

Opinion

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ON GERMAN FAR RIGHT
Chancellor of Germany, Angela Merkel

We have always had a certain amount of antisemites among us. Unfortunately over the years we have not been able to deal with this satisfactorily...but we have to face up indeed to the spectres of the past.

RBI's operating norms for NBFCs were long overdue

An asset quality review—of the sort that was undertaken for banks in late 2015—should be done without delay

RBI'S DECISION to make operating norms for non-banking financial companies (NBFCs) a lot more stringent have come ten years too late but will, hopefully, be in place soon. The central bank's key proposals which include enforcing liquidity coverage ratios and improving the ALM (asset-liability mismatch) framework, are in the right direction. As is now well-known, many NBFCs, and probably a couple of housing finance companies (HFCs) have been borrowing short-term money—from mutual funds, for instance—and giving borrowers long-tenure loans. This worked well as long as there was plenty of liquidity and lenders were not too risk-averse. After the IL&FS crisis that hit the markets in late August, and the DHFL crisis that followed, every lender has become picky. One reason for this is that both NBFCs and HFCs have increased their exposure to wholesale real estate loans or loans to developers; by one estimate, this has gone up to 55% in Q3FY19, from 29% in FY15. Many property developers are in trouble because they are unable to finish projects or sell completed projects.

Also, flows into debt schemes of mutual funds have not been so robust, slowing down sharply in some months; in some instances, MFs have needed to mark down the net asset values of schemes or extend their tenures because these were impacted by defaults. MFs have pruned their exposure to NBFCs to 27% of the AUM from 34% in August 2018, with exposure to commercial paper (CP) of NBFCs down 40%.

Had the State Bank of India not rushed to their rescue, it is possible the market would have seen some big defaults. While top tier NBFCs would always be careful, there is always the risk of the second-rung players taking imprudent stances on interest rates and liquidity, especially when interest rates are rising. Essentially, they would be tempted to borrow for shorter periods to try and protect their margins. A tighter ALM framework will usher in discipline, offer greater comfort to lenders, and not disrupt the market. If RBI's draft guidelines become the rule, NBFCs must hold enough high quality liquid assets to cover the estimated net cash outflows over the next 30 calendar days, in case of a severe liquidity stress scenario. Obviously, this would mean parking funds in risk-free or near risk-free instruments, which don't offer the highest returns, and could hurt the margins. But, this is absolutely necessary. NBFCs have played, and continued to play, a big role as intermediaries, and are able to reach out to sections of borrowers which banks are reluctant to lend to because they lack the expertise to both appraise and follow-up with these customers. However, unless their balance sheets are strong—as reflected in the credit ratings—they will not be able to access resources either from banks or retail deposits. Indeed, the recent stress in the sector would have made small savers cautious of parking their savings with NBFCs. RBI cannot let the entire sector get a bad name and suffer just because there are a few rotten apples. For some reason, both NBFCs and HFCs have been less regulated than required, and that must change. An asset quality review—of the sort that was undertaken for banks in late 2015—would not be out of place. Indeed, given how banks continue to report large slippages, it should be done without delay.

Education controls population

Ramdev and co stoking unnecessary controversies

YOGA GURU RAMDEV'S call for the government to enact population control legislation that denies voting rights and government services to the third child of a couple is a red herring. It isn't India's population or the fertility rate trend (falling, across religions)—a bogey that is used to drum up fears of a demographic shift—that is the problem. It is the continued squandering of human development potential, thanks to a raft of bad/obsolete policies, that should concern policy-makers more. But, to answer the likes of Ramdev, India's overall fertility rate fell from 2.68 in NFHS-3 (survey period 2003-05) to 2.18—close to the replacement rate of 2.1—in NFHS-4 (2015-16). The trend holds across religions, with the Muslim community showing the sharpest rate of decline, of 2.3%, while the fertility rates for Christians and Buddhists/neo-Buddhists have fallen below the replacement rate and that for Jains and Sikhs, already below the replacement rate in NFHS-3, has slid further. TV Mohandas Pai and Yash Baid use the NFHS data to show how strongly the decline is correlated with gains in literacy rate—literacy rates amongst Muslim males and females showed sharp increase from the NFHS-3 period, from 70.2% to 80.3% and from 49.5% to 64.2%, respectively. All religious groups show an increasing trend for literacy and a corresponding decrease in total fertility rate, except for Jains where fertility declined despite literacy rates falling for males and remaining unchanged for women (the literacy rate for this community is still quite high, clocking a tad above 97%). The southern states, with their better performance on education and economic development, clock lower fertility rates than, say, a Bihar or an Uttar Pradesh, though the rate of decline in the latter has been quite sharp.

