



Perform or perish

A Cabinet reshuffle that was unusually free from political considerations

For a change, performance, and not political expedience, seems to have dictated the nature and extent of the shuffle in the Council of Ministers. A few of the poor performers have been shown the door, notably Ministers of State Bandaru Dattatreya and Rajiv Pratap Rudy, and some of the better performers among the Ministers of State have been elevated to Cabinet rank, including Nirmala Sitharaman, Piyush Goyal and Dharmendra Pradhan. Kalraj Mishra probably lost out because of the age factor, an indication that Prime Minister Narendra Modi is serious about the 75-year-rule. Four of the entrants are former civil servants, and two of them, Hardeep Singh Puri and Alphons Kananthanam, are not even MPs. As Ministers with independent charge, their mandate will be to single-mindedly focus on results without having to worry about nurturing a constituency or reporting to a career politician. After her eventful stint in the Commerce Ministry, Ms. Sitharaman was rewarded with the Defence Ministry, making her only the second woman after Indira Gandhi to hold the portfolio. But the choices are also an indication of the small talent pool before Mr. Modi. At the time he was sworn in, he included in his team Arun Jaitley and Smriti Irani despite their having lost in the Lok Sabha election. Manohar Parrikar was asked to resign as Chief Minister of Goa to assume responsibility as Defence Minister, only to be sent back after the BJP all but lost Goa in the Assembly election this year. V.K. Singh, a former Army Chief who joined the BJP just before he was given the party ticket, was made Minister of State for External Affairs. Suresh Prabhu, who was sidelined in the Shiv Sena, was persuaded to join the BJP and given the important portfolio of Railways. And now, despite his offer to resign after a series of rail accidents, he was asked to wait and then made Minister for Commerce and Industry.

Of course, it will be far from the truth to say that nothing but performance has mattered. Ms. Irani, who was moved out of the Human Resource Development Ministry after a string of controversies, retains the key Information and Broadcasting portfolio. Uma Bharti was divested of her pet portfolio of River Development and Ganga Rejuvenation but got Drinking Water and Sanitation instead. The mercurial Ms. Bharti would have been a difficult person to keep out, and the change of portfolios is a political compromise. However, by choosing to ignore the claims of the BJP's allies, and by making no attempt to correct imbalances in regional representation, Mr. Modi succeeded in creating the impression that he had nothing in mind other than picking the best person for each job. In neglecting political claims he actually sent the political signal he wanted to: that he is his own man and that he will have the team he wants.

Back to the ballot

With the Kenyan presidential vote annulled, the election body must fix processes quickly

The Kenyan Supreme Court's annulment of the presidential vote is a bitter-sweet victory for an ethnically divided country exasperated by the brutal violence that has marred successive polls. Friday's decision is a challenge to the election commission, which needs to repair its tarnished reputation. It is also a challenge to the political parties, which need to find a dignified way of settling election disputes. President Uhuru Kenyatta's opponent, Raila Odinga, a three-time contender, alleged that the integrity of the polls was compromised during the cumbersome data transformation process, from ballot boxes to computers. The violence that followed the declaration of the results exacerbated tribal divisions, and left at least 20 people dead. It was not of the order of the post-poll violence in 2007, when more than 1,000 people were killed and for which several politicians faced trial at the International Criminal Court for alleged crimes against humanity. The 2013 campaign, held under a new constitution, was equally chaotic and controversial and the final verdict was challenged by Mr. Odinga. Despite an overhaul of the poll mechanism, this year there was increased scepticism over the prospects for free and fair polls following the murder of a top official from the electoral body. Given the absence of the institutional prerequisites of a functioning modern democracy, there is the real danger of a steady erosion of popular legitimacy for any form of representative government. But there is a positive dimension to Kenyan politics. Governments have deferred to the principle of periodic renewal of the popular mandate ever since the country returned to multi-party democracy in the 1990s. This is in stark contrast to the practice in some African nations where incumbents resort to constitutional fiat to stay in office almost indefinitely.

For all these reasons, the Kenyan court's decision for a repeat election appeals to common sense, despite its characterisation by some as relatively peaceful. The return, to be held within 60 days, is of course bound to raise genuine doubts about the efficacy of the electoral mechanism to undertake another mammoth and expensive operation, with no guarantee of a clear result. Mr. Odinga's supporters are naturally enthused about another chance at the hustings; but there would be few takers for any more outcries of foul play, whatever the outcome. In an assertion of judicial independence, the court has taken a calculated gamble on the country's democratic future. Politics should commensurately evolve to a level of accountability where the habit of exploiting traditional loyalties gives way to respect for human rights and observance of the rule of law. Kenya is in the midst of a prolonged drought, and many face the risk of starvation. Kenyans need, above all, a stable government committed to mitigating their sufferings.

