumers become more comfortable with shopping online, venture capital and private equity firms have boosted investment in the sector providing further momentum.

Debashish Mukherjee, a partner with A.T. Kearney

and co-head of the Consumer Industries & Retail Products Practice for India and Southeast Asia, said: "India's strong ranking reflects foreigner retailers' increased optimism in its retail market and its vast growth potential. India has relaxed several key FDI regulations in single-brand retail and this has paved the way for multinational firms to enter the market. Additionally, we expect to see e-commerce to propel India's growth and make it a more attractive proposition.

"However, there are some challenges as well. India remains a challenging and complex market for foreign retailers, where understanding dynamics at the state level is important. Meanwhile, infrastructure bottlenecks including labour laws, complex regulations, high labour attrition rates, and limited high-quality retail space remain areas of concerns for retailers," he added.

In the past year, several foreign retailers have entered India. In fashion, Aeropostale, The Gap and The Children's Place entered in partnerships with Arvind Lifestyles Brands. Topshop and Topman entered via e-commerce through Jabong.com, while H&M became the first international fashion retailer to

enter alone after the government approved 100 per cent FDI in single-brand retail.

Other sectors also saw multiple entrants including sports (Sonae, under the Sport Zone banner), restaurants (Wendy's, Jamie's Italian, Jamie's Pizzeria, Barcelos, and Carl's Jr.), and convenience stores (UAE-based Fmart). And among existing international retailers, Marks & Spencer, Burger King, Dunkin' Donuts, Starbucks, and Nando's undertook significant expansion programs.

In terms of formats, the cash-and-carry model is still thriving and seen as profitable. Existing players, Walmart and Metro, plan to expand their store bases, targeting 70 and 50 stores, respectively by 2020.

The GRDI ranks the top 30 developing countries

for retail investment worldwide. The Index analyses 25 macroeconomic and retail-specific variables to help retailers devise successful global strategies to identify emerging market investment opportunities. The study is unique in that it not only identifies the markets that are most attractive today, but also those that offer future potential.

The 2016 GRDI marks the 15th annual edition of the report. During the past 15 years, developing markets have seen tremendous growth both in terms of population, which has grown 21 percent to 6.2 billion, and in terms of retail sales, which have increased 350 percent in developing countries and now represent more than half of total global retail sales.

## 2016 Global Retail Development Index Ranking



Source: A.T. Kearney



## Denmark keen to Make in India

The government of Denmark has embarked on a number of steps to be ahead of the curve in doing business with India.

Danish firms like Danfoss, Grunfdfoss, sRamboll, Novo Nordisk and Novozymes are all keen to benefit from the Narendra Modi led government's Make in India initiative. Danfoss and Carlsberg already have a base in India, while others are in the process of setting up.

Indian ambassador to Denmark Rajeev Shahare pointed out that the Danish Confederation of Industries has an office in Mumbai; the Danish Trade Council has a strong representative office in Bangalore; and Asia House in Copenhagen has commissioned a study on how to effectively participate in the Smart Cities project in India.

He said: "One company is setting up a unit in Hyderabad for manufacturing of ocean cleaning pumps and equipment; another consulting company is exploring Mumbai for its regional office."



## Russian power eyes assembly in India

Russian atomic power corporation Rosatom has expressed an interest in the Make in India programme with the possibility of assembling of fuel rods and control system components in the country.

India and Russia have already struck a joint venture in the nuclear power plant at Kudankulam, which has two of its reactors up and running while four more are in the pipeline. The two countries also plan to build 12 more reactors in the next two decades.

Oleg A. Grigoryev, vice-president of TVEL, Rosatom's fuel company, said: "The fuel rods can be assembled in India using the fuel pellets we supply. We have already developed and signed a roadmap with schedule and specification of what has to be done, but much depends on the number of units."

Rusatom Automated Control Systems (RASU), the official business integrator of comprehensive industrial automation solutions provided by Rosatom for the international market, said the components can be produced in India for use by **Russia and for exports.**



## Spain's Antolin plans India plant

Grupo Antolin, a leading European car parts producer, recently opened a production facility in Sanand (Gujarat).

The state, which is fast emerging as a manufacturing hub for global auto giants, will become a base for the Spanish firm to manufacture vehicle sunvisors, overhead systems and interior plastic parts.

Antolin said its Sanand facility will be equipped with the latest production technology, will employ 130 workers and initially supply global automakers Ford and India-based Tata Motors.

Grupo Antolin is one of the largest players in the car interiors market internationally and the leading supplier of headliner substrates. Antolin has been present in India since 1996 and already runs five factories, two "just in time" centers and a technical sales office.

**Reason says:  
there are three  
ways to go.**



**Instinct says:  
only one leads  
to growth.**



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# IS INDIA 4G READY?

by Rajan S. Mathews



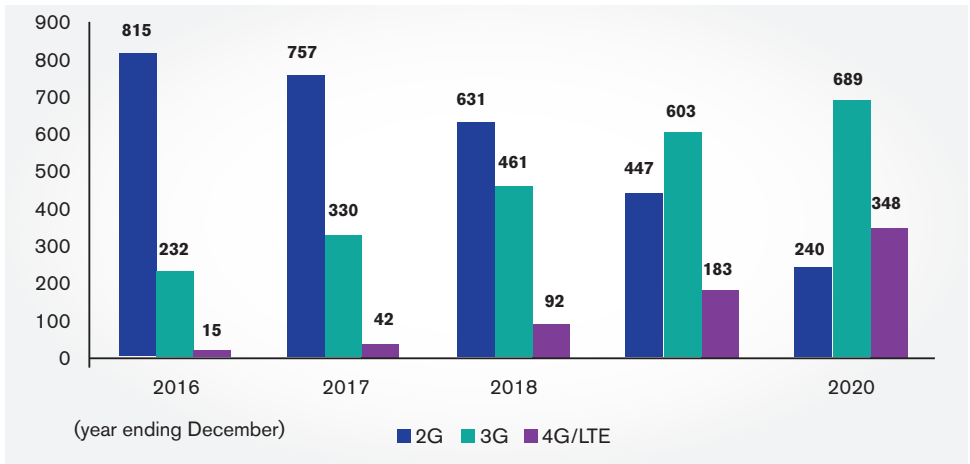
*Rajan S. Mathews is director-general of the Cellular Operators Association of India (COAI), an industry association of GSM mobile service providers in India. He has also served in many senior executive positions at major telecom firms around the world.*

As the second-largest telecommunication market in the world, India has more than a billion mobile subscribers. The country is now aiming to provide data connectivity to 1 billion subscribers. No mean feat for a country that made the first mobile call only about 20 years ago! However, while the growth of mobile services in the country has been nothing short of phenomenal, growth of mobile broadband has been happening at a

far slower rate.

As of April 2016, India had 151 million broadband customers. Of this, the 4G user base is estimated to be at about 6 million. Interestingly, unlike developed nations, broadband services in India are primarily delivered by mobile broadband services which constitute over 88.7 per cent (134 million) of the total broadband subscriptions. We expect to provide at least 350 million 4G connections by 2020.

## Future Projections



At present, the country has 38 4G networks running across the country and 50 more networks are expected to be launched in

the next six months. The total number of 4G BTS are 233,695.

## Count of Networks across Telecom Circles

Network	2G	3G	4G
Existing	217	94	38
New Launches	0	1	50

Note: 4G counts excludes BSNL, MTNL, Tikona Networks Source: TRAI, operators



As the economy accelerates towards achieving its millennium goals and thrust to make minimum infrastructure available to all, access to broadband services over state-of-the-art and efficient networks will gain traction that will help to serve a large volume of subscriber traffic. Despite roadblocks — and there are quite a few — the Indian telecom industry is on track to reap the benefits of 4G technology and improve user experience for all consumers.

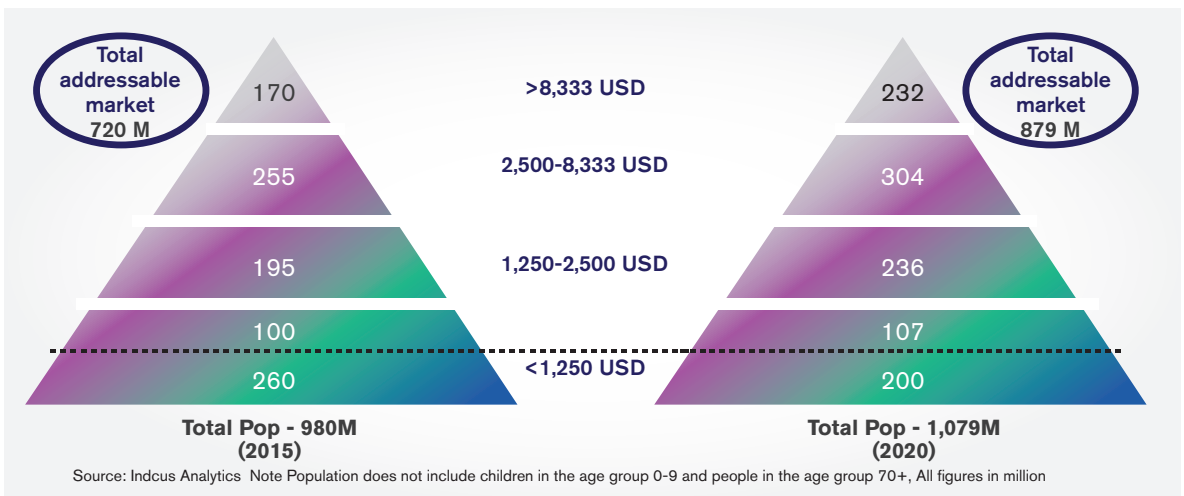
There is great potential in the Indian market waiting to be tapped. This is made evident from the fact that the total addressable market for the Mobile

Broadband in India is projected to increase to 879m in 2020 from 720m in 2015.

As shown below, India ranks low in various indices of broadband and network readiness as compared to other countries. In order to achieve the target rankings, a more enabling policy and regulatory framework that actually facilitates the investment in networks, innovation in tariffs and services, development of content and availability of affordable handsets is required.

Over a third of the world's population is expected to be covered by 4G-LTE networks, and this number

## Total Addressable Broadband Network



is likely to accelerate as is the number of operators that provide 4G services. The mobile services sector in India has taken huge strides towards a 4G ecosystem, with handset manufacturers making mobile phones that are specially designed for 4G optimisation. In fact, some operators have also made the foray into manufacturing handsets to maximise the potential. The telecom industry and COAI does believe that the onset and adoption of 4G technology will be rapid and consumers – both retail and enterprise – which means that this particular

space will set the trajectory for the future of mobile telephony in the coming months and years. However, hurdles remain that have affected the growth of broadband services in India. Operators face challenges in the form of high levies, policy complications and operational barriers. Add to these, there are also demand-side issues such as affordability and service attractiveness that operators need to be mindful of.