Against the backdrop of the religiously-charged undercurrents sweeping India at the moment, the fertility data should help mend the divides that are being deepened by the fanning of unfounded fears and biases. Over the long term, the data makes it clear, investing in education, specifically women's education, will help the country not only keep fertility from shooting past desired levels, but also realise a larger quantum of the human development potential. Pai and Baid had earlier argued that the government must encourage women's participation in the labour force, which has fallen over the past couple of years. To that end, investing in women's education is a must. With the march of artificial intelligence and machine-learning, the skilling/education challenges in the coming years will be vastly different from those in the past. Focusing on improving women's education and employability will need policies that incentivise women in seeking higher education/skilling—discriminating against them for performing better than men, like some colleges in Bengaluru were planning to do in the name of balanced gender representation on campuses, is thus an anathema. One area where the government needs to work on improving women's representation is the STEM fields—just 29% percent of engineering graduates are women. When it comes to engineering and science PhDs, women have a token presence. Apart from higher education, women must be encouraged for skills-training, textiles being a low-hanging fruit.

Adopting INTELLIGENCE

Optimism over AI is fine, but there is the need to ensure that it doesn't contribute to growing unemployment

A new study by Microsoft-IDC highlights how artificial intelligence (AI) can boost an organisation's productivity and competitiveness. As per the study, companies that have already adopted AI are expected to increase their competitiveness by 2.3 times in 2021. The study was conducted in 15 Asia Pacific markets, including India; where only 1/3rd of the organizations have started implementing AI. The study showed that there were six critical variables for ensuring successful AI adoption for a nation, wherein, India's AI journey will require investments, data and strategy. The business leaders surveyed have stated three major reasons that act as obstacles—lack of advanced analytics and tools to develop actionable insights, data management, and lack of leadership commitment for embarking on an AI journey. The study also mentioned that organisational culture needs to be revamped for adoption of AI and its understanding of it.

The study shows that Indian business leaders and workers—contrary to what the usual fears about the march of AI—are optimistic; 63% of business leaders and 63% of workers believe that AI would be beneficial as it will improve their tasks and reduce the time taken for repetitive work. The fear of job loss does exist, but, in the 15 countries where the survey was conducted, only 4% workers thought that they would be replaced by AI. In the Indian context, understanding this optimism is not easy. In developing countries, especially, India, where a large chunk of the workforce has poor skills and does work that can be done more efficiently by a machine, it is wise to expect that large chunks of the labour force will get attuned to or employed in a technocratic work environment? It is important to note that with the adoption of AI, the government and private players will have to invest in skill development projects that are more oriented towards human intuition and empathy rather than towards a protocol/process that can be reduced to an algorithm. While optimism over AI in white-collar workplaces may seem justified, care must be taken to ensure that it doesn't contribute to the growing unemployment in the nation.

DEMOCRACY DIVIDEND

THE LACK OF DOWNWARD ACCOUNTABILITY IN CHINA ALLOWS ITS LEADERS TO AVOID THE PANDERING TO SHORT-TERM INTERESTS THAT CHARACTERISES INDIAN POLITICS

Are Indian democracy's weaknesses inherent?

THE FAILURE OF the Indian state to provide basic public services and implement job-creating infrastructure projects was a prominent theme in the country's recent general election. In this regard, critics often compare India unfavorably to China's seemingly purposeful and effective authoritarian government, despite the recent excesses of President Xi Jinping in consolidating his personal power. At a time when confidence in liberal democracy is weakening worldwide, this question has taken on global importance.

The standard contrast between Chinese authoritarian efficiency and Indian democratic dysfunction is, however, too simplistic. Authoritarianism is neither a necessary nor sufficient condition for some of the special features of Chinese governance. Similarly, not all of the Indian state's shortcomings are inherent in the country's democratic system. Failure to appreciate such nuances risks overlooking three especially important governance issues.

