Opinion

MONDAY, JULY 24, 2017

DATA IS THE NEW OIL

Former UIDAI chairman Nandan Nilekani

Data has become the new oil. Just like oil was the basis for transformation of the 20th century, data is the basis for 21st century. But it is very important that if data is the new oil, then data is democratised

RJio takes it to next level, a Bharat phone

With over 200 mn users paying as much as ₹140 per month today, RJio makes a bold pitch for them

THOUGH THE RJIO impact on incumbent telcos was always going to be very big with its free voice and Dhan Dhana Dhan data packs at as low as ₹5 per GB—at the time, existing telcos were selling data at ₹250 per GB and were forced to slash it—it was always targeting a limited market, of people who could afford ₹3,500+ for a smart-phone and who could shell out ₹300+ every 28 days (even though the Dhan Dhana Dhan offer increased the pack-validity by another 28 days, the money had to be paid upfront). Just around 200 million subscribers, going by an exhaustive Kotak Institutional Equities analysis, spend over ₹280 per month on their phone calls—we are assuming those who pay ₹280 would upgrade to ₹309 to avail the unlimited voice and cheap data. In a sense, then, with 100 million subscribers, RJio had more or less saturated that market.

It is this that, going by what its chairman Mukesh Ambani said at the RIL AGM on Friday, that RJio has sought to change. For one, the RJio team worked with chipset companies like Qualcomm to come up with feature phones which can offer reasonable browsing and viewing facilities, and at a low cost. When Ambani said the phone was effectively free, he wasn't exaggerating. Under the plan, users will pay ₹1,500 for the phone but the money is to be refunded to them once they turn in the phone after three years—effectively, then, the cost of the phone becomes the interest cost of around ₹400 or so. If RJio ties up with banks or finance firms, as it undoubtedly will, the upfront ₹1,500 will probably get financed with the consumer paying ₹500 or thereabouts as interest and other charges. The free-voice pack will cost ₹153 per month and will offer 0.5GB a day to users—in other words, if the Dhan Dhana Dhan 28-day additional facility is not available, the data will cost around ₹10-11 per GB. With another 210 million people in the country, going by the Kotak analysis, paying ₹140 per month for phone calls, effectively that is the new base RJio can now target. Sachet packs of ₹24 and ₹54 have also been provided to cater for an even lower price point.

Unlike existing telecom players who, by and large, have focused on providing a telecom service and waited for phone prices to come down, RJio has chosen to influence the handset prices directly. While the phone, for now, does not offer WhatsApp—it offers JioChat—chances are this could be available over a period of time. Certainly, those who have designed this phone for RJio will offer this in the rest of the market soon enough, but the phone is a VoLTE one and cannot be used on GSM networks. That means, a Bharti Airtel or a Vodafone or an Idea subscriber can only benefit from cheaper feature phones after these telcos' networks are completely VoLTE. While converting to VoLTE will take time, the fact that RJio has more spectrum in the sub-1GHz band is an added advantage—RIL's decision to invest in Balaji Telefilms will also help build up the local content library. Recouping its investments will require RJio to boost subscriber payments considerably, but Friday's announcements have taken the battle one step more into the incumbents' territory. With the battle on Interconnect User Charge getting even more high-pitched (*goo.gl/9cJFYP*), expect more of a blood-bath in the industry.

Fixing UP's sugar problem

Centre does well to tell UP to implement Rangarajan

AFTER FULMINATING AGAINST errant sugar mills for not paying farmers their dues, the UP government may finally address the real problem of forcing sugar mills to pay too much money to sugarcane farmers. Every year, the central government comes out with Fair and Remunerative Price (FRP) at which sugar mills have to buy cane from farmers. All states, and UP is the most guilty, fixed a State Administered Price (SAP) that was higher than the FRP, and that was the genesis of increasing farmer arrears. While the UPA had come out with the Rangarajan formula on revenue-sharing between the mills and farmers, states like Maharashtra and Karnataka accepted this, but UP did not. As *FE* pointed out, over the past five years, UP's sugarmills paid around ₹19,000 crore extra to the farmers as compared to a situation where the Rangarajan formula had been adopted.