Economy outlook still cloudy

An immediate stimulus is needed to regain the momentum to get India back to 8% growth



AJIT RANADE

The government's move this past week to publish economic data for the April to June quarter of this year needs a look. The real growth of GDP, i.e. after removing the impact of inflation, was only 5.7%, much lower than expected. For the past six consecutive quarters, the growth rate has gone down steadily, from 9.2% at the end of the quarter ending March 2016, to 7.9%, 7.5%, 7.0%, 6.1% and now 5.7% at the end of the June quarter.

This steady declining trend in the growth rate is all the more troublesome because the economy otherwise enjoys a rather conducive combination of macroeconomic parameters. Inflation has been moderate, and touched a low of 1.5% recently. Both trade and fiscal deficits are moderate and manageable. So they don't eat up investible resources or precious foreign exchange. Even the interest rate has been cut repeatedly over the past year and a half. The inward rush of dollars is at a peak, both in financial markets (stocks and bonds) and as direct investment. No wonder the stock market index is at an all-time high. Even oil prices, the bane of the Indian economy, have been stable and comfortably low. Finally, the monsoon has been normal. So despite these favourable macro factors, we have not managed to convert them into a higher growth rate.

As cautioned in the Economic Survey tabled recently in Parliament, it looks as if the growth rate will be below 7% this fiscal year. That would be a potential loss of 1% growth, which we can legitimately



aspire for. In nominal terms, one percentage less of growth translates into a loss of ₹1.5 lakh crore of national income. This is a notional loss, or is rather what might have been. It also signifies millions of jobs not created.

If you look closer at the numbers, you find that manufacturing growth at 1.2% is the lowest in the past five years. It's the lowest since we switched to a new methodology (based on Gross Value Added). Some of this downward movement was caused supposedly by the suspension of manufacturing activity prior to the rollout of the Goods and Services Tax (GST) in July, and consequent de-stocking of inventory. But it is also corroborated by data from commercial banks. From April to August bank credit shrank by 1.8%, i.e. negative growth. This is the lowest it has been for at least 13 years. If you remove retail loans such as housing and other personal loans, credit to industry might actually be shrinking. This was flagged back in April also when the annual credit flow from banking for the previous fiscal year clocked a multi-decadal low. A State Bank of

India report said that credit growth for the year ending last March was the lowest in 63 years!

A telling metric

The GDP is measured in at least two different ways. The first is by looking at the production side while the second is by looking at the spending side. We look at the aggregate of all spending, whether on consumption, or by foreigners buying our exports, or on investments into new factories and projects. In addition we also have government spending. The growth in GDP can be traced to the growth and vigour of each of these components. Investment, which is between 30 and 35% of the total pie, needs to grow at least in double digits. Investment in future capacity creates GDP growth of the future. It needs to be led by the private sector. Currently, that component is barely growing at 1.5%. This is the single most telling metric. As a result, capital formation (the basis of future growth) is steadily declining for several years. Private sector investment has practically come to a standstill. Despite the push for

'Make in India', reforms for improving 'Ease of Doing Business', increased access to electricity, improvement in infrastructure and private investment are not picking up. This must become the big priority. Initiatives such as Housing For All, Smart Cities and Digital India give room for huge opportunities for private entrepreneurs. Of course the corporate sector and banks have been affected by the twin balance sheet squeeze wherein corporates are over-leveraged, and banks have mounting bad loans. Whether the new insolvency code and regulator and the Reserve Bank of India's aggressive intervention will crack this puzzle remains to be seen.

Strengthening rupee

Another significant challenge to the domestic industry is the ever-strengthening rupee. Since January the rupee is 7% stronger compared to the American dollar. It is stronger than its Asian peer currencies too, including China, the Philippines, Indonesia and Thailand. This directly hurts our export prospects. Since last October, our export growth has begun showing positive growth, after a long phase of negative growth for 18 months. But thanks to the strong rupee, this trend is weakening. Indeed our exports are barely up 12% since January, whereas imports are up more than 30%.

More importantly, the strong rupee hurts the domestic industry since cheaper imports flood the country and eat into the market share of domestic players. The GST regime has given an extra advantage to importer traders since the countervailing duty that they now pay as GST can be offset against other taxes, a concession which was not available earlier. The big jump in imports is also captured in the June quarter of GDP data, which also show a worrying jump in gold imports, again thanks to a

strong rupee. It's no use saying that since India is a net importing country, our exchange rate should be stronger. If we remove gold imports, a large part of which is not for consumption but as store of value, then our trade deficit will be much smaller. Besides most of our other imports are oil or capital goods, both of which are price inelastic. The rupee needs to be weakened or else it will hurt domestic manufacturing even more.