For starters, unlike in many other authoritarian countries, China's bureaucracy has had a system of meritocratic recruitment and promotion at the local level since imperial times. Although the Indian state also recruits public officials on the basis of examinations, its system of promotion—which is largely based on seniority and loyalty to one's political masters—is not intrinsic to democracy. India's bureaucrats are less politically insulated than their counterparts in the United Kingdom, Denmark, and New Zealand, but much more so than officials in the United States (even before the current president's rampant practice of firing-by-Twitter).

Yet in meritocratic China, plenty of evidence suggests that promotion at the provincial level and above is largely dependent on political loyalty to particular leaders. Furthermore, there is quantitative evidence of *quid pro quo* transactions in Chinese official promotions. For example, a provincial Party secre-

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tary's chance of promotion to the upper echelons rises with the size of the discount offered when selling land to a firm connected to members of the national leadership. Although Xi's recent anti-corruption campaigns have curbed some of these deals, the crackdown is often more vigorous when the officials involved are suspected of having links with the current leadership's rivals.

Second, the Chinese state is usually seen as having much greater organisational capacity than India's. But here, too, the reality may be more nuanced. The Indian state, despite all the stories about over-bureaucratisation, is surprisingly small in terms of the number of public employees per capita; for example, the number of employees in the tax administration per thousand members of the population is more than 260 times higher in the UK than in India, and five times higher in Turkey. Moreover, the country's police, judiciary, and bureaucracy have numerous unfilled vacancies. To a considerable extent, this is a consequence of India's sizeable informal sector, with more than 80 per cent of the country's workers, which is unusually large for a major economy, and it limits the state's ability to generate tax revenue to fund the government.

Moreover, the Indian state has an extraordinary ability to organise large, complex events, such as the world's largest election, its second-largest census, and some of the world's biggest religious festivals. Public officials also prepared the unique biometric identification of more than one billion citizens in a relatively short period.

India's bureaucracy is less effective,

however, in carrying out routine essential activities such as cost-effective pricing and distribution of electricity. This is not because the state lacks capable people, but rather because local political sensitivities make it hard to recover the costs of supplying power. The state's political constraints thus limit its organisational effectiveness. Besides, the police and bureaucracy are often deliberately incapacitated and made to serve leaders' short-term political goals.

Finally, China's governance is, and has historically been, surprisingly devolved for an authoritarian country. Its system combines political centralisation, through the Communist Party of China, with economic and administrative decentralisation. India's system is arguably the opposite, combining political decentralisation, reflected in strong regional power groupings, with a centralised economic system in which local governments depend heavily on transfers from the central government. For example, sub-provincial levels of government tend to account for about 60% of total government budget spending in China, compared to less than 10% in India. This difference helps to explain the far worse performance of Indian local government in the last-mile provision of public services and facilities.

In addition, China's regions compete more strongly with each other in business development and in experiments with new ventures than their Indian counterparts do. This is mainly because

Chinese local officials' promotion is tied to performance, although the pace of regional experimentation has slowed under Xi, as loyalty-based promotion has increased.

Yet, although one must avoid oversimplification when comparing Chinese and Indian governance, democracy—or its absence—does still make a difference. The lack of downward accountability and electoral sanctions in China allows the country's leaders to avoid the pandering to short-term interests that characterises Indian politics, particularly at election time. This, in turn, makes it easier for Chinese leaders to take bold long-term decisions relatively quickly, and also somewhat independently of the corporate and financial interests that commonly wield influence in democratic systems.

On the other hand, high-level mistakes or outright abuses of power in China take longer to detect and correct in the absence of political opposition and media scrutiny. Chinese leaders' anxiety about losing control results in too much rigidity and lockstep conformity. Ultimately, therefore, the Chinese system is more brittle: when faced with a crisis, the state tends to overreact, suppress information, and behave heavily-handedly, thereby sometimes aggravating the crisis.

The Indian system of governance, for all its messiness, is more resilient. Yet this resilience has been severely strained under the regime of the Bharatiya Janata Party, which has sought to polarise voters along religious and social lines, encourage a strong leader, and weaken democratic institutions and processes. Let us hope that the BJP will now spend the political capital from its landslide victory on changing course, improving democratic governance, and respecting the immense diversity of India's population.