According to a news story in *FE* last week, the central government has advised UP to implement the Rangarajan formula. Over a period of time, UP has improved the quality of cane being planted, as a result of which more sugar can be got from the same cane—till even two years ago, just around 9.54% of the cane could be converted to sugar while that is up to 10.61% on an average. As a result, the SAP that was very high a few years ago is less burdensome today. In 2014-15, while the FRP (at a 9.5% recovery level) was ₹220, the SAP was ₹280 (SAP is not based on any particular level of recovery)—once you factor in the recovery, the gap was ₹50 per quintal. In the season beginning October 2017, the FRP is ₹255 and the SAP ₹305—given the current recovery levels of 10.61%, the gap is a much lower ₹20 per quintal. So, if Yogi Adityanath is able to make the transition quickly, farmers will adapt to the new model—if the sugar cycle changes, as it does from time to time, the sugar mills will not be forced to pay out extra and this will not, once again, lead to the old arrears-agitation-crackdown cycles. Keep in mind that, in 2016-17, when the FRP-SAP gap was ₹48, UP's sugar mills had to pay farmers nearly ₹4,000 crore extra. Whether Yogi Adityanath will pay heed to the central government's advice is not clear, but what should be clear to him is that there is no other way out. He cannot keep pampering the cane farmers at the mills' expense. And taking over the mills, as was once threatened, is no solution since there will be no one left to buy the cane. Reform is not just the best politics, it is the only politics.

Protecting MISCONDUCT

That is what PJ Kurien's stand against flying bans on MPs amounts to

EVEN AS TALES of high-handedness, and indeed, downright degenerate behaviour by lawmakers, are dime a dozen, Rajya Sabha deputy chairperson PJ Kurien has argued for shielding them from the consequences. Kurien, bringing up the matter of the flying ban that many airlines had imposed on the likes of Ravindra Gaikwad, the Shiv Sena MP who hit a Air India official, and TDP's JC Diwakar Reddy who got intro a spat with the ground staff of a private airline, said that airlines had no authority to impose such bans. On the face of it, Kurien's pitch may seem logical—in case of a misdemeanour or a crime against an airline or its staff by a lawmaker, the law should be let to take its own course. However, the problem is that some offences may not constitute an outright crime under the law even though they would be perceived as serious violations of civil conduct—the Reddy matter, for instance. And in cases where it is a crime, it is more likely than not the concerned lawmaker will get away with nothing more than a slap on the wrist—sometimes, not even as much.

Kurien and his fraternity would be better off keeping in mind that the civil aviation ministry announced guidelines in May for flying bans, and lawmakers/political leaders are not excluded. In any case, it is an accepted practice commercial concerns like restaurants, retailers, etc, to refuse to serve and evict unruly customers—and in case of repeat offences, debar them from entering. So, why single out airlines? Developed jurisdictions like the US have treated flying bans by their airlines as enforceable even though these have been hotly contested by those affected by it. An SP lawmaker who brought up the matter in Rajya Sabha considers flying bans on lawmakers a breach of privilege. Sad, that a lawmaker should hold evading the consequences of a violation as privilege.

FOREIGN TRADE POLICY & GST

THOUGH IT IS STILL EARLY TO SAY WHAT THE FINAL SHAPE OF THE EOU & STPI SCHEMES WILL BE IN THE NEW FTP, THEIR OPERATING STRUCTURE WILL SURELY SHRINK IN RELEVANCE

Less incentives will be the new normal for exports

HIMANSHU TEWARI

Partner (indirect tax) BMR & Associates LLP

INDIA'S FOREIGN TRADE policy (FTP) is undergoing a bold makeover under GST. Comprehensive customs duty exemption on export-linked imports, a cornerstone of the export incentive schemes under the FTP, is being replaced by reduced exemptions, limited to basic customs duty exemptions only. This single change, where upfront IGST exemption would not be available on export-related imports and local procurement, results in a steep decline of duty benefits under the FTP. The amount required to fund the IGST duty payment increases many times. This is a significant break from the past and a dramatic reduction in span and influence of the FTP schemes under GST. This would also mean a reduced footprint of the directorate general of foreign trade (DGFT) with regards to India's international trade. Some of the key functions and areas of influence of the FTP are shrinking, e.g., the IEC number is replaced by entity's PAN number; it is likely that number of application seeking licences and authorisations will reduce; advanced release order (ARO) under advance authorisation and Export Promotion Capital Goods (EPCG) scheme will become irrelevant.

The exporting community in India is in a state of shock because of the expected change in business behaviour triggered by the no-IGST exemption regime. They have asked the ministry of commerce to revisit some of these decisions, and the ministry has given assurances to look into the grievances. Accordingly, the date of issuance of the new FTP, aligned to the spirit of GST, has been shifted to September 2017.

Meanwhile, FAQs and trade circulars issued by DGFT are filling in for the policy gap. But the government has limited manoeuvrability in this case as continuation of IGST exemption would be contrary to the GST policy of minimal exemptions and detrimental to the domestic industry where any IGST exemption favours sourcing from outside India. Absence of IGST exemption is in the larger interest of the economy, but it adversely impacts the exporter as additional capital is required to fund the IGST payment on procurement for the purposes of export.

