GS3: Economic Development

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Disclaimer: These notes are for guidance & reference only, based on our study, experience, & memory. Some fun mnemonics/terms may be included just to aid recall—no offence is intended. Please use your judgment and keep them updated over time.

<u>About Us</u>

Madhav Agarwal and Ratnesh Agrawal *— two friends, one mission, and a bond forged through shared dreams. From school classrooms to college corridors, their journey was always side by side. United by a common goal of cracking the UPSC, they spent over 300 hours on video calls — dissecting concepts, solving doubts, and building the notes that would become the backbone of their preparation.*

Madhav went on to secure AIR 211 in CSE-2023 and then soared to ***AIR 16 in CSE-2024****. Now set to join the* ***Indian Administrative Service****, he is living proof that quiet determination, when sustained with laser focus, can turn even the toughest dreams into destiny.*

Ratnesh, who reached the ***UPSC interview stage in CSE-2023****, chose a different but equally powerful path. With the same intensity and sharp thinking that marked his preparation, he stepped into the world of real estate. Today, he's a* ***dynamic builder in Indore*** *— shaping skylines and lives with a vision rooted in public purpose and entrepreneurial fire.*

These notes are a result of their shared struggle, deep friendship, and uncompromising pursuit of excellence — a ***gift to future aspirants****, from two dreamers who refused to settle for average, each leaving a mark in his own way.*

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Note: These notes are the result of a group effort over the past few years. You'll find pink (or other coloured) highlights at the start of many topics—these usually mark key terms, definitions, quotes, etc., based on our memory cues at the time. While most content is updated, some sections—especially in **GS3**—may contain older material, so do cross-check and update where needed. Don't get confused by the highlights; use what's useful and feel free to build your own notes from them.

To assist with updates, we've added a **Current Affairs & Value Addition** section at the end of the notes. It can help you **enrich your answers** and also serves as a reference on how to make concise, effective short notes.

GS-3 Economic Development

Syllabus:

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Inclusive growth and issues arising from it.

Government Budgeting. Macroeconomy

Effects of liberalization on the economy

Changes in industrial policy and their effects on industrial growth.

Infrastructure: Energy, Ports, Roads, Airports, Railways etc.

Investment models

PYQs Categorised As Per Syllabus

1. **Issues related to Planning**
    a. 2018: NITI Aayog vs Planning Commission; Difference in planning strategies
    b. Read NITI Aayog's Report towards: Health Reforms (also cover nutrition and safe drinking water), Poverty, Employment
    c. Main objective of current planning;
2. **Issues relating to Growth, Development, Poverty, Employment and Unemployment**
    a. **Growth, Developement**
        i. 2020- Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP?

1. Trend and reasons for differences in projected growth vs actual growth
   - ii. 2019: Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments.
   - iii. Comprehensive structural reforms undertaken to improve the Indian economy since 1991? Need for further reforms?
   - b. **Employment, Unemployment (cover labour reforms ans skill dev)**
     - i. 2016- How G led to reduction in formals sector employement? Increased informalisation detrimental to indian economy?
     - ii. 2015: Jobless growth: Do you agree? Give arguments
     - iii. 2015- Success of make in india depend on success of Skill india and radical labour reforms- Discuss
     - iv. 2014: "While we flaunt India's demographic dividend, we ignore the dropping rates of employability." What are we missing while doing so? Where will the jobs that India desperately needs come from? Explain. [Dropping rates of employability: Problems? From where can we create jobs? (context: flaunt India's demographic dividend)]
     - v. Comparison: Rural and urban unemployment in India; Difference in strategies to tackle them?

3. **<u>Inclusive Growth</u> (IG)**
   - a. 2020: Explain intra-generational and inter-generational issues of equity from the perspective of inclusive growth and sustainable development.
   - b. 2019: It is argued that the strategy of inclusive growth is intended to meet the objectives of inclusiveness and sustainability together. Comment on this statement.
   - c. 2016: What are the salient features of 'inclusive growth'? Has India been experiencing such a growth process? Analyse and suggest measures for inclusive growth.
   - d. 2014: Capitalism: Cons? Can we adopt capitalism to bring inclusive growth?
     - i. Measures taken for tribals
     - ii. Inclusive measures initiated by GOI and their effectiveness wrt Informal workers and MSME
     - iii. North East Region's development: Challenges, Measures taken and needed?
   - e. Financial inclusion
     - i. 2016- PMJDY. Agree with this for financial inclusion of poor? Give arguements
   - f. 2001: Poverty: How should poverty alleviation programmes to constructed

4. **<u>WTO, International Trade, LPG</u>**

a. 2013- Impact of liberalization on companies owned by Indians? Performance vis-a-vis MNCs
b. 2012- Why is international trade perceived to have failed to act as an “engine of growth” in many developing countries including India?
c. 2009- Evolving India’s stand at WTO negotiations such that it is diluting its stand on agriculture issues to pursue perceived gains in services

5. **Infrastructure Energy, Ports, Roads, Airports, Railways, etc.**
    a. General Questions:
        i. Infrastructure bottlenecks continue to stifle the economic growth in India
    b. 2016- Smart cities and their relavance for urban dev? Will it inc rural-urban differences? Give arguements for smart villages in light of PURA and RURBAN mission
    c. *No question on Roads, Ports, Railways as on date, therefore cover very basic stats, general challenges, schemes, measures taken (cover all these from India@75)*
    d. 2014: National Urban Transport Policy: Moving people and not moving vehicles; Critically discuss their success
        i. Roads transport: Ails, remedies, Status? MV Act?
    e. **Energy Policy and Sources - Conventional, Renewable and Alternative Energy Sources**
        i. General Questions on Energy:
            1. 2018: “Access to affordable, reliable, sustainable and modern energy is the sine qua non to achieve Sustainable Development Goals (SDGs)”.Comment on the progress made in India in this regard.
            2. 2017: Current policies in framework ‘transform, energize and clean India’
                a. PoA: Union Budget theme to be read and collect proposed measures
            3. 2013: Write a note on India’s green energy corridor to alleviate the problem of conventional energy
            4. Need for Energy security? Is India transformed into an ‘Energy-independent Nation’?
        ii. Solar Energy
            1. 2020: Describe the benefits of deriving electric energy from sunlight in contrast to the conventional energy generation. What are the initiatives offered by our Government for this purpose?
            2. 2015: To what factors can the recent dramatic fall in equipment costs and tariff of solar energy be attributed? What implications does the trend have for the thermal power producers and the related industry?

    iii. Conventional Energy
        1. Own sources of petroleum crude in India: domestic vs importing? Relevance? Merits Demerits
    iv. Renewable & Conventional Energy
        1. Energy efficiency- 2016- Current status and targets of RE in country? Imp of National Prog on light emitting diode (LED)
        2. Renewable Energy: Progress, Achievements till now; Renewable energy as a viable option for India? Pros and cons (2012)
        3. Status & prospects of non-conventional sources of energy relevant for India (study what comes under non conventional apart from RE)
            a. *India has moved up two positions to rank 74th on a Global 'Energy Transition Index (ETI)' released by WEF*
            b. *Challenges:*
                i. *Capacity Issues: It would take 18 solar or wind projects to generate the same quantity of power as one thermal plant. More plants leads to higher admin overheads*
                ii. *Per unit cost: The average cost per MW for a thermal plant is about 25% lower than that of a solar plant*
    v. Measures taken:
        1. National Common Mobility Card

6. **Investment Models**
    a. 2016, 2013: Pros and cons of PPP Model (wrt developments of Airports asked in exam)
        i. Collect current examples wrt different investment models
    b. 2014: Explain how Private Public Partnership arrangements, in long gestation infrastructure projects, can transfer unsustainable liabilities to the future. What arrangements need to be put in place to ensure that successive generations' capacities are not compromised?
    c. 2020: Explain the meaning of investment in an economy in terms of capital formation. Discuss the factors to be considered while designing a concession agreement between a public entity and a private entity.
        i. Cover Mains 7.5.2
7. **Effects of liberalization on the economy, FDI**
    a. Before & After LPG Reforms: wrt Planning
        i. Cover Neo-liberal theme from NB, NCERT and VJUPSC
        ii. Cover +ves of LPG: Reduction in poverty, Growth in forex reserves
    b. Atma Nirbhar Bharat: Liberalisation vs Protectionism
        i. And that is why the outlook of Atmanirbhar Bharat (self-reliant India) is important for the world. This is not about protectionism; it

is about building greater strengths at home to **play more effectively abroad**. **(eg: Hydrooxycholoro drug, med team support,**

c. 2016- Justify need for FDI for dev of indian economy. Why gap btw MOU signed and actual FDI? Suggest remedial steps for increasing actual FDI in india?
d. 2014-FDI in defence sector? Influence on defence and economy in short and long run?
    i. Cover angle of self reliance in defence sector
e. 2013-impact of FDI entry into Multi-trade retail sector on SCM in commodity trade pattern of the economy
f. 2013-Reasons for FDI not picking up in Multi-trade retail sector
g. FDI: Trend? Status and performance of FDI post 1991

8. **Changes in industrial policy and their effects on industrial growth**
    a. 2015- Impediments in marketing and supply chain management industry? Can e-commerce help?
    b. 2014: Reasons for direct jump to services sector? Reasons for the huge growth-services vis-a-vis industry? Can India become a developed country without a strong industrial base?
    c. 2016- Account for the failure of **manufacturing sector** in achieving the goal of labour-intensive exports rather than capital-intensive exports. Suggest measures? (focus on manuf sector)
        i. Labour
    d. 2016-“Industrial growth rate has lagged behind in the overall growth of Gross- Domestic-Product(GDP) in the post-reform period” Give reasons? How far the **recent changes in Industrial Policy** are capable of increasing the industrial growth rate?
    e. 2015- SEZ question
    f. 2013-Challenges to implement CSR in right spirit? Should it be mandatory?
    g. Reforms in Industrial Policy since independence and reforms required
        i. Refer Drishti IAS Link above
    h. Current relevance of public sector? Current policy of GOI? Contribution of PSEs?
    i. **Disinvestment notes (Mains 365 Pg 40) - General Pros and Cons**
        i. https://www.drishtiias.com/to-the-points/paper3/strategic-disinvestment-1
        ii. Need to factor their social role in their evaluation matrix
        iii. 15th FC - NK Singh - suggested to ‘incentivize’ state govts. to disinvest from their myriad state PSUs
        iv. Conclude that we need balance of pvt. and public
9. **Macroeconomy: Monetary Policy, Inflation**

   a. 2018: Impact of protectionism and currency manipulations around the world on macroeconomic stability of India
   b. Review of MPC since 2016? Success? Failuers?
   c. GOI measures to control inflation: General, Specific
   d. Surge of Gold demand and impact on BoP and currency? Merits of Gold Monetization Scheme
10. **Macroeconomy: Public finance, Government Budgeting, Taxation**
   a. 2020: Explain the rationale behind the Goods and Services Tax (Compensation to States) Act of 2017. How has COVID-19 impacted the GST compensation fund and created new federal tensions?
   b. 2019: GST: Taxes subsumed into it? Revenue implications since July 2017? Current problems and solutions?
   c. 2019: Challenges to public expenditure management in context of budget making during the post liberalization period
   d. Imp changes in LTCG/DDT in Budget?
   e. Tax expenditure? How housing sector influences the budgetary policies of the govt.?
   f. 2013: FRBM: Need? Features? Effectiveness? Steps to lower the fiscal deficit?
   g. Does reduction in fiscal deficit necessarily assure reduction in inflation?
   h. 2016- Women empowerment needs gender budgeting. Requirements and status of GB in India?
11. **Mobilization of resources, Financial Intermediation (Banking, Insurance, Capital Markets, External Resources), Budgeting**
   a. 2012: Domestic resource mobilization, though central to the process of Indian economic growth, is characterized by several constraints? Explain
   b. 2016: Public Savings: Saving Rate? Is it most effective of India's potential growth? Importance? Measures to raise volume of the same? What are other factors for India's potential growth
   c. NPA Issues: Status, reforms required
      i. Cover banking sector reforms suggested by various committees

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Framework to form answers

- Mrunal Sir's 6 pillar approach
- GDP approach - C + I + G + X - M
- Syllabus approach
- Temporal theme - before 1991 reforms and post 1991
- Sectoral analysis: Agriculture, Services, Manufacturing

- Impact Analysis on various factors such as: Money supply, inflation, export, crowding out or not, fiscal deficit, future taxes/revenues of govt, exchange rate, credit rating,
- Use stakeholders to analyse challenges : Regulator (RBI/SEBI), Govt, Household, Businesses, Global
- Saving, Investment, Consumption Angle
- Make a circular flow diagram: Pandemic lead to fall in income levels >>>> Led to fall in demands >>> Job losses >>> Further fall in demamds
- Macro-economic factors:
    - Inflation
    - Capital flows,
    - Employment,
    - Growth Rate, GDP,
    - Fiscal deficit
    - Current account deficit
    - Forex rates

Infrastructure - Others

Infrastructure = set of basic facilities that help an economy to function & grow such as energy, irrigation, roads, railway & telecommunication

Category	Sectors granted 'infra' status by FinMin → Dept. of _ _ _ _ _ _ _ _
Transport & Logistics: परिवहन और रसद	- Roads and bridges, Ports, Shipyard, Inland Waterways, Airport, Railway, tunnels, bridges, Transport, Logistics Infrastructure. - 2019-Feb: Commerce Ministry released 'Draft National Logistics Policy' ~~But it's 'draft' so we need not lose sleep.~~
Energy	Electricity, Oil, Gas
Water & Sanitation	Water supply & treatment, Sewage/Solid Waste Management, Irrigation
Communication	Telecommunication
Social & Commercial Infrastructure	- Hospitals, Education Institutions, Sports Infrastructure, Tourism infrastructure -hotels, ropeways and cable cars etc. - Industrial Parks, food parks, textile parks, SEZ etc. - Cold storage, Soil-testing laboratories - Affordable Housing

Relation between infrastructure & economic development

Studies undertaken by the World Bank show that 1% increase in investment in the stock of infrastructure leads to a corresponding 1% increase in the GDP of a nation.

As per industry estimates- India need USD 6 trillion in infra btw 2016-2030 for positive growth trajectory

Govt Measures

- National Infra pipeline (2019-2025)
  - Over 102 lakh crore inv- C:S:pvt- 39:39:22
  - Sectors: Energy (24%), Roads, Urban Infra, Railways, Irrigation, Rural Infra, Communication, Social Infra, Others (in decreasing %)
  - Inclusion of social infra along with physical infra
  - Roads,housing,rail,RE,Rural,digital,Health,Education,Port
- India Infra finance corp-NBFC

Imp of logistics (use in any infra topic wrt trade)-

- Today logistics accounts a major cost in supply chain and streamlining that -will enhance trade and connectivity in India when inter-state trade accounts for nearly 54% of GDP.
- The cost of logistics remains high i.e. 13-14% of GDP as compared to USA 9-10%
- Skewed modal transportation mix with 60% of freight moving on roads. It is significantly larger than in key developed economies.
- Govt- Logistic sector has been given infrastructure status in 2017
- Using **Green Corridors** concept of EU to slash our logistics costs as % of GDP to 10% from 13-15%

Roads/Surface Transport

- The road sector in India accounts for the largest share in the movement of both passengers and freight.
- Targets
  - Increase connectivity by expanding the road network through Bharatmala Phase I, PMGSY, and doubling the length og NHs to 2 lakh km from current 1.22 lakh km by 2022-23
  - As a signatory to the Brasilia Declaration, reduce the number of road accidents and fatalities by 50 per cent by 2020
- SDG 3, 7, 9, 11
- Issues:

    - Accidents and safety concerns: With only 1% of world's vehicle we account for 11% of global deaths in road accidents (WB Report) - Loss f 7.5% of GDP - No. of accidents highest in the world
    - Cost escalation for roads: Delays in acquiring land can affect project costs as the average cost of land has escalated from Rs. 0.80 crore per hectare during 2012-13 to Rs. 3.20 crore per hectare during 2017-18.
    - National Highways accounting for 2% of network carry 40% of road traffic — Shows that they are overstrained
    - High cost of maintainence of current infrastructure
    - Others: Env clearances; Presence of fraudulent and corrupt practices by Indian contractors, Untimeliness in awarding contracts
- Measures Taken
    - Hybird Annuity Model to implement highway projects
    - Tax exemption given in bonds issued by NHAI
    - Setu Bharatam Programme
    - Identified development of 2,000 km of coastal roads
    - Bharatmala Pariyojana which is expected to provide NH linkage to 550 districts
    - 100% FDI in road sector
    - Bhoomi Rashi Portal of MoRTH to fast track land acquisition
    - Fast Tags - to speed up movement; Linkage with E-bill is also under dev
    - Rohtang Tunnel which cuts Leh to Manali distance by 46 km renamed as Atal Tunnel
    - Motor Vehicle Act 2019
        - Increase penalties to act as a deterrent against traffic violations
        - Cashless treatment of road accident victims during the golden hour (first 1 hour after accident)
        - National Road Safety Board and Motor Vehicle Accident Fund to be constituted by CG
        - Terms of Third Party Insurance are friendlier
        - Guidelines for protection of Good Samaritan
    - Transborder Connectivity: BBIN, IMT Highway, Kaladan project
    -
- Way Fwd:
    - India @ 75
        - India should begin with earmarking 10 per cent of its annual budget for road and highways for maintenance
        - Introduce vocational training courses on road construction in Industrial Training Institutes (ITIs).
        - Earmark 0.1 per cent of MORTH's annual budget for R&D
        - Complete targets for rural connectivity
    - Rakesh Mohan Committee

- Roads should not be looked at in isolation, but as part of an integrated multi-modal system of transport eg: Tie up with DFCs
- Enhance the availability of public sector funding as pvt will confine themselves to viable projects only

Dedicated Freight Corridors

- DFC project involves the **construction of six freight corridors traversing the entire country (refer infographics).**
  - DFC is a **rail route created for freight** (goods and commodity) transportation.
  - Purpose of the project is to **provide a safe and efficient freight transportation system.**
  - DFCCIL was established by Centre in 2006 as a **dedicated body to implement the project.**
  - Freight corridor project of one of the largest railway infrastructure projects and is being implemented at a cost of ₹ 81,459 crore.
- **Benefits of DFC**
  - **Reduce logistic cost** which in turn would enhance the competitiveness of Indian economy.
    - At present the logistic cost is about 14% GDP which is 30-40% higher than the global benchmarked logistics cost.
    - India aims to bring down logistics cost to below 10% of GDP
  - **Boost to the industrial regions**
  - **Help the Railways to regain the market share** lost to private road transport over the years.
  - **Faster speed of freight movement** which will allow freight trains to travel at 100 kmph (current average is 23.6 kmph).
  - **Reduce congestion at various terminals** and junctions thereby reducing the air pollution.

Railways

- IR is the largest passenger (1,150 billion-passenger km in FY17) and fourth largest freight (620 billion net-tonne km in FY17) transporting railway system globally;
- India has approx 68000 km railway line
- Share in transportation of surface freight has declines over the years to 33%
- Targets (India @ 75)
  - Increase the speed of infrastructure creation from the present 7 km/day to 19 km/day
  - Achieve "100 per cent" electrification of broad gauge track
  - Enhance service delivery, achieving 95 per cent on-time arrivals
  - Increase the share of non-fare revenues in total revenue to 20 per cent
- Issues:
  - Finances are in poor state: as evidences by operating ratio of > than 95%, Increase in staff costs are outpacing the growth in traffic revenues (experts also feel that this op ratio is under-reported where actual ratio is >110%)
  - Dependence on coal: Close to 50% of freight revenues from coal and in the background there is increasing shift towards renewable energy which may hurt railways further (overall Railway passenger:freight business is approx 70:30)
  - Congested networks: Over-stretched infrastructure with 60% plus routes being more than 100% utilized

- Organisational structure: Delays in decision- making, inadequate market orientation
- Internal generation of resources: Negligible non-fare revenues and high freight tariffs have led to a sub-optimal freight share. The lower relative cost of transporting freight by road has led to a decline in the share of the railways
- Safety and poor quality of service delivery: Accidents, quality of food, cleanliness
- Railway has budget expenditure of **1.6 lcr** where as Ministry said that it needs **50 lcr** to complete projects

- Measures taken
    - Dedicated freight corridors - will provide relief to Golden Quad
        - West Corridor (1504 km): From Dadri (UP) to J.Nehru Port Trust MH will pass thru HY, RJ & GJ
        - East Corridor (1856 km): From Ludhiana (PJ) to Dankuni (WB) via HY, UP, Bihar, JH
    - 2021 - **National Rail Plan:** Increase the modal share of Railways from 27% currently to 45% in freight by 2030; Railways will be using solar power in a big way to achieve Net Zero Carbon Emissions by 2030; 100% electrification by 2024, Engage with the private sector in areas like operations and ownership of rolling stock, development of freight and passenger terminals, etc
    - Integrated cadre known as Indian Railway Management Service; Aim: Move for departmental approach to functional approach
    - First Railway Commando Battalion 'CORAS' formed to tackle terrorism & naxalism
    - High speed train between Mumbai-Ahmedabad corridor
    - "Mission Zero Accident"
    - Kisan Rails, Fruit Trains
    - Cabinet approved productivity Linked bonus to railway employees
    - Railways will use AI to catch criminals by installing CCTV and facial recognition
    - Japan and Korea have been roped in to improve the safety performance of Indian Railways.
    - 5 Mhz spectrum in the premium 700 MHz 5G band was allocated to Railways to develop modern signalling, train protection systems, IoT based remote monitoring of coaches via CCTV
- Way Fwd
    - India @ 75
        - Expedite the process of establishing the Rail Development Authority (RDA), already approved by the government
        - Revisit IR's pricing model to make the passenger and freight segments sustainable

        - Ensure that the dedicated freight corridors (DFCs) and the Mumbai-Ahmedabad High Speed Rail (MAHSR) are completed on schedule
        - Monetize land resources with the railways, particularly through developing non-railway revenues such as through retail or other activities.
        - Eliminate level crossings and cattle crossings and fence railway tracks in areas with high levels of activity to prevent accidents
    - Bibek Debroy Committee
        - Establishment of Independent Regulator
        - Private entry into running both freight and passenger trains in competition with Indian Railways should be allowed (led to Privatisation of Railways - refer below)
        - Expansion of Indian Railways manufacturing company
        - Streamline recruitment & HR processes
        - Investment Advisory Committee to be set up for raising resources for investment
    - As per **Economic Survey**, 1 rupee push in the railway sector would have a forward linkage of increasing output in other sectors by Rs. 2.50
    - Need a comprehensive review of financial state of Railways
- Privatisation of Railways
    - **Proposal**: 151 (5% of 2800) trains would be operated by private sector with an aim to introduce new travel experience for passengers used to travel via aircraft or AC buses
    - Background: Just like we have private buses on road, private airlines flying, private sea ports, thus running of private trains is leveraging additional of existing infrastructure (and not privatisation of railways); Global examples of USA, Japan shows reduced accidents and increased efficiency
    - Pros: 68k rail route can be monetized; Private operators would raise the level of their offering; Quote other benefits of privatisation
    - Cons: More attractive parts are opened for the pvt. sector; Might lead to dual control and split responsibility situation; Increased fares; Conflict of interest as M/o railways will be policy setter and competitior (need for independent regulator); Social welfare concerns;
    - Way Fwd: The need of the hour is to find a balanced solution that would incorporate the pros of both private and government enterprises and enhance the image of Indian Railways as it continues to serve the world's largest democracy.

