Opinion

FRIDAY, SEPTEMBER 1, 2017

NO DECISIVE PROGRESS

EU's chief Brexit negotiator, Michel Barnier, on talks with the UK

Over the course of this week, we have made a number of useful clarifications on a number of points, for instance the status of border workers. However, we did not get any decisive progress on any of the principal subjects

Tax collections will decide if DeMo was a success

Since most money came back, critical to catch the black money deposits; big jolt to cash economy augurs well

ON THE FACE of things, 99% of high denomination currency notes coming back to banks suggest the main purpose of demonetisation—to unearth black money—has been defeated. The government, as articulated by the attorney general, believed ₹3-4 lakh crore of unaccounted wealth with households may not be disclosed—had this happened, justifying demonetisation and the severe shock it caused to small businesses would have been easier. But the gains are also considerable if the government is able to deliver. There can be little doubt the severe shock to black money—and the resultant jump in digital payments—has been a big positive in terms of changing the casual attitude towards tax evasion; the *Economic Survey* estimates that around a third of the increase in individual taxpayers in FY17 was due to demonetisation. With all cash back in the banks, there are more people/business in the formal system, and this allows the taxman to investigate the source of their wealth and check further tax evasion by using cash. The government has already indicated it intends to probe ₹1.75 lakh crore of suspicious deposits. If a significant part of this is converted to convictions and tax payments, it will suggest demonetisation has worked. Lax follow-up by or connivance by tax officials has, in the past, encouraged people to declare lower incomes; the recent prosecutions of tax officials suggests there is a clean-up of sorts. Given all the data he now has, the taxman must not lose the opportunity to crack down on evaders.

The surprisingly robust GST collections for July, at close to ₹92,000 crore, suggest the compliance has been very high; the information from the GST Network should also help tax officials investigate income tax payments. This is a good way to step up the tax-to-GDP ratio which, though higher at 11.2% in FY17 versus 10.6% in FY16, could be better. It is also likely the high number of units registering for GST, and the initial compliance, also got a fillip due to demonetisation.

However, for there to be a significant jump in tax collections, the economy needs to pick up pace. The real cost of demonetisation has been the big blow to the informal sector—roughly 80% of the economy—and the consequent loss of growth. The pain may not be entirely reflected in the headline GDP numbers, which in themselves are less than impressive, but there is no doubt many small and mid-sized units would have become a lot less viable with their USP—tax-evasion—dealt a blow by, first demonetisation, and then GST. The government must work to resuscitate these businesses and create jobs to undo the damage done by demonetisation/GST. The NITI Aayog-IDFC Institute report reveals how difficult it is to do business in India and, instead of dismissing the findings, the government must work to fix this with flexible labour laws, easy flow of credit and improved access to markets. While banks continue to support very small units—₹1.75 lakh crore was lent to nearly 40 million units under the Mudra scheme in FY17—the share of SME credit in overall bank credit has slipped to 17% in June from 18% in March. Demonetisation may have helped bring down the cost of money thanks to the flood of deposits with banks, but smaller units may not have benefited proportionately given how risk-averse banks are at this point. Until the informal sector is back on its feet and more jobs are created, the economy will remain in a rut.

Better alternative to FCI

Madhya Pradesh's deficiency payments idea a good one

WHEN THE CENTRAL government came up with the idea of a Minimum Support Price (MSP), most imagined this would end distress sales by farmers since, if market prices fell below the MSP, farmers could sell their produce to the state-owned FCI or some other such procurement agency—to that extent, MSP acted as a floor price. As time went by, this hope was belied since FCI procurement remained limited to just a handful of crops like wheat and rice and to just Punjab and Haryana—some enterprising state governments, like in Madhya Pradesh and Chhattisgarh, though, did establish their own procurement centres to ensure their farmers got the benefit of MSP. The Shanta Kumar report on agriculture had estimated that just around 4% of the country's farmers benefited from the FCI-led MSP system.

To that extent, the Madhya Pradesh government proposal to look at a deficiency payment is a good one. Based on what is planned, the government will pay farmers if they sell their produce at below the MSP—the difference between the MSP and the rate they are selling their produce for is to be compensated through transfers to their bank accounts. Immediately, the problem of low or no procurement goes away for all crops that have an MSP. Indeed, the state's agriculture secretary has also said that the scheme may be extended to horticulture crops as well in the future—considering India has greater production of horticulture than it does of foodgrains, this is important; also, it is the collapse of horticulture prices that is behind the current agriculture distress.