Contrast between Chinese authoritarian efficiency and Indian democratic dysfunction is, however, too simplistic

Bt brinjal: Where do we stand?

Given the health impacts of Bt brinjal on animals, one needs to keep in mind that the GM crop surely cannot be declared as safe

BT BRINJAL HAS BEEN found to be released illegally and predictably it has sparked furious reactions on all sides. Some have unsurprisingly already started to ask for Bt brinjal moratorium to be lifted in the light of illegal Bt brinjal cultivation. In the light of these, it might be helpful to revisit the facts on why Bt brinjal was rejected and de-clutter facts from opinions.

With this Bt brinjal becomes the 4th crop to have been found to be cultivated illegally in India. These are interestingly the only four GM crops known to be cultivated in India. GM soybean and Bt brinjal illegal cultivations have been brought to public light by an active civil society, though it brings light to a question on whether the regulatory authorities and government cannot have a stronger and proactive monitoring system of their own.

The first amongst these was Bt cotton which was approved after its large scale illegal cultivation. The next is Herbicide tolerant cotton which was reported to regulators some 8 years ago before they got to taking note of it by the time its cultivation had also gone truly large-scale. The third being herbicide tolerant soybean which was found to have been cultivated in Gujarat in 2017, in the last 2 years no action has been taken on seed suppliers by regulators.

Which brings us to Bt brinjal, nine years after the then environment ministry decided to put a moratorium on Bt brinjal it has finally made its way out to farm (at least 1 known farm so far) and plates. Different state governments across political spectrum in Andhra Pradesh, Kerala, Chhattisgarh, Karnataka, Bihar, West Bengal, Orissa, Uttarakhand, Tamil Nadu and Madhya Pradesh all in different degrees rejected Bt brinjal as well.

The moratorium letter from Environment Ministry mentioned about how tests were "carried out by the Bt brinjal developers themselves and not in any independent laboratory. This does raise legitimate doubts on the reliability of the tests". Below gives a few examples on how they were indeed not reliable.

When Bt brinjal biosafety dossier was eventually made available to public after being withheld even after Supreme Court order, a Technical Expert Committee (TEC) appointed by Supreme Court found how Mahyco's own data showed negative impacts on animals consuming Bt brinjal. For instance—the TEC document reports, 14-day acute toxicity study in rats finding that AST levels were higher for rats consuming Bt brinjal, and it remarked that increased AST levels could indicate liver or heart damage. It also tells that the 90-day chronic toxicity study in rats found bilirubin, spleen and white blood cells parameter differences in rats consuming Bt brinjal. One wonders if those calling for Bt brinjal approval are not aware of these issues or whether they simply do not care.

These significant health impacts were not pointed out in Mahyco's self-examined dossier, nor did the regulator studying the results observed it. These had raised unanswered questions on the company and the regulator's intent in pushing all this on consumers unaware of all this. All of this when many recommended tests such as multi-generational tests (which can be done in 1-2 years on rats) to test impact Bt brinjal has on them were not even conducted. As in the case with Bt brinjal initially, the developers have not yet released biosafety dossier for GM mustard as well.

Many instances of sub-standard

and incomplete testing were reported in Supreme Court's Technical Expert Committee and by the many independent scientists studying Bt brinjal biosafety dossier. Given the health impacts of Bt brinjal on animals, one needs to keep in mind that Bt brinjal surely cannot be declared as safe.

As detailed in a previous article of the writer, it is worth remembering that more than 16 years after Bt cotton introduction in India, it has become the predominant cotton variety grown in the country. At the same time cotton yield has stagnated, fertiliser and insecticide usage on cotton has increased whereas cotton farmers have started making huge losses. Not only that, it is important to remember in the times of climate change that Bt cotton is known to have a higher ecological footprint than that of desi cotton varieties. As Dr Ramanjaneyulu, an agricultural scientist has also stated earlier, many *desi* cotton varieties were identified between 1996 and 1998. Quoting from a CAG report, he also points how germplasm from *desi* cotton varieties were destroyed in the years leading to Bt cotton approval.