It does not help that spectrum, the most valuable commodity for a mobile ecosystem to grow, is

auctioned at a premium. The impending spectrum auctions will transform India from a spectrum-starved nation to a spectrum-rich one, although concerns remain over the high reserve prices that could discourage many players from participating in the bidding process. That would be an unfortunate turn of events, as we stand at the cusp of making major breakthroughs in telecommunications technology, and an inevitable move towards widespread 4G penetration.

There is a need to understand the limitations under which the telecom industry operates before putting a price on premium bands like the 700MHz that offers the most conducive environment for 4G services.

We are not aliens to the dangers of setting a high

which increases the cost of service provision. Also, multiple agencies are required to be approached for obtaining RoW clearance, which leads to delays in network rollout. Hence, a coordinated effort must be initiated on the part of central and state governments for RoW. RoW permissions should be provided on priority and a time limit needs to be fixed. Use of wireless for providing last mile broadband access is critical. In addition to backhaul, such access requires a large number of towers and small cells. Non-discriminatory access to government land and street infrastructure (street lights, etc.) for putting up such towers and small cells is needed. In order to improve the efficiency of resources and reach the masses, such infrastructure should be allowed to

## Connecting with a 10-year plan

Parameter	Ranking	Target Ranking								
		2017	2018	2019	2020	2021	2022	2023	2024	2025
Broadband Commission, ITU - Broadband Report, 2014	142/191	130	120	110	100	90	80	70	60	50
BRIC Countries	4/4	3	3	3	2	2	2	2	2	2
ICT Development Index of 168 Countries	129/168	115	100	90	80	70	60	50	40	35
INSEAD ICT Network Readiness Index of 143 countries	89/143	80	70	60	55	50	45	40	35	30
Huawei's Global Connectivity Index of 50 Countries	44/50	42	38	35	32	30	28	26	24	22

reserve price on spectrum. The 2000 auctions in the UK showed how operators could end up stretching their purse strings to such an extent that it eventually effects rollout plans. Indian telcos are debt-ridden (INR 3.8 lakh crores or approximately \$45.9bn) and are likely to avoid getting into more debts if the reserve price is not kept competitive.

There is a long way to go. Broadband penetration in India is still much lower: around 11 per cent as compared to a mobile penetration of 81 per cent at the end of February 2016. But there is enough reason to cheer. The National Telecom Policy-2012 has set a target of reaching 600 million broadband subscribers by 2020. To realise the goal of making broadband available to all parts of the country, the Government of India has launched several programmes such as Digital India, Skill India, Smart cities, the National Optical Fibre Network rechristened as BharatNet and others. All this will need a robust and fast mobile broadband that can only be possible through 4G/LTE technology. In order to facilitate country-wide 4G services, there is a need to harmonise site approvals / rights of way (RoW) procedures so as to lower the costs and expedite the process. Presently, exorbitant levies are imposed by various municipalities on RoW

be deployed, especially if it is shared among two or more broadband service providers.

More and more content should be brought to India, which will bring down the cost of content and will also improve the utilisation efficiency. This is possible by developing applications and content that is relevant, usable and understandable by the local people. Government should devise schemes to enhance domestic content thereby reducing dependency on International Internet bandwidth requirement. Even though the cost of handsets has fallen significantly, the rural households may still perceive mobile handsets or access devices to be expensive. It has been a long standing view of the industry that the bundling of handsets should be encouraged and the receipts from sale of handsets, accessories, etc. should not be included in AGR. Also, tax relief in terms of custom duty, import duty should be considered in order to reduce the cost of CPE imported in the country.

Mobile broadband speeds will increase substantially in the coming 5 years. 3G speed will grow two-fold (15 per cent CAGR), reaching 3,889 kbps by 2020, while 4G speed is projected to reach 15,163 kbps (10 per cent CAGR). Further, Wi-Fi connection speeds are also

expected to grow at the same click (14 per cent CAGR) from 2015 to 2020. This will entail major investments from the operators towards upgrading the network infrastructure in order to provide the requisite quality of services.

Entry of a new player in 4G LTE space will have a positive impact on the entire 4G ecosystem in India. Pan India presence of this new entrant will increase competition and act as a fillip to the 4G penetration in India. Data offerings to consumers will also increase. As consumers will be inclined towards operators that will offer 4G, no player wants to miss this 4G bus. Clearly, each operator in India has to evaluate the opportunity cost of 4G and place its bets. All this will require sound investments and even more sound decisions both from the Government and the industry.

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As the apex association of telecom service providers in India, we are committed to this phase of growth. While the Industry is more than willing to contribute and play its role in achieving the above, it would certainly require the government's enabling support for crafting a viable and sustainable industry structure. For this, a predictable and stable regulatory and policy environment that ensures an investor-friendly climate, protection of existing investments, service continuity, availability of adequate, appropriate and contiguous spectrum, etc. would be a pre-requisite.







## EMPOWERING A CASHLESS INDIA CAN BE NO QUICK-FIX

**M**obiKwik counts itself among the pioneers of digital wallets in India and has now set its sights on becoming the largest source of digital transactions in the country. Upasana Taku, who co-founded MobiKwik along with Bipin Preet Singh, traces the Gurgaon-headquartered firm's journey so far, how digital-ready India really is for their cashless model, and the key to attracting finance for digital start-ups in the country.

### What is the ethos behind MobiKwik?

Our ethos is to support digital payments for a cashless society. Shopping and paying bills must be seamless and convenient for all, instead of it being a hassle and multi-step process. With this inspiration, we pioneered the concept of a digital wallet in India in 2009, way before the e-commerce burst.

Since our inception as a single page website to a multi-platform application with over 30 million users, the company has come a long way. We make payments happen within seconds, in a three-step hassle-free process. We are today the largest digital

payments platform with maximum offline reach and over 100,000 merchants.

### How does the firm plan to enable the Indian government's financial inclusion goals?

After a successful running of cash-based economy for generations, cash is being replaced by digital payments and mobile wallets. And at the forefront of this change is MobiKwik.

Today, in India, debit cards issued are about 500+ million, but only about 10 per cent of them are active. Credit card penetration is at less than 30 million. On the business side, India has 30-40 million small and medium enterprises (SMEs including kirana stores), but only 1.1 million point of sale (POS) machines have been deployed so far. The overall number of merchants in India who accept any kind of electronic payment is very low and stands at around 0.7 million.

Given these constraints, it is not a surprise to note that about 95 per cent of payments in India still happen in cash. Realising the extent of these constraints, we have strategic partnerships with

merchants, IRCTC (train ticket bookings) and Karnataka & Delhi government to push large scale financial inclusion in the country.

### **What are some of the key initiatives to help India's un-banked?**

We have introduced features that promote as well as encourage financial inclusion, especially in areas where banks do not have proper connectivity or presence. Even in urban India, we have millions of users who do not operate a bank account or do not use a credit or debit card to make payments.

Our cash pick up feature enables anyone to handover physical cash to a MobiKwik representative who instantly adds it to the customer's wallet. The customer can then use the money thus added, to transact online or offline, to pay for bills and recharges, and also transfer money to other MobiKwik users or banks. The cash pickup feature is currently available in Delhi-NCR, Mumbai, Jaipur and Karnataka, but will soon expand to Surat, Nagpur, Ludhiana and other cities.

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In addition to cash pick up, users can also deposit cash in over 100,000 locations in 1,000 Indian cities. We have formed partnerships with Suvidhaa and ICICI Bank to provide this service.

With a view on financial inclusion, we have also extended our reach to rural India. Our association with StoreKing, enabled rural Indians residing in South India to create their MobiKwik wallet and start using it for their recharge and other payments.

In India, around 70 per cent of the population is still unbanked. It's a huge opportunity for us to tap into and we are really geared up to take it head on.

Additionally, our users can pay across 1,000 Domino's outlets in India at 200+ locations. They can also pay at malls across India and in grocery stores such as Big Bazaar with MobiKwik. We have a robust offline merchant network to support offline cashless spending.

### **Is India ready to move to a cashless ecosystem?**

The Indian government and Reserve Bank of India have committed to a cashless economy and as a strong industry player, we are geared to support

their vision. I believe that with a robust public-private collaboration, we can make cashless economy a reality.

We have begun inching towards a cashless economy already and mobile wallets are supporting positively towards this transition. Recent RBI data confirmed that mobile wallets are growing at a fast pace. For the year 2014-15, 255 million mobile wallet transactions were made.

This is relevant in the context as India has over 1 billion mobile connections and the adoption of smartphones is increasing rapidly. Mobile wallets have transformed a phone into an 'Catalyst of Change', that provides financial services to unbanked Indians.

Therefore, we already have a reach in the interiors of India, where banks may not be present. There are over 200 million unbanked Indians who do not have access to banking services, there are many more who do not have confidence in using net-banking or cards for transactions, therefore a wallet is the most viable solution to this problem.

### **Is this a market global investors are keen on?**

FinTech in India is evolving and this is the best time for investors to contribute to this evolution that will change India forever. The next five years will witness the industry grow like no other. MobiKwik raised series C funding of \$50 million recently from GMO Payment Gateway and Mediatek, Taiwan-based Semiconductor Company. The interest of investors is also proven by the fact that we are MediaTek's first investment in India.

As per a TechSci Research - 'India Mobile Wallet Market Opportunities and Forecast, 2020', mobile wallet category will be \$6.6 billion by 2020. And these numbers are further endorsed by global investors betting on space.

Mobikwik has raised three rounds of funding from Sequoia Capital, American Express, Tree Line Asia, MediaTek, Global Payment Fund and Cisco Investments.

### **Does Start-up India hold promise for start-ups like Mobikwik?**

In the last five years, the start-up ecosystem in India has witnessed a near-revolution. The mindset among the youth has pivoted from job-seeking to job-making and job-creation through start-ups, which is crucial as more youngsters come forward to take a stab at identifying and proposing solutions to business problems. VCs and investors are constantly scouting the India market to invest in promising ideas and impressive execution. The Indian government has also recognised the game-changing potential of India as a global startup hub. It is a definitive indicator of an extremely alive and kicking ecosystem.

Prime Minister Narendra Modi's "Start-up India, Standup India" initiative seeks to provide further impetus to this already thriving ecosystem by acknowledging that entrepreneurship needs specialised focus to afford increased chances of success, and discovering solutions to real-life business problems. India recently crossed the 1 billion mark in cellphone connections. Imagine, if even 1/50th of them could harness the power of internet and digital connectivity, they could become entrepreneurs in their own right and generate significant positive impact for society. This was unthinkable of in 2009.