This change will impact both, the goods and the services sectors, alike which totally contribute around $400-450 billion to India's forex earnings. The Software Technology Parks of India scheme will be impacted as well as the Export Oriented Unit (EOU) scheme, the EPCG scheme and the advance authorisation schemes would be impacted. Ditto for the effectiveness of the Merchandise Exports from India Scheme and Services Exports from India Scheme.

India's services exports, which contribute $150 billion to the economy, rely heavily on the STPI scheme under the FTP. Changes in benefits and administration of the EOU and STP schemes will raise questions around feasibility and relevance of the EOU and STP operating structures. There are around 4,000 such units in the country, and all of them may have to go back to the drawing board to weigh the benefit of a basic customs duty (BCD) exemption on imported goods that EOU/STP structure would offer on a going-forward basis against additional compliance and oversight.

As inter-unit transfer of goods will attract IGST and reversal of BCD, the depth of penetration of BCD exemption would also be limited to the direct importer, and not further down the supply-chain. The EOU and STP units will have to follow the procedure outlined under the Customs Import of Goods at Concessional Rate of Duty Rules, 2017, instead of import under customs bond, etc, and it will have to reverse the BCD amount in case of DTA clearance of the goods as per the Standard Input Output Norms.

> Going forward, as a consequence of the makeover of FTP under GST, Indian exporters-importers will see less of DGFT and rely more on open market forces on the path of international trade

Together, these changes under the EOU and STP scheme are very sharp and steep, and the impact would cut across the industry segments. It is still early to say how soon the GST-related changes in FTP would push the businesses out of the EOU/STP operating structure, but it will not be out of place to say that the EOU/STP operating structure will shrink in its relevance and may remain relevant only for very limited number of business cases.

For a normal exporter, these changes would trigger a fundamental rethinking in relation to import-export supply chain. Additional cash-flow requirement at the procurement stage would alter the sourcing preferences in international supply-chain. Balance of favour will shift away from imports and in favour of domestic procurement. Consequently, choice of supplier, country of supply, procurement price, and product mix—domestic and imported—in the procurement basket, all could potentially require a change under GST.

This will also change the skill-set requirement for managing international supply-chains as familiarity with DGFT processes and paperwork, familiarity with export incentive schemes, etc, would become a redundant skill. Frequency of usage of the terms of FTP would also see a change—conversation around duty exemption, EPCG, deemed export, ARO, invalidation, MEIS, SEIS, etc, would reduce within the exporting community in India. We expect the export obligation and export obligation period in the EPCG scheme to change as also the agency monitoring the export obligations under the export incentives schemes. All in all, the exporting community will have to accept the emerging new normal in FTP, and tread a new path with less financial incentives, less dependence on FTP schemes and more thrust on quality and brand acceptability in international trade. Going forward, as the consequence of the makeover of FTP under GST, Indian exporters-importers will see less of DGFT and rely on more of open market forces on the path of international trade.

With inputs from Deni Shah, director (indirect tax), BMR Associates LLP

The roots of corruption

The larger the state and the more power concentrated at the top, the higher the chances of Big Graft

MEGHNAD DESAI

Economist and Labour peer

BRAZIL, A LEADING member of the BRICS grouping, is going through a profound political crisis. It centres on high-level corruption. Dilma Rousseff, the first woman president and a socialist, had to resign because of scandalous misuse of money from the state-owned petrol company, Petrobras. A trail of infrastructure projects which made losses, and then using the reserves of Petrobras to cover up budget deficits, caught up with her. She was impeached by the lower house and judged by the upper house to be guilty. Then, her mentor and Brazil's most popular socialist president, Luiz Inácio Lula da Silva, has also had to resign from his advisory role because he was said to have received favours from a building company. The man who replaced Rousseff, Michael Temer, is also under pressure to face charges.

In South Africa, president Jacob Zuma is trying to evade 300-plus charges of corruption. South Africa, the leading African economy, has been running down under Zuma's presidency. The African National Congress is split, and the people are embarrassed by the decline in their country's political standards. In India, while high-level corruption has not been found since the BJP came to power, the UPA faced the storm of the Anna Hazare movement. Now, UPA-1 railway minister and former Bihar chief minister Lalu Prasad Yadav and his family are under investigation.

Economists have theorised about rent-seeking and its consequences. But, perhaps, we need a distinct argument to understand big corruption. It is not so much rent-seeking as land-grabbing from which vast gains can be made. Obviously, at the heart of any argument should be the size of the state in the total economy of a country. Both the share of public spending in total income and the value of state-owned assets will be crucial.