While one can also point out to the fact that Bt cottonseed oil has been illegally sold and consequently consumed under the garb of vegetable oil on a large scale, it is worth remembering how the Supreme Court TEC report also highlighted that cows consuming Bt cotton showed indications of possible reductions in milk yield. This also goes in hand with various beekeeper groups reporting reduction in pollination and honeybee presence in areas growing Bt cotton. One can draw their own conclusions on the next steps needed in this long story of genetic modification in Indian agriculture.

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LETTERS TO THE EDITOR

Gambhir Tweets

Newly elected BJP MP and famed cricketer Gautam Gambhir wants to start his political innings with a straight bat, when he correctly described the alleged attack on 25-year-old Mohammad Barkat Aalam in Gurgaon; who said, his skull cap was thrown on the ground while he was returning from a mosque. Immediately Gambhir tweeted, "In Gurugram Muslim man told to remove skullcap, chant *Jai Shri Ram*. It is deplorable. Exemplary action needed by Gurugram authorities. We are a secular nation where Javed Akhtar writes '*O Palan hare, nirgun aur nyare*'...." The tweet generated over 4,500 comments, with several people asking why he was "being selective" by responding to an attack on a minority community member. Alas! Gambhir may forget that he is naive and doesn't understand the new political innings he has just opened. Three hours after his initial tweet, Gambhir posted another one, "My thoughts on secularism emanate from honourable PM Narendra Modi's mantra '*Sabka Saath, Sabka Vikas, Sabka Vishwas*'. I am not limiting myself to Gurugram incident alone, any oppression based on caste/religion is deplorable. Tolerance and inclusive growth is what idea of India is based on." Though he did not blame any community or any particular person, and his comment is based on media report, even then people wonder how Gambhir forgot the Prime Minister Narendra Modi's advise to the first time MPs to the Lok Sabha—to not to be misled by people for ministerial berths, and stay clear of the media. A question to Gambhir, after Modi being leader of the NDA; there are five cases already reported in the electronic and printed media. When atmosphere is made vicious purposely, what can be done? — Bidyut Kumar Chatterjee, Faridabad

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AS PRIME MINISTER Narendra Modi begins his second term with an even larger political mandate, it is time to reflect on what should be the priorities in fixing our cities. The scale of the challenge is massive, whether we look at the availability of clean drinking water, unpolluted air, quality of public transport, traffic management and parking, integrated planning of transport and land use, law and order, management and safe disposal of solid waste that is generated, treatment of waste water and effluents, and affordable housing. In short, the state of public service delivery in our cities is abysmal and, what is more, the cities are financially broke and cannot address these problems on their own.

Do cities matter? The short answer is, very much so. Rapid economic growth in any country is associated with a decline in the share of agriculture and increase in the shares of manufacturing and services in its GDP, and this involves greater urbanisation. India's experience in the last two decades has been no different, except that the urbanisation associated with rapid growth in India has been largely unplanned, much more so than in most other developing countries aspiring to middle-income status. Going forward, as we try to achieve the rapid growth necessary to provide growing employment opportunities for our young work-force, we need to position our cities as drivers of the structural transformation of the Indian economy.

The United Nations projections suggest that India's urban population will increase from 461 million in 2018 to 877 million in 2050, with India contributing the largest share of global urban population growth from 2018 to 2050. Our cities will have to provide much better quality of life for their residents if we want to create the investment climate that will attract investment. For this, we not only need more and better urban infrastructure but also significantly better institutions, which can manage the infrastructure and deliver public services of high quality.

State governments have the principal responsibility for urban development. But in order to deliver, they can and should ensure that city governments are sufficiently empowered to get the job done. This requires strengthening the finances of these governments, building their capacity to take on the new challenges that urbanisation brings, and providing an enabling environment through legislative and administrative support. Most state governments have been failing in this respect big time.

In our federal system, a state government has the power to notify when an area is to have a statutory urban local government and what form it would take, i.e., a Municipal Corporation, a Municipal Council or a Nagar Panchayat (when an area is in transition from rural to urban). The 74th Constitutional Amendment of 1992 gives the state governments the power to transfer a set of 18 legitimate municipal functions to the municipal governments and also devolve finances to them to enable them to perform these functions and organise the delivery of the public services.