While it is not clear how soon, if at all, other states—or the central government—will move to such a system, if this does happen, some caution is required. For one, since all farmers will have access to deficiency payments—as opposed to FCI-style procurement—the impact on the treasury can be significant; sustaining this will mean some other subsidy, say that on fertilisers, will have to be cut to pay for this. Also, since MSPs will, in this system, truly act as a floor price for agriculture markets, this means the Centre/states will have to be a lot more responsible when it comes to fixing MSPs since a high MSP can contribute quite significantly to inflationary tendencies. Ideally, allowing markets to function more freely and to look at deficiency-based insurance products should also be experimented with to see what works better, but this is a good start. To the extent it results in the eventual shutting down of the inefficient FCI and the central government moving to DBT-payments in cash instead of physical rations, this will also result in considerable savings—of over ₹40,000 crore a year based on current costs/prices.

AugmentingREALITY

Since artificial intelligence reflects our biases, we need to be careful about passing these on to AI-like bots

REMEMBER HOW, WITHIN less than 24 hours of being created, Microsoft's chatbot Tay had to be shut down because it became a Nazi-loving misogynist? The bot, unleashed on Twitter, was taught to learn from the tweets it read and the responses it got—with more Hitler-loving women-haters out there than we imagine, it wasn't hard for Tay to adopt their persona. Google has just found something similar while trying to create an open data-set of drawings to help train machine-learning systems and to understand how they work. It got more than 800 million drawings from 20 million people in 100 nations on subjects ranging from cats to mugs, tables and chairs—mug handles, for example, pointed in opposite directions and chairs were drawn facing forward or sideways depending on the nation or part of the world they originated from.

While that's good and allowed computers to understand how the same object was picturised in different parts of the world, what was not acceptable was some of the conclusions the machines came to. The most common form of shoe, it appeared, was a pair of lace-up sneakers—while that's okay, what was not was the fact that women's high heels were not recognised as a form of shoe. Doctors, similarly, were associated with men, almost never with women. If two years on, we haven't progressed much from the time when Google's photograph app identified black people as 'gorilllas', it is because of a fatal flaw in any form of artificial intelligence. It reflects us, warts and all. The question then is, how do you code out our biases and, if you can, what do you replace that with? Till then, it is a safe bet that algorithms born out of a certain milieu will reflect its likes and dislikes even while professing to be neutral and objective.

ARMING DEVELOPMENT

THE SPURT IN GLOBAL ARMS TRADE MAY REFLECT AN ATMOSPHERE OF HEIGHTENED TENSIONS, BUT THERE IS A ALSO AN OPPORTUNITY IN THIS CHALLENGE

Peace dividend still a mirage

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DIPLOMACY IS IN retreat, with the world arms trade reaching a new, post-Cold War high—resulting in increasing security treats—and the huge inflow of migrants from the conflict zones. On the other hand, the significant initiatives by United Nations on achieving the Sustainable Development Goals by 2030 and the Paris Agreement on Climate Change to restrict global warming provide some rays of hope.

As a part of its peace operations, the UN Security Council has introduced a WPS (women, peace and security) agenda to explore the potential of women in peace-building and also to protect women and girls in conflict. In addition to that, 62 multilateral peace operations were conducted in 2016—including efforts by the UN, regional organisations and *ad hoc* coalitions of states. In this mixed global scenario, can peace, security and development initiatives withstand the global arms race, especially when arms trade has just hit its post-Cold War peak?

According to the *World Military Expenditure Report* released by the Stockholm International Peace Research Institute (SIPRI) in early 2017, global defence spending has risen for the first time since 2011, with the world spending $1.68 trillion on arms in 2016. This is in contrast to the trend in world military expenditure after 2011—after increasing continuously from 1998 to 2011, it had begun to plateau. It is also significant to note that India is one among the top five military powers in the world in terms of defence spending, behind the the US, China, Russia and Saudi Arabia. While the international transfer of arms has been growing, transparency in arms-transfer has been declining, SIPRI notes.

While the global military spending in 2016 was 2.2% of the world GDP, India spends around 2.5% of its GDP on military needs. Military spending in Asia and Oceania has risen by 4.6% in 2016 as compared to 2015, and now stands at $450 billion. The ongoing tensions in Asia—more specifically, between India & Pakistan and India & China—lets governments justify the need to modernise existing capabilities and also increase military expenditure. Even so, US military-spending is almost three times that of China.