Civil Aviation

In the last decade, the Civil Aviation sector has grown at a phenomenal pace. By 2020, India will be 3rd largest aviation market.

Challanges

- India's ATF excise and VAT (40% cost of airlines) among the highest in world- profitability hurt, airline balancesheets very unstable(Kingfisher, Jet airways)
- Predatary pricing by some airlines to wipe out competition
- Passenger safety issues
- High charges at private airports- 200 ka samosa
- Airport dev issues- Air crash at Kerela due to dangerous landingb strip
- Air India- unsustainable subsidies to keep going, difficut to privatise

Govt efforts

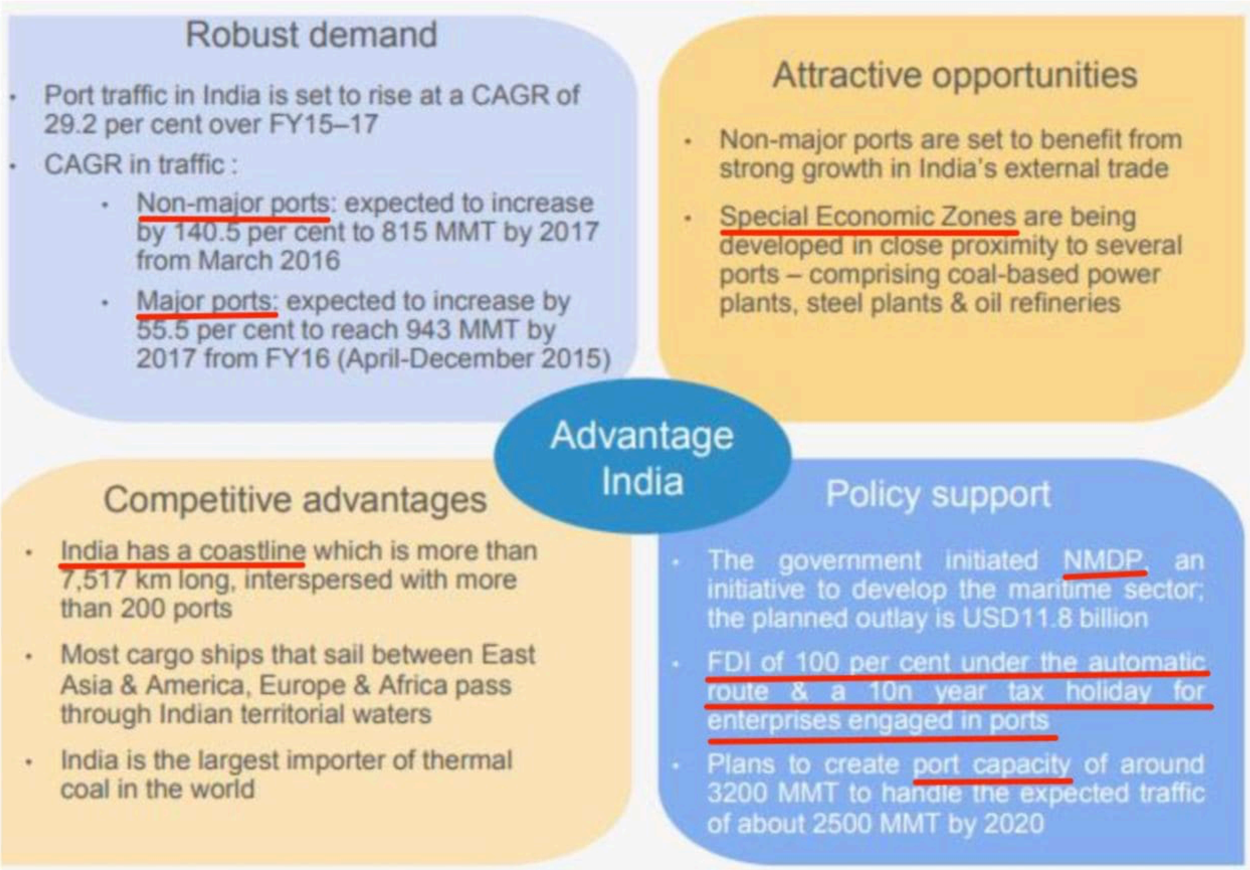
- National Civil Aviation Policy, 2016
    a. Regional Connectivity Scheme: Revival of airstrips/airports as No-Frills Airports, more airports in NE
    b. Bilateral Traffic Rights: Open Sky Agreements on a reciprocal basis with SAARC countries and countries located beyond 5,000 km from Delhi- these countries will have unlimited access, in terms of number of flights and seats, to Indian airports, leading to increased flight frequencies.
    c. Ease of Doing Business: A single window for all aviation related transactions, complaints, etc. More focus on ease-of-doing business as government plans to liberalise regime of regional flights.
        i. Infrastructure Development, PPP for Airports- better mgmt and service
- Udaan scheme(Ude desh ka aam nagrik)- Capping of fare to Rs.2500 for one hour flights(middle class - hawai chappal -hawai yatra karenge)
- Build more airports- NABH(next geb airports for bharat) Nirman

Ports, Shipping and Inland Waterways

Intro- 7500km with 200+ ports vital role in trade. Maritime transport handles 90% by volume and 70% trade by value

Potential

- India emerging as a new hub of manufacturing, which needs well developed ports- important role in making the Make in India project a success



Challenges

1. Problem of heavy silting and inadequate dredging capacities as seen in riverine ports like Haldia.
2. Poor mechanisation and manual handling of critical processes, Under-utilisation of physical infrastructure of the ports. Ex: Cochin ports.
3. Congestion of roads connecting the port leading to time delays as seen in JLN port.
4. Turnaround time is as high as 3 to 4 days compared to average time of 6-7 hrs in other developed ports because of cumbersome documentation and clearance.
    a. Custom clearance issues, politicization and labour union at port issues
5. Currently the ports operate on Trust model where government is the owner and operator of the port. We need to shift towards Land-lord tenant model where private sector can operate the port.(Therefore- Major ports bill)
    a. The dual institutional structure has led to the development of major ports and non-major ports as individual projects.
    b. Inadequate private participation- only selective ports

Government Initiatives

- Sagarmala- strategic, customer oriented initiative to evolve a model of port led development whereby India's long coastline will become the gateway of India's prosperity.
- 4 objectives:
  - Benefit to coastal communities- fisherman dev
  - Port linked industrilisation
  - Port connectivity by multimodal , dec logistics cost
  - Port Modernisation- build world class ports
  - Other- cruise tourism, 14 Coastal economic zones - manuf,emp opportunity, skill developemnt
- Eastern Economic corridor(Vishakhapatnam Chennai)- complements port led development

Solutions

1. Indian shipping industry be provided a level playing field for it to grow and compete globally- rationalisation of restrictive policies, reasonable imposition of direct/indirect taxes.
2. Multi- modal port development.- Adequate rail and road connectivity must be provided to these coastal terminals.
3. Switching to landlord-tenant Model, where operation is in the hands private player.Govt has initiated the major port authorities bill, 2016 to enact a more friendly land-lord tenant model.
4. Efforts should be made to develop deeper stretches of the rivers for IWT/navigational purposes for round-the-year navigation
5. Building and maintaining infrastructure for handling desired capacities. Ensure mechanisation of ports through introduction of new equipment and procedures, built new facilities and upgrade existing ones.

Inland Water Transport (IWT)

GS-1 2016: Enumerate the problems and prospects of inland water transport in India

Need- Share of IW in logistics only 0.5% whearas 9% in China

India has a large network of water bodies in the form of rivers, canals, backwaters, and creeks. The total navigable length is 14,500 km, out of which about 5,200 km of the river and 4,000 km of canals can be used by mechanized crafts.

Benefits

- Lower CO_2 emission & fuel compared to road ,rail
- Cost effective (as per RITES Report of 2014, Freight (Rs. per km) is 1.06 in IWT as compared to 2.50 in Highways)
- Requires little land acquisition
- Eases traffic congestion on road, rail
- Lesser issues of land acquisition as compared to roads/rails
- Potential for domestic cargo transportation as well as for cruise, tourism and passenger traffic

Challenges:

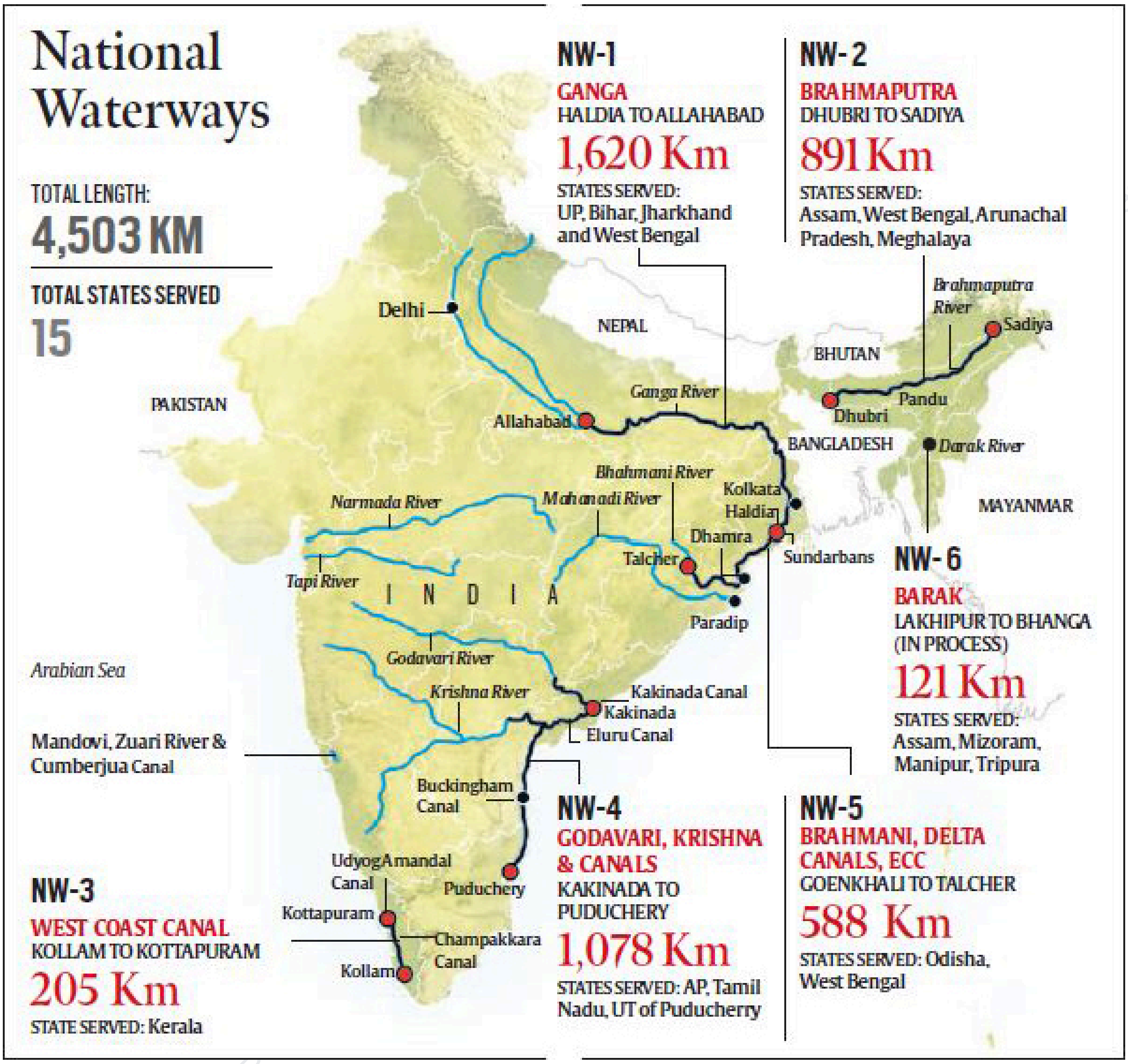
- Water flows have been decreased over the years - due to dams, agriculture
- Seasonal water flows change which obstructs large vessels to traverse (seasonal dependency makes operation of many ports difficult)
- Excessive Siltation
- It is a slower mode as compared to Rail and Road
- General points: low technology adaptation, may lead to water pollution (aggrevate drinking water crisis)

Govt efforts

- National waterways act 2016- 111 waterways have been declared as National Waterways (NWs)
  - 5 National Waterways and identified additional waterways for development
- Jal Marg Vikas project on NW1- Varanasi - Haldia stretch (assistance of World Bank)
  - Develop infra, enable commercial navigation, Roro ferries,
- India's first multimodal terminal on IW at Varanasi
- Dry ports dev- inland port connected by road/rail
- Based on techno economic studies, eight new NWs have been taken up for development in 2017-18. These include NW-16 (Barak river)

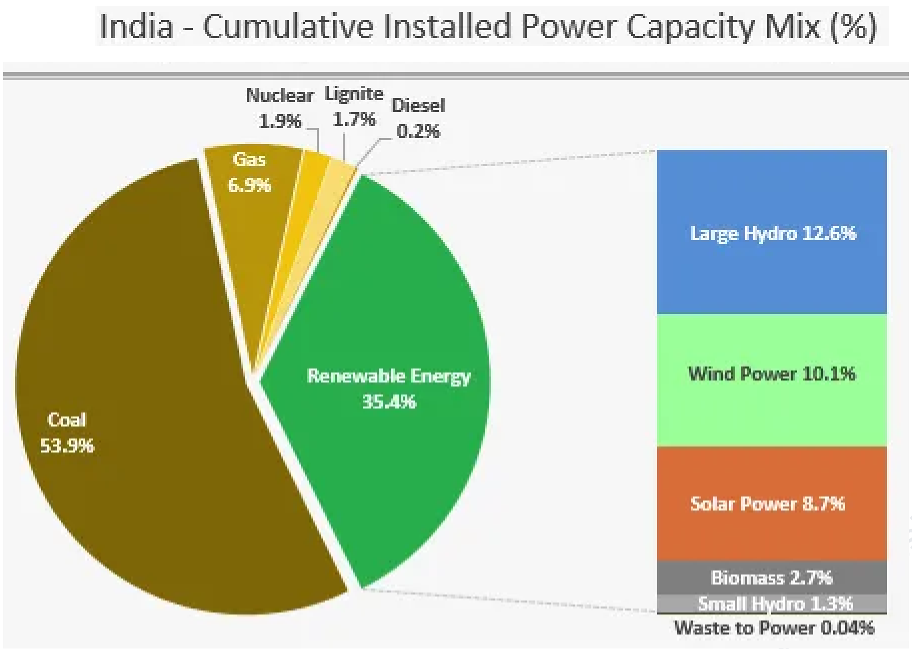
- In order to reduce the logistics cost of cargo and facilitate passenger movement between North East and mainland, MOUs have been signed with Bangladesh

Way forward- faster imp, write basic points



1. General Questions:
   a. 1998: Infrastructure bottlenecks continue to stifle the economic growth in India
2. 2016- Smart cities and their relavance for urban dev? Will it inc rural-urban differences? Give arguements for smart villages in light of PURA and RURBAN mission
3. *No question on Roads, Ports, Railways as on date, therefore cover very basic stats, general challenges, schemes, measures taken (cover all these from India@75)*
4. 2014: National Urban Transport Policy: Moving people and not moving vehicles; Critically discuss their success
   a. Roads transport: Ails, remedies, Status?

Infrastructure - Energy



Intro

Sustainable, stable,reasonable energy sine-qua-non for eco dev and growth.

India world's 3rd largest energy consumer- goal to give billions cheap, relaible 24/7 energy. However our per-capita is 1/3rd of global average

(DATA) In India's present electricity mix consists of:

Thermal Electricity (ऊष्मीय विद्युत: Coal > Gas > Oil)	~64%
Renewable: Hydroelectricity (जल-विद्युत)	13%
Renewable Energy (नवीकरणीय ऊर्जा) (Solar, Wind, Biomass etc. except hydro)	21%
Nuclear (नाभिकीय / परमाणुवीय)	~2%
Total	100%

Status and targets

Govt Objectives

- Make available 24/7 power to all
- Achieve 175 GW of R.E by 2022 (100-S,60-W,10- Bio,waste to energy, 5- small hydro)
    - Current status- 34GW- S, 37.6GW- W, (9.8 GW- Biomass, 0.13 GW- Waste to energy), Small hydro - 4.6 GW)

    - 86 GW/175 GW till 2020
- Reduce imports of oil and gas by 10% by 2022-23
- Paris INDC-
    - Improve the emissions intensity of its GDP by 33 to 35 per cent by 2030 below 2005 levels.
    - Pledged to increase the share of non-fossil fuels-based electricity to 40 per cent by 2030. (look at status table) ie. 450 GW of renewable capacity by the year 2030 (World's largest renewable energy expansion programme)
    - Agreed to enhance its forest cover which will absorb 2.5 to 3 billion tonnes of carbon dioxide by 2030.
- Sucess: Close to 100% houses in rural areas are electrified as well as using clean cooking fuel

Need of Renewable Energy

- Energy Security
    - According to the International Energy Agency (IEA), nearly 240 million Indians lacked lack access to electricity in 2017. By 2018, India has electrified all the villages. Despite this, many Indians continue to linger in the dark.
- Environmental
    - Biomass energy can be used instead of dumping of waste at landfills
    - Sustainable source of energy - interests of future generations are not compromised
- Economic
    - Stability in global energy costs as RE requires only initial investment unlike coal whose cost keeps on fluctuating
    - Low to zero maintenance required → Affordable
    - Big push to logistics through RE will have ripple effect on various sectors (efficient transportaion)
    - Reduced CAD & increased forex reserves
- Social
    - Public health will get improved - (CSE report said air pollution reduced life expectancy by 2.6 years)
    - Funds saved can be mobilized to address other infra such as education, hunger, poverty
    - Can usher rural empowerment as the projects need remote settings
- International
    - Reduce dependence on other nations → Greater stratefic control
    - Reliable as not prone to trade disputes, political instabilities, wars, etc.
    - Not subject to cartel behavior which virtually controls prices

Govt measures

- Solar
    - National Solar Mission
    - Solar City Initiative- financing to cities for rooftop solar, net metering
    - Indian Renewable Energy Development Agency (IREDA) - Financial Inst under M/o NRE to provide loans for renewable energy and energy efficiency projects
    - National Institute of Solar Energy - for R&D
    - Solar Parks eg: Tumakuru distt. (karanataka), canal solar infrastructure eg: over Narmada river
    - Sustainable Rooftop Implementation of Solar Transfiguration of India (SRISTI) scheme, Suryamitra Scheme
    - International Solar Alliance - One Sun One World One Grid,
    - Suryamitra programme to prepare qualified workforce
    - Best Practice: SOLAR URJA initiative by IIT Bombay disseminated one million solar study lamps to rural students
    - PM Modi called **Solar Energy** as **Sure, Pure and Secure**
    - Delhi passed its Electric Vehicles Policy which focuses on **incentivizing the purchase and use of EVs**;
        - Funding: '**feebate' concept has been explored i.e. by adopting measures by which inefficient or polluting vehicles incur a surcharge (fee-) while efficient ones receive a rebate (-bate).**
- Hydro
    - Approved 'renewable energy status' for large hydel projects
    -
- Wind (potential of 300GW- National institute of WE)
    - Solar Wind Hybrid policy 2018 - promote hybrid system to reduce variability in generation & grid stability
    - National Wind Power Policy - both onshore and off shore
    - Western coast is better suited due to lesser cyclones for off shore projects
    - Waiver of Inter-State Transmission Charges and losses for wind power.
    - Supporting research and development
- Bio
    - Methanol economy(15% blending target), Ethanol blended petrol(presently 10%)
    - PM-Jivan
    - National biofuels policy
    - GOBAR-Dhan
    - Compressed Bio gas- SATAT initiative

- Ocean- MNRE classified it as RE under RPO
- Others(RE points)
    - RPO- Discoms obiliged to buy min. % of renewable electricity, RGO- Power producers obliged to generate % of RE
    - Must run status for RE plants- supply to grid under all conditions
    - RE Industry promotion and facilitation board by MNRE- solve challanges of industry etc payment issues,tech,land issues etc
    - Green energy corridor, One nation one grid
    - Foreign Direct Investment (**FDI**) up to 100% is permitted under the automatic route for renewable energy generation
    - Energy efficiency
        - PAT scheme - ESCerts are traded
        - National LED prog
        - BEE- Star labelling, smart meters, EC Building code
        - India cooling action plan- reduce cooling demand- BEE now 24 deegree C - default settings
        - State Energy Efficiency Index (SEEI) 2019
            - Issued by BEE; Categories states & UTs as *front runner, achiever, contender, aspirant*
            - **No front runner as of now**; HY, KR & Kerela have topped SEEI 2019
    - Bundling Scheme to sell RE and thermal power in a bundle so that users can get uninterrupted supply of power
    - India Energy Exchange Platorm - to sell electricity, ESCerts, RE Certs, selling power w/o getting into PPA
    - Green Term Ahead Market has been developed which is an alternative new model introduced for selling off the power by the renewable developers in the open market without getting into long term PPAs. It is an exclusive platform for short-term trading of renewable energy
    - Atleast **one charging station** in 3x3 km grid **and** on every 25km on both sides of highways
- Gas
    - PM Ujjwala Yojana
    - PM Urja Ganga- Natural gas grid pipeline across Ganga states
    - North east gas grid part of National gas grid project- for clean fuel economy
        - Point 2 & 3 led to linking of easten and NE parts with gas grid
    - Indian Gas Exchange - digital trading platform in spot and fwd market (Gas marketing reforms)
    - Planned $60bn investment for creating gas infra till 2024, including pipelines for city gas distribution networks
    - Aim to open 10k CNG retail outlets (currently 2500) in next 5 years
    - Moving towards Gas based Economy

        - Goal: Increase share from current 6% to 15% in 2030;
        - +ves: Cheaper than liquid fuels, convenient, env friendly, reduce outflow of forex
- Coal
    - Commercial coal mining for pvt opened

Challenges

- Less sales of RE Certificates(RPO)
- World Economic Forum-Energy Transition Index- India 74/115 countries
- Imported approximately 82% of crude oil and 45% of natural gas requirements during 2017
- Uncertainity in power generation through RE → Fails to attract investments due to fear of bad investment
- Capacity Issues: It would take 18 solar or wind projects to generate the same quantity of power as one thermal plant. More plants leads to higher admin overheads
- The average cost per MW for a thermal plant is about 25% lower than that of a solar plant
- Lack of Lithium Mines in India; India is the largest importer of Lithium-ion batteries
- **Low Investment Sentiment** (due to delayed or non payment by discom to RE cos.),
- Green-Green dilemma: eg: wind turbines are reducing carbon footprints on one hand but are becoming reason for deaths of birds such as eagles/vultures/bats/Great Indian Bustard due to collisions with wind turbine blades
- NITI Aayog - India @75
    - General:
        - A variety of subsidies and taxes distort the energy market and promote the use of inefficient over efficient fuels
        - Domestic production & exports uncompetitive as energy taxes are not under GST → No ITC
        - High industrial/commercial tariff and the cross-subsidy regime have affected the competitiveness of the industrial and commercial sectors
        - Due to high AT&C losses, DISCOMs use load shedding to minimize losses
            - (DISCOMs in UTs are under CG; DISCOMs under state are SG)