State governments were happy to devolve most, though not all, of the 18 functions to the urban local governments. Town planning – the golden goose – was not typically transferred. Also, action on devolution of funds to urban local governments has been unpredictable and hopelessly inadequate. As one Municipal Commissioner put it to me, "We do not function as city governments but as urban local bodies. We are accountable to our residents for service delivery but we are not empowered to deliver the services". State governments have to accept this failure and take corrective action.



ILLUSTRATION: ROHINIT PHORE

ISHER JUDGE AHLUWALIA

Chairperson, ICRIER, Delhi, and former chairperson of the high-powered expert committee on urban infrastructure and services



● CITIES AT CROSSROADS

Cooperative Federalism 2.0: Go beyond Centre-State

States must decentralise and devolve funds and powers to cities. The new govt must work on an incentive grant system whereby states that devolve funds to cities in the desired degree get a top-up financial grant from the Centre

A major opportunity to improve municipal finances was lost at the time of the GST-related Constitutional amendments in 2016. In moving to a more efficient GST regime, the centre and the states agreed that GST would be a dual levy on a common base by subsuming most of the consumption taxes imposed by the centre, states and local governments. Ideally, they should have agreed that GST revenue should be

shared among all the three levels of government, since the independent power of local governments to raise their own sources of revenue has now been appropriated by the centre and states. But the third tier was kept out of the deal. This is in contrast with many countries around the world which have provided their urban local governments access to revenue from goods and services tax and income tax. The

Government of India must work towards amending the Constitution to undo the injustice that has been meted out to the local governments.

In fiscal devolution, the talk of cooperative federalism stops at the level of the state government. Over the years, the state governments have claimed and successfully obtained a larger share in the joint revenues of the centre and the states. The Fourteenth Finance Commission increased the share of states in the revenue pool from 32% to 42%. By contrast, municipal revenues/expenditures in India have been stagnating at around 1% of GDP for over a decade. This is much lower, for example, than the municipal revenues/expenditures in Brazil which account for 7.4% of GDP and 6% in South Africa. The 15th Finance Commission has an opportunity to prescribe grants from the Centre to the urban local governments which would improve the resource situation of these entities, especially since they have taken a big hit in the post-GST regime.

In the past decade or so, the government of India has come to recognise that urbanisation is set to accelerate with India's rapid growth. First, the UPA government launched the Jawaharalal Nehru National Renewal Mission (JNNURM) and Rajiv Awas Yojana (Centrally Sponsored Schemes). The NDA government followed up with a number of their own urban development missions, e.g., Swachh Bharat, AMRUT, Smart Cities Mission, and Housing for All. These national initiatives have provided some finance and also nudged the state governments to take up the challenges of urban development, and all this made some difference.

An important point to note is that the national missions could deliver only where the state governments were proactive in bringing about the change. While being aspirational and providing strategic leadership, these missions put forth only limited funds and rightly expected the state governments to raise the rest by either mobilising their own financial resources or by attracting public private partnership. Only a few state governments have been able to come forward to realise the potential offered by the national missions. The missions played an important additional role in igniting a competitive spirit among the state governments to outperform each other in the delivery of public services.

A major failing of the national missions has been that they have not addressed the issues of empowerment and devolution to the third tier. A simple solution would be for the Government of India to introduce an incentive grant system whereby states that devolve funds to some desired degree get a top-up financial grant from the Centre. This should be limited to second tier cities, which are crucial in a new urbanisation thrust. Metropolitan cities need such grants much less, since states can help them to raise resources by empowering them to unlock land value. They are also better placed to develop PPPs with viable revenue models to attract private funds.

Prime minister Modi, at the present juncture, is in the unique position of having to work with a large number of BJP-controlled state governments. It is a valuable opportunity to grasp the bull by the horns politically, and get the states to go for empowerment of the third tier and also strengthen their finances through assured devolution.

Essentially, co-operative federalism needs to go down deeper below the state level. There are no short cuts to improving the state of our cities. The state governments need to decentralise, devolve funds to and empower the cities. We as responsible citizens need to engage with the government to find collective solutions while at the same time, holding the government accountable.