### What are some of the schemes that have been tailored for the Indian market?

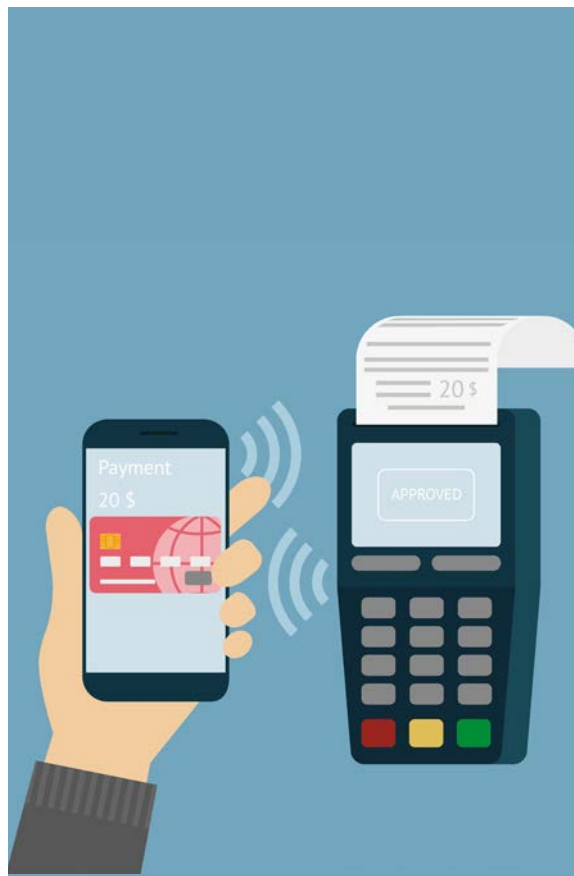
We have launched multiple schemes tailored for the Indian market.

- Currently our Cash Pickup facility allows any unbanked individual to make digital payments via the MobiKwik wallet without the need to have a bank account or own a credit/debit card.
- We offer micro-loans, which is an industry first and caters to financial requirements of an average Indians
- Our partnership with StoreKing and Big Bazaar allows rural and urban users respectively to make payments via at these large retail stores across India.
- Given the problems with poor connectivity we launched Pay with Pin through which users can pay via MobiKwik without the need of a cellular network or a data connection.
- Our tie-ups with neighbourhood kirana stores for cash deposit points also lets you top up your MobiKwik wallet instantly.

### What are the plans for your micro credit business?

The micro-loans feature was launched in May 2016. Currently we are offering instant micro loans to wallet users running short on balance. We've partnered with the lending marketplace Cashcare to enable this.

Our first couple of pilots were aimed at 20,000 of our users who we identified as creditworthy based on their detailed transaction history with us. We started offering a line of credit to them in their apps, many of these users chose to use this line when they were short of funds in their wallet while purchasing something. We have seen 95 per cent of them repay it within 15-30 days of taking the loan.



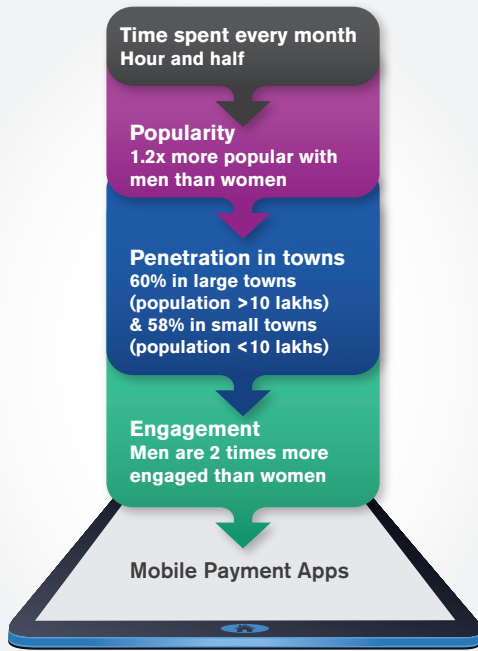
### What are some of MobiKwik's expansion plans, domestic and global?

In 2015, we were the first to venture out in the offline space and activate mobile payments for brick-and-mortar stores. The first mover advantage helped us to establish MobiKwik as the largest offline player in the industry with exclusive tie ups with partners. Currently, more than 10,000 retail stores, cafes, restaurants etc accept MobiKwik payments. This is in addition to the 100,000 online websites/apps that accept MobiKwik. By 2018, we aim to have 200 million MobiKwik users and 500,000 merchants in India.

Besides the payments business, MobiKwik is building new product lines with a vision to make its mobile wallet the gateway for Indian masses to access financial services such as insurance, credit, etc. This will create more stickiness for the users towards Mobikwik and will help increase spend per user. Our vision is to have users pay, invest, borrow and save all using MobiKwik.

As far as global expansion goes, we aim to build a ubiquitous consumer fintech company first in India and then take our platform to other Asian countries and replicate our model there. We are still in early stages of evaluating our target countries.

# MAKING WALLETS MORE MOBILE IN INDIA



Source: Nielsen Informato Mobile Insights




India is slowly but surely embracing the digital wallet. Current Reserve Bank of India (RBI) rules have a Rs 10,000 (\$114) cap on such mobile friendly payment options with acquiring complete “know your customer” (KYC) details.

However, this does not seem to be putting off many start-ups who are banking on this trend catching on among India’s burgeoning middle classes and, indeed, the rural sector with increasing access to affordable mobile technology.

The most popular mobile payment apps in terms of time spent are those that provide services over and above pure payment, such as mobile recharging, ability to book movie tickets, shopping and so on.

*This infographic gives an insight.*

## Top Mobile Payment Apps in India

			
As on Dec 2015 Reach	39%	26%	17%
Time Spent by Users	70 min/month	40 min/month	29 min/month
Funding received	Approx \$1.5 billion + Working Capital loan of \$44.53 million	Approx \$113 million	Approx \$86.85 million
Company info	Founded in 2010 by Vijay Shekhar Sharma. Paytm is owned by One97 Communications Ltd.	Founded in 2010 by Kunal Shah and Sandeep Tondon. It was recently acquired by Snapdeal.	Founded in 2009 by Bipin Preet Singh and Upasana Taku
Some of the investors	Ant Financial Services Group, Industrialist Ratan Tata, ICICI Bank, SAIF Partners, Sapphire Venture and Silicon Valley Bank, Intel Capital, Reliance Capital	Sequoia Capital, Sofina, Ru-Net, Tybourne Capital Management, Valiant Capital Management	Sequoia Capital, Treeline Asia, American Express, Cisco Investments, MediaTek, Global Payment Fund

Source: Multiple Sources



# THE POWER OF 'SMART' NETWORKS

by Rajarshi Sengupta

How 4G can transform India's economy and improve both governance and the delivery of many essential services across India.

In February 2016, Singularity University, an organisation that focuses on the impact of "exponentials", held their first summit in Asia in Mumbai – in collaboration with Deloitte – to discuss what they felt were key factors or exponentials that would shape societal and business challenges in the coming era. It was a true learning experience to sit through the sessions on various topics such as blockchain, artificial intelligence and robotics, and crowdsourcing, among others, and their possible impact, and listening to renowned professors and practitioners speak on how such exponentials will shape the future.

The session on Smart Cities was remarkable for a pithy statement that the speaker made – A Smart City, he reasoned, was nothing but a Smart Network. A network that had the bandwidth, the speed and the robustness to sustain the smart applications that would deliver various government-to-citizen and government-to-government services.

What would be some examples of such smart services? The 'Deloitte Technology, Media, and Telecommunications (TMT) Predictions for India' in 2016 list a host of such expected Smart City services in multiple areas – Energy, Public Utility, Buildings, Transport, ICT, Healthcare, Education and Governance, with Entertainment and Integrated Payment Solutions making up the others. Ranging from the digitisation of records that enable access of central repositories, to applications around safety and surveillance, to smart buildings which help in conserving energy, to the distribution of healthcare and education benefits by serving physically remote locations brought closer via the network, to greater transparency and openness in dealing with public systems – the range and impact of applications that could be facilitated via a high-speed network

is significant.

Each of these services will need a strong, robust network to withstand the data volume and deliver the right service and data at the right speed and at the right time. Thus, the speed of the network and its reliability will be a key in the plans that the current government has for Smart Cities, and therefore for Digital India, of which Smart Cities is an integral part.

*The significant increase in speed that 4G gives over 3G would also be critical in an ecosystem where there will be an abundance of data, structured and unstructured, flowing in from internal as well as external sources such as social media, consumer and industrial IoT, that will need to be transmitted fast for consumption in various applications such as analytics.*

In another study that Deloitte did with ASSOCHAM in September 2015, on e-governance and Digital India, one of the key challenges identified to Digital India was data speed. In terms of mobile data speeds, the average speed in India is 0.0099 mbps. India is ranked 20th amongst nations in terms of mobile data speeds, while Canada, the top ranked nation, has average data speed of over 4.5 mbps. Thus, India is almost 500 times slower on the average.

All of this points to a clear fact – without an increased speed of the network or success of 4G, the future of Smart Cities will be hard to realise.

Apart from the obvious applications in Smart Cities, what other applications could ride on such a high speed network? As the Deloitte TMT study in



India for 2016 points out, healthcare delivery could be revolutionised by the right applications riding on such a network. According to the report, the Indian Telemedicine market is expected to grow at a CAGR of 20 per cent to reach more than Rs 1 billion by FY15 from a base of Rs 500 million in 2010.

As part of NEGP (National E-Governance Program) that runs the Mission Mode projects (MMP), the government of India has set up multiple CSCs (Common Service Centres) where a variety of G2C services will be delivered to citizens. Should the speed of the networks be sufficient, this could revolutionise the delivery of primary healthcare in India with such CSCs also serving as the bridge between rural areas and the doctors at the divisional and district hospitals? This could also reduce the burden that most city-based hospitals face on the basis of multiple references from the field, as there is a lack of facility and infrastructure in the field. Similar applications could be developed around education where students in remote villages could access the latest tutorials from the likes of Khan Academy or TED talks with the content riding on such networks. Imagine how such a high speed network can be leveraged in a technology and innovation ecosystem to tackle a growing social problem in India – of taking care of old parents living in cities different from where their children are. As India's geriatric population grows, and the concept of a nuclear family with people living with their parents diminishes, managed healthcare could become one of the fastest growing businesses in India, where the doctor comes to a patient instead of the other way around. This will be possible through an ecosystem of technologies such as wearables that the vitals of the patient can convey the data through a high speed network to a central medical centre, where a doctor can then supervise

the reports and attend to the patient via immersive augmented reality. This interactive session could then also include the son or daughter living elsewhere, in a consultative environment with the doctor. While the need for direct touch will never go away, it will at least allow elderly people the opportunity to access healthcare services, otherwise difficult with growing age and disability.