        - Poor financial health of state utilities do not allow investment in system improvement
        - The non-availability of sufficient credit facilities and difficulties in obtaining required finances
    - Oil & Gas
        - Lack of market-driven gas prices for old fields disincentivizes further production
        - The gas pipeline infrastructure is also inadequate
    - Coal
        - Land acquisition is a big issue
        - No competitive coal market
        - Tendency to expand opencast mining rather than underground operation → aggravates the land availability problem
    - Efficiency Issues
        - Unmetered power supply to agriculture provides no incentive to farmers to use electricity efficiently
        - Limited technical capabilities, high initial capex, policy issues affects energy efficiency measures
    - Renewable
        - High energy costs result in going back to old PPAs
        - Ineffective grid balancing
        - RE is clean but still has economic footprints as well - eg: Impact on GIBI due to wind turbines; Impact of lizards of Koyna WLS due to wind farms
        - Supply chain issues in biomass
        - Dependency on imports to the tune of >85% in the case of solar panels and equipment

Way forward

- Clean coal tech- coal washing, Electrostatic precipitators, Flue gas desulpharisation-minimise SO_2
- If solar and wind plants are distributed over a large geographical location, there can be minimal electricity generation interruption due to weather
- Retiring 200+ ineffecient/obsolete thermal power plants older than 25 years and increasing utilisation of High efficiency-Low emission (HELE) TPPs
- GST rate of all vehicles must be aligned to their fuel efficiency rather than their engine/car size → This will allow India to become petroleum independent
- NITI Aayog - India @75

- Oil, natural gas, electricity and coal may be brought under GST to enable input tax credit
- Promote smart grid, smart meters. 100% metering
- Privatizing state distribution utilities and/or the use of a franchisee model will reduce AT&C losses (eg: Central Govt. is planning to privatize DISCOMs in union territories)
- For agriculture, an upfront subsidy per acre of land through DBT may be considered instead of providing separate subsidies for fertilizers, electricity, crop insurance etc
- Separate the developmental and regulatory functions of the PNGRB
- Provide a mechanism for cost-effective power grid balancing ~~(gas-based, hydro or storage)~~
- Renewable purchase obligations (RPO) should be strictly enforced and inter-state sale of renewable energy should be facilitated
- Hybrid renewable energy systems must be explored eg: wind + solar
- Adoption of ECBC
- Promote the use of the public transport system. Public transport systems may be converted to electric in a time bound manner
- Solar
    - India needs a solar manufacturing strategy, perhaps like the Automotive Mission Plan (2006-2016), which is credited with making India one of the largest manufacturers of two-wheelers, three-wheelers, four- wheelers and lorries in the world.
- India has signed a Strategic Partnership with IEA which can be leveraged to enhance energy security, stability and sustainability
- Massive energy parks take up huge areas of land, displacing people and wildlife (contrary to its intent to save environment) Thus the RE push must be decentralised, community driven and with full EIA (currently not reqd. for RE projects)

1. General Questions on Energy:
    a. **2018: "Access to affordable, reliable, sustainable and modern energy is the sine qua non to achieve Sustainable Development Goals (SDGs)".Comment on the progress made in India in this regard.**
        i. SDG 7 = "Ensure access to affordable, reliable, sustainable and modern energy"
        ii. Explain affordable (to ensure inclusive growth), reliable (no dependence on OPEC), sustainable (env benefits), modern energy (evolving and sunrise industry)
        iii. Imp of energy = upliftment of downtrodden, education, economic life (mention respective SDGs)

iv. *Energy to be interpreted in broader terms therefore also incl LPG*
v. **Affordable energy:**
1. Electricity rates are subsidized / kept low for the to agriculture and poor households.
2. PAHAL-LPG subsidy is given so poor families stop using firewood for cooking.

vi. **Reliable energy:**
1. If DISCOMs are suffering from heavy debt, they can't improve and expand their network for supplying 24/7 electricity. So, UDAY -Ujwal DISCOM Assurance Yojana
2. Rural areas suffer from frequent power outages so DeenDayal Gram Jyoti.

vii. **Sustainable energy:**
1. Cover schemes of RE
2. Schemes subsidies for solar panels, lamps, irrigation pumps, biogas plants; Small hydro projects, wind mills, biogas, bagassee..

viii. **Modern energy:**
1. To encourage families to switch from wood and kerosene to LPG - PAHAL Scheme
2. Cover some schemes of RE

b. **2017: Current policies in framework 'transform, energize and clean India'**
i. Budget 20-21: The central ideas of the **Budget** are "Aspirational India, Economic development, A Caring Society"
ii. Budget 21-22: The Budget rest on 6 pillars.
1. i. Health and Wellbeing
2. ii. Physical & Financial Capital, and Infrastructure
3. iii. Inclusive Development for Aspirational India
4. iv. Reinvigorating Human Capital
5. v. Innovation and R&D
6. vi. Minimum Government and Maximum Governance

iii. Add points to latest budget after studying budegt separately

c. **2013: Write a note on India's green energy corridor to alleviate the problem of conventional energy**
i. The Green Energy Corridor Project aims at synchronizing electricity produced from renewable sources, such as solar and wind, with conventional power stations in the grid. (from generation points to the load centres through transmission infrastructure)
ii. Collaboration with Germany to enforce the same
iii. This programme aims to supports the implementation of India's Renewable Energy Management Centre (REMCs), Green Energy Corridors scheme which are prerequisite for large scale grid

integration of renewable energy to achieve the 175 GW target for renewable energy generation capacity by 2022.

iv. Loans from Asian Development Bank for the project implementation.

v. It is being implemented by eight renewable-rich states of Tamil Nadu, Rajasthan, Karnataka, Andhra Pradesh, Maharashtra, Gujarat, Himachal Pradesh, and Madhya Pradesh.

d. **Need for Energy security? Is India transformed into an 'Energy-independent Nation'?**

i. Need for energy security- Rural,Inclusive growth,Industrial rev 4.0, very low per capita energy consumption etc

ii. Energy dependence- Oil imports, Coal imports,Solar panel imports

iii. However- thriving thermal industry, increased solar adoption, Int efforts

2. Solar Energy

- India expanded its solar generation capacity eight times from 2.65 GW in 2014 to 28.18 GW in 2019.
- **2020: Describe the benefits of deriving electric energy from sunlight in contrast to the conventional energy generation. What are the initiatives offered by our Government for this purpose?**
    - Benefits of solar vis a vis conventional
        - Solar energy conversion equipments have longer life and need lesser maintenance and hence provide higher energy infrastructure security.
        - Low running costs & grid tie-up capital returns (Net Metering).
        - Unlike conventional thermal power generation from coal, they do not cause pollution and generate clean power.
        - Abundance of free solar energy in almost all parts of country.
        - No overhead wires- no transmission loss
        - The sector also has immense potential to create new jobs; 1 GW of Solar manufacturing facility generates approximately 4000 direct and indirect jobs.
    - Initiatives- Covered above
- **2015: To what factors can the recent dramatic fall in equipment costs and tariff of solar energy be attributed? What implications does the trend have for the thermal power producers and the related industry?**
    - The current solar tariffs in India, which are between Rs 2.50-2.87 per kilowatt hour (kWh), have stabilised at rates 20-30 per cent below the cost of existing thermal power in India and up to half the price of new coal-fired power, according to a latest study.

- Factors for fall in solar equipment costs and tarif
  - Increase in economy of scale- prices of goods and services naturally come down
  - Efforts of govt- subsidies and other measures given above- nudge industry- more players and competition(even MSME), demand creation due to RPO
  - TEch adoption , Solar R&D in solar cells- increasing efficiency
  - International fundings, Carbon credits
  - Interest of foreign players due to potential of India's solar market- short term investment by them(low tariffs) and long term gains
  - Solar energy - faster to build, cheaper than new coal fired power plants, less prone to fuel volatilities and less regulated from an environmental clearance perspective (which can be quite tough in India).
- Implication on thermal and related industry
  - Fall in demand for coal/gas- due to RE focus
  - Effect of COP's and other Int agrrements ,initiatives
  - Thermal producers being forced to adopt clean tech, reduce emissions, RPO;s etc
- However issues of solar power:
  - Due to less understanding on how solar energy will overcome limitations posed in areas of power load, the weather itself, the energy mix, power pricing and the fact that large section of population is devoid of electricity will amount to very less effect on the thermal sector.
  - India has an annual solar cell manufacturing capacity of about 3 GW while the average annual demand is 20 GW.
    - The shortfall is met by imports mostly from China, accounted for 90% of 2017 sales
    - Dumping by china- hurt domestic industry
  - No manufacturing facilities of silicon wafers and heavy reliance on imports, huge cost of capital (15% as compared to china 5%), competition from china, huge cost of land acquisition.
  - India's **domestic content requirement** clause ia facing legal challenge at WTO..
  - Need to tackle solar waste
  - Issues wrt rooftop sector(onlt 2.5 GW out of 40GW target of it- i.e growth only in big projects)

- Conventional Energy
  - **Own sources of petroleum crude in India: domestic vs importing? Relevance? Merits Demerits**

- India imported 226.5 million tonnes of crude in 2018-19 (a 38% increase over 2009-10).
- However, in the same period, annual domestic production of crude slipped from 37.7 million tonnes to 34.2 million tonnes, catering to 13% of the total consumption in 2018-19.
- Why did the domestic oil production decline?
  - Global Oil Prices Crash (decline in investment in india)- very cheap imports, US Shale captring market
  - **Climate Change:** Mounting pressure due to climate change is prompting oil and gas players to diversify into clean energy.
  - **Bureaucratic Apathy:** bureaucratic processes and onerous taxation continue to burden older**production-sharing contracts** (PSCs) that account for most of the country's oil and gas output.
  - Policy Issues: Issues in NELP(sep license for each type of hydrocarbon
  - Several of India's older oil-producing fields are in natural decline.
- Govt efforts -HELP
  - Single license for all type of hydrocarbon
  - Revenue sharing instaed of production sharing
  - Relaxed norm in offshore exploration
  - Open acreage licensing policy- company can chose blocks
- Strategic oil reserves for security
- Way Forward
  - **Technological solution:** A variety of new technologies can prolong the life of ageing oil fields, ensure enhaced oil recovery with new tech
  - **Simplification of regulations:** Steps to be taken for oil blocks allocated in Pre-NELP phase:

- Renewable & Conventional Energy
  - **Energy efficiency- 2016- Current status and targets of RE in country? Imp of National Prog on light emitting diode (LED)**
    - National Program for LED has 2 components:
      - Unnat Jyoti by Affordable LEDs for All (UJALA): Distributed 36 crore LED bulbs → reduced elec bill → inc in disposable income → env friendly
      - Street Lighting National Programme (SLNP): Replaced more than 1 crore conventional streetlights without any additional cost for municipalities

        - Both schemes have been spearheaded and implemented by Energy Efficiency Services Limited (EESL), a joint venture of PSUs under the M/o Power
    - Renewable Energy: Progress, Achievements till now; Renewable energy as a viable option for India? Pros and cons (2012)
        - Coal Energy: Economic survey suggestions / observations:
            - 1. **Carbon Imperialism** is a modern day type of imperialism wherein the 1st world nations are trying to enforce their views about energy-consumption upon the 3rd nations with hidden agenda to 1) To sell their nuclear fuel and technology. 2) To portray the third world in bad light for using coal power and thereby reducing their own culpability (दोषी/ दण्डयता) for global warming.
            - 2. But for India coal based electricity is **a necessary evil** because 1) Wind and solar power are nondispatchable, meaning electricity can be generated only when there is fast wind blowing or there is appropriate sunshine 2) Land requirement for solar based powerplant is 10 times that of thermal power plant. 3) Bottlenecks in acquiring nuclear fuel and nuclear Technology 4) unemployment if we shut down coal mining & thermal plants
    - Status & prospects of non-conventional sources of energy relevant for India (study what comes under non conventional apart from RE)
        - *Covered above*

Investment Models

1. 2016, 2013: Pros and cons of PPP Model (wrt developments of Airports asked in exam)
    a. Collect current examples wrt different investment models
2. 2014: Explain how Private Public Partnership arrangements, in long gestation infrastructure projects, can transfer unsustainable liabilities to the future. What arrangements need to be put in place to ensure that successive generations' capacities are not compromised?
3. 2020: Explain the meaning of investment in an economy in terms of capital formation. Discuss the factors to be considered while designing a concession agreement between a public entity and a private entity.

- PPP
    - Govt and private share- Risk, resources, Responsibilities, Rewards

  - In such PPP contract the ownership, risks & rewards are shared in some fashion. PPP can be in greenfield projects or brownfield projects
- Need
  - Infra dev facilitates eco growth, eco growth demand more infra(show with diagram)
- Types
  - Build Operate and Transfer (BOT) Toll model: Under this model, a road developer constructs the road and he is allowed to recover his investment+profit through toll collection. There is generally no government payment to the developer as he earns his money invested from tolls.
  - BOT Annuity Model: • A developer builds a highway, operates it for a specified duration and transfers it back to the government. • The government starts annual payment to the developer after the launch of commercial operation of the project
  - Engineering, Procurement and Construction (EPC) Model: (its kind of outsourcing/contracting) • Under this model, the cost is completely borne by the government. Government invites bids for engineering knowledge from the private players. • The private sector's participation is minimum and is limited to the provision of engineering expertise
    - In these models, the private player is not given ownership of infrastructure or right to
    - collect toll/user fee at any point of time
  - Hybrid Annuity Model (HAM): HAM is a mix of BOT Annuity and EPC models.
    - Suppose the cost to build a new highway is ₹ 100, then. - ₹ 40: Govt pays in phased manner (as road construction progresses). - ₹ 60: private player arranges from his pocket and / or market borrowing. - Once the highway is finished, Govt (NHAI) starts collecting toll → pay the private player at regular interval (=annuity) till the private player recovers ₹ (60+some profit)
  - Comparison

<table>
<tr><th>PPP model (BoT: Toll)</th><th>Non PPP model (EPC)</th><th>Hybrid Annuity</th></tr>
<tr><td colspan="2">Govt. has to bear the burden = more fiscal deficit.</td><td>Private player bears higher burden of financing the project = less fiscal deficit for Govt. Generally 40% is govt.</td></tr>
<tr><td>BoT: Toll- Private player has the right to collect toll</td><td colspan="2">Private player has no right to collect toll (But at the same time, he is also saved from the risk if sufficient traffic did not come!)</td></tr>
</table>

-
  - Greenfield vs Brownfield
- Pros
  - Supplements limited budgetary resources of govt

        - Govt resources for other imp socio-eco use, also lower Fiscal deficit
    - Top class quality as well as faster project completion
    - Operational project risk transferred to private (eg in case of double construction due to faults)
    - Write pros of various types of PPP
- Cons
    - Pvt. player does not bother to look for efficient delivery of service → present contracts do not incentivise better service
    - Excessive expenditure by pvt as know will be reimnursed
    - Policy paralysis where bureaucrats and ministers avoid taking decision to renegotiate stalled projects due to fear of media/courts → NPA problems
    - Not appropriate for projects at difficult locations- eg buliding school at remote location,LWE,NE area,JK
    - Disputes in case project not financially/operationally viable at later stage(BRTS concept)- legal costs to both
    - Interest rate high for private sector loans- leads to higher user charges(250 ki coffee at airports- no regulation)
    - PPP majorly confined to airports,highways- need for effective PPP in other sectors
    - Twin balancesheet- NPA/ILFS A-M mismatch/NBFC criesis
- Way Fwd
    - Performance / service audits to be conducted at regular interval
    - Kelkar Committee 2015
        - The "One-size-fits-all" approach should be avoided and project specific risk assessment should be undertaken
        - Government may develop a PPP law
        - Constitution of an Infrastructure PPP Project Review Committee (IPRC) to review perf of PPP
        - Swiss Challenge method of awarding contracts should be avoided to discourage unsolicited proposals
        - An amendment in the Prevention of corruption act to differentiate between errors of judgement and willful corrupt practices.

Factors to consider while designing PPP

- Specialised skills to conceptualise,evaluate and appraise projects by govt
- Financial projection, dispute resolution processes
- SOP in case of any eventuality(COVID)
- Socio-economic aspects of project tackle before involving private entities
- Bodies that will be involved - existing org or new SPV set up
- How the land will acquired
- Frequency of revenue assessment

- Procedures to settle disputes
- Ensure pvt dont make unsustanabile expenditure in non core things

Arrangements to ensure sustanainbility for future

- Address the issues of environmental concerns
- Ensure that projects have sustainable life and not create burden for future generations

As infra has long gestation period- debt incurred long before benefits appear therefore:

- Help pvt sector harness corporate bond market to tackle issues like A-L mismatch (ILFS crisis), NPA
- Use points from above relavant here

Effects of liberalization on the economy

- **Pre-LPG stats, Why required?**
  - 1991 BOP crisis- not enough forex reserves
  - Ministerial interference in PSU's
  - Private sector not allowed in number of sectors despite PSU's lacklustre performance
  - Imports were restricted to save on forex; FDI was discouraged
  - Reserved sector- License raaj
  - The GDP growth averaged 7% in the 25 years from 1992 to 2017, compared with an average of 5% in the preceding ten years and 4% in the preceding 20 years
- **Liberalization**: Deregulation of different segments of the economy. It aims at reducing govt's control over industry
  - It included opening up of various sector for domestic private and foreign investment through delincensing; forex rate determined by market forces; removal of restriction wrt monopolies, industrial location, mergers, capital markets
    - Overall LPG is characterised by rolling back of the state and providing room for the private sector to lead
  - Process similar to today's - Ease of doing Business

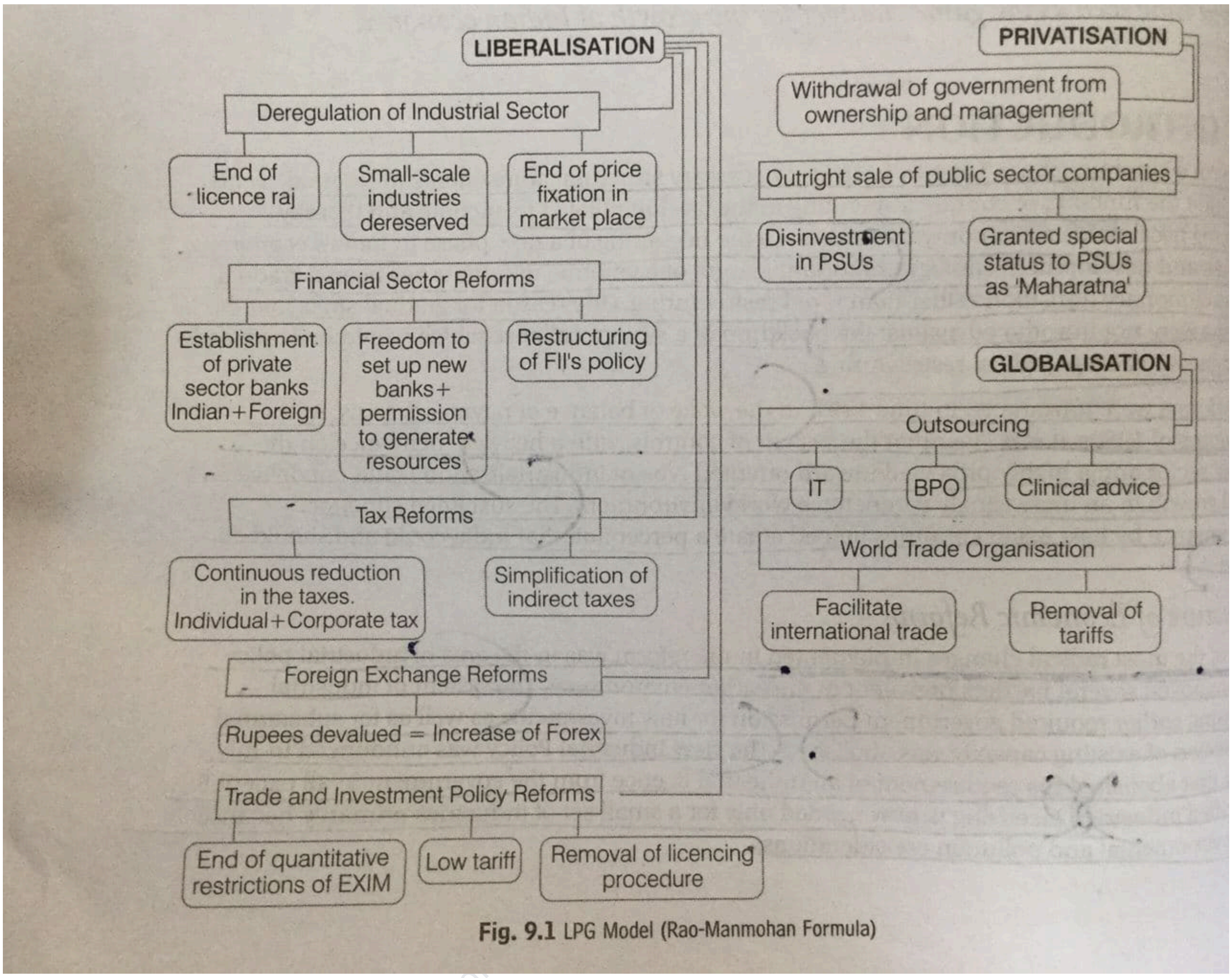
- 

Fig. 9.1 LPG Model (Rao-Manmohan Formula)
- **Effects of liberalization:**
  - Agriculture:
    - Stat: Current growth of agriculture around 2-4%
    - Reduction in public investment by govt. in areas such as irrrigation, power, roads
    - Gradually drawing back subsidy → Increased cost of production for small/marginal farmers
    - Reduction of import duties on agri products → Face increased international competition
    - Export focused policies led to shift to cash crops → pressure on prices of food grains
    - Need for 1991 like reforms in agriculture sector - Ashok Gulati
  - Industry & Trade:
    - Increase in exports from 8% of GDP(1991) to 20% in 2015-16
    - Increase in imports from 9% of GDP(1991) to 22.5% in 2015-16
    - Manufacturing was unable to absorb labour displaced from the agricultural sector
    - Infra & govt support along with Pvt R&D did well in say software service exporters however these ingredients missing for exports of goods (thus only policy change insufficient w/o these ingredients)

  - Tax Revenues:
    - Tax reduction aimed at yielding larger revenues and curb tax evasion - but this could not happen as evidenced from low tax buoyancy and low tax-to-gdp ratio ~17%
    - Also though it was aimed to reduce subsidies to the people but successive govt. found it diffucult to pull back the same → High fiscal deficits and stagnancy in agri sector
  - Public sector:
    - Shift from production oriented to productivity oriented with commercial outlook
    - Technology , Management - efficiency have increased eg: Hindustan Zinc
    - However- Govt. assets sold at low prices + money not used for dev of other PSUs
  - Financial market
    - Banking- Private, foreign banks, pvt insurance co rec by Narsimhan comittee, Mergers of PSB for effetive credit growth
    - Capital market- Harshad mehta scams- SEBI act- tighten control and investor protection
    - Import Cover now stands ~12m (compared to 3 weeks at 1991)
  - Society
    - Globalisation of culture
    - Reduction in poverty from 45% to 21%
    - Service sector generated female friendly jobs → Women empowerment
    - However, overall inequalities have increased - Oxfam Report
- **General Facts**
  - LPG als called Rao-Manmohan formula model (use in intro)
  - From Hindu rate of growth (3.5%)(1950-80) to Current 6-7% (post 91)(However the growth has been largely driven by service sector combined with reducing agricultural growth - jobless growth)
  - Forex reserves from $6bn to $450+ bn (increased our resilience)
    - However these reseves are backed by financial capital flows rather than export growth (as was expected)
  - LPG has left both hands of the govt ties - on one side it has to reduce taxes to spurr investment in various sectors (specially where there is no longer a PSU to work for public good) and on the other it has continue offering subsidies to citizens (to ensure neccessary pvt. goods come within their reach)
- **Issues that still remain to be addressed**
  - In areas of health and education, not much have been done; Same goes for environmental concerns
  - Necessity for labour market reforms and land reforms

- **Privatisation of PSEs**
    - **+ves:** Frees locked capital of govt., Min govt. and max governance, efficiency gains
    - **Experience from Past:** Started in 1991, got push during 1998-2003; Success stories include Hindustan Zinc, Centaura Hotel
    - **Need:** Professional boards, Comprehensive and transparent PSU policy, more efficient models of management, Separation of social costs (for which PSUs have not been adequately compensated) from commercial costs while preparing BS/P&L for sale to show true picture

Conclusion

- 2021 crisis presents opportunity like 1991 crisis- Need structural reforms for faster growth

Atma Nirbhar Bharat

Liberalisation vs Protectionism

Prime Minister - India's self-reliance does not advocate self-centric arrangements(era of import substitution or isolationism)

Self-sufficiency in the Post covid context refers to improving efficiency, competing with the world and simultaneously helping the world

Atmanirbhar Bharat v/s Import Substitution

Import substitution relied extensively on imposing high import tariffs and discouraging foreign trade, while Atmanirbhar Bharat focuses on reforms and improving ease of doing business for domestic and foreign firms in the country.

