

A Conversation with India's Minister of State for Finance

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On October 23, my colleague Gaurav Sinha and I had the pleasure of speaking with India's Honorable Minister of State for Finance, Jayant Sinha. India's economy is going through a major transition, and there is no one better qualified to give us an inside account than Mr. Sinha, who is at the helm of economic policy making for the government of India. **Start of the Change** In May 2014, as a result of union elections in India, for the first time in 30 years a single political party, under the leadership of prime minister Narendra Modi, came to power with an absolute majority. Mr. Sinha highlighted that the economic model this government wants to adopt is investment-oriented growth, which is in contrast to the consumption-oriented growth previous governments have followed. He also emphasized the government's plans to grow India's economy between 7% and 9% year on year. Mr. Sinha pointed out that for an economy of India's size, this is the fastest growth rate in the world. Given its current size of \$2.5 trillion (in nominal terms), this means that over the next decade we will be looking at an economy in the area \$5 trillion (in nominal terms). Mr. Sinha said this would also imply—given India's market capitalization-to-gross domestic product (GDP) ratio, which currently stands at 1 to 1—wealth creation of around \$2.5 trillion, creating wealth and opportunity for investors. **Push for Reforms** Mr. Sinha acknowledged that a lack of business-friendly regulations traditionally has been a real problem in India, which ranked 142th (out of 189 countries) on the World Bank's Ease of Doing Business Index for previous year. As a result, a major focus area coming straight from Prime Minister Modi is to improve the ease of doing business in India and bring India's ranking to below 50 over next few years. A host of reforms and initiatives are being taken toward achieving this goal and improving the business climate in India. In fact according to the latest numbers by World Bank (published very recently and after this conversation), India's ranking has jumped 12 spots and it now ranks at 130th place. **•Sovereign Wealth Fund** For the first time in its history, India is set to launch a National Investment and Infrastructure Fund that would focus on infrastructural development. The fund has been cleared by the cabinet on July 29 and will be a commercially run organization operating at arm's length from the government. This fund will provide capacity of approximately \$10 billion of *annual* equity-based capital investment in infrastructural projects over next decade. This is a significant step that would spur economic growth and, with the partnership model, create opportunities for private investors. **•Bankruptcy Code** Another potentially game-changing reform taken by the Modi government includes strengthening banks and financials. India is set to launch a modern bankruptcy code to enable faster and efficient exit mechanisms for banks from non-performing assets (NPA) or bad loans. Similar to the code adopted by the U.S., India's bankruptcy code entails the establishment of debt recovery tribunals involving both arbitration and conciliation. The goal would be the speedy and efficient recovery of defaulted loans. In Mr. Sinha's

view, not only is this a significant step toward strengthening the financial system, but it would also help improve the ease of doing business in India. A proper exit mechanism would mean banks that are more confident of lending, a better rating of the underlying asset/project and thus a step to scale up fixed income markets in India.

• **Social Security Reforms** The Modi government is often criticized for being pro-business houses. When we asked Mr. Sinha on his government's initiatives for inclusive growth, he pointed to several key game-changing reforms. These attempts are analogous—according to Mr. Sinha—to Franklin D. Roosevelt's efforts to bring social security to the U.S.

• **Jan Dhan Yojana** (literal translation: “**Public Wealth Scheme**”) – This is an initiative taken by the government to facilitate accessibility to banking for each of India's billion-plus citizens. Announced by none other than Prime Minister Modi, the scheme mandates banks to open accounts for everyone and for any amount. As a result, over 18 million bank accounts were opened under this scheme during the inauguration week, which happens to be a Guinness World Record. The scheme also entails providing life insurance coverage and a universal health program. Financial inclusion of everyone is an indication of a growth model that is all-inclusive in nature. Mr. Sinha believes being able to track everyone to a bank account will dramatically decrease waste and thus improve the government's efficiency.

• **Micro Units Development & Refinance Agency (MUDRA)** – Mr. Sinha also acknowledged the significant role micro-enterprises aka mom-and-pop shops play in employment generation in India. According to his government's estimates, about 58 million micro-enterprises provide 110–120 million jobs in India. MUDRA is a special public-sector financial institution that is set up with the goal to provide subsidized loans to microfinance institutions. Ultimate beneficiaries could be anyone ranging from a small auto repair shop owner to somebody opening up a beauty salon. This will not only benefit people starting their business but would also be a boost to economic activity. So far there have already been about six million beneficiaries. Overall, Mr. Sinha reassured us of the tremendous hard work that is being done by the current Indian government to improve the ease of doing business, speed up infrastructural development, strengthen markets, provide greater social security, generate broad employment and spread financial inclusivity. India stands at a crossroads, where it can offer significant wealth creation opportunity not only for its native but also for the world community at large. We stand with Mr. Sinha in believing that India could be one of the best destinations for growth investing over the coming decade.

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