Coming back to global arms trade, India was the top-ranked arms importer during 2012-2016. The other countries following India in the list of arms importers are Saudi Arabia, UAE, China and Algeria. Due to the demand from India, Saudi Arabia and other countries in Asia and Middle East, the international transfer of arms has reached its highest level since the Cold War. The volume of world arms trade was 8.4% higher in 2012-16 than in the 2007-11period. During the 2012-16 period, the US and Russia produced more than half of the world's arms.

India, the biggest importer of arms in the world, alone accounted for 13% of the total global arms imports in 2012-16. The rise in Indian imports is mainly due to the inability of the Indian arms industry to produce competitive, indigenously-designed weapons, despite the government mounting efforts under its Make-in-India initiative for the defence production sector. The major supplies come from Russia and China. The Asia and Oceania region together imported around 43% of global arms traded due to turbulence in the South China Sea.

As per SIPRI data, the US exported 33% of the arms traded, making it the biggest exporter of arms in 2012-16 period in the world. The other countries at the top are Russia (23 %), China (6.2%), France (6%) and Germany (5.6%). These five countries accounted for approximately 75% of international transfer of arms.

What determines defence spending? The perceptions of security and armed conflict are not the sole factors that determine the size of the defence budget. Recently, oil price has also become a significant factor in determining the size of the defence budget. The oil-price slump has compelled oil-exporting countries to cut their national budgets, including for defence, as oil revenues form 80% of their budgets. Saudi Arabia has downsized military spending not as a result of economic diplomacy, but as an offshoot of aggregate reduction in expenditure budget due to plummeting oil prices.

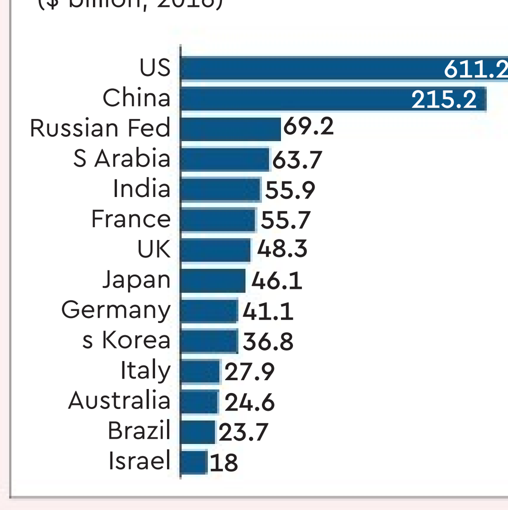
SIPRI researchers have highlighted that there is no evidence that increasing defence spending can lead to greater political and economic stability. The compelling questions here are what role does the State play in ensuring peace and resilience, and which kind of public expenditure—spending on a "security state" or on a "development state"—is most relevant for economic growth and development. What is the plausible link between defence spending and economic growth? A recent study, titled *Fiscal Policy, Innovation and Economic Growth: An Empirical Analysis of G20 Countries,* published by Levy Economics Institute of Bard College, New York (by Horst Hanusch, Lekha Chakraborty and Swati Khurana), revealed that in the context of G20 countries, for the period 2000-2012, innovation and R&D spending and public spending on human capital formation (especially health and education) mattered more for economic growth than the defence spending.

The 2017 Munich Security Conference "Post-Truth, Post-West, Post-Order" has painted a bleak picture, flagging that the international security environment is highly volatile than any other time since World War II. As rightly highlighted by Wolfgang Ischiner, the Chairman of Munich Security Conference (MSC), "international security is increasingly a problem and an opportunity".

We hope the world leaders will consider the crises to *fuite en avant* ("escape forward" as the French say, and as noted by former national security adviser Shivshankar Menon in his recent book, *Choices: Inside the Making of India's Foreign Policy*), seeing the "challenges as opportunities" to catalyse policies that are politically difficult to achieve in normal times and reap the peace dividend.