The significant increase in speed that 4G gives over 3G would also be critical in an ecosystem where there will be an abundance of data, structured and unstructured, flowing in from internal as well as external sources such as social media, consumer and industrial IoT, that will need to be transmitted fast for consumption in various applications such as analytics.

Finally, the question of how 4G can be used, boils down to one fundamental issue – in the 21st century, the right to information and therefore the right to infrastructure to deliver that information is almost fundamental across nations. In the absence of this, information asymmetry in which only specific groups of people have access to key information about markets or goods or services, leads to loss or restriction of opportunity for the broader population, thereby leading to market anomalies. That hampers individual and social growth and creates social tension.

That is where the power of the network lies – the ability to transform millions of lives by delivering services such as healthcare or education, by setting up Smart City infrastructure, thereby offering everyone an equal opportunity to grow by access to information. That is where the 'Smart' of the Smart City or the Smart Network comes in.

*Rajarshi Sengupta is Partner, Deloitte.*



# GETTING MAKE IN INDIA A PATENT TO SUCCEED

by Amarjit Singh



Amarjit Singh is Senior Partner at Amarjit & Associates in New Delhi and Patent Agent under the Indian Patents Act

The 21st century belongs to entrepreneurs. Keeping that in mind the Department of Industrial Policy and Promotion (DIPP), Government of India, announced The National Intellectual Property Rights (IPR) Policy on May 13, 2016.

The aim of the policy is to create awareness about economic, social and cultural benefits of IPRs amongst all sections of the society. It is driven by the initiatives taken by the Prime Minister of India, Narendra Modi, to encourage creativity and innovation, and to channelise the same for better use in future.

## The policy lays down seven objectives:

1. IPR Awareness: To create public

awareness about the economic, social and cultural benefits of IPRs among all sections of society. Generation of IPRs: To stimulate the generation of IPRs.

2. Legal and Legislative Framework: To have strong and effective IPR laws, which balance the interests of rights owners with larger public interest.
3. Administration and Management: To modernise and strengthen service-oriented IPR administration.
4. Commercialisation of IPRs: Get value for IPRs through commercialisation.
5. Enforcement and Adjudication: To strengthen the enforcement and adjudicatory mechanisms for combating IPR infringements.
6. Human Capital Development: To strengthen and expand human

*The focus of the policy is to create a comprehensive IP System and to draw a direct relation with the policy of “Make in India” of the government. The policy provides a framework and a direction in which the innovations in the field of Patents, Industrial Designs, Utility Models, Copyright, Traditional Knowledge and Geographical Indications are to be created, protected and enforced.*

resources, institutions and capacities for teaching, training, research and skill building in IPRs.

#### **The new Policy calls for:**

- monitoring the work done by various Ministries and Departments by the Department of Industrial Policy & Promotion (DIPP), which will be the nodal department to coordinate, pivot, steer and oversee implementation and development of IPRs in India.
- providing financial support to classes like artisans, weavers & farmers i.e the less empowered groups of IP owners or creators through financial institutions like rural banks or cooperative banks offering IP-friendly loans.
- supporting financial aspects of IPR commercialisation, it asks for financial support to develop IP assets through links with financial institutions, including banks, VC funds, angel funds and crowd-funding mechanisms.

The focus of the policy is to create a comprehensive IP System and to draw a direct relation with the policy of “Make in India” of the government. The policy provides a framework and a direction in which the innovations in the field of Patents, Industrial Designs, Utility Models, Copyright, Traditional Knowledge and Geographical Indications are to be created, protected and enforced. However, remedial legislative steps would be required to be taken for effective implementation of the policy.

The IPR Policy has recognised the need to balance the IP Regime as a tool to attain economic advancement and to encourage innovation. In order to keep pace with further developments in IPRs, the policy will be reviewed after every five years.

#### **The vision of the government of India in framing the policy is:**

- where creativity and innovation are stimulated by Intellectual Property for the benefit of all
- where intellectual property promotes advancement in science and technology, arts and culture, traditional knowledge and biodiversity resources
- where knowledge is the main driver of development, and knowledge owned is transformed into knowledge shared

In a country like India more awareness about the creation, protection and enforcement of Intellectual Property Rights (IPR) would go a long way to encourage the Indian industry not only to innovate but also to protect and enforce their innovations.

There are still certain areas which would require further deliberations such as the principle of knowledge sharing and knowledge access. The utility models, so far, are not statutorily protected in India and the protection thereof under the policy may encourage the small and medium industry to protect their innovation. At the same time there is a reasonable apprehension about the enlargement of the protection to the objects which have fallen in public domain.





# ROBOTICS: A MUCH NEEDED PANACEA

by Yaduvendra Singh



Ever wondered how a product ordered on a popular e-commerce site reaches you the same day? Before arrival, it exchanges several hands and passes through multiple touch points. So, if the packet is on or before time, the credit goes to the logistics management by the seller company. On the other hand, if it is not on time or has wrong items in it, the company may have lost a customer to the competition, forever.

This scenario explains the importance of logistics for e-commerce business. However, this is not merely limited to the e-commerce industry. Several other industries as such retail, pharma, healthcare, automobile, and hospitality etc. have been aiming to develop competence in logistics management. Warehouse operations are the first touch point for any logistics service provider and make up about 60 per cent of the entire supply chain management

process. Therefore, focussing on efficiency and accuracy on this part is critical for businesses.

A typical warehouse has three broad operations i.e. receiving the incoming goods, storing at the right place, and sending out to the right location. However, the volume and diversity of items, dispatch locations, size of consignments, specific protocols (First in First Out, First Manufactured First Out, and First Expiry First Out etc.) and the pressing need to optimally utilize the expensive real estate makes it extremely important to automate the warehouses. Imagine if a warehouse needs to send out 50,000 packages in a day that carry 1,000 different items (or combinations of it) across 5,000 different regions. Also, these items may be required to be picked up based respective protocols. Apart from the high operational cost, the complexity of operations may bring in errors and slip ups. Hence, it is important to transform this

part of the value chain through robotic solutions in order to bring efficiency and accuracy in warehouse operations and to enhance user experience across multiple industries.

However, fragmented, unorganised, chaotic, and inefficient are some of the adjectives currently associated with the Indian logistics industry. Warehouses face high cost and lead time due, wrong shipments lead to reverse logistics, and inaccurate documentation. Robotics solutions can eliminate these challenges and bring the Indian logistics industry at par with its global peers. For example, by cutting down the transportation cycle for perishable products, companies can deliver faster, increase penetration, and grow their business exponentially. On the other hand, not automating the warehouses will stagnate the growth of many industries and will hamper the prospects of competing with global players (who leverage automated warehouses). Therefore, automating the warehouse is not a choice but a business need (deploy or perish).

Several leading e-commerce and logistics players have transformed their supply chain using advanced robotic technology by GreyOrange, leading to multiple business benefits. GreyOrange focuses and

invests heavily in R&D, designing, and developing its own hardware and software. The indigenously developed robotic systems, the GreyOrange Butler and the GreyOrange Sorter, automate complex warehouse processes, optimise space utilisation, reduce operating expenses, eliminate errors, pilferage and stock damages, and help in real time inventory audit, thereby increasing the overall warehouse efficiency manifold.



*Yaduvendra Singh is head of sales & marketing at GreyOrange, a start-up which designs, manufactures and deploys advanced robotics systems for automation at distribution and fulfilment centres.*

GreyOrange is headquartered in Singapore and has operations in India, Hong Kong and Japan. Going forward, the company will expand its presence to further regions. Markets like the Middle East, China and Europe have shown interest and demand for warehouse

automation and are on GreyOrange's radar. Apart from e-commerce and logistics, GreyOrange is also gearing up to transform industries like automobile, retail, FMCG, pharma etc.

In the coming days, as more and more companies understand the importance of automating their warehouses, companies like GreyOrange will play an extremely important role in disrupting supply chains across industries.





# DIGITAL DISRUPTION AND TRENDS IN MARKETING

by Anand Kumar

We are on the cusp of entering the fourth industrial revolution, known as digital revolution, which supposedly removes barriers of different known/unknown interventions and consents interplays between digital, physical and biological spheres. The speed of the current breakthrough has no historical precedent in its entirety, leave alone its velocity and scope. It would unquestionably transform the way we think, act, react, reason - almost touching a wide gamut of the principles of our working life, social mobility and existence.

The digital revolution has brought more focus on customers' requirement, more so around "anytime, anywhere, anyplace". With ever expanding in scope and nature of digital tools, social networking sites and search engines, there has been varied options available for consumers to be able to be aware about the products and services. The consumer is going to be located more steadfastly at the epi-centre of demand and demanding services for specific prerequisites. It is no longer just adequate to know your customer but it is extremely important to know your customer well. Digital solutions augur well in that direction of well researched introduction of customers.

Big Data with analytical algorithm will offer insight into the overall behavioural pattern of consumers, indicating their preferences based on a deep understanding.

It is fairly plausible that demand for mobile marketing is going up despite the fact that the spends on digital marketing are still low, whereas the total time spent on mobiles has gone up. It is further corroborated by the fact that there has been a substantial increase in the number of mobiles from 12 per cent in 2008 to 51 per cent in 2015, whereas the proportion of desktops/ laptops has declined from 80 per cent to 42 per cent.

The impetus for digital marketing becomes more discerning when compared to other established modes of marketing, such as print, radio, internet. The inter-connectivity of different channels of marketing would continue and digital interaction/marketing would also expand its influence going forward.

It would not be out of place to give one recent example of 'The Independent', a leading UK daily which was set up in 1986, ceased to be a print paper and went digital-only earlier this year. Barcodes have changed thought processes when it come to buying goods, services or checking in at the airport.

The power of digital interaction and transparency is also on the rise. First Direct, an online bank in the UK, is the best rated and most recommended bank. The rating is based on the feedback from the customers on the website, apps, Facebook and other social media sites. First Direct customers are more likely to recommend their bank than customers at any other major Great Britain bank or building society.

Many bricks & mortar banks in the UK have provided online offerings, independent of the branch, to customers which are performing very well. The trends in digital marketing are quite encouraging not only for generation Y & Millennials but also for generation X who have and are adapting well to the new revolution.

The ease of convenience, transparency and cost effectiveness in digital marketing is going to expand further, broader and stronger, which will build brands, products and create preferences through changing API (application programming interface) combined with evolution in Fintech as per the expectations of customers.



*Dr Anand Kumar is the deputy chief executive & executive director (UK Board), Union Bank of India, UK Ltd.*



## Italy to partner India's Smart Cities

Italy, in its own initiative for 100 smart cities for the next 20 years with an investment of \$1.2 trillion, is keen to partner with India. Italy has the largest number of smart cities in Europe.

Francesco Pensabene, Italian trade commissioner and director of its trade promotion office, said: "Italy can be a strong partner for smart cities in terms of design and technology. We are very attentive and focussed on India's smart cities."