In petty corruption, any official, high or low, can act as a gate-keeper and extract a bribe by restricting access only to those who pay. Those who don't pay either do not get access or do so with a delay. Petty corruption is a severe regressive tax. Big corruption is about privatising a part of the state's assets. It is important here to note that the confusion is between the state and the government. The state is an overarching legal entity, but its day-to-day running is carried on by governments that, in turn, have political leaders as agents. The trick obviously is to blur the distinction between the principal (the state) and the agent (the political leader). The blurring can only be done easily at the very top. The activity is to switch ownership or the right to dispose of the proceeds of the asset from the state to the leader.

This switching is the essence of high corruption. A president can, for example, not strictly legally but seemingly innocuously, transfer an asset over which he has juridical control to a family member or an associate. This would seem to have been modus operandi of the scams under UPA-2 and may be proven to be at the bottom of the Yadav family case.

> The multiplier of going from rent-seeking to land-grabbing (asset theft in general) is enormous. This is because the state's assets are a huge multiple of even the richest person's income or wealth

The multiplier of going from rent-seeking to land-grabbing (asset theft in general) is enormous. This is because the state's assets are a huge multiple of even the richest person's income or wealth. Imagine a country of ten 10 million people with a per capita income of $1,000. The total GDP is then $10 billon. If the state's share of the total GDP is 20%, there is $2 billion open to rent-seeking predation. But, the state could easily have assets worth a multiple of total income. Suppose the multiple is three, and assets are worth $30 billion.

Let us assume that income is highly unequally distributed. Let us suppose the top percentile has 20% share, equal to $2 billion. Now, the political leader as an agent who can embezzle state property would have to transfer just 3% of the assets to himself over his term of office to end up a billionaire.

Asset-stripping seems to have occurred in South Africa and, to an extent, in Brazil. The UPA-2 scams were all about asset-stripping. The higher up the food-chain you are, the easier it is to fake a transfer as legitimate and rather larger would be the gain. When the USSR collapsed, the assets of Russia were blatantly sold off to the cronies of Boris Yeltsin at throwaway prices. Huge fortunes were created. In the confusion of the changeover from one state to another, access to the assets was crucial. There was enthusiasm for dismantling the socialist economy with the US and the international financial institutions encouraging the Russians. This must have been the largest example of land-grabbing.

It is hard to offer solutions. The larger the state and the more power concentrated at the top, the greater the chance of land-grab. One can only hope that there is enough separation of powers for one part of the government to punish another. That is what happened in Brazil, but not in South Africa. India follows the British model as South Africa does. No one has been caught yet with a seriously large land-grab. We know it happened, but cannot prove it.

LETTERS TO THE EDITOR

Who benefits from affordable housing?

The column "Making Housing the growth sweet spot" (*FE*, July 21) is timely and completely relevant in today's contest. The PMAY (Pradhan Mantri Awas Yojana) is a highly effective and well-researched scheme and should go a long way in making life comfortable for a sizeable population. Wide coverage of PMAY in industrial areas, among labour-incentive units, will get good number of hits. These are workers tied to shifts duties, living near industrial units with a pressing requirement for adequate shelter. Further, fresh out-of-college youth and young renters who have completed a couple of years of service are another segment of customers who could be encouraged to regularly invest in their first home. There can be targeted media advertisements and companies' websites and the HR departments of those companies should also help spread the idea. Again, the Railways' salary distribution departments could also empower their employees to go for this new, credit-linked schemes. Roadshow by NGOs after due training by housing institutions, for those retirees who have yet to purchase first home, for soldiers and for migrant labourers are ideal potential customers for Pradhan Mantri Awas Yojana.

— NK Bakshi, Ahmedabad

President-elect

The president-elect Ram Nath Kovind, in his first short address, firmly anchored himself to simplicity and service, the basic mores of any progressive nation. Dr S Radhkrishnan had said, "Tolerance is the homage which the finite mind pays to the inexhaustibility of the Infinite." And Robert Kennedy, a candidate for US presidency, said, "Few will have the greatness to bend history itself, but each of us can work to change a small portion of events, and in the total of all those acts will be written the history of this generation. It is from innumerable diverse acts of courage and belief that human history is shaped.