The Import Substitution model advocated a centralised, top-down model whereas Atmanirbhar Bharat emphasizes on freeing Indian entrepreneurship and innovation from bureaucratic hurdles.

Background: COVID-19 led to devastation of supply chains and revealed gaps in current scenario; ANB which aims to move from reliance to self-reliance and accentuates manufacturing-led, export-driven growth

Why being 'Atmanirbhar' is important?

- Faster Economic Recovery from COVID- depends on the resilience of domestic industries- need to make them competitive with govt support
    - Eg- disallowing global tenders up to Rs. 200 crores for foreign players for protecting MSMEs
- Supply Chain Fragility: Need domestic supply chain for critical products(API-China issue), PPE kits shortage etc can precipate into national security crisis
- Emergence of developmental gaps: Continuous dependence o external sector - gaps in R&D
- Geopolitical considerations: High dependence on other countries for resources affects the geopolitical standing of the country in that region.
- Decentralised Localism: It is about creating a system that takes pride in local brands, encourages local capacity-building and indigenisation.
- S. Jaishankar said: ANB is not about protectionism; it is about building greater strengths at home to play more effectively abroad. (eg: Hydrooxycholoro drug, med team support, vaccine sharing with the world). The outlook of Atmanirbhar Bharat (self-reliant India) is important for the world
- Evidences that show ANB wants deeper linkages with the global markets
    - PLI Scheme brought for 10+ sunrise sectors
    - Opened mining sector for private sector participation
    - Bringing EoDB through - FDI, Reformed labour laws, GST,
- ANB comes with an aim to create wealth & values not only for ourselves for for larger humanity. eg: how india shared meds & vaccines with the world. Thus self-reliant india is helping the world
- Global Experiences: Japan dev its automobile segment; S. Korea did for consumer durables (No country has leapfrogged into prosperity without growing its manufacturing sector through structural transformation. India needs the same)
- How ANB showing signs of protectionism
    - RCEP pullout
    - Increase in tariffs in 2018,19,20 budgets
    - Wrt China- classic case of protectionism- banning apps, limits on FDI
        - The problem is you cannot be selectively protectionist... you end up being protectionist, in general
    - Counter tariffs - tariff war will hurt exports
        - Arvind subramaniam- self sufficient exporting powerhouse is an oxymoron
    - Focuses on putting premium on 'Indianness' rather than its cost or quality; May turn Indian industries to be a means to serve only domestic demand and **not** make them globally competitive (as focus is on import substitution and not serving global)

- **Self Reliance:** Requires increased state investment in R&D and education; We missed the 3rd revolution bus in the past due to efforts not being taken to modernise PSUs and private sector being content in protected markets; We need to catch the 4th revolution bus for sure

2013- Impact of liberalization on companies owned by Indians? Are the competing with the MNCs satisfactorily?

Negative impacts due to Liberlization

- Size disadvantages compared to MNC- operated in protectionist env- then sudden opening up
- Cost of capital, technological , manpower advanced in MNC
- Rigid labour laws due to socialist economy
- MNC through JV bought local companies and eliminated completition- Flipkart-Walmart deal
- Food proccesing- Branded FMCG products- neglect of indigenous- Wallmart debate
- Ecommerce- Amazon affecting local shopkeepers with deep discounts

However positive impacts

- More competition- better products and services to match up MNC's
- Telecom sector: wider choices, lowest rates in the world
- Tata global footprint- bought JLR; Adani- australia mining
- IT- outsourcing jobs - knowledge economy (service sector having highest share in GVA)
- ONGC Videsh venturing in global exploration
- Booming startup culture with more than 30 Unicorns in India

Way forward

- In the neoliberal era- balancing domestic industries as well need for high quality products for cosumer- need competition along with resisting attempts at monopoly

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FDI

FDI: Trend? Status and performance of FDI post 1991

- According to World Investment Report released by UNCTAD, India jumped to 9th in 2019 on the list of the World's top FDI recipients (prev year is was 12th); However, still foreign investment has remained at 2% of GDP
- India has attracted around $74 bn investments across sectors during 2019-20
- Most FDIs comes to ICT and construction sector
- Current framework follows govt. route and automatic route
- **Revised FDI Policy**
  - The amended policy states that an entity of a country, which shares a land border with India can invest only under the Government route
  - Any FDI whether existing or future which results into direct or indirect transfer of beneficial ownership to land bordering countries will also require government approval
    - FDI policy has been revised to curb opportunistic takeovers or acquisitions of Indian companies
    - Currently, China has investments in many startups of India
- FDI Receipts in FY21 were highest ever but they were skewed towards very few players (eg: Reliance FB/Google), 80% in service sector (while atma nirbhar focuses on growth of manufacturing sector through PLI scheme)
  - What we need is 'greenfield FDI' and not mere takeover by FDI
- FDI Vision by PM Modi - India is emerging as major FDI destination and is shifting focus from 'Make in India' to 'Make for the world'
- FDI 2.0 (Mirroring Mexico)
  - List in India: Listing Indian subs of foreign MNCs
  - Trade in India: Trading of Global parent MNCs share in Indian stock exchanges (Can be done within $250,000 Liberalised remmittance scheme)

2014-FDI in defence sector? Influence on defence and economy in short and long run?

Cover angle of self reliance in defence sector

- Indigenisation of Defence
  - Ministry of Defence (MoD) has decided to impose a ban on 101 import items to boost indigenisation of defence production
  - Targeted to reach a turnover of USD 25 billion by 2025 through indigenously manufactured defence products and also expects to export products worth $5 billion
- Current FDI Status: 74% under automatic route
- +ves of FDI in defence:
  - Inflow of technology, expertise and better production facilities
  - DRDO, Defence PSUs will face increased performance pressure

- Reduction in imports, increased employment
- Reduce reliance over foreign countries who may not support during adversities

- -ves of FDI in defence
  - Might dwarf private industry which is not yet well established
  - Security concerns and internal security challenges
- Way Fwd:
  - Ensure transparency in defence deals
  - Promote export through gains realised from shared tech and products
  - Articulate National Defence Industrial Policy
  - Enhance interaction between Armed Forces and Industry
  - Assistance to Private Sector
  - Military Industrial Complex to ⬆️ collab b/w military, academia and industry

2016: Justify the need for FDI for the development of the Indian economy. Why there is gap between MoUs signed and actual FDIs? Suggest remedial steps to be taken for increasing actual FDIs in India.

- Define FDI
- Need for FDI
  - Meet domestic savings constraints
  - superior technology, superior managerial skills and bigger markets
  - Increases competition and consumer choice.
  - employment generation (demographic dividend)
- Why there is a gap?
  - No EoDB - Strict labour and land acquisition issues (eg: POSCO case)
  - Bureaucratic red-tapism and complicated rules
  - Instability in policy of the govt.
  - IPR issues
  - Falilure to honour **adverse** international judicial rulings hurts our image as an investment destination (eg: Cairn Energy & Vodafone cases)
- Measures
  - EoDB to be promoted
  - India to be branded as FDI hub at international and bilateral meetings
  - Automatic approval, faster decision making
  - SEZ promotion
- Need to continue the reforms and devise other solution in mission mode approach

2013-Impact of FDI entry into Multi-trade retail sector on SCM in commodity trade pattern of the economy

51% FDI into multi-trade retail sector was introduced in India. It involves minimum investment of $100 million and a mandatory 50 per cent capital reinvestment in back-end operations. It also mandates 30% sourcing from small scale industries

Impact will be +ve: SCM will stronger as back end infra will be built; It will reduce wastages; Modern tech and mgmt; Food processing industry will be major gainer

Why FDI not picked up: due to 30% and 50% rule; Apprehension towards stability of policy

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Exports, International Trade, WTO

2012- Why is international trade perceived to have failed to act as an "engine of growth" in many developing countries including India?

International trade stats:

According to WTO data, India's share in global merchandise exports was 1.7% in 2017, and the services share 3.4%. Aggregate export share in world exports has plateaued in the 2 to 2.1% range since 2010.

Exports and Economic growth

- Evidence across the world shown that rapid and sustained economic growth requires export dynamism as just focusing on domestic demand/consumption-led growth not enough.
  - Pre-1991, a 3.5% growth rate was associated with export growth of about 4.5% But growth of over 6% after 1991 was associated with real export growth of about 11%.
- Also if domestic producers are competitive internationally, they will be competitive domestically.
- Need for export led growth
  - Issues with consumption led growth- Increasing debt of households, NPA of industries, consumption dependent on income but high unemployement levels
  - Limitation of Public Expenditure: post-Covid, India's debt has been expected to rise from about 70% of GDP to about 85-90% and fiscal

deficit is likely to be in the double-digit range- helicopter money not sustainable for contd. growth
  - Limitation of Expansionary Monetary Policy: only for short run, not possiblle for long, need to protect depositor interest

Reasons for low performance in exports

- Low Level of Participation in Global Value Chains (GVCs): compared to the major exporting nations in East and Southeast Asia, RCEP pullout
  - China's - strategy of integrating its domestic industries within the GVCs aggresively
  - Dependence on China for raw materials
- Specialization versus Diversification: Indian exports is characterised by high diversification combined with low specialization in exports.
  - Vietanam, bangladesh- champion in clothing,footwear
  - Eg China's "Button Town," where hundreds of factories produce more than 60 percent of all buttons on Earth.
- Domestic Factors: The factors like lacklustre infrastructure, complex land and labour markets, other general Industry/MSME issues, complex taxation system
  - High logistics time
- Protectionist policies: Budget - inc in tarrifs, promotion and adoption of technical regulations, frequent imposition of quantitative restrictions(agri commodities)
  - Mind set factor- import substitution harm exports too
- Unrealistic Export Targets: doubling of India's exports by 2025 seems unrealistic.
- Regional disparity- 70% of India's export has been dominated by five states – Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana.
- Lack of diversification in export basket - with neglible presence in 3Es (Engineering, Electrical and Electronic); Diversification is needed to create buffer from decline in one or few other sectors

Govt efforts

- A mid-term review of the Foreign Trade Policy 2015-20 was conducted in 2017 to assess the policy interventions required to boost the export levels.
- A new Logistics Division was established in the Department of Commerce to organize the integrated development of the logistics sector.
- Trade Infrastructure for Export Scheme (TIES) was launched in April 2017 to address the existing export infrastructure gaps.
- Transport and Marketing Assistance scheme was also introduced for the export of specified agriculture products to mitigate the higher cost of transportation

- Agricultural exports policy-To double agricultural exports from present ~US$ 30+ Billion to ~US$ 60+ Billion by 2022 and reach US$ 100 Billion in the next few years thereafter
    - focus also on organic, FMCG products etc
- Sagarmala ,Bharatmala- for port and fast highways

Sectors with High Export & Growth potential for India

Apparel, leather and footwear (low cap, more labour, china losing share in global market), Electronics (integrating 'Assemble in India' with 'Make in India'), Defence (need investor-friendly defence manufacturing policy), Toys (indian toys only 1% of world toy market, boost traditional indus), Solar Industry (boost given by National Solar Mission)

Way forward

- Trade Liberalisation: India needs to raise its share in world trade beyond 2 per cent- more free trade agreements, tit for tat policies
    - Europe will reduce its tariffs only when india reduces tariffs on Europen automobiles etc
- Promoting Ease of doing Business: creating conditions for companies to compete in global markets through (general points)
- Becoming Part of GVCs and regional value chains: Launch negotiations with aim of boosting exports
- Policy Stability: shift away of firms from China - India should provide policy stability- Make in india and export from India to other countries
- Creating state-level engagements for economic diplomacy: Under the newly christened 'Economic Diplomacy and States' vertical of the Ministry of External Affairs- state expertise to export growth
- WTO strenghtening- for strategic roadmap for inc in exports to high income countries
- High level action group on Int trade recommendations:
    - India should cut corporate tax rate (25-40%)- (most of the competitors - 15-20% mark).
    - Enhance capital base of the EXIM Bank by another INR 20,000 crores by 2022 and that of the Export Credit Guarantee Corporation (ECGC) by INR 350 crores.
        - ECGC introduced the **Nirvik Scheme** giving 90% cover of both principal & interest as against 60% provided by the banks currently
    - Strengthen Investment Promotion Agency (Invest India ++) and build an overall Trade Promotion Organisation

- Focus on champion sectors- 12 Champion Services Sectors good starting point for services exports , pursue high specialisation in goods too.
    - labour intesive exports of textiles, Technical textiles, electronics etc

2009- Evolving India's stand at WTO negotiations such that it is diluting its stand on agriculture issues to pursue perceived gains in services

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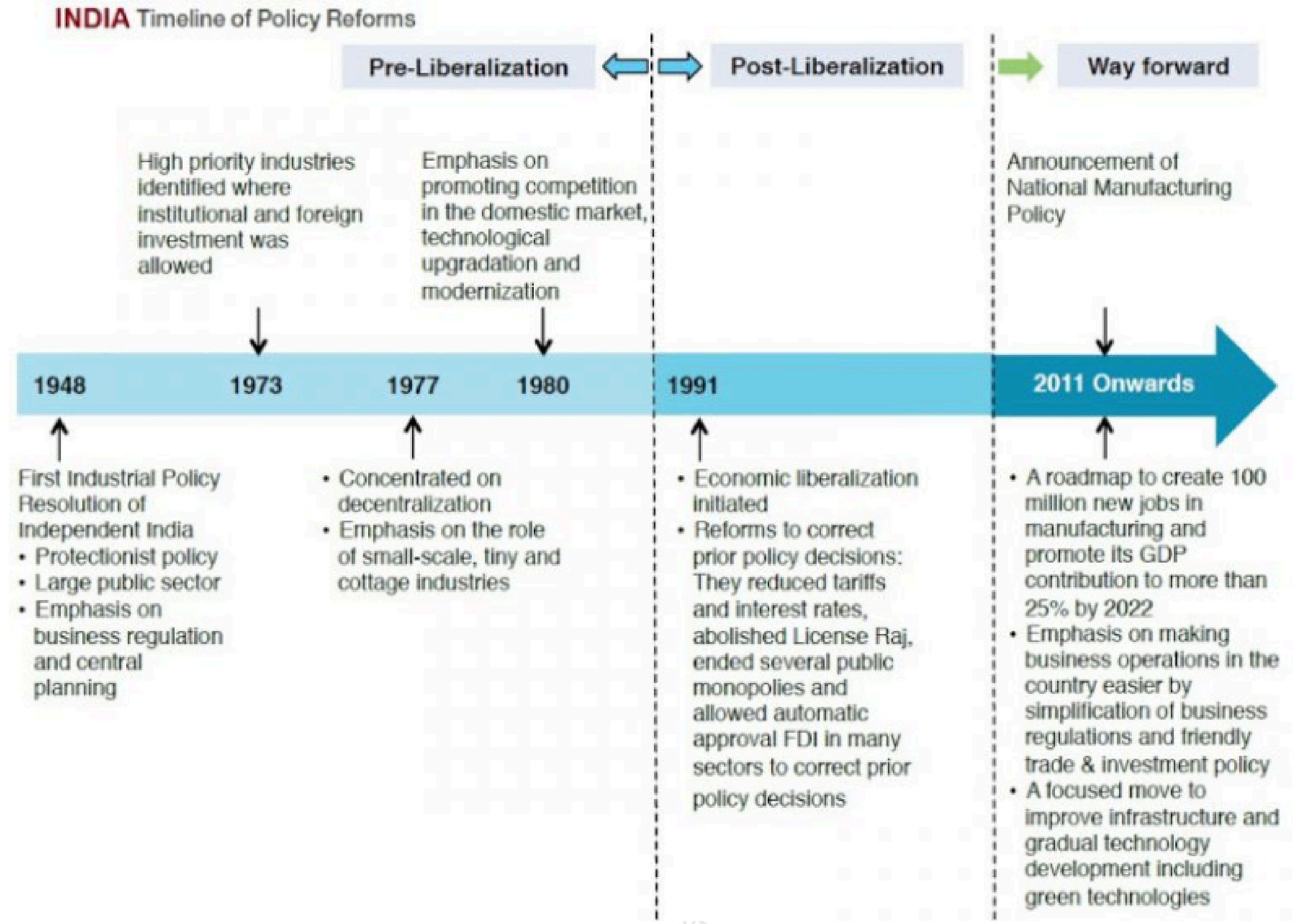
Changes in industrial policy and their effects on industrial growth

Industrial policy -strategic effort to encourage developement of industrial sector by focussing on broad and sector specifc policies

Main objectives are- sustained growth, generate gainful employement,optimal utilisation of human and natural resources and attain international competitiveness

Evolution of Industrial Policy in India



Industrial policy 1956- Industrial sector into 3 categories

- A- exclusive monopoly of state- heavy industries- railway,atomic etc
- B- state owned but pvt expected can only supplement efforts of state
- C- open for pvt

Basic objectives of Industrial policy post 1991

- Promotion of FDI- bring in technical,managerial expertise, SEZ augmentation
- Promoting competition along with restricting monoploy through CCI
- Reducing regional disparities- concession for industries in neglected areas- eg NE,JK
- Disinvestment- let bizman do bizz
- Specific industry related measures- textile industry promotion, leather

Current Govt. Policies and Initiatives

- Draft National Industrial Policy
  - Targets $1 trillion gross value addition in the manufacturing sector by 2025.
  - creating an industry which is armed with innovation, technology as well as financially sustainable and eco friendly

- Focus on IR 4.0- six thematic areas- tech and innovation,EODB,Infra,Manuf and MSME,Skills & employibilty for future(coding in schools in NEP)

- **National Manufacturing Policy 2011 (refer image above):** Target was to inc manuf sector's GDP contribution to 25% but current is around 17% (need to verify)

Features of NMP

  - 100 million jobs by 2022
  - Industrial townships called National Investment and Manufaturingn zones(NIMZ)- contains SEZ, Export oriented units
  - Presently 15- eg pithampur dhar mhow, ahmedbabd-dholera
  - EODB, tech upgrad,skill dev
  - Industrial corridors- DMIC, Defence industrial corridors in UP,TN
- **Make in India scheme**
  - Promoting india as global hub for manufaturing goods and services, design and innovation in 25 sectors
    - Relaxing FDI, Tax incentives, subsidies, Infra, EODB etc(General benefits)
  - Sectors (Think while framing ans)
    - Auto, Biotech, Real estate, Defense, Electronic, Food processing, Leather, Mining, Pharma, Ports, Railways, Renewable energy etc
- **Startup India 2016 (5 years)**
  - 3 yr exemption form IT/CT, Self certification, relaxed norms in public procurement, exit, legal-technical support
  - Angel tax rigidity relaxation
  - Successes: 'GEM Startup Runway' where govt procures products/services from startups; Rebate in patent fees of upto 80%; MCA has marked them as 'fast track firms' thus IBC proceedings in 90 days; Funds of Fund started with corpus of 10k
- **National Policy on Electronics 2019**
  - Make India global hub for E design and manufacturing
    - Through soverign patent fund as well as General benefits
- Other - Labour codes(easing compliance- shram suvidha portal etc), FT employement
- Infra related- Sagarmala, Bharatmala etc

India @ 75

Status: Stagnation of Manufacturing Sector: howering around 16% of GDP since 1991; FDI inflows into the manufacturing sector reached about 35 per cent of total FDI

Issues in manufacturing sector

- Regulatory cholestrol(Eco survey 19)
- Slow tech adoption acc to needs of Industry 4.0 (less R&D)
- Lack of export driven industrial growth - eg Vietnam,Bangladesh
- Infrastructural bottlenecks- power, transport and logistics, EODB
- Tax terrorism
- MSME issue- eco survey dwarf firms
- Selective flow of FDI in sectors
- Labour rigidity, harrasment by inspectors
- Lacking in contract enforcement(163), Registering property(154), Starting Biz(136) - EODB 2019 report
- PSU sector- Chakravyuh challange(Eco survey)- should not lead to revival and stagnation cycle
- India's material intensity is six times that of Germany's (using more material, means wastage) - NITI Aayog
- India's Index of Industrial Production (IIP) moderated growth to 3.8% in FY19 compared to 4.4% in FY18 (due to slower credit flow to MSMEs, NBFC luq crunch, tapering of domestic demand)

Way forward/ Reforms required in Industrial Policy

- Portal to monitor projects beyond certain threshold on real time basis for faster plugging of leakages
- Single window approval to reduce unneceseary buearacractic hurdels for non-sensitive sectors
- Cluster led growth according to specialisation of respective states and districts
- Govt-Industry-Academia trinity
- Better harmonisation of export codes for Indian products for increase exports
- MSME- labour intesive exports and R&D
- Industry 4.0- Nudge industry to adopt it
- IIT-IISc for smart manufacturing- also enable IPR protection
- Land banks
- Model shops and establishment bill 2016- pursuade states to adopt
    - 24/7, more emp, growth etc
- Niti Aayog- Circular economy for resource efficiency instead of use and throw
    - Draft National resource efficiency policy 2019

Good signs

- EODB 2020- 63 from 134 (2014)
- FDI inflow rank - 9 (2019) from 14(2010)
- Cover schemes of MSMEs as well as they also fall here

2014: Direct jump from agri to services sector . Reasons for the huge growth-services vis-a-vis industry? Can India become a developed country without a strong industrial base?