"We offer a strong partnership for India for its smart cities. Italian companies can majorly contribute in terms of design and technology for the smart cities."

Italy has launched a two-year campaign to explore new business avenues and Indian Prime Minister Narendra Modi's Smart Cities initiative is first on the list of Italian companies, he indicated.

Italy follows in the footsteps of countries like Japan, US, Canada, Germany and France, who are already committed to the project.



## Amazon plans \$3bn drive for India

The world's largest e-retailer, Amazon, has said it will increase its investment in India by \$3 billion, bringing the total amount invested in the country to more than \$5 billion.

The online giant announced a \$2 billion investment in India in 2014 and already employs 45,000 people in the country.

Chief executive Jeff Bezos said Amazon continued to see "huge potential" in India, its fastest-growing region.

He said: "We have already created some 45,000 jobs and continue to see huge potential in the Indian economy. Our Amazon.in team is surpassing even our most ambitious planned milestones."

Amazon said it would open a Web Services Cloud Region in India this year and the country would soon become home to the firm's largest software engineering and development centre outside of the US, located in Hyderabad.

The firm has so far built 21 fulfilment centres with more than 5 million cubic feet of storage space.



## Nokia invests in Indian ecommerce

Finnish telecom equipment manufacturer Nokia is betting big on India's ecommerce sector of India as a revenue generator for its global analytics and application business.

Nokia is to set up its first centre of excellence for the Internet of Things (IoT) in Bengaluru this year, spending around \$10-30 million on the facility.

Bhaskar Gotri, president of Nokia's analytics and applications business, said: "We're in the early stages of discussions for non-operator-led services that need to get monetised in sectors like ecommerce."

"For large companies, we will be product and technology providers and for them our software can run on-premise. But there's a broad market... for which we can provide software as a service (SaaS)."

Nokia believes this model would reduce the need for upfront capital, which will make its proposition attractive to start-ups and established enterprises.





# Digital India



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# SWACHH BHARAT INTERVENTIONS TO AVERT A TICKING TIME BOMB

by Mohini Daljeet Singh



*Mohini Daljeet Singh is CEO of Max India Foundation and has vast experience of working for the underprivileged on the health platform. Under her stewardship, Max India Foundation has won several awards including the Golden Peacock Award for CSR for four consecutive years*

Prime Minister Modi's Swachh Bharat Mission is a timely call for action which is urgently required. India seems to be sitting on a time bomb of garbage, which could explode into serious health hazards with far reaching repercussions. The ticking has started.

Basics like clean drinking water, toilet facilities and proper solid waste disposal are not in place. Corporates have come on board addressing these issues through their corporate social responsibility (CSR) initiatives, making a slow but certainly positive contribution. Similarly, Max India Foundation, the CSR arm of Max India Group has worked on these important issues which have a direct bearing on lives of people.

In December 2014, Max India Foundation (MIF) adopted Village Dhakrani (population 12,000) in Dehradun district of Uttarakhand with a focus on health and hygiene of the villagers.

## Hygiene Improvement through Solid Waste Management

Dhakrani village had no solid waste management system in place and garbage was thrown by households on the streets and along the canal. Many households burnt the waste. There were no public dustbins or any system of street cleaning. With a large number of families involved with agriculture, a high amount of agricultural waste such as waste fodder, dried leaves and hay was being generated. On an average, a household produces around 2kg of waste daily, creating large quantities of garbage around the village area.

A solid waste management system covering the entire village has been initiated by Max India Foundation. Two waste bins for organic and inorganic waste have been distributed to around

2,000 households in the village and community bins installed at key locations. A tractor-trolley has been engaged for the collection of waste. Four sweepers are hired to sweep the streets daily.

Segregation of waste is being implemented so that the organic waste can be composted into manure, which can be used by farmers in village. The non-biodegradable waste is recycled. The villagers are also regularly sensitised on the importance of cleanliness as well as educated on segregation of waste.

## Sewerage system

In Dhakrani village, there is no sewerage system in place and individual streets have open nalas or canals where waste water gets accumulated. There is no outlet for release of this waste water, which makes it a breeding ground for mosquitoes and flies. Further, waste water spills into the garbage spread on streets mixing into the source of drinking water supply.

To address the sanitation problems of the village, MIF commissioned Punjab-based Indo Canadian Village Improvement Trust (ICVIT) to conduct a topographical survey of Dhakrani Village and put in place a sustainable underground sewerage system in the village. The sewerage project was inaugurated in July 2015 by the Chief Minister of Uttarakhand.

The project is to be executed in five phases as the village is large and spread out over 6 sq km. Under the project, all waste water and sewerage waste will be diverted through pipelines. A sewerage treatment plant of each phase will treat this waste. The remaining water can be used for irrigation. The target is to have zero open drains in the village and maintain hygienic environment in Dhakrani, with no standing waste water.

Although significant steps have been taken, corporates alone cannot address the issue in totality. It is the primary responsibility of the government to ensure proper waste management systems in every town of the country, execute and monitor them.

Additional "Swachh Cess" tax is being charged. This should be spent judiciously. I do not believe there should be compulsory legislation. The effort of corporates should be spontaneous, enthusiastic and voluntary.



## ENGAGING WITH THE TRUE POTENTIAL OF WASTE

Pronita Saxena is founder & CEO of Citizengage, a start-up aimed at building technology for residential and commercial communities to self-manage their waste by connecting with waste collectors, processors, and recyclers. Here she explains what makes this Bengaluru-headquartered initiative work, how India has a better understanding of waste management than the West and why technology is the key.

### What is the ethos behind your start-up idea?

We want to prevent any waste that can produce energy, compost, or recycled products from reaching landfills. Citizengage challenges the belief that innovation needs to be imported. India is the world's largest democracy; by innovating our civic services, we can provide models for the world to follow.

### Have citizens truly begun to engage with Citizengage?

Absolutely. We expanded into the restaurants vertical because business owners saw what we were doing in residential complexes and pulled together a critical mass to create a model that ensures their waste doesn't reach a landfill.

In one of our residential communities, volunteers from that community led our training efforts and ensured their neighbours segregated at source so that we

went from six out of 150 households segregating to only six households NOT segregating within a week. The majority of our growth comes from referrals. Our sales process feels more like problem solving for community champions rather than imposing products no one wants to buy.

### Has India caught up to the tech potential of waste management (WM)?

We've started but still have a long way to go. The latest tenders for garbage collection in Bangalore required GPS-tracking but participation was low and the Special Commissioner who was taking on all vested interests in the system was transferred within seven months of being in his post.

Apart from creating real-time operations management at the municipal level, we need technology to manage behaviour across citizens, collectors, and processing sites. There are no





*“Having the Prime Minister as the brand ambassador for waste management shows that India is serious about civic engagement and innovation in the space. If Swachh Bharat hadn't taken off, I don't think the myriad start-ups burgeoning in the space would've even started. There is a need, however, for more transparency around funding allocated for this purpose.”*

model from India that sets worldwide standards. We mistakenly assume the West has waste management figured out. Although waste is collected regularly, the majority ends up in landfills or incinerators. Nowhere in the world has the supply chain problem in routing high quality waste materials to facilities that can turn this into energy, compost, or recycled products been solved.

In most places, the behavioural challenge of separating waste into streams like organic, dry recyclables, and reject at source is taken to be insurmountable. Bangalore, however, has mandated segregation at source since 2012. The level of awareness of different waste streams is far higher than I've experienced in the US. Our platform proves that communities and businesses segregate over 95 per cent of their waste correctly and consistently. Technology generates data that's never existed and communicates it in an actionable manner to help manage behaviour at scale across our customer base.

We want to bring recycling economies from imagination into reality through a network that allows real-time decision making for each actor, while bringing visibility and accountability to the impact of these decisions.

### **What more can be done at the policy level to achieve a Clean India?**

We need real-time operations for waste management from source to destination to have real customer service, reliability, and traceability of waste. Without technology and better policy, this can't happen. Many citizens, start-ups, and the private sector are ready to engage but government agencies need to embrace innovation and engage with these stakeholders.

Second, we need universal operational standards and guidelines on how to carry out source-separation, collection, transportation, processing, tracing, monitoring, and reporting. Rather than continuing poorly performing monopolies, an open market that allows private-sector participation, based on adherence to standards that are verified with auditing, would allow competition to provide better service and performance.

standards regarding implementation, quality, service, or operations. That's what we hope to introduce through Citizengage.

### **How far does the Swachh Bharat Abhiyan help firms like Citizengage?**

Having the Prime Minister as the brand ambassador for waste management shows that India is serious about civic engagement and innovation in the space. If Swachh Bharat hadn't taken off, I don't think the myriad start-ups burgeoning in the space would've even started.

There is a need, however, for more transparency around funding allocated for this purpose. It should be used for new, risky, and innovative experiments instead of the business-as-usual tenders currently in the system. The manufacturing sector opened up to start-ups at Start-up India - this should be extended to critical civic services like waste, water, sanitation, power, traffic, safety, etc so that innovation isn't penalised for being young.

### **How do you see India catching up with the developed world in WM?**

India can surpass the world's current waste management practices. Citizengage provides a



# THE UNDERLYING BUSINESS CASE FOR CSR

by Namita Vikas

In the Indian scenario, CSR continues to present a massive opportunity for Indian organisations... by firmly integrating CSR into business strategy, Yes Bank's sustainability chief tells India Inc.

The year 2016 has been a phenomenal year for Corporate Social Responsibility (CSR) as there continues to be an increase in the integrated adoption of the CSR by organisations, big and small, across the globe.

Even as CSR grows more complex by the day, things have been looking up as businesses are taking on greater responsibility towards addressing social and environmental issues, and in many ways, this has been a period of redefinitions and disruptions. We are also witnessing a change in how consumers, regulators, and all other stakeholders, are perceiving businesses that are doing good or moving towards doing good, together with the society. Overall, businesses are shifting towards a more complex CSR environment, where even the most committed sustainable and responsible organisations would be tested against their resolve, and now would be the time for organizations to assess how deep the responsible business DNA runs in their strategies and processes.

Companies that do not seem to be convinced of the answer to that question would need to look at redefining and setting standards for themselves, as companies with weak commitments towards the society and environment will likely be impacted where it hurts the most – their bottom lines.

In the Indian scenario, CSR continues to present a massive opportunity for Indian organisations to do good to society while creating a holistic brand, and incorporating wider socio-economic and environmental aspects into their strategy and operations. This can be achieved by firmly integrating CSR into business strategy.

Yes Bank, for example, is playing the role of 'CSR and sustainability catalyst' and has adopted the Responsible Banking ethos since its inception, focusing on long term business success, economic



and social development, a healthy environment and stable society. Operating at individual and collective levels on key issues such as livelihood and water security, and environmental sustainability, the bank has been able to achieve exponential scale on its key CSR imperatives.