— R Narayanan, Ghaziabad

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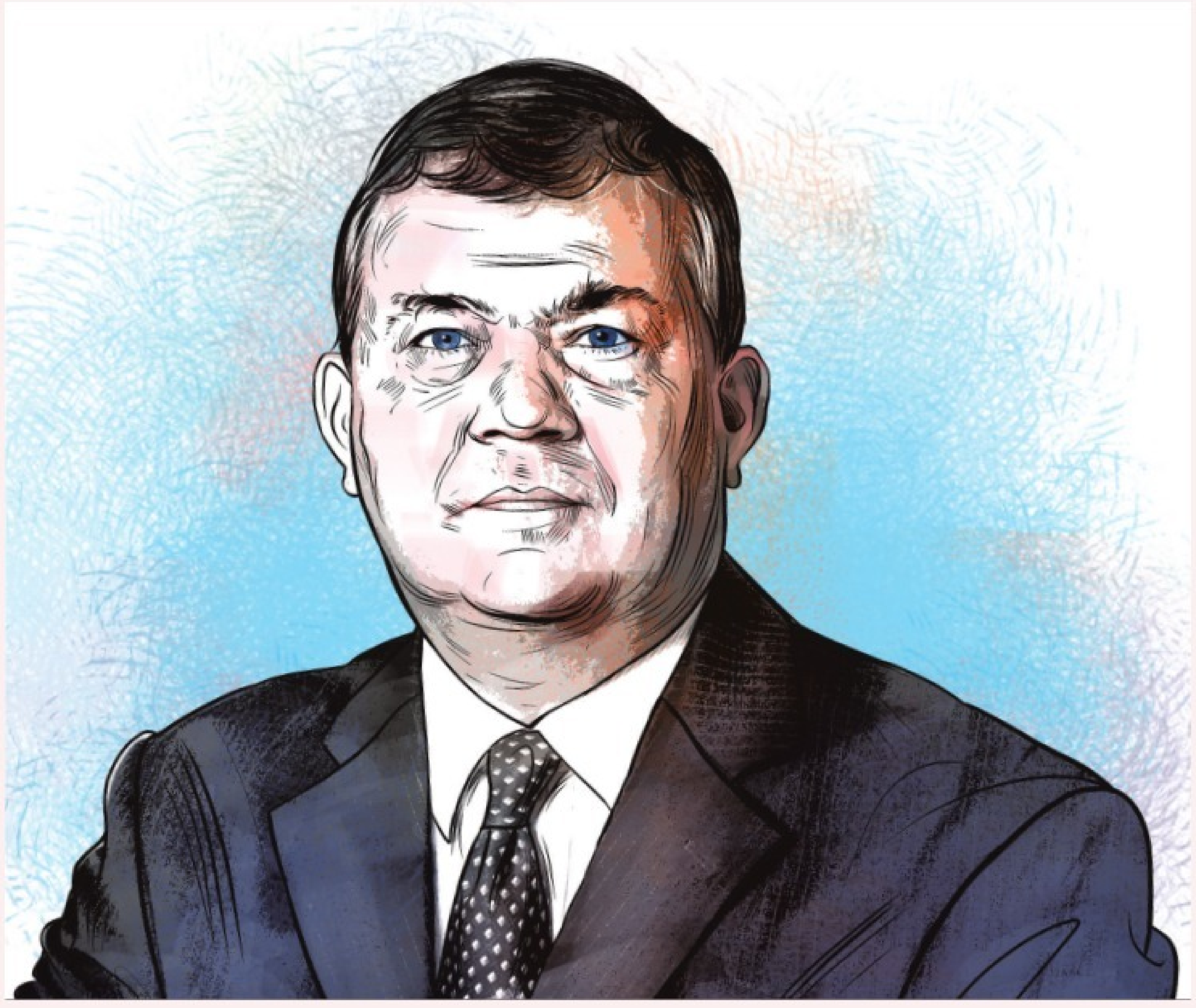


ILLUSTRATION: SHYAM

KEITH HOWELLS

chairman, Mott MacDonald

RECORDcaFE

Re-engineering solutions

Infrastructure is a key enabler for economic growth. Clearly, there is a huge infrastructure deficit in India. So, it's all about priority setting whether it is done at the Indian government level or state level

GLOBAL ENGINEERING AND management consultants, Mott MacDonald have been in India for decades now. Having worked for projects like Delhi Metro, Jaipur smart city, it is now contemplating using more of Indian talent for global delivery centres. In conversation with **Ishaan Gera**, chairman of the enterprise Keith Howells discusses the company's growth, sustainable infra focused spending and the challenges that the economy faces. "I haven't seen a huge change, to be honest. I am hopeful that things are changing. I can see that Mr Modi is trying to put in place measures to make things better," he says.

Edited excerpts

Your focus has been primarily on the western markets, what is your standing in India at present? What new projects are you working on?

I guess what the Dalal acquisition brought was a significant presence in the industry on the manufacturing sector, which we have used not just in India but other markets as well. We have been working in Indonesia, Africa and the Middle-East. Our involvement in India has been centred around that, growing that industrial business, which is fundamental to India's proposition to the world, particularly with Make-in-India movement. We have also been involved with some critical infrastructure, such as airports, metros, water supply and waste water projects. We have been involved in the critical industry and the other thing we have in our business is Cambridge education, which focuses on skill development and educational reform. You can see those are enablers of economic growth. Some of the things we are working on are Sustainable Urban Transportation Project which we have been working on for several years now. We are working with UK government on railway station redevelopment, working with ADB on sewage and waste management for NE capital, cities like Shillong.