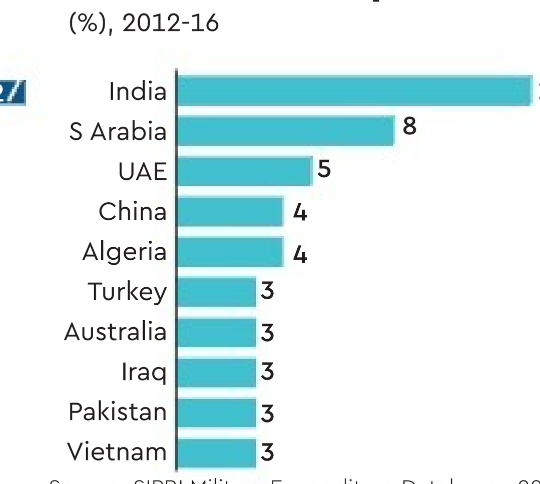
Leading countries in defence spending

($ billion, 2016)



Top 10 countries in world arms imports

(%), 2012-16



Source: SIPRI Military Expenditure Database , 2017

Lessons from trolls

Trying to intimidate your opponents is a sign of weakness. But that doesn't stop the online bullies

KARA ALAIMO

Bloomberg

IN RECENT WEEKS, many Americans have been astounded by the hatred some of their compatriots seem to harbour toward people of colour, immigrants, and anyone else who seems different. But as a woman who is regularly trolled for sharing her opinions, I have long understood that our country has a harrowing problem with hate.

I am a professor and I write about one op-ed a week, typically for *CNN Opinion* and *Bloomberg View*. My commentary focuses on politics and communication, so I've written about everything from how US president Donald Trump can communicate more effectively to why Cynthia Nixon should run for governor of New York. The abusive e-mails and tweets I receive in response aren't voluminous—they clearly come from a small fringe of my readers. But three things about them trouble me, and suggest trouble for the US.

First is the issue of gender. Although it is difficult to confirm someone's identity on the basis of an email alone, it appears that almost all of my hate mail comes from men. For example, more than 90% of these messages come from senders with traditionally male names. They often contain other cues that lead me to suppose the writers are men. For example, one Lee W. signed his vitriolic missive with *"husband, father and grandfather."*

And the language they use is rife with sexist slurs. As an example, when I criticised president Trump in a *CNN* op-ed for commenting on the French first lady's body, a Henry O. in Cleveland wrote, *"I'm sick of women or their pansy men who get offended over comments or jokes that they judge to be 'offensive.' Screw you, bitch."*

My experience is hardly unique: Research confirms that female writers get more cruel feedback than men. When *The Guardian* commissioned a study of the comments posted by their readers last year, its conclusion was clear: "Articles written by women attract more abuse and dismissive trolling than those written by men, regardless of what the article is about." Eight of the 10 writers who received the most abuse were women, even though the majority of the paper's regular opinion writers were men. (This same pattern repeats with race: Although most of the male *Guardian* writers were white, the two men who received the most abuse were black.) And while women are disproportionately targeted by trolls, men are more likely to be trolls, researchers have found.

The second thing that troubles me is that hate mail usually doesn't contain counter-arguments. Writers almost never try to explain why they believe I am wrong; instead, they attack me personally. (I sometimes need to reference *Urban Dictionary* to understand the earthy phrases they use.) For example, after I wrote commentary for *CNN* arguing that *Fox News* should have fired host Bill O'Reilly when allegations of sexual harassment against him were first raised, a Greg V. emailed, *"I bet ... you would be praying to have a famous rich guy call you hot anything."*

Third, my interlocutors often put me into categories. Because I worked in president Barack Obama's administration, they peg me as a raging liberal. For example, in March, I received an especially nasty slew of emails for my *Bloomberg* column arguing that Melania Trump should hire a press secretary. I didn't attack the first lady at all in the piece; I gave her the same advice I would have offered to Michelle Obama about how to improve her own and her husband's approval ratings. Indeed, the day after the column ran, Melania Trump hired a communications director. But my commentary was nevertheless read as a hit job (if these writers bothered to read it at all).

This suggests that many of the people writing to me don't have a problem with specific arguments. They have a problem with the fact that I have arguments at all.

Of course, you have to have thick skin to weigh in on contentious issues. An easy way to deal with these messages is to delete them. In fact, when I wrote a piece for *The Washington Post's* Monkey Cage blog, I received official guidelines indicating: *"You are writing for a general audience, who can be expected to be reasonably intelligent and reasonably interested in the world around them. (This excludes the commenters on articles. You can ignore them.)"*

But the reason my hate messages are too disturbing to ignore is because of what will happen to our country if we engage with one another this way. Trolls disproportionately target members of historically less powerful groups, as the *Guardian* study indicates. This abuse has a chilling effect on the broader national debate. A study published by the Pew Research Center last month found that 27% of Americans have declined to post something after seeing others harassed online. And an especially large share of women ages 18-29 (45%) have chosen to censor themselves after witnessing the harassment of others.