Looking at demonetisation

Finally, one must not forget the continuing adverse impact of demonetisation. The first half of the last fiscal year, that is the period prior to demonetisation, recorded a real growth of 7.7%. The present April to June quarter's growth at 5.7% certainly includes the negative impact on the informal and rural economy. Investment and consumption spending which were postponed due to cash shortage might recover. But jobs that are lost are lost forever. Even the Economic Survey warns about the deflationary impact of low agricultural prices. The agriculture sector GDP shows nominal GDP growth to be lower than real GDP, which is very unusual. It means that farmers' incomes will be depressed, and doubling of farm incomes in five years becomes that much more of a distant dream.

Perhaps in the coming quarters we may see a rebound. That will crucially depend on a big pick-up in manufacturing and private investment spending. The big structural reforms of GST, the new insolvency code, the new monetary framework and Aadhaar linkage are measures which will show results in the medium to long term. What we need is an immediate stimulus to re-inject the momentum to get us to 8% growth.

Ajit Ranade is an economist

Investing in the ecosystem

If valued properly, natural capital can maximise the benefits of economic growth and development



RANA KAPOOR

In April 2016, while inaugurating the third Asia ministerial conference on tiger conservation, Prime Minister Narendra Modi paid tribute to nature. Invoking the Buddha, he said, "The forest is a peculiar organism of unlimited kindness. It affords protection to all beings, offering shade even to the axe-man who destroys it." He went on to emphasise the importance of reimagining the country's natural ecosystems as its 'natural capital' and factoring in the economic, social, cultural and spiritual value of ecosystem services into the calculation of true economic growth and development.

Vast economic contribution

Natural resources are a critical yet often ignored part of our country's national infrastructure. Boasting 11% of the world's floral and faunal species, India is one of the 17 most ecologically diverse countries. Blessed with every major ecosystem, these biomes directly contribute billions of dollars to the Indian economy, annually. The financial value of India's forests, for ex-

ample, which encompass economic services such as timber and fuel wood, and ecological services such as carbon sequestration, is estimated to be \$1.7 trillion.

With increasing economic activity, natural capital assets are on the decline, directly affecting the quality of life and potentially giving rise to future inefficiencies in the economy. 'Earth Overshoot Day', a figurative calendar date when humanity's total annual resource consumption for the year overshoots the earth's capacity to regenerate it, has advanced every year at an alarming rate. This year it was observed on August 2.

As we approach the limits of natural capital stocks, we need to rethink the cascading effects that this would have on the economy, the environment and society. Scientists have identified nine earth system processes to have boundaries which mark the safe zones, beyond which there is a risk of 'irreversible and abrupt environmental change'.

Four of these boundaries have now been crossed - climate change, loss of biosphere integrity, land system change and altered biogeochemical cycles, such as phosphorus and nitrogen cycles. This means that human activity has already altered the balance of a few delicate equilibriums, the effects of which are reflected by changing weather patterns, accel-



erated extinction events for both flora and fauna, and global warming. This stresses the need for a comprehensive evaluation system that takes these undesirable side-effects of economic activities into account.

As the biggest contributor to the economy, business needs to consider evaluating its impacts and dependencies as it would have a direct impact on capital assets and wealth. This translates to broadening valuation and risk management to include natural capital, as it is currently not reflected in market prices. In addition to shareholder wealth, holistic development calls for maximising returns from other key areas such as physical capital, human capital, natural capital and social capital.

If valued properly, natural capital has the potential to optimise resources and thus maximise the net benefits of economic growth and development. There is often a

chance of ignoring or undervaluing natural capital, effectively leading to projects with far higher negative externalities compared to the benefits. It is necessary that we are cognisant of the limitations of natural capital and its role as a primary support system for the economy.

Valuing natural capital would require internalising externalities and taking into account the myriad economic and ecological products and services that natural ecosystems make possible. Undertaking natural capital valuation can offer businesses a number of opportunities.

Risk mitigation

Natural capital risk is one of many risks that an organisation faces, and a thorough natural capital assessment can help integrate this risk into risk management committee deliberations, legal and reputational risk framework. Projects can be reassessed on the basis of their vulnerability to impacts and dependencies associated with the value chain. Companies can consider environmental stress tests for issues such as natural disasters, air pollution, resource scarcity and climate.

Natural capital thinking can also create opportunities to innovate and adopt newer, more efficient technologies. One Californian fashion company demonstrated this by

developing a unique waterless ozone technology to address water shortage challenges during a four-year-long drought. The company was able to reduce its water use and water bills by 50%, saving at least \$1,300 per month.

While findings from externality assessments are restricted to internal business decision-making, going forward, externality valuation can also contribute towards enhancing organisational transparency by informing stakeholders about the potential future risk to business and preparing proactive responses to these risks.