Mott Macdonald was involved with the Delhi Metro. In fact, you were the first ones to develop the phase. Have you been involved in other metro projects as well.

That was one of our first big venture in infrastructure in the country and very shortly after we made the Dalal acquisition. We were the design engineers for one of the very first packages, we have retained our involvement ever since, much in the engineering and design role. We have also been working with other projects, Bangalore, Chennai, Hyderabad, Kolkata, Jaipur are some of the few. We have got bits and pieces in Mumbai, where we are safety advisors.

A lot of focus of Mott Macdonald has also been on programmes like education and health. You have initiatives in Pakistan and Philippines. Besides, Cambridge are you working on such fields in India as well.

Most of the education that we do is for international financing institutions, and DFID is our biggest client by far. So, we started Cambridge Education in the late 1980s, its been going for some 30 years. It was started partly as a response to the change in emphasis of World Bank or Asian Development Bank, who have been moving away from supporting physical capital creation to supporting human capital creation. So, we have responded to that with CE, principally targetted towards developing the world. DFID is the premier supplier, and we work all over the world. Lately, there is much more emphasis on Africa, but there is some in SE Asia as well. The objective is to improve outcomes for kids all over the world, with teacher training, curriculum development or organisation of skilling. We have a big project in Bangladesh for teaching English called English in Action, which has been using sending out materials via mobile phones. Here in India, we mostly worked on skills development and training. Some of it is vocational. So, we have had this India-EU skills development, which has been looking at various sectors and has been running for several years now. Automotive is one. We are looking at places like Maharashtra, Karnataka and Tamil Nadu. We did do some of the education capacity building with both primary and secondary schools. On the health side, we had a company called Health and Life Science Partnership, DFID is their biggest customer, and they work on maternal health, HIV and nutrition.

Most activities have been with UK or EU government. Is Mott Macdonald involved with the Indian government in some of these CSR activities?

To a limited extent, we have been working on this project for energy conservation, teaching children about energy saving. It is called the Best Energy Saver scheme. That has reached about 200,000 children to date. At the end of the day, we are trying to create some behavioural change.

We had heard that you were part of the Smart City programme, for instance, Faridabad was one such area. Are you still pursuing it and do you have plans to work with more such cities?

Yes, we were. Hopefully, we will. The example we talk about is Jaipur, where we did master planning. In a competition of top-100 cities, Jaipur stood 3rd, we are very pleased with that. The world has generally a misperception of what smart cities mean. It means something different in India, to what it means in the West. In the West, it is all about digital, whereas in India it is also about providing good infrastructure. Basic water, sanitation, decent electricity provision, housing. It is creating a good-city environment supported by digital. With some cities, we have also been working on climate resilience. So, helping places like Bhopal and Jabalpur. Clearly, India has plans to develop these 100 cities. We will be following that and hopefully, participating.

I think a big constraint is money and financing these projects. The government is looking at PPP-type arrangements. We have provided a lot of PPP advice all over the world, so it is a role we could play here given the opportunity.

Green is becoming a buzz word today. Does that pose a challenge for your company, and how are you taking on this new world?

We have been doing green for 30 years. It depends on where you are in the world. What we shifted from is a strong environmental focus to a more sustainability focus. And, sustainability in the form of economic, environmental and social balance. It is very rare you can find projects where you can do everything to perfection. I guess one of the things that is going to drive that going forward—whether for developed or developing countries—are the UN Sustainable Development Goals. We are just trying to wrap our heads around. They apply as much to the western economies, as they do to developing economies. We are going to achieve those, and we are all going to have to act in different ways.

Your revenues, in 2015, were £1.4 billion, and the top line was £64 million, about 14% and 7% growth respectively. How much is that from India and will we see the contribution from emerging markets growing in the coming years.

So, India is about £25 million. Still relatively small, but in terms of staff members its a bit more. So, we have 16,000 staff worldwide and India is probably about a thousand. I think the big thing that we see at the moment is that we are using India more and more as a Global Delivery Centre, supporting projects in other parts of the world. It makes us more competitive and it is good for India, as it counts as exports for India. Exports of skills, with money coming back to India. Our global delivery team started supporting work in the Middle-East, but now we are supporting work all over the world. We are supporting a lot in places like Singapore and UK. Recently, started a few projects in the US.

What do you think about the Indian government's infra push?

Infrastructure is a key enabler for economic growth. Clearly, there is a huge infrastructure deficit in India, I am told its trillions of dollar. The issue is likely to be financial constraints, so I think it's all about priority setting whether it is done at the Indian government level or state level.