Often, while businesses may be convinced of the underlying business case for CSR, putting the thought into action can be challenging, given the broad CSR landscape in India. Here, some forward looking and exemplary organisations are showing the way by creating shared value and fostering partnerships that benefit both their business and the society they operate in.

Co-creating value requires businesses to look beyond traditional CSR models and concentrate their efforts in a direction that, plays to their inherent

organisational ethos, strengths and addresses the most pressing developmental priorities of the community. This would entail businesses and society putting more effort into understanding the issues from both perspectives and identifying the areas of opportunity where the highest potential for developmental benefits exists.

Addressing value creation would require 'creative disruptions' in terms of how CSR is viewed and embedding it with the core business strategy. Here, it becomes important to have both a top down and bottoms approach where CSR can achieve tangible business results by ways of innovative approaches. Further, it becomes imperative for corporations to share successful best practices to facilitate contemporaries visualize and adopt models that suit their industry.

As a process, the selection of the right partner is integral to achieving the desired impact. In

intervention to help the sector become globally competitive, and in alignment with India's Make In India initiative.

With an established partner network and effective implementation system in place, the initiative has impacted over 1,000 MSMEs and over 14,000 workers since its launch in 2014, and while doing so, strengthened the bank's presence in the sector and improved its goodwill amongst the beneficiaries, many of whom engage with the Bank for their banking needs, making it a win-win-win for all.

With a very holistic framework and deep groundwork, a business case for CSR can truly emerge which then needs to be looked at from a Social Return On Investment methodology, assessing its tangibility, and measuring the outputs, outcomes and impact created through an organisation's CSR investments. Such a clear measurement of benefits to both business and society would not only make it



addition, it is equally important to build capacity of partners, conduct a thorough needs assessment of the target beneficiaries, and establish the systems and frameworks for measuring the outcomes of the engagement.

Yes Bank's CSR intervention in the MSME sector in India may be an apt example to highlight here. India's MSME sector has a critical role in its economy, contributing to 45 per cent of industrial output, 40 per cent of its exports, and being among its largest job providers. Thus, the sector is also a critical focus area for the Banking sector. In a first for corporate sector, Yes Bank launched its CSR program "Say YES to Sustainable MSMEs in India" focusing on environmental sustainability and Occupational Health and Safety within the sector, as a wide-reaching

easier to communicate the business case, but also inspire business contemporaries, build trust, and strengthen reputation.

*Namita Vikas is group president and country head, responsible banking & chief sustainability officer, Yes Bank Ltd. Her work involves overall CSR and sustainability management, CSR governance and compliance, research, triple bottom-line accounting, building strategies towards responsible finance/ investing and strategic philanthropy. She also serves as a board member of Yes Foundation.*



## Germany to help rejuvenate river Ganga

Under the 'Namami Gange' programme of the Narendra Modi government, India solicited support from various countries to rejuvenate the river Ganga and Germany has come forward to support the flagship programme.

The government of Germany, with its vast experience in cleaning and rejuvenating European rivers such as Rhine, Elbe and Danube, was keen to collaborate with the government of India.

Under the agreement signed between India and Germany, the latter will support India in adopting and replicating, wherever possible, the best practices of the river basin management strategies used for cleansing the Rhine and Danube of pollutants.

For this, Germany will contribute around \$3.38 million (Rs 22.5 crores) to the project, with an initial focus on the state of Uttarakhand before further expansion to other upstream Ganga states.



## Foreign Diplomats play for Clean India

Ambassadors of various countries joined hands with their counterparts in the nation's capital to raise money to build eco-friendly toilets in an Indian village as part of the Narendra Modi government's 'Swachh Bharat Abhiyan'.

Sabit Subasic, the ambassador of Bosnia and Herzegovina, Vladimir Miric, the ambassador of Serbia, Andres Barbe Gonzalez, ambassador of Chile and Georges de La Roche, ambassador of Guatemala, put together a first-of-its-kind tennis tournament for the massive community of foreign diplomats with entrance fees and corporate sponsorships aimed at funding toilets in India.

Organised with the support of 18 other diplomats from countries like the US, Russia, Canada and Israel, as much as \$39,000 was raised in an effort to make one entire village open-defecation free.

The ambassadors tied up with Sulabh International, for this effort and now hope to make this tournament an annual affair.



## Sweden's Clean Motion expands in India

Clean Motion, the producer of electric three-wheel mobility solution Zbee, plans on further investments in the Indian market to the tune of \$10 million.

The Sweden-based electric vehicle manufacturer wants to expand its operations as well as set up an all-new assembly facility in the country.

With an aim to provide last-mile connectivity to Indians, the firm plans to set up operations in Bangalore, Mumbai and Hyderabad. Currently, Clean Motion offers Zbee in DLF Cyber City in Gurgaon.

Anil Arora, country head, Clean Motion, said: "Our product is powered by lithium ion batteries with design and looks targeting at the premium segment. Not only through fares, we are also looking at advertising on Zbee as a second revenue stream.

The components for Zbee are currently being imported directly from Sweden, which it plans to switch to localised production to bring down costs.

# SHOWING SOLAR INDIA SOME MONEY

by Arunabha Ghosh and Kanika Chawla

India's solar power capacity has grown nearly 400 times in six years, from a mere 17.8MW in March 2010 to nearly 6,998MW in April 2016. However, the real solar boom is yet to come, as India strives to realise its ambitious target of 100GW of installed solar PV capacity by 2022.

The five-fold jump from the Solar Mission's original target of 20GW under-scores the present government's commitment to making renewable energy (particularly solar) a central plank of India's energy sector modernisation. Combined with initiatives such as 'Make in India' and 'Skill India', the targets aim to give impetus to solar developers and manufacturers and transform the investment landscape.

The Council on Energy, Environment and Water (CEEW) calculated that \$100 billion would be needed as capital investment. This assumes a rapid fall in both module prices (30 per cent by 2021-22) and balance of system costs, along with moderate inflation (6.5 per cent). Less benign inflationary conditions and moderate declines in system costs would add another \$13 billion to the bill.

In 2015, global investment in renewable energy (excluding large hydro) was \$285 billion, adding 134 GW. A majority (\$160 billion) was directed toward solar PV projects (56GW). Against this, India's total investment in renewable energy was \$10.2 billion (22 per cent higher than in 2014), with utility-scale solar projects accounting for \$4.6 billion. Overseas finance was critical: as of July 2015, more than half of India's large grid-connected renewable energy projects had some share of international funding.

The government hopes that 7.2GW of grid-scale solar PV capacity would be added in the financial year ending March 2017. An additional 4.8GW of rooftop solar capacity is being targeted. Adding 12GW of PV capacity would require about \$15 billion (the cost of rooftop systems is higher than utility-scale power plants), more than three times India's investment in solar PV in 2015.

These are substantial investment needs. In Q4 of 2015-16 RE investments in India reached \$1.9 billion, up only 6 per cent from the comparable period in 2015. To be sure, global investments in renewable

energy fell 12 per cent during the same period due to the slowdown in other emerging economies. Nevertheless, on this trajectory, the investments will fall well short of the 2022 targets.

This limited flow of investment could be attributed, at least in part, to the risks that investors perceive for solar projects in India. Prime among these is the poor financial health of many state electricity utilities. The government has launched the Ujjwal Discom Assurance Yojna (UDAY) to transfer the liabilities of the utilities to the balance sheets of state governments, conditional on improved operational efficiency and with provisions for quarterly tariff increments to offset the rise in fuel prices. But it will take at least two years before UDAY can be declared (at least partially) a success or a failure.

Notwithstanding these challenges, India is opening new routes to channel foreign investment into renewable energy. One opportunity is via the India-led International Solar Alliance (ISA). ISA offers a significant opportunity for solar-rich countries to increase access to additional and lower-cost finance. In collaboration with the private sector and institutional investors, ISA could facilitate the flow of \$1 trillion into solar projects in member countries. India's role in the New Development Bank is another opportunity to shift a substantial proportion of the loan portfolio to solar/RE projects.

Finally, there are new initiatives for payment security for grid-connected projects, and to de-risk and mobilise \$1.4 billion for decentralised energy projects. India's solar sector is now awaiting big investments.

*Kanika Chawla is Senior Programme Lead and Dr Arunabha Ghosh is CEO, Council on Energy, Environment and Water (<http://ceew.in>), one of South Asia's leading independent think-tanks. Dr Ghosh is, most recently, co-authored 'Energizing India: Towards a Resilient and Equitable Energy System'.*



# SOLAR SECTOR IN INDIA GOES INTO ACCELERATION MODE

by Kuljit Singh



Kuljit Singh is Partner, Infrastructure Practice, at EY LLP in India

The renewable energy sector is currently emerging as the only viable driver of the Indian energy industry, despite accounting for only 13.0 per cent (ex hydro) of the country's 298GW installed power capacity as of FY16. It is largely a result of thermal projects being in the doldrums due to low PLFs, delays in clearances, lack of PPA and fuel shortages.

Although the wind sector has historically led capacity addition in the renewables space, solar has of late emerged as the clear favourite growing at a CAGR of 60 per cent over the last four years to reach an installed capacity of 6.7GW as of March 2016, from negligible solar capacity installation in March 2012. In FY16, the solar sector has emerged as the leading renewable energy resource in India, achieving 2.15x of its target in the year.

India is already ranked third on the 'EY Renewable Energy Country Attractiveness Index' in terms of Solar PV and is underpinned by the huge resource availability the country has at its disposal (250-300 sunny days annually and one of the highest solar irradiation levels in the world).

Despite the acceleration in capacity development, we are still at a nascent stage of the solar sector's potential (ranked 7th among top 10 countries by installed solar capacity). Going forward, driven by an active interest from the central government, the momentum is expected to continue. Though India currently lags behind traditional renewables leaders such as Germany and China, its ambitious solar targets can raise it to among the highest in the world over the next few years.

In June 2015, the Indian government officially set the solar target for the country at 100GW by FY22 – a capacity uptick of 15x over the next six years. Of this 100GW, 40GW is to be achieved via solar rooftop

installations while the remaining 60GW will be utility scale projects. Hence, the country is expected to add 15+ GW per year going forward. While the sector has outpaced the target of 1.4 GW in FY16, a massive task still lies ahead if the pace of capacity addition has to pick up by 4x next year (3.0 GW installed in FY16).

Building out the ambitious solar targets would not only require continuous support of all stakeholders, the sector will also need to attract \$100 billion of investment till FY22. Given this investment requirement, the success of the sector will depend on its ability to attract foreign capital.

To attract foreign capital, the government has come up with the concept of transparent online reverse auctions and solar parks, in which land and transmission is made available by the state. The initial target for solar parks was 20GW, which is being revised upwards.