Unlike the economic value of goods and services, the intangible nature of natural assets is mostly invisible and hence remains unaccounted for. While it may be difficult to put a price tag on nature, unchecked exploitation of scarce natural resources and an inadequate response to India's unique climate challenges can be a very costly mistake. Making natural capital thinking the norm requires a strong policy push and the adoption of valuation frameworks such as the Natural Capital Coalition's Natural Capital Protocol. Integrating natural capital assessment and valuation into our economic system is critical to usher in a truly sustainable future for India.

Rana Kapoor is MD and CEO, YES Bank and Chairman, YES Global Institute

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

The reshuffle

A few changes in the all-powerful PMO would have been far weightier than the cabinet reshuffle exercise. Only a few among the common people are really bothered about which portfolio is reallocated to whom. With nothing much to showcase as a significant recast, the appointment of a political lightweight as the new Defence Minister is now being trumpeted as "women's empowerment". With 'governance' reduced to one-man show, even the induction of the new faces hardly helps in achieving an image makeover for the government. It was an out-and-out BJP revamp with no representation even to parties which have recently aligned themselves with the BJP. It would be misplaced optimism if we tend to believe that the reshuffled cabinet despite being "reinforced with 4 Ps" would take us on the path to 'acche din'.

G. DAVID MILTON,
Maruthancode, Kanyakumari

Reshuffling cabinets have turned out to be monotonous exercises thanks to the omnipresent caste factor, State representations and, of course, coalition compulsions. All parties have mastered the art of packing elders off to take up gubernatorial posts and appointing lightweights to party positions. One had thought Mr. Modi would have veered off the beaten path, but he has only disappointed us. Perhaps the dearth of talent among BJP MPs is one of the several reasons for his inability to pick and choose the best ones.

GANAPATHI BHAT
Akola, Maharashtra

NEET impact

Medical college aspirant Anitha's death is an inconsolable loss (Some editions, "As anger boils over, police battle protesters across State", September 3). The Central and State governments have to share a substantial part of the blame

as they kept her hopes high based on a 'one-year exemption'. A certain amount of statesmanship by those in authority could have helped in finding a way out of this crisis by averaging State Board examination marks along with NEET marks. The authorities have also completely failed to prepare students for NEET. In this entire episode there has been a total lack of a human face.

N.G.R. PRASAD,
Chennai

It is unfortunate that an aspiring young Dalit student ended her life as she could not secure a seat in medical college as a result of NEET rankings. The vast majority of students in our country, who are also from poor, rural and semi-rural areas, are used to a State syllabus-based system. Admission to medical college on a CBSE-based syllabus is not practical in a multi-lingual country such as India. Not all of them can afford

expensive private coaching. Admissions to professional and in this instance medical colleges should be based on a more rational and unbiased system.

H.N. RAMAKRISHNA,
Bengaluru

What's happening now is that some political parties are trying to gain maximum political mileage out of her death. They are setting a bad precedent with their thoughtless remarks against NEET and the various governments. A State or the country has to generate courageous students. Man, they say, cannot control external circumstances, but he can change his attitude to face them with aplomb. The media, political parties and governments should leave no stone unturned in creating students of a high calibre and maturity.

S. RAMAKRISHNASAYEE,
Ranipet, Tamil Nadu

There has been widespread criticism by Opposition parties that the

NEET mode of admission has deprived many aspiring candidates from the lower strata of society of a medical seat. The introduction of NEET has been on the anvil for many years. The lethargic attitude of the government in preparing students for the eventuality is to be blamed for the present state of affairs and fuelled by the Opposition exerting pressure to have an exemption from NEET to score brownie points. With all States deciding to go with NEET, the Tamil Nadu government found itself on a weak wicket. Whipping up emotions would not be in the best interests of the student community who should be counselled to face the inevitability of NEET with determination. Attention has to be paid to improve the quality of education.

V. SUBRAMANIAN,
Chennai

My heart goes out to the girl's family. I hope a tragedy like this never happens

again anywhere. If the NEET is here to stay, then the government has to come up with the ways and means to ensure that most meet the grade by providing study material and coaching to those who cannot afford it.

PRASANTH G. NARAHARI,
New York

Being cautious

The quiet diplomacy between India and China that ultimately ended in a de-escalation was based on a principle of stopping "differences becoming disputes". We should not chest-thump over the de-escalation as China is no doubt increasing its military activities in and around the Indian Ocean and has made a number of transgressions into territory claimed by India. Claims and counter-claims cannot be ignored as it is clear that China wants Doklam-like cauldrons to keep simmering.

GANTY SAI VISWANATH,
Hyderabad

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