Are you involved with any state government projects at present?

We tend not to work directly with state government, we find it quite difficult. There is a mix of reasons. It's very bureaucratic and they are very slow to pay our bills. So, it is not an easy working arrangement for us. We do work with the government when they receive IFI funding, it seems to bring a little bit more discipline to the process. When you have got the World Bank or an ADB sitting on the government's shoulder, providing a little bit of conscience, you do get more progress with people pushed into decision making in a timely manner. We do get paid on time.

Have things changed in the last three years, in terms of ease of doing business?

I don't know, I haven't seen a huge change, to be honest. I am hopeful that things are changing. I can see that Mr Modi is trying to put in place measures to make things better. But have we yet seen the results? Not sure, it varies by state. Some states are easy to do business with than others, but then you are back to politics. So, have we seen a huge difference? No. Can we see things moving? Yes. Let's see how we progress.

What can the govt do to signal to the foreign cos to come and do business?

I think it is about transparency and decision making. It is about timely decision making, there have been issues within the government about people not willing to take responsibility. So, delay in decision making is a major factor. Making sure people are paid fairly and on time. It is an issue every business, that I am aware of, has faced.

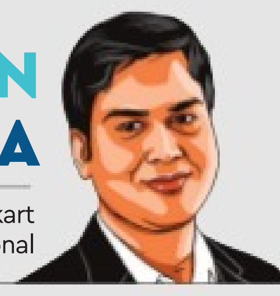
Railways is becoming a big infra contributor, also a lot many airports are coming up given UDAN. Are there plans to get involved in these projects.

We have been working on things like the dedicated freight corridors, on the eastern one in a project management role. One of the constraints with railways is qualified people. We have had challenges finding people with the requisite skills. These skills are in short supply.

Empowering NBFCs

HARSHVARDHAN LUNIA

CEO & co-Founder, Lendingkart Technologies. Views are personal



For RBI, the endeavour should be to build a regulatory framework that addresses the concerns of the NBFCs

INDIA HAS SHOWN dramatic improvement in terms of financial inclusion in the last few years with around 20 crore people having gained access to financial services as validated by a report by global consultancy firm BCG in 2016. According to a recent report by The Global Microscope 2016, India is firmly among the leaders in providing financial empowerment to the marginalised section of the society. Through financial inclusion policies such as Pradhan Mantri Jan Dhan Yojana, India's effort in encouraging holistic economic development has shown considerable progress.

To sustain the economic growth of 7-8%, the focus needs to shift towards broadening the scope of financial inclusion. Right now, the focus is more towards providing un-banked entities with banking products and tax benefits. It's time to move beyond enablement to true empowerment. A survey conducted across 540 SMEs by the Firstbiz and Greyhound Knowledge Group last year reports, that over 500 SMEs in this country found 'lack of easy finance and credit instruments' to be their most critical challenge. The fact that money lenders continue to account for nearly 30% of total banking business reflects the dependence of credit starved SMEs toward informal means for raising money. This invariably results in exorbitantly higher interest rates for loans, which most of the SMEs find difficult to pay back.

The challenge of access to capital is compounded further for SMEs to curb bad debts, as banks have become increasingly reluctant to lend to small enterprises. Moreover, most of the SMEs, especially in the rural areas have limited or no access to formal banking. A report prepared by PwC India in 2015 pointed out that India's unbanked population that year was 233 million. In this scenario, , Indian Non-banking finance companies (NBFCs) are becoming one of the preferred option. According to a recent report released by Capital Trust, the total borrowing from NBFC sector had increased by 15.3% in March 2016. The fact that credit penetration of NBFCs in India is at 13% of GDP, which is significantly low compared to other emerging economies, reflects that there are still few challenges that need to be addressed immediately.

> Despite building a robust regulatory framework to empower NBFCs, the sector would still face challenges if it does not strive to become self-sufficient

One of the key challenges that NBFCs currently face is that they are extremely dependant on competitors, banks and capital markets for raising funds. This can prove detrimental to the sustainability of their growth and can cause lot of distress, as funds from these sources can dry up without much notice. A strong regulatory framework from RBI which allows opening up of refinance windows and credit insurance support to NBFCs will help them raise low cost funds and increase their lending penetration. Another critical factor that forms a challenge for NBFCs is lack of flexibility in classification of loans. The assumption of "one-size fits all" doesn't work for NBFCs. The regulations need to consider the borrowers' profile and assets under classification to address this issue. Other challenges that need immediate support through efficient regulatory framework include withdrawal of priority sector status of bank lending to NBFCs, disparity in treatment in terms of taxation for NBFCs and Banks and minimum mandatory credit rating for deposit taking NBFCs.