● MIDDLE-INCOME TRAP

How can India avoid this future

S SRINIVASAN

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Views are personal

Growth in our tier-II/III towns and villages is a must to sustain momentum

WE HAVE AN ominous prediction from Rathin Roy, member of the Prime Minister's Economic Advisory Council and Director of National Institute of Public Finance and Policy, that the country could be heading towards the "middle income" trap. According to his prognosis, the middle-class that has fuelled the economy through growth in consumption may not sustain this performance, leading to possible stagnation. A plunge in income growth, decreasing money supply and rising uncertainty have been identified as the three triggers for this possibility. This warning is invaluable, but does not enlighten us on a solution. Hence, let us start by examining the triggers.

The major primary sources of income are agriculture and allied areas, exports of goods and services and inward remittances, with the other sectors such as manufacturing being derived demand. Other than in FY15, agriculture growth rate has been positive for several years. More recently, agriculture growth rate is up 3.8% in FY19 compared to 3.4% the previous year. Export of merchandise is at a record level of \$331 billion in FY19 compared to \$303 billion the previous year. Inward remittances, at \$80 billion in FY18, are up, against an average of \$66 billion in the previous five years. Software exports, at \$137 billion in FY19, are up 7-9%, compared to the previous year. Thus, available data shows no precipitous fall in income.

Currently, the NBFC, and, to a lesser extent, the banking sector are saddled with serious problems, resulting in less headroom for credit expansion. An important component is mismatch of fund inflows and outflows particularly relating to the infra sector which is somewhat more benign compared to pure NPAs. If the government releases liquidity without fiscal discipline, normalcy will be restored within the medium term. Significantly, no transparent, well-run business lists lack of credit as a serious issue and, hence, there appears hope in the horizon. Rising uncertainty is not the cause, but a consequence, of a deeper malaise. Anxiety due to internal factors such as demonetisation and GST are behind us. A stable government with majority is here. Other than US president Donald Trump's tantrum on tariffs, there is no significant threat in the global scene. Of course, there is always a threat to the longevity of any business or profession such as advent of e-vehicles or changes in visa rules for the tech sector. But, this may be a zero sum game with one entity going under and another emerging.

Thus, it appears that the three triggers are manageable. But there are alternate possibilities for reduction in consumption. Spurred by liberalisation, the 200 million strong middle-class had gone on a purchasing binge, acquiring everything from a Porsche to the Pomeranian. With creature comforts met, the next level in Maslow's hierarchy is being attained through purchase of luxury items such as internationally branded perfumes and purses, which has vaulted from \$6.5 billion in 2012 to around \$30 billion last year. The number of Indians travelling abroad has skyrocketed from 8.3 million in 2006 to 25 million now, and is further expected to touch 50 million in the next few years. What is the relevance of all this to the bigger issue? Most of the impetus is an urban phenomenon; 50 kilometres beyond city limits, the state of schools, hospitals and sanitation in towns or villages remains pathetic. Instead of a cascaded flow of money across the country from the metros to the villages, we have engendered economic constipation and diversion of wealth abroad leading to great internal inequality. The Paris School of Economics has released the World Inequality Report adopted by the World Economic Forum showing India in the top five countries with the most skewed income and wealth distribution and this is deteriorating further. We must devise a mechanism to create the next 200 million middle income earners through a win-win strategy.

The cream clamouring for world-class cities pays ten of dollars an hour in parking charges abroad against barely cents at home. A choice of seat in flight costs ₹10,000, the same as property tax for a year. Why not steeply increase property and taxes/charges in metros to fund city improvement through PPP and to assist rural development? The cost increase will also induce movement of activity and personnel out of metros. In a mother of all transformations, rejuvenate and decongest cities to create the next lot of middle income earners in the outlying areas and avoid economic stagnation.

REGIONAL CAFE: TAMIL NADU

CHENNAI-BASED INTHREE Access Services was founded in 2013 by R Ramanathan, Karthik Natarajan and Narayanan on the firm belief that rural India is more than willing to buy branded white goods. The company has pioneered the concept of assisted commerce in the rural space. "Rural India is not a dark hole, as urban Indians think. There is a huge white space in the rural markets. People don't understand that the rural customers are aspirational and they have disposable income to buy consumer products," says Ramanathan, who is also the CEO of the company.

Under the Boonbox brand, the company now reaches 3 lakh villages across India. "We provide products and services to consumers who live in tier-3 and tier-4 towns, and villages. Their demand has been unfulfilled as they have lacked access to these goods." Since inception, Boonbox has sold over 60 lakh products worth over Rs 450 crore to more than 30 lakh households spread across 3 lakh villages in 16 states of the country. "Most of our customers are women and they want refrigerators and washing machines. Rural India also wants smartphones and TVs. Our hashtag is #NewRural."