Normal shift from agri to industries to services(china) of countries

But India direct jump

Reasons

- The socio-capital Nehruvian economy was plagued by restrictions and red-tapism widely known as "license raj" and hence never gave the required impetus to industrial sector despite it being planning commissions priority.
- English speaking country- western education gave an edge to english-speaking Indian demographic in world market.
- 1991 reforms- leap in IT/Communication sector- outsourcing jobs, India became IT power
- Disinvestment of manufacturing PSU's- industrial sector lost guidance amid increasing competition and imports
- Non regular updation of Industrial policies- last 1991
- Failure to develop power and transport infra for manuf wheraas IT/Comm requires less physical infra(internet explosion)
- Huge skilled labour along with low labour cost- global rise in demand of services- India became outsoucing capital
- During the Internet bubble that led up to 2000, heavy investments in undersea fibre-optic cables linked Asia with the rest of the world.
    - Huge IT exports as well as skilled labour outflow complements India's services sector
- Can write other challanges of manufacturing sector

India can become a developed country without a strong industrial base like Switzerland but that is fraught with danger.

A weak industrial sector makes India's economy fragile and highly susceptible to global fluctuations. There is no alternative to self-dependency when it comes to sovereignty of a nation-state therefore:

- Agri emp more than 50%- disguised labour- need to shift to industry
- Service sector require high skills- cant absorb all- so to reap DD need strong industry

Conclude with govt efforts to promote industry

2017- Account for the failure of manufacturing sector in achieving the goal of labour-intensive exports rather than capital-intensive exports. Suggest measures? (focus on manuf sector)

Capital intensive focus can be seen from dev of sectors such as auto parts, chemicals, software and pharmaceuticals rather than labour intensive ones such as textile, leather, etc.

- Reasons for the above phenomenon
  - Emphasis on capital intesive sector since 2nd FYP eg steel
  - Bangladesh,Vietanam excelling due to Least dev countries benefits
  - Most of the labour intesive sector in unorganised sector
  - Rigid Labour Laws → Disinventivizes entrepreneurs to employ labour in their factories
  - Dearth of skilled workforce: quote india skilled report
  - Unhealthy industrial relations due to unfair practices of unions and employers
  - Availability of technology at cheaper rates → reliance on imports
  - Standardization of goods/services possible due to capital intensive set up
  - Lack of EoDB

Govt initiatives to promote labour intesive exports

India textile industry 2nd largest exporter in world(but more potential for employement)

- Technical textiles exports- National TT mission- export focus
- India handloom brand logo,GT tag- entice foreign buyers
- Measures to improve the same
  - Concentrate on apparel,footwear,micro-foodprocessing,organic industries
  - Promoting the MSMEs - which are generally labour intensive

- Formalisation of informal sector
- Encouraging the sectors through incentives, rules simplification
- Skill development
- Simplifying labour laws
- Providing adequate credit
- Eco Survey suggested to encourage textile and leather industries as they can:
  - Absorb women workers by encouraging textile industry to move to smaller towns - Lead to rurbanisation;
  - All these need investment in R&D to ensure that needs of newer customer can be factored into the current framework

2016-"Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons? How far the recent changes in Industrial Policy are capable of increasing the industrial growth rate?

Introduction: Stagnancy in manuf/indus growth since long (16-17%); whereas GDP growing at stronger rates

Reasons: Cover challenges faced by manufacturting sector

2013-Challenges to implement CSR in right spirit? Should it be mandatory?

MSME

- Definition (As revised in MSME Act 2006)

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs.50 cr. and Turnover < Rs. 250 Cr.

- Significance: Employs 12 crore people; 30% of GDP; 40% of exports, 45% of manuf output
  - Two-thirds of these units are operated by SCs, STs and OBCs (Inclusive)
  - 99% of business units for under MSMEs; ~6.6 crore orgs of only 25 lakh are registered
- Potential: Check urban migration, flag bearer of 5 Trillion goal; Spread across India unlike big units which are cluster based

- Challanges:
  - Credit conundrum: only 8% MSMEs are served by formal credit channels; Reasons are lack of assets for collateral, Higher NPA rate = fear for lender; Poor quality of financials
  - Informalisation: Almost 86% of the manufacturing MSMEs operating in the country are unregistered. Though this brings down their costs. But, in times of crisis it also constrains a govt's ability to help them
  - Fast changing technologies: They are more vulnerable to newer dev such as Industrial 4.0
    - Divergence btw research inst and requiremnts of MSME's
  - Dwarfism culture: where rather than MSME becoming bigger cos. → entrepreneurs find it optimal to start a new firm to continue availing these benefits (ES 2019)
  - Lockdown → Had to still face fixed economic costs → low working capital
  - Lower production capacity → uncompetitive prices
  - Delayed payments from gov
  - Ineffective marketing strategy
  - Competition from MNCs, imports
  - Regulatory cholestrol: challenges to avail benefits
- Measures taken by Govt
  - Loans upto 1 crore within 59 minutes through an online portal
  - Interest subvention of 2% for all GST registered MSMEs
  - All govt organizations to compulsorily procure 25 percent from MSMEs; All CPSUs to compulsorily procure through GeM portal
  - Simplified forms under labour laws. Factory / labour Inspector will inspect MSME unit via computerised random allotment
  - Self-declaration for air and water pollution laws
  - Equity Infusion of MSMEs through fund of funds (Atma Nirbhar Bharat)
  - Global tenders to be disallowed upto 200 crore
  - TReDS Portal (for collecting dues)
  - MUDRA Scheme, Start Up India, Collateral free loans, Subsidised Electricity Bills
  - Marketing Support
  - Wholesalers & Retailers incl again in MSME definition (eligible for PSL loans)
- Way forward
  - RBI's UK Sinha Report
    - IBC norms should be tweaked to simplify NPA resolution
    - Setup an Information Utility portal. All MSME upload their invoices. If any client not paying on time, Government should punish him
    - Focus on technology adoption, capacity building, backward and forward linkages
  - Reforms as per ES 19

        - Tweak PSL Norms to favour cos. availing loans for the first time (infant firms)
        - Sunset clause for incentives of MSME to prevent dwarfism
        - Focus on Service Sectors with high spillover effects eg: Tourism
    - Other reforms:
        - To inc credit access: Dev of credit risk database (to inc trust while lending); Leveraging digital platforms
        - Awareness generation and capacity building

2015: There is a clear acknowledgment that Special Economic Zones (SEZs) are a tool of industrial development, manufacturing and exports. Recognizing this potential, the whole instrumentality of SEZs requires augmentation.

Discuss the issues plaguing the success of SEZs with respect to taxation, governing laws and administration

SEZ

SEZ is a specifically demarcated area of India which is deemed as foreign territory for the purpose of Tax laws and Trade laws set up under SEZ Act 2005

The main objectives of SEZs - generation of economic activity, promotion of exports and investment, employment generation, infrastructure development.

SEZ Rules provide for, simplified procedures for conducting business, single window clearances, simplified compliance procedures and emphasis on self-certification.

Since the SEZ Act came into force in 2005, over 2 million jobs have been createdThe share of SEZ exports in India's total exports value has grown to around 30% in 2018-19. Currently there are more than 200 SEZ in India

Need

- China growth - SEZ driven- near ports, decentralisation of commercial powers for faster clearances

Challanges

- Unutilised lands in SEZ- instances of land grab by land mafia
- Multiple models- SEZ,NIMZ,CEZ etc
- Baba Kalyani- lack of support from state for state level clearances
- Taxation issues
    - High MAT- Govt reduced to 15 from 18%. Industry demanding removal for inc exports
    - Domestic sales of SEZs face a disadvantage: as "they have to pay full customs duty", as compared to the lower rates for countries due to free-trade agreement (FTA). It is suggested that the "best FTA rates" should be allowed for domestic sales, too.
    - Sunset Clause: According to Section 10AA of the Income Tax Act, units in SEZs get a phased tax-holiday for a period of 15 years. However, the benefit is available to only those units that start operations before March 31 this year. Industry bodies are asking to extend sunset clause, owing to slowdown in economy.
        - However, benefits under indirect taxes, like exemptions on GST and incentives on exports continue to exist.
- Constraints for services sector: At present, domestic firms are required to pay in foreign exchange for services rendered by a SEZ unit unlike sale of goods- could be made in rupee terms- companies outside SEZ hassle of changing rupee to foreign exchange for payment purpose.

Recent steps taken by government

- Local sourcing norms clarified for single-brand retailers: sourcing of goods from units located in SEZs in India would qualify for meeting the mandatory 30 per cent local sourcing conditions.
- All existing notified SEZs deemed to be multi-sector SEZs- This would release land parcels in single commodity SEZs for other sectors. This reduced confusion for new industry, like, artificial intelligence as to which category of SEZs to fit them into.

Baba Kalyani Comitte/Way forward

- Reincarnation of SEZ as Employement and Economic Enclaves (3E)- focus on E&E whether export or otherwise

- Harness sunrise industry potential- eg biotech, technical textiles
- Supply of power directly to units from independent power producer (IPPs) at competitive rates
- Fast tracking various approvals via online mode
- Integrating MSME with 3E's
- Infra status to 3E's for better finance
- Replicate Success of ITeS, in other services sector like health care, financial services, legal, repair etc.
    - Tax benefits for services SEZs, extension of sunset clause, lowering taxes (such as a MAT of 9 per cent and exemption from DDT) for identified strategic services
- Connectivity to remote SEZs through development of last mile and first mile connectivity
- Other
    - Performance related targets for each SEZ's
    - Frequent change of rule should be avoided
    - Avoid prime agri land
    - Rationalisation of various models. E.g. proposed Coastal Economic Zones consisting of a series of SEZs and Sagarmala project that aims at port-led industrialisation.

Disinvestment

Strategic Disinvestmet: Govt. reduces it stake below 50% and also transfers management control

Target for FY22 as per Budget: Rs. 1.75 lcr

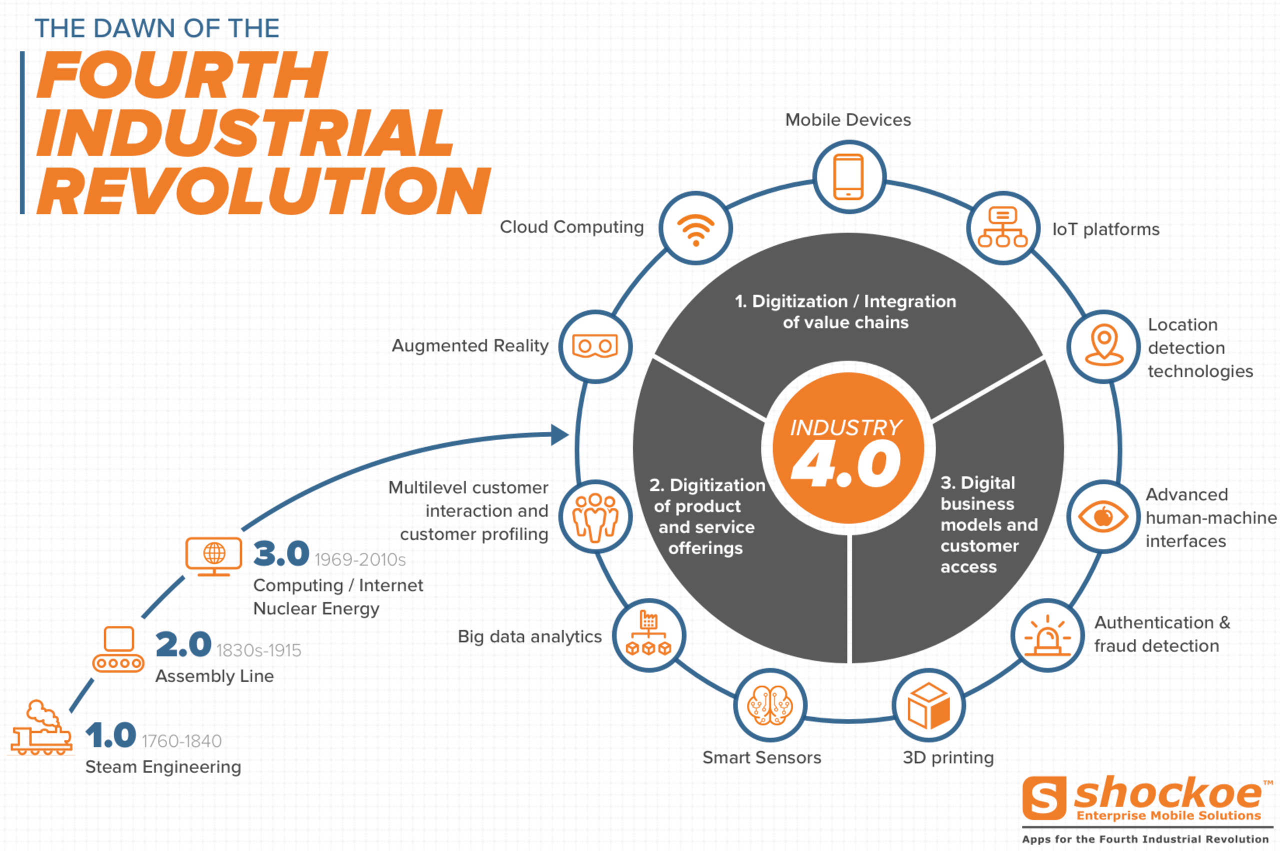
See if some data can be gathered on their overall contribution to GDP

- Pros
    - The govt has no business of being in the business - role is of facilitator
    - Past success stories such as Hindustan Zinc has seen six fold expansion in capacity
    - Acts as a source of income
    - Strategic buyer will bring better management and innovative methods for development
    - Fund can be mobilized for other fruitful PSUs or purposes to spur growth in the economy

- Bimal Jalan- PSU like old family silver- more cost in polishing than its actual value
- Maruti when privatised in 2002 was worth 4300 cr, now is 2 lakh crore+ (benfits to economy/ govt due to inc in wealth)

- Cons
  - Sale of well performing PSUs rather than loss making ones eg: Sale of Navaratna company like BPCL
  - If PSUs are bought by Indian private firms it reduced funds & managerial resources for other pvt firms on sale through bankruptcy process or reduce the investment in green field projects (so there is a trade off)
  - Does not guarantee efficiency unless process is transparent and regulator is effective (Rangarajan Committee 1993)
  - Fire/Stress sale: Depressed state of the markets and the paucity of reasonable buyers would lead to lesser prices
  - National security concerns eg: disinv of oil PSUs might not align with our strategic goals
  - May impact social security of labour force, trade unions show resentment; Impact on social justice as PSUs have ensured high quality jobs for SC/ST/OBCs and other vulnerable sections
  - Private sector seems to relegate public benefits to the background (eg: corona vaccine pricing); Private seems better than public only on the limited metric of profitability/shareholder return
  - PSUs offer reservation which foster social justice - not provided by pvt firms
- Way Forward
  - The entire procedure of disinvestment including the bidding has to be transparent and fair. D when done carefully can generate resources for the govt, set right incentives for mgmt and reward the investing public
  - Evaluation matrix analysing performance of PSUs must also factor their social role rather than just focusing on their losses
  - Need to strike a balance between public and private, allowing private only in non-strategic sectors
  - 15th FC - NK Singh - suggested to 'incentivize' state govts. to disinvest from their myriad state PSUs
  - Economic survey suggested a sovereign investment arm on the lines of Singapore's Temasek Holdings which will act as as an investment company manage PSU based on commercial principles
  - Chinese Model - China chose to nurture their **good** both state owned & pvt enterprises by inc their competitiveness and tech (out of Fortune 500 list - 91 are state owned enterprises) - while we are sellling good ones
  - Our privatisation policy is for growth and employment and not for the plugging of fiscal deficit - said Disinvestment Secretary

Industrial revolution 4.0



Eg: 3rd IR = Automated factories; Eg: 4th IR = Intelligent factories;

3rd IR vs 4th IR = 4th IR is coming at exponential rather than a linear pace of predecessors; The impact of 4th is also deeper and broader

Industrial Revolution 4.0 can help in transforming India by:

Alleviating poverty. Better and low-cost healthcare. Enhancing farmer's income. Providing new technology and equipment to farmers. Strengthening infrastructure, improving connectivity. Improve ease of living and ease of doing business.

Current Status: India has become the fourth country in the world where World Economic Forum has opened its 'Centre for Fourth Industrial Revolution'. It is working collaboration with NITI Aayog with current focus on Artificial Intelligence, Blockchain and drones.

- Ministry of heavy industry- emphais on cyber physical systems, making industry ready for 4.0 (Samarth Udyaog Bharat)

Impacts (both +ve and -ve)

- On Govt: Provide mediums for greater engagement with citizens, coordination and at the same may allow both sides to circumvent current framework
- On Security: Potential to both reduce (newer modes to protect) or increase conflict (through newer weaponry)
- On People: Improve quality of life v/s privacy concerns
- On Business: Better understanding of customer expectation, supply chain management, product enhancement, etc.

Opportunites for India

- More than 50 per cent of its population is under the age of 27 = digital workforce and market
- Complimentary with govt. initiatives such as National Programme on AI, Atal Innovation Mission, Start up India
- Increasing ranks in Global Innvoation Index
- India has the highest mobile data consumption in the world

Challanges

- Displacement of workers - lead to increased social costs
- Newer jobs will be created in skilled segments where as people displaced will be least equipped
- Increased inequality in the society
- Issues with privacy and impact on day to day lifestyle of people at large

Way forward: India missed the 1st IR due to colonial rule, it must tap this opportunity and ensure benefits are shared by all

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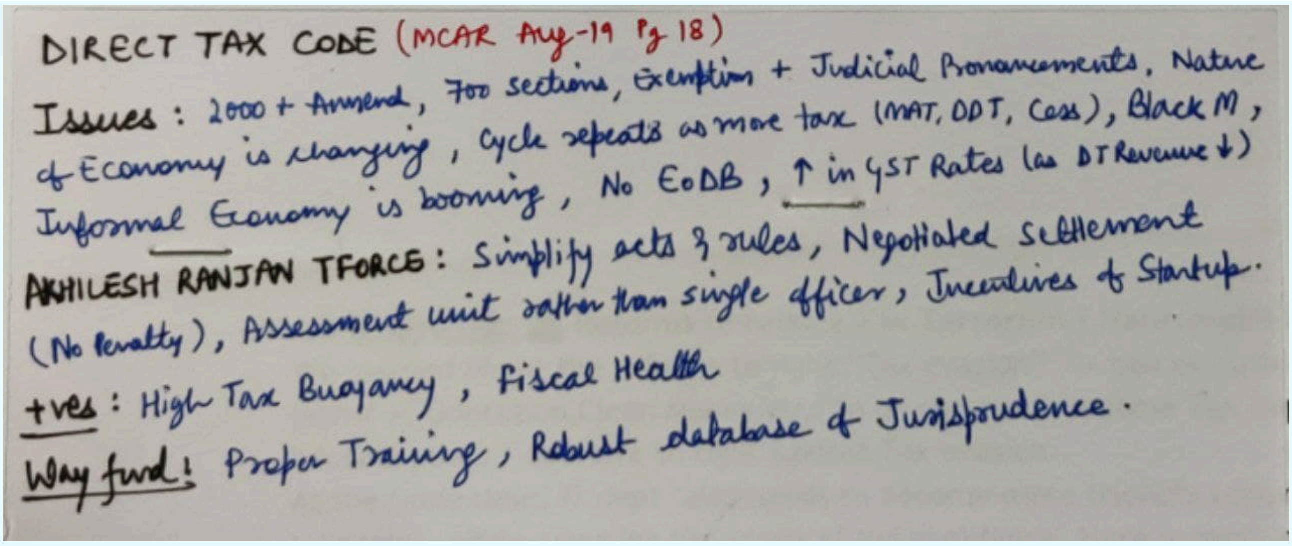
Mobilization of resources

- Resource Mobilization is the identification, organization and utilization of the available material resources within the country (including financial resources) to further objectives of development missions and plans.
- Stats highlighting the need for resources:
  - ES 2018: Need 4.5 TD (trillion $) for infra in next 25 years
- Various types of resources: Economic/Financial , Human (talk abt skill, emp level, edu), Natural/Physical (minerals, infra)
- Issues related to mob of Natural resources- unable to exploit domestic resources fully - huge import of petroleum,coal, tribal issues, judicial activism, tech issues.
- Issues related to mobilization of Economic resources
  - Tax Revenues
    - Direct Tax Issues:
      - Narrow tax base (~5% file returns, ~1-2 % actually pay tax)
      - Low tax to gdp ratio - 17% (6%-direct; 11%-indirect) - Compared to OECD avg 34%
      - Tax disputes: Amount blocked Rs. 9.83 lakh cr eg vodafone issue; Moreover, success rate of govt. is low ~30% (as highlighted by ES)
      - Digital economy- evasion by ecommerce co. for advertising
      - BEPS by corporates, loopholes in DTAA
      - Reduction in corporate tax - (loss of Rs. 1.45 lcr p.a.)
      - Black money-parallel economy
      - Tax evasions, Tax avoidance- huge unorganised sector
      - Tax exemption use
    - Indirect Tax Issues:
      - GST
        - Has caused vertical imbalance b/w centre and state- affected state finances(compensation issue)
        - Multiplicity of rates- confusions
        - GST Council proving ineffective with virtual veto of CG
        - Design flaws: Nearly 45% to 50% of commodity value is outside the purview of the GST, such as petrol and petroleum products. This has allowed CG to increase cesses and while decreasing central excise (Central excise is shared with states while cesses are not)
        - The gap in filing GSTR-1 was 33% in 2019-20 and has been increasing. Fraudulent claims of Input Tax Credit (ITC) are quite high.
      - Other- Smuggling to evade customs
      - Increased pressure on CG/SG for grants to local bodies (urban/panchayats)

- Non-Tax Revenues
  - Burden of interest on increasing debt
  - PSU related issues
  - Disinvestment issues
- Subsidy Burden: Issue of 3F (Food, fertilizer, fuel)
- Capital Receipts
  - Fiscal deficit issues → Crowding out effect
  - Disinvestment issue- Air India bik nahi raha
  - FDI Receipts in FY21 were highest ever but they were skewed towards very few players, 80% in service sector (while atma nirbhar focuses on growth of manufacturing sector through PLI scheme)
    - What we need is 'greenfield FDI' and not mere takeover by FDI
- Financial Sector (Banking, Stock Exchanges)
  - Key role in mobilization of resources across the economy
  - PSB- NPA, NBFC crisis
  - Unable to attract savings of the masses (Domestic resource mobilization)

- Measures taken:
  - GAAR, BEPS guidelines under OECD
  - Vivaad se Vishwas Scheme (waiver of interest/penalty), Honouring the Honest Platform
  - Restructuing of CSS
  - Direct Tax Code under Akhilesh Ranjan Committee
  - Equalisation levy
  - FRBM Act, NK Singh Panel
  - Undisclosed foreign income&assets act, Economic offender act, Benami property act,
  - Reducing tax terrorism- faceless e assesment
- Way Foward:
  - Improving compliance rate of tax laws
    - Follow Adam Smith 4 canons of taxation- Equality (equal to income), Certanity, Convinience, Economy
  - Behavioral economics as suggested by ES 19 - eg: VIP treatment to Top 10 highest tax payers
  - Widening tax base, improving tax buoyancy
  - Committees: Mention various names here
  - Promoting Green Finance
  - Push for multilateral agreements
  - Fast tracking tax disputes
  - Rationlising subsidies

Direct Tax Code



DIRECT TAX CODE (MCAR Aug-19 Pg 18)

Issues: 2000 + Amend, 700 sections, Exemption + Judicial Pronouncements, Nature of Economy is changing, Cycle repeats as more tax (MAT, DDT, Cess), Black M, Informal Economy is booming, No EoDB, ↑ in GST Rates (as DT Revenue ↓)

AKHILESH RANJAN TFORCE: Simplify acts & rules, Negotiated Settlement (No Penalty), Assessment unit rather than single officer, Incentives of Startup.