I am one of the lucky ones. The only time I have ever self-censored was while writing this column: I chose not to use the last names of the men I quoted out of fear of retribution.

But I have some advantages. As the *Guardian* research showed, factors such as race can also make people targets. A Pew study published last month found that black and Hispanic Americans are more likely than white Americans to be harassed online, and are far more likely to receive racial abuse. Fifty-nine percent of African Americans, 48% of Hispanics and 41% of whites say they have experienced online harassment. For women of colour, the problem is compounded.

Ultimately, trying to intimidate people you disagree with is a sign of weakness. The only brave thing to do is to debate issues on their merits. So, if you disagree with me, don't call me a beast. (MAGA Mike King on Twitter, I'm looking at you.) Tell me why I'm wrong.

LETTERS TO THE EDITOR

Privatisation of PSBs is no solution

In the backdrop of the solutions being proposed to revive the banking sector and tackle the NPA burden, privatisation of PSBs is not the solution. In the recent past, we have seen many private banks in the cooperative sector going bust and, thereafter, either being wound up or merged with some other bank. It is true that private banks can bring economic growth in the banking sector at a faster pace. But we cannot ignore the fact that these private banks operate with the sole motive of profit maximisation. Maximum profitability of private banks comes from speculation. PSBs are created out of public money. These entities are therefore duty-bound to extend all types of services to customers across categories. And what about social obligation? Every welfare scheme is implemented by government banks in a better way and these deal with a mix of people. A public sector bank is a must for serving the citizens of the country economically, profit coming second. PSBs are the social welfare delivery tools of the government, operating in far-flung and distant rural areas—where you may hardly see a private bank's branch. The large NPA of PSBs is no doubt a problem, but what makes us think that private banks can handle this better? They may not even give loans to entrepreneurs, thereby stalling growth. When the govermment is going for large scale financial inclusion, it will be very difficult for private banks to penetrate the unbanked areas of the country.

— Vinod C Dixit, Ahmedabad

Sindhu a hero

There is no doubt that PV Sindhu is the sports hero that the country needs. Shaina Nehwal was of course the trailblazer but Sindhu's medal run should inspire young girls and boys alike to take to sports.

— Sumona Pal, Kolkata

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Regd. No: DL -21048/03-05. R.N.I. No.26750/74. Printed and Published by R.C. Malhotra on behalf of The Indian Express (P) Limited and printed at The Indian Express (P) Limited Press, A-8, Sector-7, Noida - 201301 and published at The Indian Express (P) Limited, Mezzanine Floor, Express Building, 9 & 10, Bahadur Shah Zafar Marg, New Delhi-110002. Phone: 0120-6651500, Fax: 0120-4367933. (Cover price: Patna: Mon-Fri ₹6, Sat ₹9, Sun ₹11; Raipur: Mon-Fri ₹7, Sat ₹10, Sun ₹10)
Chairman of the Board: Viveck Goenka, Managing Editor: Sunil Jain, Deputy Managing Editor : Shobhana Subramanian* (*Responsible for selection of News under the PRB Act)

ILLUSTRATION: ROHNIT PHORE

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How RBI profit got depleted by demonetisation

By keeping the interest rate on Standing Deposit Facility at a level much below the reverse repo rate, RBI could have spent less and encouraged commercial banks to be less risk-averse, if not lazy

CENTRAL BANKS ARE not profit-making institutions. Nevertheless, they earn profits that are incidental to the nature of operations performed by them. Typically permitted by statutory arrangements, central banks have monopoly powers to issue currency notes, which form the bulk of their liabilities. They can create potentially large amount of currency liability without any cost other than the printing cost, which forms a small fraction of the total value of currency in circulation. Corresponding assets acquired by central banks—either domestic assets or foreign assets—earn income mostly in the form of interest, and this constitutes the major source of their income.

The bigger the size of a central bank balance sheet, the larger is the scale of income, unless there is a dramatic decline in interest rates. In developing countries, domestic assets typically earn higher return than foreign assets, as domestic interest rates are generally higher than foreign interest rates.