"All FMCG products don't reach villages," adds Ramanathan. Distribution stops at places with a population of 20,000. What Boonbox is doing is to address this huge access problem. "There is a middle class in the smallest of villages with disposable incomes far higher than what one thinks. A lot of families make Rs

Rural India wants branded white goods

Inthree's success offers a tremendous opportunity lies in the sheer scale that rural India offers

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30,000-40,000 per month as they take up multiple jobs. Their expenses are limited, unlike city dwellers. Their know-how here are very assured and they know what they want."

There are 6.5 lakh villages in the country and 87% of them have a population of around 2,000. Most of them do not have connectivity in the last 50-odd km. Indian rural network is very different from that of the rest of the world. There are more problems than advantages. "We converted these problems into opportunities, mostly through technology," says Ramanathan.

The company first created an assisted commerce platform (boonbox.com) that is multilingual and easy to access. Boonbox has B2C elements built-in. It has appointed affiliates who are well-con-

nected across villages. Rural communities do not place trust easily. The affiliates, who come from within the community and can connect with the people, are equipped with tablets installed with Boonbox mobile apps.

Boonbox affiliates show the available products to rural customers through its Champ app, which works as a catalogue and an order-taking mechanism. The associates collect the money from them and place the order through Boonbox. "The orders come to us through bank transfer. The products are delivered directly to the customer through Boonbox's hub-and-spoke logistics network," Ramanathan says.

The shipment delivery can be traced to the smallest hamlet through the app. Reliable addresses are lacking in these places.



People give vague directions. They would say that their house is near a temple. Using route tapping and geotagging technologies, safe delivery is assured. The app, which is in a local language, is loaded on to the smartphones of delivery boys, who are also local. "The customer's photograph with the product and her identity proof is sent to us," he says. Arrangements have been made to demonstrate the product on arrival.

Boonbox covers 6,900 PIN codes, of the total 12,000 PIN codes in the country. The top-three product categories in demand are mobile phones (which account for 40% of the company's revenue), consumer durables (30%) and kitchen home appliances (another 30%). The rural customer is very sure of what she wants, is brand-conscious, and orders

largely premium brands across categories. She does not want what she has not seen on television.

The popular mobile brands are Samsung and LG. In fact, Boonbox is the largest rural partner for Samsung mobiles and has been so for the last three years. For consumer durables, the major brands customers prefer are Samsung, Panasonic, LG and Whirlpool. "The Indian male doesn't wash clothes; it's usually women who want washing machines," he says. In addition, their popular kitchen appliance brands are Prestige, Preethi, Premier, Jaipan, Hawkins, and Butterfly Gandhimathi.

Ramanathan's interest in the rural commerce space was triggered when he was working for the TVS Group. He got an opportunity to interact with the late management guru CK Prahalad, who laid

down the business strategy for the cluster, and convinced him about the philosophy of gaining dominant market share even in remote geographies, which Prahalad termed as "depth domination."

When Ramanathan and Narayanan set out on their own, Tamil Nadu was in the grip of an acute power crisis, with 12-hour power cuts. They decided to sell solar lamps through post offices. "We were selling them over the counter and they flew off the shelf," he adds.

Inthree Access was launched with funding from the Indian Angel Network, followed by \$4 million from Ventureast, Orios Venture Partners and IAN Fund. Discussions are going on for a fresh round of funding. The company finished 2017-18 with a turnover of Rs 200 crore. It hopes to end this year with Rs 500 crore, and also hopes to double its top line by 2020.

Ramanathan says a tremendous opportunity lies in the sheer scale that rural India offers. The company started out in Tamil Nadu and Karnataka. Now it covers the South, the East and most states in the North. It has just entered the West by starting out in Vidarbha in Maharashtra. "We have to create a commerce ecosystem where none currently exists," he says.

The road ahead lies in understanding consumer needs and improving the company's technology, logistics and customer connect backbone to serve them better across geographies. Inthree Access is now designing subscription models relevant for the rural consumer, and is creating loyalty and membership programmes to build long-term value for customers.