+ves: High Tax Buoyancy, Fiscal Health

Way fwd: Proper Training, Robust database of Jurisprudence.

Digital Tax

- Current Status:
  - 2016: Added 6% equalization levy on online advertisement services
  - 2020: Expanded the scope of existing equalization levy to a range of digital services that includes e-commerce platforms. 2% will be levied 2% on the non-resident e-commerce operators having turnover > 2 crore
- India's Stand: India opted for above measures because there was no multilateral consensus in sight on this issue. Once a multilateral consensus comes into play we can align with the same
  - Action Plan 1 at BEPS of OECD is working for the same but the progress is low
- Issues in current framework:
  - Seeks to cover non-resident to non-resident transaction if based on Indian IP address
  - Estimation challenges due to intangible nature of business
  - Covers all Non-resident to non resident transaction unlike 50% coverage in UK law
- Foreign tech cos. have significant ecnomic presence (SEP) in India which allows us to tax them
- Way Fwd: With multiple jurisdictions involved including India, there is a need for a multilateral consensus as taxation of digital economy is a sensitive and complicated matter

Mobilization of resources, Financial Intermediation (Banking, Insurance, Capital Markets, External Resources), Budgeting

2012: Domestic resource mobilization, though central to the process of Indian economic growth, is characterized by several constraints? Explain

Covered above

whereas External resource mobilization involves other parameters such as FDI, foreign aid, etc.

2017: Among several factors for India's potential growth, savings rate is the most effective one. Do you agree? What are the other factors available for growth potential?

Public Savings: Saving Rate? Is it most effective of India's potential growth? Importance? Measures to raise volume of the same? What are other factors for India's potential growth

Definition of Saving Rate: Saving is a choice to forego some current consumption in favor of increased future consumption. Economic conditions, social institutions, and individual or population characteristics can all influence the savings rate.

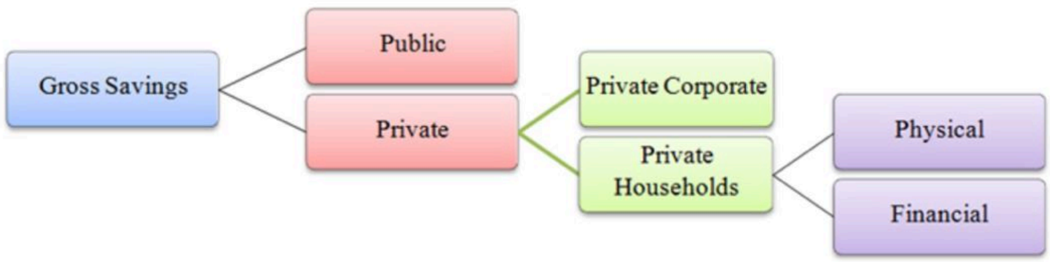
If the country wants high sustainable growth, it must raise the investment rate. But investment needs funding. If domestic savings are falling, the government is right to tap into foreign savings.

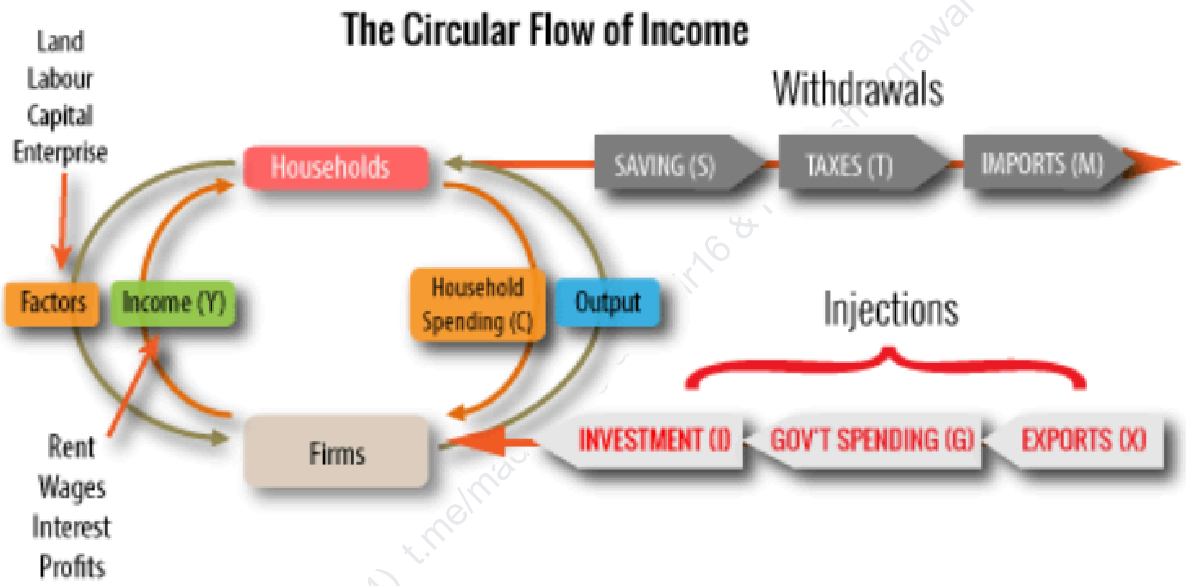
However, high savings rate is a necessary condition but not a sufficient one for economic development.

Many times high savings in isolation does not lead even to capital formation. One also needs sound banking and financial institutions to mobilize the savings of economy.

<u>Other factors needed are</u>: Foreign savings such as FDI/Soveregin wealth funds, Infrastructure, EoDB, HRD, Technology, Social Political factors

- Factors for growth written above





Current status and trend:

India's gross savings fell to 30.1% of GDP in fiscal 2019 from 34.6% in fiscal 2012, and 36% in 2007-08 (CSO data)

(1) Household Savings:

The household sector is the largest contributor to domestic saving. Savings are converted into investment with the role of financial sector's intermediation in the process.

(a) Physical Assets: housing, machinery, gold

(b) Financial Assets: This takes the form of currency, bank deposits, national savings certificates, life insurance funds and provident and pension funds.

(2) Government Savings:

Government savings come from surpluses of public enterprises and other public financial institutions. Government savings 8.2 per cent of GDP in 2009-2010. Since then there has been a steady decline due to

Among the factors responsible for this trend, the most important are:

(a) Deterioration in the overall tax GDP ratio

(b) The increasing losses over time made by public sector utilities like Air India, railways

(3) Private Corporate Savings:

8.24 per cent of GDP in 2009-10.

In developed countries, the corporate sector has contributed, significantly to national savings, while it has not done so in India, in spite of the development within the secondary and tertiary sectors of the economy and the significant increase in manufactured output.

This is attributed to the following factors:

(a) Massive increase in the use of loan capital in Indian industry and the fall in the share of profits in factor incomes;

(c) The taxation policy, which discourages the accumulation of undistributed profits in companies and corporations coupled with a low profitability syndrome.

Measure taken to mobilize savings:

Householdd- PMJDY, Insurance schemes, Pension schemes, Gold monetisation scheme, Sovereign gold bonds, other Financial inclusion related points

Govt- Better PSU functioning, efficient tax collection

Private- more investment through financialization of household saving, need for own profits for investments

Monetary Policy, Banking

2018: Impact of protectionism and currency manipulations around the world on macroeconomic stability of India

Protectionism means the use of tariff and non tariff barriers to protect the local industry against foreign competition.

Currency Manipulation: US Department of the Treasury publishes a semi annual report - Nations in watch list are China, Germany, Japan, Switzerland

Context: US-China Trade War, World Trade Report (Annual). World trade growth has slowed down from 2017 (4.6%) to 2018 (3%), mainly due to protectionism

Impact of Protectionism and currency manipulations:

- China currency manipulation- cheap chinese goods- affect India domestic industry- lead to unemployement
- Huge imports- oil bills- rupee dep- high inflation
- Protectionism in west to counter china- affect Indian exports too- as primarily export to western countries
- Analyse Macro-economic stability on following fronts:
    - Inflation
    - Capital flows,
    - Employment,
    - Growth Rate, GDP,
    - Fiscal deficit
    - Current account deficit
    - Forex rates

However, India has ability to absorb these shocks to maintain stability

- Huge Forex reserves ~550 Billion US $
- Stable inflation due to effective monetary policy (unlike earlier when high rates of inflation- taper tantrum 2013)
- FDI policies- India attractive destination to invest
- Soaring stock market- Huge FPI investments (use cautiously)

NPA Issues: Status, reforms required

NPA- loan for which Interest/principal due for 90 days or more

Current status- Acc to CARE ratings- Gross NPA- ~8% for all banks and ~10% for PSB Banks

Eco Survey 19- perfomance of banking sector improving, but now COVID shock - cautious approach

Reasons for High NPA

- Borrower
  - Global eco slowdown post 2008
  - Wilful defaulters- Malaya, Nirav Modi
  - Diversion of funds for other purposes
  - Farmer- demads for loan waivers- affects PSB
- Bank
  - Bad lending practices without credit appraisal
  - Inadequate capacity to evaluate projects
- Other
  - COVID 19
  - External shocks
  - Policy paralysis
  - Judicial intrustion
  - Enviromental issues

Efforts to tackle

- Recognising- AQR by RBI
  - Banks acquire Legal Entity Identifier (LEI) number from the borrower and report to Central Repository of Information on Large Credit.
- Resolving- IBC, SARFAESI,Project Sashakt
- Recapitalisation- by govt- 2.11 lakh cr in 2017
- Reforms-Fugitive eco offenders act, transforming the PSBs under Mission Indradhanush, 2015., PCA, Bank consolidation, Bank Board Bureau (governance issues)
- Measures taken by RBI
  - Central Repository of Information on Large Credits (CRILC) of loans > 5 crore
  - Prompt Corrective Action Framework: Direct tool which gives warning, restricts salaries, branch expansion → To come out inc profitability, reduce NPA and and bring more capital

- BASEL Norms: CRAR @ 9%
- Concept of Domestic Systematic Important Banks (D-SIB)
- SMA 0, 1, 2 categories for proactive supervision

Way forward

- ES 19: Increase NCLT benches, use ICT for faster case proceeding; Separate law for cross border insolvency
- Managing Risk improvement in PSBs. Compliance is still not adequate(PNB LOU Nirav Modi) and cyber risk needs greater attention
- Improve the process of project evaluation- industrial visits
- Strengthen and fasten the recovery process further: Both the out of court restructuring process and the bankruptcy process
- Be cautious when asset goes to SMA category
- Yeshwant M deosthlee commitee- Public credit registry
- Infusion of Capital
- FM N Sitharaman said 'Banks must not fear 3Cs - CAG, CBI. CVC
- KV Kamath Commitee: Bucketing accounts into mild, moderate, severe stress while restructuting stressed asset during COVID-19; Focus on 26 key sectors (power, construction, NBFC) for quick turnaround

NBFC Crisis

NBFC operate via asset-liability mismatch (lend at longer tenure and borrow at shorter term); Thus they have continously refinance their loans → Roll over risk

Background: NBFC ALM → Not able to refinance → IL&FS Default → Investors such as Mutual Funds became risk averse towards the whole sector → Liquidity crunch → Spill over effects on MSME sector and infrastructure projects

Challenges faced by NBFC: Multiple regulators; Write about ALM

Measures taken: Special liquidity scheme for NBFCs through SPV by RBI; Targeted LTRO; Partial Credit Guarantee Scheme; Special Liquidity facility for Mutal Funds; 'Utkarsh 2022' roadmap to imbibe global practices & improve regulation of RBI

Issues with Urban Cooperative Banks

- Background: Co-operative Banks to come under the regulation of RBI; RBI will have power to supersede the board if such bank is in distress; Administrative matters will still be dealt by Registrar Cooperative
- Regulatory: Dual regulation, Ignoring guidelines of RBI

- Structural: Whole bank comes down due to correlated local risk as most UCB have single branch; Small capital base
- Weak management and professionalism - Politically bent interests
- Way Fwd: Independent external audit mechanism; Using Tech; ⬆️ Investor's awareness & confidence

IBC 2016

Process

1. Creditor/borrower approach to NCLT/DRT under SARFAESI
2. Insolvency proffesional appointed for resolution- reduce loan interest,extend loan tenure
3. Make resolution plan
4. If agree- debt restructing, if not- liquidate

Success

- Resolution at pre-liquidation stage due to fear of liquidation
- Large account recoveries- Bhushan steel success recovery
- Wilful defaulters- direct liquidation proceedings- Malya
- Uniform appraoch as SDR/S4A revoked
- Faster time (SARFAESI had high pendency of cases)
- SARFAESI does not cover arbitration (which is fulfilled by IBC)
- Information Utility maintained by IBBI

Challanges

- No buyer for specific companies- huge haircut
- Difficulties in case of cross border insolvency
- Reducing limit from 75% to 66% by creditors to resist liquidation should not lead to lax attitude of borrower

Way Forward:

- Diff between Financially distressed(due to circumstaces)- dont liquidate: Economically distressed(unviable biz, failed model eg TV Cassete industry) - liquidate

Review of MPC since 2016

Success? Failuers?

Inflation targeting adopted in the western nations - control inflation and other variables (such as growth, employment, exchage rate) - Recommended by Urjit Patel Committee

Trend in repo rate after new MPC: 6.25% in Oct'16, 6.5% in Oct'18, __% in Oct'21

- Success:
  - Inflation target achieved (earlier it was 10% now controlled to 4)
  - Outside perspective gathered through 3 members
  - Minutes publishing leads to greater transparency
  - Interactive post monetary policy discussion
  - Forex Reserves ~ $550 bn
- Failures:
  - The Bank for International Settlements (BIS) wrote in its Annual Report 2015-16: "Inflation is a highly imperfect gauge of sustainable economic expansions"
  - MPC generally uses its own inflation forecasts - causing it to keep monetary policy too tight in 2017 and 2018
  - Financial stability and growth impacted due to IL&FS - NBFC crisis
  - Low monetary policy transmission: in Aug 20 RBI Gov said out of 250 bps only 162 transmitted by banks
  - Reducing credit book of banks
- Limitations of Monetary Policy: Can tackle demand side issues but not supply side choke points (as happened in COVID); Repo is not a major source of funds for banks, unlike advanced economies where households don't save much in banks
- RBI Report said current inflation target of 2-6% band is appropriate for another 5 years
- Advantage of Inflation target: Inflation target makes the central bank perennial chamption for consumer vis-a-vis fiscal policies that directly or indirectly drive retail prices up (eg: As the fuel prices reached 100 per litre, RBI was the only major national institution to ask CG/SG to consider cutting taxes as RBI's own credibility is questioned when target will be breached; this shows inflation target works for consumers)

GOI measures to control inflation: General, Specific

General Measures: Using direct monetary tools such as LAF, MSF, OMO and indirect tools such as moral persuasion

Specific Measures:

- Vegetable Inflation: PM Samapada Yojaba, Operation Greens, Minimum Export Price, Essential Commodities Act abolished
- Agri inflation- agri reforms, predictable international trade
- Controlling Crude Oil Inflation & CAD: Goal of reducing the oil import by 10% by 2022; HELP Policy to to explore and produce hydrocarbons domestically; Strategic reserves at Padur, Chandikhol, Visakhapatnam;

Bank Consolidation

- Context: Approval of amalgamation of ten PSBs
    - Narsimhan C(1991)- 3/4 Large banks
    - PJ Nayak(2014)- Merge PSB's & tranf holding all govt shares to 'Holding Company'
        - 2017- SBI + 5 asso banks
        - BOB+VB+DB
    - Alternative mechanism Panel headed by FM- look into merger proposals - send to CC of EA
    - Corporate tax cuts and state run bank merger has been praised even by **World Economic Forum** stating it as a necessary impetus
- Benefits:
    - Geographical & technological synergies (in ATM, Branches, Servers etc.) resulting into Economies of scale → better lending & deposit rates
        - If question is of more marks - make sep points for inc in revenue and dec in costs 😜
    - Use technology to leverage combined database/information and gain competivie advantage
    - Easier to regulate as less no. of entities
    - With combined capital, banks can provide loans of larger amount for infra projects
    - Boosts investor confidence as generally they shy away from investing in smaller banks with weak balance sheets
- Limitation:
    - Customers find banking with strange entity difficult
    - HR & organsation structure issues; Cyber security issues on amalgamtion of different CBS softwares
    - More load per branch leading to reduced service
    - New staff will not know previous history of customers → future loans become vulnerable
    - Meaningless without operational reforms in PSB's- Fear of CVC, CBI, CAG
- Conclusion:
    - Corporate tax cuts and state run bank merger has been praised even by World Economic Forum stating it as a necessary impetus

  - Bi-Cultural Audits to be conducted (eg Vijaya bank of south, BOB - north)
  - Mergers without political distance from PSB's ineffective- so ensure commercial autonomy

Para Bank - Bad Bank

Before the lockdown gross NPAs fell below Rs 10 lakh crore, but CRISIL- it is expected to cross Rs 11 lakh crore by the end of this fiscal year.

- The Economic Survey 2017, suggested Public Sector Asset Rehabilitation Agency or PARA, to buy out the NPAs of high value from Indian banks.
- A bad bank is technically an asset reconstruction company that buys bad loans (NPAs) from the commercial banks (generally PSBs) at a discount and tries to recover the money from the defaulter by providing a systematic solution over a period of time.- can help in reviving lending and credit growth

Rationale of Bad Bank

- Easing Provisioning Requirement: High level of NPAs = Fund blocked under due to provisioning requirement → reduction in capital base
  - Bad Bank can free an estimated of Rs. 5 lcr of funds
- Re-assuring Trust: Allows investors/depositors to assess Commercial bank's financial health with greater clarity (as good assets are segregated from its bad assets)
- International Precedent: USA brought Troubled Asset Relief Program (TARP); Similar initiatives also taken up by Japan, Ireland, etc.
- Concerns About IBC Code: Many lenders are concerned over huge haircuts they have to endure after a resolution through the Insolvency and bankruptcy code
  - Also, NPAs in the power sector can't be resolved through the IBC system due to structural factors(election me free bijli- more NPA's even after resolving)

Associated Challenges

- Mobilising Capital: Finding buyers for bad assets is a challenge; Price discovery of stressed assets is a challenge
- Moral Hazard: as per Former RBI Governor Raghuram Rajan - Bad bank idea is like shifting loans from one government pocket (the public sector banks) to another (the bad bank)
- Not Addressing the Underlying Issue: Without governance reforms, the Public sector banks (accounted for 86%, of the total NPAs) may go on doing business

the way they have been doing in the past and may end up piling-up of bad debts again.

  - PSBs are led by bureaucrats which lack commitment to improve situation - PARA does not addresses this root cause

- Bad news for tax payers as they will have to take the hit
- Provisioning Issue Tackled Through Recapitalization: Union Government, in the last few years, has infused nearly Rs 2.6 lakh crore in banks through recapitalisation
  - Those who oppose the concept of bad banks hold that the government has on its part recapitalised the banks to compensate for the write-offs and hence, there is no need for a bad bank.
- Market-related Issues: The price at which bad assets are transferred from commercial banks to the bad bank will not be market-determined and price discovery will not happen.

Conclusion: So long as PSB influencedby politicians and bureaucrats, their deficit in professionalism will remain and subsequently, prudential norms in lending will continue to suffer.

Therefore, the debate regarding setting up a bad bank must be preceded by proper implementation of holistic reforms in the banking sector, as envisaged under the IndraDhanush plan.

Corporate Bond Market - HR Khan Committee

(Use this in suggestion in any question)

Aim of the committee was to suggest on how to deepen corporate bond market to reduce pressure on banking credit and resultant NPA's

Issues faced currently: Corp debt only 16% of GDP; No hedging market (credit default swap); No strong secondary market (bonds once bought cannot be resold)

Suggestions: Bring Corporate Bond Index; Standardization of terms & process; Broaden Investor Base

Way Fwd: Awareness ⬆️, Security measures ⬆️, Investor confidence ⬆️

Nationalisation of Banks 50 years

Background: India was facing droughts, Low agri credit, Plan holiday 1966-69; Nexus b/w banks and industrial class (conflict of interest - directors) → Banks were failing frequently

+ves: Branches ⬆️ by 800%, PSL Norms, Jobs ⬆️

-ves: Political interference, Low efficiency, administered interest rate caused repression of households

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Public finance, Government Budgeting, Taxation

Goods and Services Tax

2020: Explain the rationale behind the Goods and Services Tax (Compensation to States) Act of 2017. How has COVID-19 impacted the GST compensation fund and created new federal tensions?

Lesson 1: Updated material padhna aalas mat krna (as above topic not covered in Vision IAS initial edition of Mains 365)

GST (Compensation to States) Act, 2017 was enacted:

- Under the Act, the percentage of annual revenue growth of a State has been projected to be 14%. If the annual revenue growth of a State is less than 14%, the State is entitled to receive compensation
- The generation of revenue through GST compensation cess -levied on sin and luxury goods for five years- then credited to a non-lapsable Fund (the GST Compensation Cess Fund).

Estimated shortfall of Rs. 30,000 crores in the GST Compensation Cess leading to delayed payment to state for some months

Reasons for shortfall

- Economic slowdown- even pre covid but covid amplified it
- 14% growth is said to be unrealistic- said that was accepted as federal compromise

- Tax rates on goods got reduced in GST

Federal tensions

- State view
  - Centre not honouring promise- doubts about future fiscal federalism
  - GST council veto
  - Legal proceeedings under art 131- increase federal tensions
- Centre view
  - Act of god- no legal obligation to compensate
  - GST com cess inadequate- cant give from other source
  - Fiscal deficit issues
- Compromise
  - Special window for states to borrow shortfall with intrest and principle to be paid from GST comp cess- extend period if required

Way forward

- Showed vulnerability of fiscal federalism - CAG - in first 2 years, centre utilised 48K for other purposes
- Therefore
  - Need better C-S coord through Inter-state council, make GST council more accomodative for states
  - Expand GST tax base by including other remaining taxes by coooperation
- **15th Finance Commission:** 14% compensation growth to states should not be 'mechanically' replicated
- **Incentive** to be provided to state to ensure state revenue officials work as hard as they did in Pre-GST era

2019: GST: Taxes subsumed into it? Revenue implications since July 2017? Current problems and solutions?