The choice of domestic assets and foreign assets is governed by the prevailing market conditions and external sector developments. If the demand for currency is met by domestic demand, central banks build up domestic assets, whereas central banks meet foreign demand for domestic currency by acquiring foreign assets.

Profits earned from central bank operations are typically transferred to the government, who is incidentally the owner of a country's central bank. In many jurisdictions, central banks have been assigned certain social responsibilities, and for this purpose they retain a portion of profit.

Of late, central banks are exposed to market risks, as they have to intervene in the domestic as well as forex markets as and when required. Hence, central banks do maintain some reserves, appropriated from profit, against unforeseen contingencies.

The Reserve Bank of India (RBI) has been transferring increasingly large and almost the full amount of its surplus income (i.e. profit) to the government of India since 2013-14, as recommended by the Technical Committee headed by YH Malegam. The amount transferred to the government dramatically dwindled to ₹30,659 crore in 2016-17, from a high of ₹65,876 crore just a year earlier, mainly due to demonetisation and its after-effects. This has critical fiscal implication, as the fiscal arithmetic is likely to be jeopardised in 2017-18.

According to the RBI Annual Report 2016-17, there is a large increase in expenditure on three counts:

- Printing of new notes following demonetisation;
- Distribution of such notes in every nook and corner of the country;
- Expenditure on the interest paid to commercial banks.

The first two reasons are understandable in the context of demonetisation of high denomination currency notes, which was more than 86% of the currency in circulation. The large increase in interest outgo deserves further elaboration.

RBI earns interest at repo rate or more when it lends to commercial banks under the Liquidity Adjustment Facility, or LAF (Marginal Standing Facility, or MSF, included). Similarly, RBI pays interest when it impounds excess liquidity under LAF at reverse repo rate or more, but less than the repo rate. If it conducts auction reverse repo to mop up excess liquidity, it pays close to the repo rate, more than the reverse repo rate. In 2016-17, net interest on LAF operations was negative ₹174.26 billion as against a positive income of ₹5.06 billion in the previous year.

If RBI opts for outright sale of government securities under Open Market Operations (OMO) to reduce surplus liquidity on a long-term basis, it loses interest that could have been earned by it by holding those government securities. As OMOs are constrained by the availability of government securities, RBI generally prefers to undertake more of collateralised operations under LAF, occasionally supplemented by OMOs as and when required.

After demonetisation, there was a sudden spurt in deposits in commercial banks, which turned commercial banks into an ocean of excess liquidity. Banks had little choice but to deposit this excess liquidity with RBI, as the demand for credit was otherwise sluggish prior to demonetisation.

> There was a spurt in deposits in commercial banks post demonetisation, which turned them into oceans of excess liquidity. Banks had little choice but to deposit this excess liquidity with RBI

RBI had to pay a huge amount of interest on such deposits, close to the repo rate, as excess liquidity was mostly mopped up by auction reverse repo. In fact, excess liquidity was so high that despite large reverse repo auctions, residual surplus at the end of the day—over and above the required Cash Reserve Ratio (CRR) balance with RBI—was also sizeable. In either case, the payment of interest was large due to impounding of liquidity in trillions on an enduring basis.

RBI reduced the corridor between the MSF rate and the reverse repo rate from repo plus/minus 100 basis points to repo plus/minus 50 basis points from April 2016 and further to repo plus/minus 25 basis points from April 6, 2017. As a result, while MSF rate was reduced by 75 basis points, the reverse repo rate was hiked by a similar magnitude. This has benefited commercial banks, but depleted the profits of RBI by increasing the interest outgo significantly under reverse repo post demonetisation as well as reducing earnings under repo before demonetisation.

The cost was not limited to RBI's interest outgo alone. The government had authorised the issuance of treasury securities under the market stabilisation scheme (MSS) as RBI was not having enough government of India securities to undertake reverse repo operations in multiple of trillions. The government has to bear the cost of such issuance of securities, which has implication for fiscal discipline as well.

In this context, the amendment of the RBI Act to institute a Standing Deposit Facility assumes greater importance. The Urjit Patel committee on the new framework of monetary policy had recommended to do so way back in 2014. This would have obviated the issuance of treasury securities under MSS and the attendant cost associated with it. Second, the interest rate of a Standing Deposit Facility would have been delinked from the repo rate. By keeping the interest rate on Standing Deposit Facility at a level much below the reverse repo rate, RBI could have spent less and encouraged commercial banks to be less risk-averse, if not lazy.