Several foreign investors have entered the market in recent years attracted by



India's significant plans and strong government support to the sector. While players such as Fortum, SunEdison and EDF Nouvelles have been present in the industry for some time, big overseas money has now started coming into the market with Japan's Softbank announcing its intention to pump in \$20 billion toward developing 20GW of solar projects.

Foreign developers have been outperforming domestic participants in competitive bidding; however, despite government support to the sector, setting up of capacity outside solar parks can still be a challenge for international players. Besides the risk of DISCOM credibility, instances of regulatory indecision and aggressive bidding by

*India is already ranked third on the 'EY Renewable Energy Country Attractiveness Index' in terms of Solar PV and is underpinned by the huge resource availability the country has at its disposal (250-300 sunny days annually and one of the highest solar irradiation levels in the world).*

some developers still remain as issues. New investors in the country are looking to form partnerships with local players (a strategy utilised by Softbank, EDF in its partnership with ACME, or Abraaj Capital in its partnership with Aditya Birla Group), instead of bidding for Greenfield projects directly.

In addition to developing utility scale capacity for meeting renewable targets, development of rooftop solar (in which India is targeting a huge capacity of 40GW) is a major issue. The regulatory framework needed for developing rooftop solar is still evolving, with restrictions on rooftop capacities, reduced prices for power back supplied into the grid (net metering) etc.

Further, while in theory non-utility grade solar

projects can be used to supply power in rural areas, in practice, there has been little development on the ground in this regard. A key issue with rural supply of solar power is that grid supply to rural consumers is highly subsidised or almost free. Hence, when

grid supply networks are not in place (known as un-electrified rural areas), solar power works well. However, the moment grid supply reaches such

un-electrified areas, there is a marked reluctance on the part of the rural consumers to continue to pay for solar power. The issue is compounded by the extreme poverty levels in rural areas, which implies that rural consumers are simply in no position to pay higher for a more reliable source of power.

The access to low cost capital is another key requirement that is inhibiting

the growth of the sector. While there are subsidies in place for setting up rooftop solar capacity, financing for balance project cost is required in rural areas. Innovations such as the Structured Lending programme - multilateral institutions lending to PSU's for onward lending in rural areas for rooftop solar - are expected to overcome the issues on access to low cost capital.

The advent of Green Bonds too is expected to aid the search for avenues of low cost capital for developing projects (both rooftop & utility scale). Currently, India lags significantly in the issuance of Green Bond, which are expected by Moody's to globally reach \$50 billion in 2016 (up from \$42 billion in 2015). In India, it is mostly lenders such as Yes Bank and EXIM Bank who have tapped the global green bond market, whereas CLP India and Hero Group have tapped the domestic green bond market.

With the Securities Exchange Board of India (SEBI) approving new norms for issuance and listing of Green Bonds in the stock market in January 2016, there should be some uptick in the issuance of these instruments that can see participation from several investor classes with a lower cost of capital than traditional lending costs available to solar project developers. However, for Green Bonds to be successful, an enabling regulatory framework will have to be put in place which makes it mandatory for domestic institutions to invest in Green Bonds.

To sum up, while the achievement of the current solar target of 100GW by FY22 will propel India to within the top five countries in the world in terms of installed capacity, there is limited chance that the present approach will achieve the 15x growth that is still required. An adjustment of the sector dynamics is needed to sustainably attract low-cost foreign capital, which will be critical to maintain the pace of growth. The above steps will ensure that the Indian solar sector emerges as a world leader in the years to come.



\*The views expressed are personal

# WHY FOREIGN INVESTORS ARE BULLISH ON SOLAR INDIA

by Ketan Mehta



There is a very huge requirement for equity capital investment in the Indian solar sector and a lot of that capital will come from foreign markets. London, as one of the financial centres of the world, has shown a growing interest in solar in India as a promising story.

Our company, Rays Power, in the span of less than five years has become the third largest solar power project developer in India. It boasts of a track record of 300MW across technologies, geographies and project size. It reflects the kind of potential there is in the market.

## Act rather than react

Solar is a sector with very tight timelines, so it is important to foresee any bottlenecks and solve them upfront, rather than waiting for them to arise and then take action. SunEdison India's woes, for example, were due to being over-leveraged.

## The most important challenges and risks to bear

### in mind while developing new projects in India are:

- Land risk: Availability of the land and legal title correctness of the land are some issues that need attention.
- Off-take risk: The power needs to be sold at all times and you need to be paid for that. That is one aspect which solar developers have to take on board.

As a company we have dedicated teams to deal with all these aspects. It is important to have an understanding of the regulations and then go step by step.

### World View

One thing is clear that all investors, be it from the US or the UK, are looking at the Indian solar sector in a very positive manner. At the same time, they are also looking for the right global partners. Nobody wants to go it alone and face all the challenges solo. That is where various structures and models come in.



By the end of this year, India will be the third largest solar market in the world, after China and the US. With the US gradually saturating, very soon India is set to become the second-largest market. So no investor wants to ignore the market.

The Indian government's steps in the last couple of years have been very positive. They have opened the doors for the foreign capital to come in and there is a lot of relaxation in the rules. The flexibility is there in the sector for all these players.

Foreign investors also palpably feel more comfortable investing in India under the new regime.

### Green Bonds

All the commissioned projects, will ultimately go the Green Bond route because this is ultimately the lowest cost funding and capital which is available.

There is enough appetite in the market to buy these bonds.

Solar tariffs have gone down and grid parity has already been achieved, which is a big advantage.

Solar no longer requires subsidy because it is self-sustainable and will attract people voluntarily towards itself.

We are very bullish on the residential solar market and are developing various projects to suit the requirements of different kinds of consumers. Our own internal target is to own up to 2GW of rooftop projects in the next five years, from around 2.5MW right now.

We also have a model where the initial investment is taken care of by the company and the consumer pays on a per unit or per month basis. This means zero investment and savings from the word go, so this has proved an attractive model.

Community centres, schools, hospitals, apartment blocks and petrol pumps are some of the utility side areas where companies like Rays Power also makes a difference.

There is a lot of awareness among the common man with the government's drive. It is a very appealing new concept for everyone. As more and more people are installing it, the awareness is spreading like fire. It makes environmental sense, social sense as well as commercial sense because solar power now is cheaper than the grid.

### Goals & Challenges

Rays Power is a pan-India company, which at the moment operates in eight different states. We have commissioned more than 320MW of renewable projects. This year alone we plan to do 250MW. The growth has been exponential.

This is a time when an external equity investor has to come in to take the company to the next level and there has been a lot of global interest. We plan to close our first round of capital raising by September this year.

The most keen investment in this sector is coming from the US, which has some very big players. After that it is from London and Singapore.

The government's solar target is divided between

60GW of ground-mounted and 40GW of rooftop. The former is undoubtedly achievable, even before time. On the rooftop side, some challenges remain.

This is an industry which drives you every day. You are doing something new, something also

for the society. We are in the process of supplying solar lighting systems to all the villages in a particular state, which means they will now have power for life without the need for transmission lines and grids. The name of the state will also be revealed soon.

In a country where almost 50 per cent of the population is without power, this is the best way to reach them – cleanest, safest and easiest.

And, the best part is that India is a sunny country with more than 300 days of sunlight in most parts of the country.



*Ketan Mehta is co-founder of Rays Power Infra, a leading Indian integrated solar power company with presence across the entire solar value chain. Mehta is the visionary strategist behind the organisation and takes care of the company's strategy and planning, finance, investments and operations.*





## Spain's Gamesa plugs into Solar India

Gamesa Corp, Spain's renewable energy firm, has brought 58 MW of solar parks in India in the first quarter of 2016.

Gamesa has commissioned a total of 12 MW of solar capacity with an eye on the Indian government's renewable energy drive. The firm's expansion in the Indian solar market aligns with its goal to explore opportunities in businesses that complement the wind industry, the firm said.

Gamesa has secured four new orders for the supply of 198MW in India.

The contracts encompass the supply of 50 G114-2.0 MW Class S (100 MW) turbines at a wind farm located in the Indian state of Karnataka, scheduled for commissioning in March 2017, and 12 turbines of the same make (24 MW) at another facility in the same state (slated for commissioning mid-2016).

As these are EPC contracts, the company will also handle the entire infrastructure needed to install and operate the facilities. Both projects are due for commissioning in the fourth quarter of 2016.



## Fortum to aid Indian solar projects

Finland based state-run utility, Fortum Corp, will invest €200-400 million in India's solar energy sector, making it the first country the clean energy firm will invest in as part of its strategy to diversify globally.

Fortum said in a statement: "Overall, Fortum is targeting a gigawatt-scale wind and solar portfolio. India is the first country Fortum has decided to enter, as the country offers one of the best solar resources and a sound government support for the development of the solar sector."

The Indian government has plans of boosting the generation of solar power to 100 GW by 2022. Currently the solar generation in the country is at 5.25 GW.

Sanjay Aggarwal, MD, Fortum India, said: "It is hard to ignore India. It is a market for large utilities like us. Fortum's investment in solar is just in India."

The company is also considering possible partnerships or other forms of cooperation, which would in the long-term create a more asset-light structure.



## Singapore, UAE invest in India's energy

Indian renewables firm Greenko Energy Holdings has announced a \$230-million joint investment from Abu Dhabi Investment Authority (ADIA) and Singapore government's sovereign fund GIC. It said the funds will be a major boost in its endeavor to expand its footprints in India.

Anil Kumar Chalamalasetty, Greenko Group CEO, said: "With our attractive diversified renewable power portfolio, we will continue to execute on our vision to be the most admired independent power producer delivering multiple gigawatts of clean energy at grid parity to support the growth of the Indian economy."

While ADIA, which is investing in the company for the first time, will bring in \$130 million, GIC will invest \$50 million.

The company is reportedly looking to expand its presence in the Indian renewables and clean energy market through inorganic growth in the hydropower sector and also plans to acquire assets in that market segment.



## INDIA-UK STRIKE NEW R&D PACTS IN SOLAR & NANO TECHNOLOGY

India's minister for science & technology and earth sciences, Dr Harsh Vardhan, was in the UK recently for the fifth Indo-UK Science and Innovation Council (SIC) meeting. The two sides clinched a crucial agreement to work together as R&D partners in Solar Alliance. He gives details of the deliberations to 'India Investment Journal' after his talks with UK counterpart, Jo Johnson.

As a part of our commitment to the Solar Alliance, India and the UK have agreed to establish India-UK Networked Centre on Solar Energy linked to India's renewable energy mission and UK's Supergens Program.

The research projects will focus on systems level design and development covering solar energy generation, storage systems and grid integration, particularly for micro-grid systems. India would be investing Rs 50 crores (\$7.5mn) over a period of five years with matching contribution from Research Council UK (RCUK) under the Newton Bhabha program.