- Taxes Subsumed:
  - Centre: CST, Service Tax, Central Excise duty
  - State: VAT, Octroi, Lottery tax, Entertainment tax, Advertisement tax
  - Local: No- allowed to tax eg Municipal tax on parking tc
- Revenue Implications:
  - Centre
    - (2018) Average monthly collection >1 lakh crore, but (2019) falling towards 98k crore- COVID effect in 2020
    - Better tax buoyancy due to more fillings(Put data)
      - However- COVID impact on economy- falling GST
  - State

        - States that witnessed revenue decline in SGST (compared to VAT): Punjab, Himachal, Chattisgarh, Uttarakhand, J&K, Odisha, Goa, Bihar, Gujarat and Delhi and others.
        - Very few states witnessed increased in revenue collection namely Andhra Pradesh and some NE states – Mizoram, Manipur, Sikkim, Nagaland
        - Less tax to producer states as GST- destination based
- Merits
    - For Goverment
        - Increase in Tax compliance, fillings
        - Easier to administer: Because of the transparent and self-policing character of GST, it would be easier to administer.
        - Better credit decisions by banks, income tax compliance - increasing no. small buisiness in GST Net
    - For States
        - GST council- promotes cooperative federalism
        - Can tax services too unlike earlier
    - For Business
        - EODB, Removing double taxation, simpler filing
    - For Consumers
        - Removed cascading
        - Services and Manufacturing taxed at uniform - remove confusion arising out of definitions in earlier regime
        - National unified market- eliminated rate arbitrage btw diff states
        - E way bills- faster movement
            - The Economist has reported that India's long distance truckers are parked 60 percent of the time
    - For Economy
        - Brings certainity due to simplification
- Current Problems under GST
    - World Bank- India's GST most complex in the world, Highest rate in South Asia , 2nd highest in world after Chile.
    - Petrol,diesel,Alcohol, Road tax still out- inside for more simplification
    - 5 slabs- confusion for consumers and complexity for Biz- frequent changes in slabs (Australia, Singapore have single rate)
    - Online filling issues- crashes,lack of digital literacy
    - Cesses will negate the original purpose
    - No GST App. Tribunal appointed as demanded by Section 109 of GST act (leading to issues in justice delivery)
    - Federal issues
        - Lack of trust among members of GST council due to diverse political climate of India

  - GST may brakdown after 5 years of guaranteed 14% growth may end in 2022
  - States no longer independence to introduce taxes as per their wishes. Concurrency of GST council would be required for introducing fresh taxes.
  - GST compensation debate
  - GST council decisions- Need 75% vote, Centre has 33% vote- Clear veto over combined all states(66%)
- Way Forward
  - Adress above issues

2019: Challenges to public expenditure management in context of budget making during the post liberalization period

Public expenditure management deals with allocation of government's limited economic resources into three channels 1) public administration 2) economic growth 3) welfare schemes.

PEM should consider

- Fiscal discipline
- Allocative efficiency- what is right for country and population
- Operational Efficiency- cost effective and efficient service delivery

Challanges for PEM in post-lib period:

- Banking- Unlike pre 1991, Basel accords require capitalisation of PSB's- huge exp due to twin BS, scams (Nirav modi- global dimension)
- Private sector(post 1991 inc role) requires ₹20 lakh crores every year for sustaining the current level of Economic Growth- if the government does not control fiscal deficit → crowding out of the private investment = challenges for India's growth story.
- Difficult to sustain the Public Sector Undertakings against the heavy competition of private sector be it Air India or BSNL- cant devote too much resources- disinvestment
- Infra- population increased, need high class infra- more expenditure
- Welfare in age of Capitalism- DBT,Food subsidy,agri subsidies
- Global eco uncertanities- 2008 crisis- need for helicopter money to resist shock
- Crude oil externalities- in case too high requires expenditure

- Automation,MNC- more pressure on govt for jobs- 7th Pay commision- more exp

Need adequate resource mob along with rationalising unnnecesary expenditure for effective PEM in post lib periods

2018: Imp changes in LTCG/DDT in Budget?

The Union Budget of 2018-19 introduced the following two important changes:

- Long Term Capital Gains Tax (LTCGT): Reintroduction of a 10% tax on long term capital gains arising from transfer of listed equity shares
- Dividend Distribution Tax (DDT): Introduction of a 10% tax on distributed income by equity oriented mutual fund

The long-term capital gains tax existed until 2005 but was removed to encourage greater participation in the equity markets. Though it did have its intended effect but it also had the side-effect of business surpluses being invested in financial assets due to attractive return on investments. This benefitted corporates primarily and also created a bias against investing in manufacturing. It has also led to significant erosion in the tax base resulting in revenue loss.

Keeping in mind the points mentioned above, the decision to bring back long term capital gains tax on listed equities holds merit. Moreover, LTCG in unlisted shares are currently taxed - LTCGT on listed shares ends the advantage enjoyed by the latter, bringing them on par.

In addition, the tax on distributed income by equity oriented mutual funds will provide level playing field across growth oriented funds (where the dividend is re-invested back into stocks) and dividend distributing funds (investors receive regular income through dividends). Up until now, dividends from equity-oriented funds were tax-free and were also exempt from paying the DDT.

However, these changes should also be followed by abolishing or reducing the securities transaction tax rates (levied on all transactions made on the stock exchanges), which could lead to double taxation if continued.

To do: Read about latest tax reforms undertaken in the latest budget

2013: What is Tax expenditure? Discuss taking example of housing sector, how it influences the budgetary policies of the govt?

Tax Expenditure: Tax that govt forgoes on account of various exemptions, rebates,lower taxes etc

Housing sector exemptions

- deduction of HRA
- Housing loan interest exemptions, deduction for first home buyers
- Forgoing income from house property for 2 self occupied home property- Budget 2019

Exeptions benefits- can nudge for various sectors- auto etc

Demerits- Tax forego, misused by well off by help of smart CA's

2016- Women empowerment in India needs gender budgeting. What are the requirements and status of gender budgeting in the Indian context?

<u>Meaning</u>: The gender-budgeting is defined as "gender-based assessment of Budgets, incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality". It is actually budgeting for gender equity.

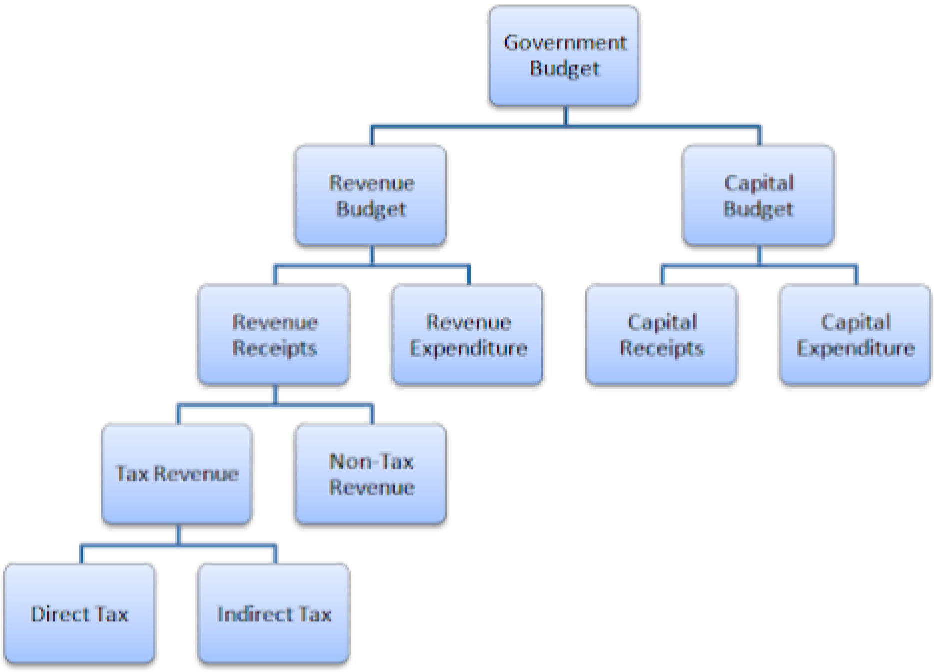
<u>Requirement for GB</u>: Justify need for women empowerment using various facts which show how women is lacking behing in the race of education, employment, health despite being 48% of India's population

Use life cycle approach of women to reflect requirement of various ages within the female segment

Gender budget allocation to Rs 131,700 crore for 2019-20 from Rs 121,961 crore a year ago

- Status of Gender Budgeting:
    - Gender Budget Statement (GBS) was first introduced in India Budget in 2005-2006. It comprises of two parts.
        - Part A reflects women specific schemes i.e., those which have 100% allocation for women
        - Part B reflects Pro-women schemes i.e., those where at least 30% of allocation is for women.
    - Gender Budgeting Cells (GBC) as an institutional mechanism has been mandated to be set up in all Ministries/Departments
    - The gender budgeting framework has helped the gender-neutral ministries to design new programs for women.
    - India's gender budgeting efforts stand out globally because they have not only influenced expenditure but also revenue policies (like differential rates for men and women in property tax rates and reconsideration of income tax structure) and have extended to state government levels.
    - Gender budgeting efforts in India have encompassed four sequential phases: (i) knowledge building and networking, (ii) institutionalizing the process, (iii) capacity building, and (iv) enhancing accountability.
- Shortcomings
    - Monitoring remains one of the weakest links in the GRB work with no designated mechanism for monitoring it at the national level
    - only a few "big budget" women exclusive schemes of the Ministry of Women and Child Development (MWCD) like the Nirbhaya Fund and the Beti Bachao Beti Padhao campaign
    - Need for better data on impact of gender bias

Budgeting in General



- Current issues in budgeting framework
  - ST focus rather than long terms
  - Cash based approach to budgeting
  - March Rush
  - Emphasis on compliance rather than outcomes
- Reforms taken
  - Rationalisation of CSS
  - Scrapping of plan and non-plan classification
  - Budget discussion advancement to avoid vote on account
  - Merger of Railway & General Budget
- Way Fwd
  - Increased focus on results
  - Budget transparency
  - Better executive accountability
  - Modern budgeting practices
- Other Types of Budgets
  - Outcome Budget analyses the progress of each ministry and department and what the respected ministry has done with its Budget outlay. It measures the development outcomes of all government programs. It was first introduced in the year 2005.

28.6 OUTPUT OUTCOME FRAMEWORK FOR SCHEMES:

योजनाओं के लिए उत्पादन परिणाम ढाँचा

Started from Budget-2017 onwards, the FinMin uploads a document showing outlay output and outcomes for each ministry and department. These are monitored by NITI Aayog. e.g.

Ministry & Scheme	*Outlay*	*Output (Deliverables)*	*Outcome*
MEITY → Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA)	₹ 400 crores	Give computer training to 5 crore persons in rural area	Increased number of digitally literate persons in rural areas

Traditional / Line-item Budgeting	पारंपरिक / लाइन-आइटम बजट: Simply calculating the income and expenditure without measuring the underlying benefit or performance - Allot ₹ 10,000/- to buy a new bed in government hospital - Allot ₹ 50,000 to buy a new computer in government department
Performance budgeting प्रदर्शन बजट	calculating the income and expenditure tied with underlying benefit or performance - Allot ₹ 50,000 to buy a new computer with target that it should result in 30% the faster clearance of RTI-applications compared to pen and paper based office system. - Such budgeting helps measuring cost:benefit and efficiency.
Zero based budgeting शून्य आधारित बजट	- In a traditional budgeting, the approach is "automatic and incremental e.g. *"Last year we allotted ₹ 50,000 crore to educational schemes, so this year we should allot 55,000 crores, lest the opposition parties create controversy."* - Whereas in Zero Based Budgeting the budget is viewed as a fresh exercise from zero base. So, each department has to justify its budget demands to finance ministry. E.g. if last year ₹ 50,000 crores given to education schemes but still 60% of class 5 kids cannot read class 2 books, then we'll delete / modify that scheme.
Sunset Budgeting सूर्यास्त/ समयसीमा का बजट	- In a traditional budgeting, once a scheme is launched it runs perpetually, even after regime change e.g. MNREGA, Mid-day Meal. - In a zero based budgeting, schemes are reviewed every year and then they may get discontinued or continued (with or without modifications). - In Sunset Budgeting, scheme are announced with deadline. e.g. MEITY to give MDR subsidy for a period of two years starting from 1/1/2018. Thus, this scheme will self destruct after deadline just like the sun will set after the sunset time.

- Participatory Budgeting: refers to a method of democratic decision-making where there is active involvement of people in the processes of budget priority setting and management
  - First used globally by Brazil; In India it was pioneered by Kerela; Pune city's municipal corporation publishes an advertisement and invites suggestions from its people for civic works to be included in the forthcoming municipal budgets; MyCity MyBudget Campaign of Bangalore

FRBM Act

2013: FRBM: Need? Features? Discuss critically its salient features and their effectiveness; Steps to lower the fiscal deficit?

FRBM Act

- The Fiscal Responsibility and Budget Management Act, 2003 (FRBMA) is an Act of the Parliament of India to institutionalize financial discipline and fulfill .... *(use objectives stated below to fill ....)*

Data Points:

- Central Govt Debt (45.7% of GDP in FY19; 47.5% on FY18 - thus decreased overall) includes (data as per 9th edition of status paper on gov. debt)
    - Public Debt (taken against CFI): 40% of GDP (Internal 37%, External 3%)
    - Other Liabilities (taken against Public account): 5.7% of GDP
- Central Debt is at fixed interest rate (with only 0.9% at floating rate); External debt is low;
- Share of ST debts is within safe limits; majority of new debt taken is under 10+ yr to avoid roll over risk
- State Debt to GDP is 24.8% of GDP and remain within threshold of 3% specified by FRBM

Need/ Objectives

- Reduction of fiscal deficit and revenue deficit;
- To achieve inter-generational equity in fiscal management by reducing the debt burden of the future generation;
- Achieving long-term macroeconomic stability;
- Better coordination between fiscal and monetary policy;
- Transparency in fiscal operations of the Government.

<u>Impact of High FD</u>: Analyse on investor confidence towards India; Exchange rate risk; High taxes in future; Larger part of exp going for interest rather than social purpose; Crowding out; Debt trap

Major Provisions of the FRBM Act, 2003

- Originally it required Union and States to control their deficits with following targets:
    - By 2008: Reduce Fiscal Deficit to 3% of GDP (for Union) and 3% of GSDP (for States).
    - By 2008: Eliminate Revenue deficit (make it 0%) of their respective GDP or GSDP.
- It mandated setting annual targets for the reduction of fiscal deficit and revenue deficit, contingent liabilities and total liabilities.
- RBI is barred from subscribing to the primary issuances of govt.

- The revenue deficit and fiscal deficit may exceed the targets specified in the rules only on grounds of national security, calamity and other exceptional grounds to be specified by the Central government.
- **Amendments to FRBM Act:**
    - 2012: Mandated the CG to lay before the Houses 3 statements along with Budget
        - Macro-Economic Framework Statement
        - Medium Term Fiscal Policy Statement
        - Fiscal Policy Strategy Statement
    - No need to have 0% Revenue deficit. Instead it required 0% Effective Revenue Deficit
- **NK Singh Committee 2016** (to review FRBM Act)
    - Adopt a fiscal road map for the union from 2017 to 2023 gradually reduce Union Debt to GDP (to less than 40%), Fiscal Deficit (to 2.5%) and Revenue Deficit (to 0.8%)
    - Concept of escape clause (national security, war, calamities, structural reforms, decline in output)
    - Set up an Independent Fiscal Council for monitoring
- Terms to be used in the answer: Fiscal Slippage, Fiscal Glide

MEDIUM TERM FISCAL POLICY CUM FISCAL POLICY STRATEGY STATEMENT

FISCAL INDICATORS - ROLLING TARGETS AS A PERCENTAGE OF GDP

		Revised Estimates 2018-19	Budget Estimates 2019-20	(Projections) 2020-21	(Projections) 2021-22
1.	Fiscal Deficit	3.4	3.3	3.0	3.0
2.	Revenue Deficit	2.2	2.3	1.9	1.7
3.	Primary Deficit	0.2	0.2	0.0	0.0
4.	Gross Tax Revenue	11.9	11.7	11.6	11.6
5.	Non-tax Revenue	1.3	1.5	1.4	1.4
6.	Central Government debt	48.4	48.0	46.2	44.4
7.	Of which Liabilities on account of EBR		0.7	0.8	0.9

Effectiveness of FRBM

- Suspended with impunity in 2009, for several years, during which the fiscal deficit went out of control
- Non-transparency which allowed the deficit to be seriously understated
- Several amendments to the Act essentially postponing the targets
- Revenue deficit abandoned in 2018

- Off Budget Borrowings eg: Borrowing via SPV, using NSSF loan to finance FCI (CAG advocated for policy framework for off-budget financing)
- FD reduced at the cost of reduction in developmental expenditure
- Circumventing FRBM via eg: Interim dividend from PSUs

Way Fwd: Measures to Strengthen FD

- Independent Fiscal Council
- Rationalise Public expenditure- subsidies, populism,loan waivers
- Increase resource mobilisation- GST simplification, Direct Tax increase
- ES 19 says 'It will be a foremost challenge to achieve this without reducing Government expenditure.'
- Public Debt Management Agency - To bring both internal and external debt under single roof
- Govt's Medium Term Debt Management Strategy (2019-22)
    - Enlogate Maturity Profile
    - Rationalize interest on small saving schemes
    - Ensure best terms for external loans
    - Conducting regular investor interaction/consultation to ensure transparency
- Basics: Reduce Exp; Increase Revenue; Increase growth rate

Way Fwd: Recommendations of the N.K. Singh Committee should be implemented in a time-bound manner so that the developmental needs of the economy are not unduly compromised while being on the path of fiscal prudence.

Pending: Cover how fiscal deficit is justified by the Chapter 2 of latest Economic Survey

Does reduction in fiscal deficit necessarily assure reduction in inflation?

List down inflation factors apart form F.D

- Supply side factors- crude oil, el nino-agri slowdown, ineffective monetary policies and their transmission
- Global uncertainites
- War
- Demand pull- rising income ,materialism

- **Does India Need Fiscal Council?**
  - **Recommended by**: 13th Finance Commission, 14th Finance Commission and FRMB Review Panel headed by NK Singh
  - **Globally**: As per IMF ~50 countries around the world have Fiscal Councils (FC)
  - **Problems**:
    - Do we need an elaborate body for independent and expert assessment for govt's fiscal stance?
    - Forcing Fin Min to use FC's estimates for budget will dilute its accountability
    - FC as a Watchdog? We already have CAG we need to increase its powers rather than a new body
  - **Solutions:**
    - Start with a smaller body with a fixed duration which can evaluate the budget post its introduction and can involve support of CAG, NITI Aayog, RBI, CSO, etc.
    - There is no detailed discussion of Fiscal Policy Strategy Statement mandated by the FRBM Act in the parliament (how will adding another body help?)
    - For wheels of the economy to grind faster, we need (use this as conclusion template)

Issues related to Planning

2018: NITI Aayog vs Planning Commission; Difference in planning strategies

NITI Aayog	**Planning Commission**		
NITI Aayog has not been given the mandate or powers to impose policies on States. NITI Aayog is basically a think-tank or an advisory body.	PC had the power to impose policies on States and for the projects approved by the Planning Commission		
The powers for allocation of funds have not been given to the NITI Aayog. The powers are with the Finance Ministry.	PC had the power to allocate funds to the State Governments for various programmes and projects at National and State Levels		

State Governments have to play a more proactive role	Role confined to the National Development Council		
More flexibility with planning 3 year, 7 year, India @75	Fixed to FYP		
Bottom Up approach	Top down approach		
Partners with national/international think tanks, hires expers	NA		

Read NITI Aayog's Report towards: Health Reforms (also cover nutrition and safe drinking water), Poverty, Employment

Main objective of current planning;

Planning:

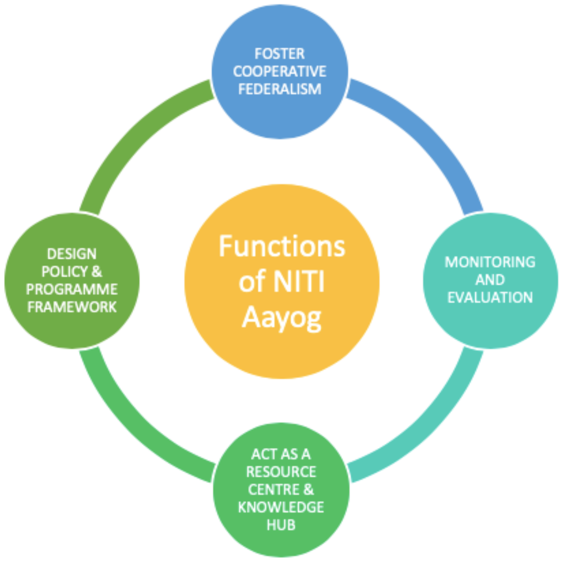
Planning is the procedure of thinking about and organizing the actions required to realise a desired goal.

Economic Planning is related to the long term plans of government to co-ordinate and develop the economy. Eg Five year plans

Need - Resources in a country are limited whether natural resources or human resources- need for proper

Objectives: (refer Images below - use NITI Aayog's objectives)

- Economic Growth
- Reduction of Economic Inequalities
- Balanced Regional Development
- Modernization
- Reduction of Unemployment



NITI Aayog's entire gamut of activities can be divided into four main heads (refer image)

Issues with planning:

- Planning is central. Decentralized planning not seen on ground
- Hijacking the role of finance commission.

- Fails to comprehend ground realities. Example - conflicting data on poverty line affect schemes, no people participation
- Alliance politics affects planning.
- Planning for 125 crore diverse population is not simple- diff needs diff expectations
- Limited resources and funds available, corruption, policy uncertanity.

Issues to be addressed in planning:

- Population growth.
- Food production.
- Health, Education
- Vulnerable sections of the population- inclusive growth
- Transport, communication and energy self-sufficiency, other infra
- Trade and investment
- Water conservation and air quality
- Peace, security and governance.

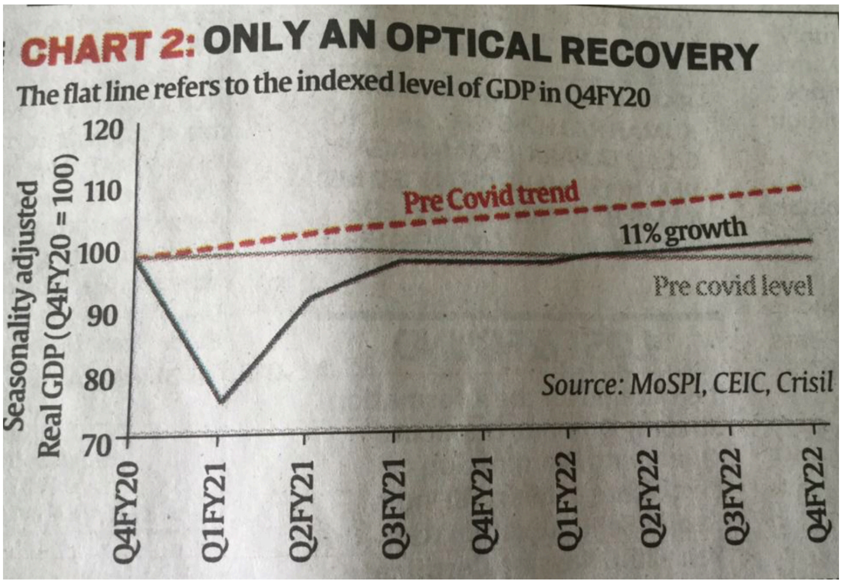
NITI Aaayog is based on the 7 pillars of effective governance – (1) Pro-People (2) Pro-Activity (3) Participation (4) Empowering (5) Inclusion of all (6) Equality (7) Transparency.