Tractor users want car-like services

YUKTI ARORA

Manager, JD Power

Price is no longer the only driver of purchase in rural India

CUSTOMER EXPECTATIONS IN rural India are evolving and experiences are being compared across categories. JD Power's 2017 India Tractor Product Performance Index and Customer Service Index studies reveal that as rural consumption shifts from necessities to premium products—cars, two-wheelers, TV and smartphones—tractor OEMs and dealers need to shed their beliefs on how to approach this customer segment.

Value propositions to attract these new-age buyers need to focus not only on the product's functional benefits, but also on addressing the requirements pertaining to the nature of application, type of land or soil, variety of implements used and individual needs of a particular demographic segment. Although rural incomes rely heavily on agricultural cycles and the customer remains price-conscious, low purchase prices are no longer the main driver for new product consideration.

As tolerance levels towards poor quality of products and services plunge, tractor OEMs and dealers need to work to win back customers' trust. Service defection rates are rising among tractor owners. Such customers are gravitating towards unauthorised or local servicing options even within the warranty period. Reaching, acquiring and retaining today's rural customers hinges on the adoption of unique tactics targeted at transforming customers' day-to-day interactions with the brand.

While tractor manufacturers improving product mix, their dealer network can assist them in brand-building efforts by instituting some key measures at every customer touchpoint, including pre-sale, at the point of sale, while initiating the service, and even post-servicing or repair. They can support the OEMs by maximising the value offering to the end-user.

> Tractor dealers must play a greater role in supporting OEMs to manage liquid customer expectations and help deliver a personalised brand experience

Tractor OEMs and dealers also need to find unique ways to promote their products. Their offerings should make it easier for farmers to choose the right model based on specific requirements. One way is detailed demonstrations that explain product features and specifications, and educate customers on the correct usage of tractors for respective applications. In fact, our study found that customers who received a demonstration record a lower incidence of problems (47%) with their tractors, compared to those who did not (52%). Despite the benefits, however, the data shows that the frequency of offering demonstrations has dropped from 72% in 2016 to 61% this year.

In order to reap a bountiful harvest for their business, dealers need to go the extra mile to assure customers of the brand's continued support. Dealers should not only be willing to accommodate repair and servicing schedules as per customers' convenience, and on-site where necessary, but should also contact tractor owners to remind them when their service visit is due. But this is not a common practice, with only 7% of tractor owners stating that their dealer contacted them to arrange for a routine service appointment, down from 13% last year.

Lastly, success in this challenging sector requires the players to shift focus from aggressive selling and maximising short-term revenue, to providing farmers with the highest return on their investment. This will eventually help them establish credibility and scale-up profitably by creating a differentiated position in customers' mind space. An example of providing such an elevated service experience is returning the tractor to customers in a cleaner condition after servicing. Again, just 35% of tractor owners surveyed in this year's study state that their tractor was returned in a condition that was cleaner than when they took it in for servicing, a decrease of 6% from 2015.

With rural India being increasingly shaped by urban sensibilities and customers in the hinterland being exposed to higher quality of products and services, experiences in one industry are being effectively displaced by experiences in another. To manage these liquid customer expectations, the tractor industry needs to better understand their target audience whose experiences are being shaped by their interactions across sectors.

THREE YEAR ACTION AGENDA

NITI Aayog can accelerate growth

MSME sector can be a major partner in the process of inclusive growth

K SRINIVASA RAO

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WITH THE FORMATION OF the National Institution for Transforming India (NITI) Aayog on January 1, 2015, as a premier think tank, the planning process witnessed a seminal change. The wrapping up of the 12th Five Year Plan 2012-17 marks the shift with the onset of the Three Year Action Agenda (TYAA) FY18-20 articulated by NITI Aayog. It will be further reinforced with the Fifteen Year Vision and Seven Year Strategy paper that are in making at NITI Aayog. Growth aspirations are built around inclusive participation on the premise of 'Sabka Saath, Sabka Vikas' (participation of all and development of all). The three sets of policy papers, 15 years, 7 years and 3 years, will be the reinforced pillars of development to pursue accelerated growth agenda in the years to come. The comprehensive TYAA triggers a coordinated action of not only all ministries/departments at the Centre, but also a meaningful and constructive participation of the 29 states and 7 Union territories. The outlined agenda needs suitable actionable strategies at micro points to realise the contemplated outcomes.