The UK is among the most important countries where we have a very dynamic engagement. In India, we are taking up renewable energy in a big way, and in the solar area we will have an even more active engagement with the UK now.

### Nano Tech

Another key decision was that the UK agreed to provide access for Indian researchers to the Neutron Scattering facility of the UK's Science and Technology Facilities Council at Rutherford Appleton Laboratory, Oxford. This unique facility based on the use of neutron scattering and muon spectroscopy is a world class facility at Oxford to carry out fundamental research on the understanding a wide range of matter at fundamental level.

As a part of the Nano mission program of India's Department of Science and Technology (DST) would be investing Rs 26.5 crores (\$4mn). This will help to enhance Indian capability to fabricate structures at the nano scale level for creating interesting and technologically important materials through research in fundamental science. India is currently third in the world in terms of nano technology.

## Background

SIC is the apex body which oversees the entire gamut of the India-UK science, technology and innovation cooperation and meets once in two years. The last meeting was held in New Delhi in November 2014 during which both countries had launched the Newton-Bhabha Program to support bilateral science and technology cooperation.

Since then the two governments have given a substantive boost to our collaborations in science, technology and innovation. The relationship has transformed into a true partnership based on mutual trust, reciprocity and parity, covering a wide gamut of basic and applied research.

Currently, the value of investment in Indo-UK research and development cooperation from multiple Indian and UK agencies exceeds £200 million of co-funding. The UK stands amongst the top three collaborating countries in science and technology with India.

## Future pacts

Both nations have now agreed to address grand societal challenges on food, energy and water security; health and well-being; smart cities and rapid

designed to deliver industry relevant results that can be readily applied to current challenges in the manufacturing supply chain.

In the area of life and health sciences, India's Department of Biotechnology (DBT) and the UK's Biotechnology and Biological Sciences Research Council (BBSRC) agreed to continue support to the virtual joint centres on Agricultural Nitrogen. The two agencies are also supporting research collaboration under Global Research Partnership in Aquaculture. In the area of health sciences the focus is on addressing the health needs of women and children.

## Water Quality Research

The Department of Science and Technology and Natural Environment Research Council will initiate a collaborative research program to improve water quality in India. The program would address natural geogenic containments such as arsenic and fluoride in ground water and also man made pollutants (pharmaceutical and personal care products). This program is being developed to support implementation of the goals of the National Mission for Clean Ganga.



urbanisation with increasing access and sharing of expertise, resources and facilities. The cooperation is aimed to yield high quality and high impact research outputs targeted towards addressing societal needs and of industrial relevance.

## Newton-Bhabha Program

A collaborative program on Energy Efficiency in Built Environment as a part of the Smart Cities mission will be initiated under this program. Both countries have agreed on common research agenda focused on, energy efficient building envelop; low energy cooling; and thermal comfort as well as energy efficient technologies for city and community level.

Augmenting the India-UK Centre of Advanced Manufacturing through DST-RCUK cooperation linked to the Make in India program and the UK's Catapult Centre program. The projects will be

## Conclusion

Besides the Newton Bhabha programs, India and the UK have been involved in promoting partnerships through the UK-India Education and Research Initiative (ULKIERI). Acknowledging the success in building new scientific partnership through R&D projects and networking, the two governments concluded the implementation arrangement for the Phase III (2016-2021) of the UKIERI.

The Ministry of Earth Sciences, India, and NERC-UK are working on a large observational campaign involving UK aircraft and Indian ships, accompanied by surface observations, primarily to address the role of small-scale processes to address the variability of the Indian Monsoon leading to improved prediction of an Indian phenomenon crucial to the country's growth.



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# GENERATIONAL TRENDS IN ATTITUDES TO WEALTH MANAGEMENT

by Janhavi Dadarkar



Janhavi Dadarkar has her own consultancy and is a Governance Specialist at the Institute of Directors (IoD).

High Net Worth Individuals (HNWI) in India and the Indian Diaspora community are a rich (pun un-intended) mix of generation X and Y and illustrate well the changing attitudes of HNWI as well as emphasising the challenges globally for wealth management professionals seeking to retain and grow their client base.

During the last decade, whilst working with HNWI and corporations I noticed a subtle and acute shift in approaches, expectations and strategies of HNWI in relation to how they manage their wealth.

## Ethical Wealth management

The recent global crisis affected the wealthy more profoundly than many realise, leading to key changes in the attitude of wealthy individuals. Of course, their wealth

was inter-linked in (and based on) highly sophisticated investments and inevitably was diminished but it also made HNWI understand the need for transparency and traceability, concepts which are sometimes an anathema to those seeking privacy for their wealth.

More and more of my clients, when considering wealth management and wealth growth strategies, are keen to do so with completely transparent mechanisms. At the simplest level, for example, clients have asked me to register their wills in multiple jurisdictions even though in some countries this means the public and authorities have access to these documents.

The second change was the actual realisation of the intrinsic value, influence and destabilising power that a small group have on wider economies, world markets and communities. This brought with it a huge sense of responsibility and re-evaluation of ethical wealth creation and management amongst HNWI, entrepreneurs, corporations, the whole financial sector and governments. The focus on speculative investments encouraging short termism which characterized previous decades and certain generations of HNWI, has shifted from this one-dimension mentality of maximising profits to a multi-dimensional proposition for value creation, which is long term and sustainable. For those in the wealth management industry there is a real need to comprehend the client's imperatives in a more holistic way and offer products and services that fulfill the ethical values that HNWI are demanding.





*Whilst technology has been a disruptor in most sectors, its impact in the wealth management sector has been less disruptive but this is changing with bionics and robo-advisers.*

### **Bionics, Robo-advisers and Technology**

Whilst technology has been a disruptor in most sectors, its impact in the wealth management sector has been less disruptive but this is changing with bionics and robo-advisers.

It is in relation to technology that the differences in attitudes between generation X and Y amongst HNWI are most stark. Two recent studies revealed the contrast in attitudes and expectations. Capgemini 'World Wealth Report' for example found that a great majority of younger HNWI would transfer their wealth to an automated advisor (robo-advisers), whilst a recent report published in 'Forbes' showed that investors over age 50 tend to be more focused on the security of data and less comfortable with virtual communications with their wealth managers.

Despite the differences in the empirical studies, my view is that both generations recognise the value of a mix of digital platforms, data analytics and technological solutions and, therefore, we will see a rise of bionic wealth management – that is wealth managers adding human experience and intelligence to robust processes and systems utilising the best technology and digital platforms that enable fast movement and decision-making in relation to

ever changing investments. Advisers in this space therefore need to be prepared to adopt and create technological services without relinquishing human expertise that has to be more specialized, or niche, to justify premiums.

### **Convergence and Expansion of Regulatory frameworks**

The issue of tax avoidance and more generally "forum shopping" by HNWI and multinational corporations is increasingly being scrutinised by governments globally. Regulation is on the rise and converging in the UK, Europe, India and the US. More crucially, HNWI risk reputational damage despite the structuring and investments being technically legal. Especially, where it is considered unethical or even too aggressive.

HNWI, therefore, need to choose their advisers wisely not just based on tax and legal expertise but also on their ability to give strategic advice that is sympathetic to the values of the client. The adviser should also be prepared to horizon scan the regulatory environment at a broader level in the relevant jurisdictions, and internationally.

# SILVER LINING IN SIGHT FOR THE INDIAN REALTY SECTOR?

by Deepak Varghese



Deepak Sam Varghese, founder-director of Moonbeam Advisory, is a career banker with nearly two decades of experience in retail and private banking. He is a specialist in banking services and wealth advisory and has been advising domestic and non-resident Indians (NRI) in Mumbai, Delhi, Dubai, Singapore and London, where he was based. Now Bangalore-based, his special emphasis is on financial advisory in real estate transactions, advising investors and developers in key Indian metros.

The months of April and May have been good for commercial leasing across major locations, reflecting an uptick in commercial activity.

Commercial projects have low appetite for funding by institutions as an exit from such loans are subject to the vagaries of leasing. Most of the developers have gone slow in developing commercial projects and some of the cash-rich commercial property developers, like RMZ and Embassy, have been buying commercial properties from Unitech, Essar and DLF, besides mega funds like Brookfields. All in preparation of Real Estate Investment Trust (REIT) listing, which recently had yet another positive change by the regulator. Under the new norms, REITs can now invest up to 20 per cent of their fund corpus in under-construction projects, compared to the earlier cap of 10 per cent.

While the stock of commercial office space is reasonable in most cities, Bangalore is facing a possible shortage in the coming months of A grade space if development activity does not pick up. When Flipkart signed a lease with Embassy two years ago for office space to be delivered in 2016, one thought Rs 45 per

square feet was 10 per cent more than what should have been paid but at current levels, it is looking quite fair.

With the e-commerce trend having now become more established as a method of purchase, warehousing activity is getting a boost, with many funds and developers looking for space outside Mumbai, NCR, Nagpur and Bangalore. Given that land acquisition and aggregation has its share of hurdles in India, it will be some time when we see development in this space. However, the activity levels have definitely increased.

While there has been positive news on the commercial, warehouse and infra sectors, the cheer is yet to spread to the residential sector.

Mumbai seems to have had a move on its launches with fresh approvals coming in. Launches have by and large been in Chembur, Thane and Borivali, with pricing being in line with affordability and homes in the Rs 10-12 million range.

NCR is yet to see activity levels pick up, with rental yields near an all-time low level of 2.5 per cent p.a. on an average. Given that borrowing costs are near 10 per cent levels, that is a serious case of under-inflation level growth. And this region continues to have the longest delay in deliveries, averaging nearly 24 months.

Chennai has had it a bit rougher, given that the floods of November led to a disrupted cashflow situation, already having dealt with poor sales in 2015. This combined with pressure from the Reserve Bank of India (RBI) to banks to collect loans that are falling behind schedule has led to a surfeit of repossession orders for those who have put up real estate as collateral for business loans. Assets sold in distress have led to a general downward trend of prices and potential buyers are holding back on their purchases, expecting prices to drop for comparable properties. The combined effect has led to slower sales in the first calendar quarter and the trend seems to be continuing into the second quarter. If this trend continues, we could possibly see developers relinquishing/selling some of their joint development projects to pare debt.

Bangalore, which has seen a pick-up in sales in the sub Rs 10 million segment in the first calendar quarter has unfortunately been hit with a slew of regulations. These include a change in TDR rules in November, which has still not been resolved, and a change in height rules for CBD construction. The latest is the National Green Tribunal changing buffer zones for lakes and waterways, with Bangalore among the most affected city. This has slowed down plan sanctions and even plan applications.

Residential developers desperately need a respite else cash flow constraints that have been piling up will lead to a serious systemic issue for the sector as a whole. All eyes are on the Monsoon, which normally brings a general feeling of optimism.

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