Despite building a robust regulatory framework to empower NBFCs, the sector would still face challenges if it does not strive to become self-sufficient. As financial reach deepens, the traditional sources of advantage for NBFCs will start to diminish.

It is critical that NBFCs evolve by leveraging technology to build scalable models that would enable greater service to the credit starved SMEs. However, even if NBFCs continue to invest aggressively behind designing innovative products, they will still have to maintain the basic business synergies by reducing excess overhead costs.

For RBI, the endeavour should be to build a regulatory framework that addresses the concerns and uniqueness of the NBFC sector giving it a much-needed financial stability. An empowered NBFC will play a critical role in strengthening our SME ecosystem and contribute significantly in steering the country towards economic development.

Artificial intelligence

If the race to develop AI depends on huge amounts of data and computing power, a big chunk of the future economy could be controlled by a handful of companies

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ARTIFICIAL INTELLIGENCE IS guesswork — software that can look at a confusing situation, venture a guess about what's going on and learn from what happens when it acts. AI is at once the stuff of sci-fi movies and dystopian, end-of-humanity nightmares, and now, of mind-numbingly dull white-collar work. After decades of premature promises, artificial intelligence is finding its way into businesses from hedge funds to law firms to beer makers, as the line between ordinary software and AI software has blurred and cloud computing makes AI available to small companies as well as large. This revolution has come accompanied by massive investment and increasing anxiety about the future of jobs. AI could usher in an era of unprecedented prosperity or unprecedented inequality. Bill Gates, Stephen Hawking and Elon Musk, among others, have a deeper fear: That we may be, in Musk's words, "summoning the demon."

The Situation

Venture capital funding to AI-related startups topped $4.8 billion in 2016, from just $559 million in 2012, according to a report by CB Insights. U.S. employers are expected to spend $650 million to lure AI talent, said hiring data firm Paysa. Microsoft Corp., reorganized some of its businesses to create a 5,000-person strong AI group. Musk is both warning about the dangers of unchecked AI and investing in Open AI, a non-profit research group, while his Tesla Inc. works on autonomous vehicles. With the popularity of Amazon.com Inc.'s Alexa, chatbots have taken off with a variety of tech companies from Facebook Inc. to Microsoft taking up the idea. Here are things AI systems can do that would have got been considered overly ambitious or unaffordable five years ago:

- Beat a top-ranked human player at Go, a board game with many more possible moves than chess.
- Translate crudely but coherently from one language to another rapidly enough to have a conversation.
- Achieve parity with humans in speech recognition.
- Learn how to drive a car with training from the video game Grand Theft Auto.
- Develop small-scale financial trading systems that mimic the human brain.

There are lots of things AI has so far failed miserably at, such as telling which pronoun refers to which antecedent and outsmarting an 8th grader on a science test.

The Background

In the 1950s, academics flush with the rapid early success of computers turned their thoughts to teaching machines to think. Progress came easily at first, with the invention of neural networks — software that can process data with some of the pattern-recognition capabilities of our own brains. After that came a more refined program called a perceptron, which its creator claimed would soon create a talking, walking and thinking machine. This bout of over-promising was succeeded by the first of several "AI Winters" as researchers hit a wall and funding dried up. Then in the last decade a new class of industrial research labs took root in companies such as Google, Microsoft and Facebook. With vast concentrations of user data and computing power, deep pockets for hiring cadres of AI scientists and an unusually open attitude toward publishing research, these companies started breaking records in speech recognition and image analysis. While the field has been dominated by U.S. companies, Baidu, China's most popular search engine, has also joined its top ranks.

The Argument

Artificial intelligence can help scientists solve the world's "hard problems," like climate change, says Alphabet Inc.'s chairman, Eric Schmidt. But what if we created a super-smart, autonomous artificial intelligence that ran a paperclip factory and, due to some poor programming or a cyberattack, tried to turn everything it could grab into paperclips? It's a fanciful scenario proposed to crystallise concerns, but already technology exists that has the potential to manipulate markets or sway elections. In February 2017, a group of leading AI and computer science experts met to consider six doomsday scenarios and discuss how they would combat them. Less far-fetched is the question of whether AI will kill good middle-class jobs. Many economists argue that technological change has so far led to the creation of new and better jobs. But even AI proponents acknowledge that its rapid development could make its growth harder for society to digest. A future in which trucks drive themselves, mammograms are read by computers and the crowds at sporting events are scanned for suspected terrorists can sound great or terrifying depending on whether you're a truckdriver, radiologist or somebody concerned about privacy. Another worry is AI's possible effect on inequality. Anything that reduces labor costs is likely to disproportionately benefit holders of capital. If the race to develop artificial intelligence depends on huge amounts of data and computing power, a big chunk of the future economy could be controlled by a handful of companies.