The economy is on a firm-footing with a sustained GDP growth of 7%-plus in the last three years. Inflation is hovering below the targeted levels. Interest rates are driving southwards. Exchange rate is competitive. Current account deficit is cruising towards historic lows. The economy is well poised for 8%-plus growth in the near term. Fiscal deficit has been cut from 4.5% of GDP in 2013-14 to 3.5% in 2016-17, while revenue deficit has been reduced from 3.2% to 2.1% of GDP over the same period. In order to continue fiscal prudence, fiscal deficit is set to reach its eventual target of 3% of GDP anchored under the Fiscal Responsibility and Budget Management (FRBM) framework by 2018-19, while revenue deficit is expected to fall to 0.9% of GDP by 2019-20.

Doubling of farmers' income by 2022 is based on a combination of efforts to increase farm productivity and provide a concrete framework of remunerative pricing of agriculture output. Efforts include use of more land for farming by adopting better methods of contract farming, connecting hinterland with roads and digital connectivity, and reform of Agricultural Produce Market Committees to enhance reach of markets for farmers. A planned diversification of farming into high-value commodities such as horticulture, dairying, poultry, piggery, small ruminant husbandry, fisheries and forestry will be the path of growth. Consistently reduced landholding is cause for concern. According to the 2010-11 Agricultural Census, 47% landholdings had become less than half a hectare in size. These holdings are too small to support all conceivable needs of a farming family. Hence, instead of farming, they seek alternative sources of income. To avoid such drift, a modern land-leasing law will be introduced so that it balances and protects the rights of the tenant and landowners, and works as a potential solution.

The advancement of technology, entry of artificial intelligence and use of robots in manufacturing and services sector has creates fears of job losses. Jobless growth has been engaging the attention of policy-makers. Despite best efforts, the unemployment rate ranges between 5-8%. If the demographic dividend is to be harnessed, creating well-paid jobs has to be the priority. According to the NSSO Employment-Unemployment Survey (2011), 49% workforce was employed in agriculture, but the sector contributed only 17% to India's GDP at current prices. Also, in 2010-11, firms with less than 20 workers employed 72% of India's manufacturing workforce but contributed only 12% of manufacturing output.

Services sector is no different. According to the 2006-07 NSSO survey of services firms, the 650 largest enterprises accounted for 38% of services output but only employed 2% of services workers. Put another way, the remaining services firms employed 98% of the workforce but produced only 62% of the output. Such a trend leads to job shrinkage. Engaging well-paid low- and semi-skilled workers is essential to increase employment opportunities. All agencies should work together to improve manufacturing sector and 'Make in India' needs to be aggressively pursued.

Acceleration of growth is contemplated by identifying potential growth areas. Putting them into action in various sectors of the economy is essential. These potential focus areas include infrastructure, digital connectivity, PPPs, energy, science and technology, creation of an effective innovation ecosystem, among others. The development of transport and connectivity infrastructure, including roadways, railways, shipping and ports, inland waterways and civil aviation, etc, should receive abundant attention across geographies. Continuation of digital connectivity will assume greater significance and shall be an important driver of economic growth. In order to leverage efficiencies of digital, it is essential to develop a physical digital infrastructure network that is accessible to all. It should also create a host of software-driven services including government services that can be provided digitally. Information, communications and technology will continue to be the backbone of the development of the country.

While TYAA has set the tone for growth, it is essential to work out specific strategies to develop entrepreneurial culture across unit levels. Monitoring progress is equally important. In the process, those seeking jobs should become employers of tomorrow. As part of 'ease of doing business', entrepreneurs should be encouraged to set up units under MSME. If growth agenda is to be pursued in the next three years, MSME sector must be provided sufficient bank loans, skilled and semi-skilled workforce. The sector consists of 36 million MSME units, and employs over 80 million people. Though MSME units produce more than 6,000 products, their employing potential is still very low. It contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to exports from the country. In fact, the MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. Agriculture, agro processing and manufacturing will continue to be the mainstay of the economy. Taking cue from the TYAA of NITI Aayog, all economic intermediaries will have to rise above their current levels and provide their best to derive the full benefit of the action agenda.