Growth, Developement

Statistics: Target $5 trillion

Ensure growth is inclusive, sustained, clean and formalised

Use Graphs in ans like below



List of issues affecting growth

- Consumption
  - Rural consumer spending fell for the first time in more than four decades (as per leaked NSO survey)
  - Measures :
    - Policies to combat COVID effect
    - RBI monetary policies: Rate cut (must be balanced so that interest on deposit holders is also sufficient), External benchmark
    - Tax benefits to promote specific sectors such as auto, real estate.
- Investment
  - Need to raise GFCF to 36% of GDP by 2023 from 29%- boost pvt, public investement
  - IIP- 18 of the 23 industry groups in the manufacturing sector showed negative growth.(Post COVID)
  - NPA Crisis, Twin BS syndrome, NBFC crisis
  - High capital output ratio
  - Judicial overrach- enforcing contracts diff
  - Analyse sector wise- Agri, Manuf, Services
  - Measures
    - Labour reforms
    - Governance reforms in PSB
    - Exit inefficient PSB- Air India
    - Skill develepement
    - Infrastructural reforms
    - Reduction in corporate taxes to 22% and 15%
- Government
  - Need to increase tax to GDP ratio- only 4% pay tax
  - Fiscal deficit challenge

  - Governance issues - Regulatory cholestrol
  - Measures:
    - Eliminate tax terrorism
    - GST simplification
    - Mobilise domestic savings by attractive schemes
      - Eco survey 2019- virtuous cycle of savings,investment and exports
    - Eco Survey 2019- reduce policy uncertainity
  - EY India Report - India's 5TD goals set back by 3-5 years
- International trade
  - Protectionism tendencies
  - Weakening of rupee against dollar
  - Attract FDI
  - Increase exports- logistic reforms, export benefits, focus on 12 champion sector for exports
    - India's share in world export - only 1.7%, China 14%
  - Measures:
    - RDTEP scheme

Growth vs Developement

2020- Define potential GDP and explain its determinants. What are the factors that have been inhibiting India from realizing its potential GDP? (Another past question: Trend and reasons for differences in projected growth vs actual growth)

Potential GDP attempts to estimate the highest level of output an economy can sustain over a period of time. Current GDP tells what is and Potential GDP tells what the country should be producing

Fact- Economic survey potential GDP of 5 trillion dollars by 2025(ha ha)

Determinants: Think of factors that determine various types of GDP

Level of Income in the economy

Expenditures: C + G

Investment & capital flows

Level of technology and R&D

Human capital

Openess of economy: X-M

Factors that inhibit: Discussed above

2019: Do you agree with the view that steady GDP growth and low inflation have left the Indian economy in good shape? Give reasons in support of your arguments.

Intro on- Average GDP of 6-7% over last 5 years

Transition from high and variable inflation to stable and low inflation

Positives of Indian economy due to

- Steady GDP
  - Fastest growing major economy
  - Attracting FDI
  - Steady increase in PCI of individuals → more consumption (india as 3D - demand, demo, democracy)
  - Share market- no major crashes in recent times
  - Services sector performing well- service exports
  - Structural reforms supporting GDP- GST imp, Digitization,fin inclusion
- Low Inflation (think on C/I/G/X-M)
  - Protects interest of poor and weaker sections- low food,fuel prices
  - Real interest rates remains high → Promotes saving and then investments
  - Low inflation- exports more competitive- more Forex
  - Steady inflation- positive enviorment to individuals and firms

However concerns with

- Steady GDP
  - Need to reach 5 trilllion

- Issues of jobless growth
- Env angle- need sustainability- minimise negative externalities
- Inclusive?

- Low inflation
  - Agri prices low- farmer suffer - low agri income
  - Weak demand- discourage pvt investment
  - Phillips curve says low infaltion- more unemployment

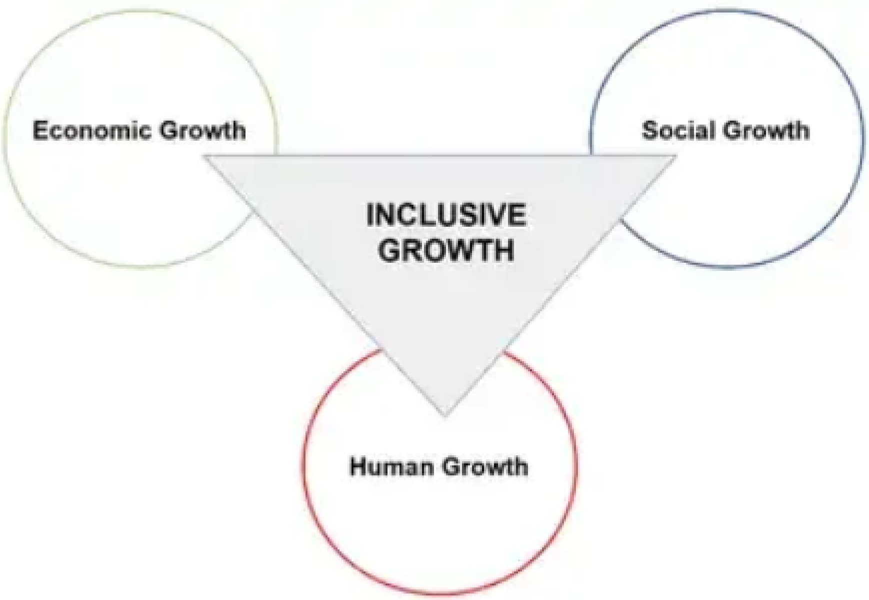
Comprehensive structural reforms undertaken to improve the Indian economy since 1991? Need for further reforms?

- 1991
- GST
- Planning: NITI Aayog; Rationalisation of Centrally sponsored schemes (CSS)
- Strategic disinvestment
- Labour codes
- Demonitisation- digital promotion
- Agricultural bills
- Infrastructure- coal mining privatise, railway, energy, roads etc

Reforms needed- Analyse acc to GS3 - Eco Agri syllabus

Inclusive Growth (IG)

- Definition: According to WB , IG refers to both pace and pattern of growth
  - Sharing of fruits of socio-eco dev to all sections of society
  - Ensuring IG through welfare state rather than capitalist state (12th FYP theme- “Faster,Sustainable and inclusive growth”)
  - Still lot to be done- Oxfam report- richest 1% cornered 73% wealth of India. 67 crore poor saw their wealth rise by only 1%
  - Wealth increase of top 10 richest men during pandemic could buy vaccines for all - Oxfam Report 2020



-
    - Also add environment growth in the above diagram
  - People have different notions for the meaning of development (dev for one maybe destructive for another); Income is one way to measure & compare development (standard of living, IMR, MMR, Sex ratio, Net Attendance ratio, Health and nourishment).
- Dimensions for IG:
  - Economic
    - Rich-Poor Divide
    - Class issues: Low social mobility in society
    - Financial literacy
  - Regional
    - Urban-Rural
    - Regional disparities: Mainland vs NE Region
  - Social
    - Gender Divide: Women's current role is dominating in the unpaid care sector
    - Vulnerable sections of society: SC, ST, PH, Old age,
    - Caste, Religion issues: Majority vs minortiy (Sachar Committee Report asked to set up Equal Opportunity Commission to look into grievance of minorties)
    - Education - in vernacular language (engineering colleges allowed in 18 languages)
  - Political & Governance
    - Corruption
    - Highhandedness of bureaucracy- need democratic attitude
  - Enviroment
    - Sustainable growth

        - Env issues- mining, air, water pollution, wastage, biodiversity protection
    - Economic development and not just Economic Growth (focus on Gross Happiness vs GDP)
    - Stakeholders:
        - Gov, Pvt sector, NGO, Philanthrophy, Media
- Way Forward:
    - Oxfam Report 2020:
        - Invest in free universal healthcare, education, and other public services (as they act as foundation to reduce inequality and prevent it to grow further)
        - Reintroduce wealth taxes and ensure financial transaction taxes
        - Invest in a green economy that prevents further degradation of our planet
    - Inclusive marketing- not promting consumerism- selling kidney for Iphone
    - Defining poor clearly as contrasting definition- not for political aims
    - Focus on rural infra- no step child attitude
    - 2nd ARC- Good governance, zero tolerance for corruption
    - Sachar Committee Report asked to set up Equal Opportunity Commission to look into grievance of minorties
    - Xaxa Committee: Tribal chair at Universities; Regional resource centres to provide training/academic support
    - CSR and SSR
    - Tackling digital divide
    - Quality employment (which is safe rather than vulnerable)

2020: Explain intra-generational and inter-generational issues of equity from the perspective of inclusive growth and sustainable development.

Intra - Horizontal dimensions- poor,tribals,reserved, minorities, women,children, old age etc

Inter- Sustainable dev- eye on future eg CC, No Resource depletion

2019: It is argued that the strategy of inclusive growth is intended to meet the objectives of inclusiveness and sustainability together. Comment on this statement.

Covered above- dimesions of IG, in sustainibility- write aboit Sustainable G- not compromising needs of future

2017: What are the salient features of 'inclusive growth'? Has India been experiencing such a growth process? Analyse and suggest measures for inclusive growth.

Covered above by opening up dimesions of inclusive growth

2016- Comment on the challenges for inclusive growth which include careless and useless manpower in the Indian context. Suggest measures to be taken for facing these challenges.

Give link btw need of inclusive growth and efficient manpower implementating it

Education- bad teachers

Health- doctors

Need for Skill dev

Better employement

Env impact- sensitisation for env issues in implementating agencies- mining etc

2014: Capitalism: Cons? Can we adopt capitalism to bring inclusive growth?

Measures taken for tribals

Inclusive measures initiated by GOI and their effectiveness wrt Informal workers and MSME

North East Region's development: Challenges, Measures taken and needed?

- Problems: Geographic Isolation, Perceived difference, Low agricultural productivity, Low credit flow from banks, Absence of large scale industrial base, Lack of infrastructural facilities
- Initiatives: **Restructured National Bamboo Mission** (increase the area under bamboo cultivation & marketing; integral part of our life and culture; 13% of indian forests), Increased budgetary allocation for rail/road/air infra, **Employment Generation Mission** (skill development initiative), NERCOMP (women empowerment), **Act East Policy** (depends upon connectivity projects in India's North East region) **Niti Forum for North-East** (exclusive forum at the NITI AAYOG; coined the concept of "**HIRA**" Highways, Inland Waterways, Railways and Airways for NE development),

- Such programs ensure that the people of the North East are never going to be considered as different either developmentally or culturally from the rest of the country

2016- PMJDY. Agree with this for financial inclusion of poor? Give arguements

Financial inclusion(FI) may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost.

- Financial Inclusion - enabler for inclusive growth.
- provides an avenue to the poor for bringing their savings into the formal financial system, an avenue to remit money to their families, takes them out of the clutches of the usurious money lenders.

Global Findex database by WB- appreciated PM-Jan-dhan

- **Basic tenets of the scheme**
  - **Banking the unbanked** - Opening of basic savings bank deposit (BSBD) account with minimal paperwork, relaxed KYC,zero charges
  - **Securing the unsecured -** Issuance of Indigenous Debit cards
  - **Funding the unfunded -** micro-insurance, overdraft for consumption, micro-pension & micro-credit
- **Features(6 pillars)**
  - Universal access to banking services – Branch and Banking Correspondents
  - Basic savings bank accounts with overdraft facility of Rs. 10,000/- to every household.
  - Financial Literacy Program– Promoting savings, use of ATMs, getting ready for credit, availing insurance and pensions, using basic mobile phones for banking.
  - Creation of Credit Guarantee Fund – To provide banks some guarantee against defaults.
  - Insurance – Accident cover up to Rs. 1,00,000
  - Pension Scheme for Unorganized sector.
- **Achievements under PMJDY**
  - PMJDY Accounts:
    - Total Number of PMJDY Accounts (2020): 40.35 Crore; Rural PMJDY accounts: 63.6%, Women PMJDY accounts: 55.2%.
    - Operative PMJDY Accounts: Out of total 40.35 crore PMJDY accounts, 34.81 crore (86.3%) are operative.
  - Deposits under PMJDY accounts:

        - Total deposit balances - 1.31 lakh crore
    - Rupay Card issued to PMJDY account holders:
    - Jan Dhan Darshak App:
        - Mobile application to provide a citizen centric platform for locating banking touchpoints such as bank branches, ATMs, Bank Mitras, Post Offices, etc.
        - Also being used for identifying villages which are not served by banking touchpoints within 5km
    - Pradhan Mantri Garib Kalyan Package (PMGKP) for PMJDY women beneficiaries:
        - An amount of Rs. 500/- per month (DBT)for three months (April' 20 to June' 20), was credited
    - Extension of PMJDY with New features:
        - Focus shifted from 'Every Household' to Every Unbanked Adult'
        - RuPay Card Insurance: Free accidental insurance cover on RuPay cards increased from Rs. 1 lakh to Rs. 2 lakh for PMJDY accounts
        - Enhancement in overdraft facilities: OD limit doubled from Rs 5,000 to Rs 10,000

Issues

- Demonitisation uses
- Farmers still depended on moneylenders-(add data)
- Overdraft accounts as NPA
- Ghost accounts
- Other issues wrt Financial Inclusion
    - Fear of being brought into the tax net
    - Cyber threat and frauds are acting as deterrence in adoption of digi financial services

Way Forward

- Ensure coverage of PMJDY account holders under micro insurance schemes.(PM JJY, PMSBY)
- Promotion of digital payments through creation of acceptance infrastructure across India
- Financial literacy and digital literacy for the common man.
- Shift from quantity of inclusion to quality of inclusion
    - Treat account holder well- ensure sense of prestige
- Nandan Nileknai Panel: Set up Acceptance Development Fund to develop digital payments; Govt. org must not charge convenience fees while accepting digi payments; Extend MDR subsidy

Other Financial inclusions schemes by govt:

- Insurance- PMJAY, PMSBY, PMJJY, ESIC
- Pension- EPFO,NPS , PM Shram yogi mandhaan, Atal Pension scheme
- Credit- MUDRA, KCC

Employment

Employment, Unemplyoment (cover labour reforms ans skill dev)

- **Current Status**
    - Comparison sector wise
        - Agriculture: Employing 49% whereas GVA contribution is 17%
        - Industrial: Employing 14% whereas GVA contribution is 29% (of which 17% is manufacturing)
        - Services: Employing 37% whereas GVA contribution is 54%
    - *Share of workforce in agriculture in China 29%, Brazil 15%- need to give productive emp to disguised workforce from agri*
    - Rural areas have higher percentage of self-employed people: About 58% of the rural workers and 37% of the urban workers are self-employed.
    - India's informal sector employs approximately 85 per cent of all workers (COVID impacted informal sector most)
    - Average Unemployment rate hovers around 5.8% (Kaam chahiye par mil nahi raha out of labour force)
- **Challenges**
    - COVID effect- Centre for Monitoring Indian Economy, unemployment rate in India shot up significantly from 7.87% in June 2019 to 23.48% in May 2020
    - Low formalization- informal sector employees 85% workers- no job security, no reliable emp data, no social security
    - Low Female labour force participation- only 24% compared to China 61%
    - Preference for voluntary unemployement- wait and watch
    - Lack of Industry-Academia collab
    - India Skill Report 2018- only 47% coming out out of higher edu employable
    - Low quality jobs- NITI 3 yr Agenda- underemployement more chronic than unemployement
        - Phd applying for govt peon jobs
        - Working poverty (a parameter of having decent work) affects one in five of the global working population
    - Lack timely and periodic estimates → unable to monitor and asess impact of various govt. interventions

  - High cost & complexity of compliance with existing labour regulations; (44 central laws, 100+ state level laws)
  - Future risks: The rise in trade restrictions and protectionism - significant impact on employment.
  - India's literacy rate of 76.9 per cent leaves considerable room for improvement (w/o education difficult to tap employment opportunities)
  - Alternate channels of employment for people in agriculture (as half workforce but only 20% GDP contri)
  - Health outcomes have an impact on productivity - (low life expeectancy of 69 yrs compared to other middle income nation, similarly high IMR, stunting, etc)
  - Low workforce participatio ratio (<50%)
  - Can write issues relating growth points
- **Measures taken**
  - Schemes
    - Start up India (3rd largest startup ecosystem)
    - PMEGP
    - PM Kaushal Vikas yojana
    - Rural emp- MGNREGA
    - Self employement promotion - MUDRA, Stand up India, Atal Incubation
  - Policy Front
    - Labour law reforms (to ensure decent work as reqd by SDG 7)
    - Maternity B Act, Prevention of Sexual H Act - To inc female participation
    - Permitting self-certification, online processes
    - Structural reforms - GST, IBC,
- Way Forward
  - Formalisation of work force
  - Labour intensive sector jobs- leather, textile
  - Enhance labour force participation - (Target least 30% by 2022-23)
  - Ease industrial relations to encourage formalization (resolve disputes quickly)
  - The Labour Market Information System (LMIS) is important for identifying skill shortages, training needs and employment created
  - Urban equivalent of MGNREGA
  - Stimulating the export and the manufacturing sector to retain a consistent rate of growth (to generate enough employment)
- Conclusion: To capitalize on its demographic dividend, India must create well-paying, high productivity jobs

Skill Development

- With most world having ageing population- India opp to supply skilled labour globally and become "Worlds skill capital"
- Demographic dividend (DD) can become Demographic disaster if skill sets dont match requirement of Industrial revolution 4.0

Need

- ISR 2020 report- stagnant at 47% employable
- Moving towards IR 4.0- Need skilled workforce
- Reaping the DD
- This pervasive joblessness due to the poor training of the youth as only 7% of the people surveyed in the framework of the PLFS declared any formal or informal training.
- Only 2.3% of the workforce in India has undergone formal skill training as compared to 75% in Germany, 80% in Japan and 96% in South Korea.

Govt Initiatives

- In 2014, **Ministry of Skill Development and Entrepreneurship** was created to harmonise training processes, assessments, certification and outcomes ,develop Industrial Training Institututes (ITIs), sector specific skill councils
    - **Pradhan Mantri Kaushal Vikas Yojana** -training fees were paid by the government, placement assistance,NSQF, RPL.
    - **"Skill India" programme,** that aims to train a minimum of 300 million skilled people by the year 2022.
- National Apprenticeship Promotion Scheme, 2016
    - To promote apprenticeship- On-the-Job Training/ Practical Training at workplace.
- SANKALP, 2017Creating convergence among all skill training activities, improving quality of skill development programmes, creating industry led and demand driven skill training capacity.
- NEP- vocational education component, coding in school
- Recent
    - Future skills prime at Hyderabad to train IT workers in AI,Blockchain etc
    - SWADES (Skilled Workers Arrival Database for Employment Support): skill mapping exercise of returning citizens under Vande Bharat Mission.

Challanges in Skill development

- Insufficient training capacity: The target of Skill India - 300 million young people by 2022, but only 25 million had been trained till 2018

- Lack of entrepreneurship skills: While the government expected that some of the PMKVY-trainees would create their own enterprise, only 24% of the trainees started their business.
- Low industry interface: Around 33% of the formally trained youth was unemployed in 2017-18.
  - Reluctance of the industry in providing adequate wage for skilled workers
- Low student mobilization: The enrolment in skill institutes like ITIs, and polytechnics, remains low - vocational training not seen as aspirational.
- Employers' unwillingness: Joblessness issue not only a skills problem but lack of appetite of industrialists and SMEs for recruiting.
  - NPA, Twin balance sheet, COVID
- Poor accreditation process- The Quality Council of India (QCI) has often compromised with the quality of accreditation and affiliation process.

Way Forward

- Enhanced Expenditure on Education and Training:
  - Government allocation for school education has declined from 2.81% of the budget in 2013-14 to 2.05% in 2018-19 which is further alarming situation.
- Evaluation of Training Institutes by NSDC regularly
- Skills survey: Surveys can be conducted to find the exact skill requirements from the employers- then design SD courses rather than spending on non emplayable skills
  - Industry- teachers conferences
- Learn from technical and vocational training/education models in China, Germany, Japan.
- According to ISR 2020- Top 5 skills that Employers emphasize on are domain knowledge, adaptability to the environment, learning agility and positive attitude and interpersonal skills.- Focus on that

Need skilling/reskilling/upskilling at intesified scale to achieve 5 trillion dollar economy and reaping DD

Labour reforms, Labour Codes

Need

- For Industry

- Labour concurrent list- 44 labour laws under Central Government and more than 100 under State Governments. - confusion, outdated clauses, no EODB
- Constrained growth of firms: firm sizes have remained small because of high administrative burden of larger firms - ES dwarfism

- For Labour
    - Impacts the collective bargaining rights of workers due to lack of recognition to trade unions.
    - Inadequate coverage: Labour laws only covered the organized sector and the remaining 85% of the total workforce is informal that is left uncovered- migrant labour, gig economy workers, taxi drivers, house helps (COVID)

Labour codes (for L reforms)

2nd National Commission of labour had recommended simplification, amalgamation and rationalisation of Central Labour Laws

Code on Wages, 2019

- Consolidate wage related laws such as Payment of wages act,Min wage act, equal remuneration act
- It seeks to regulate wage and bonus payments in all employments where any industry, trade, business.
- Statutary national min wage for diff geo areas- states cant fix below that
- Min wage for diff scheduled jobs of centre list(state decide for their own scheduled jobs)

Code on Industrial Relations 2020

- Consolidates Trade Unions Act 1926, Industrial Employment (Standing Orders) Act, 1946 and Industrial Disputes Act, 1947
- Defines worker- less than 18000 salary
- Industry with 300 workers- Prior permission of the government for closure, lay-off and retrenchment
- Tribunals for settlement of industrial disputes
- Allows Fixed term employement
- Re-skilling fund: To re skill those workers who are fired from their jobs
- Issues
    - Fixed tem work: Does not restrict the type of work under it (leading to roles offered for permanent workers being reduced); No upper cap on fixed term
        - 2nd National Commission on Labour (2002) - no worker should be kept as casual or temporary worker for more than two years

- Prior notice of 14 days is required before a strike or lock-out applicable for all enterprises (rather than only public utility services in prev act)
- Executive can defer the order of tribunals- negates sep of power

CODE ON OCCUPATIONAL SAFETY, HEALTH AND WORKING CONDITIONS, 2020

- **Key Features:**
  - 19 Acts combined such as Factories Act, 1948, the Mines Act, 1952, and the Contract Labour (Regulation and Abolition) Act,1970
  - Threshold for coverage has been defined for various types such as factories, hazardous work eg: Factory is any estab with > 20 workers (if with power) or 40 workers (w/o power)
  - Daily working limit fixed at 8 hours
  - Women will be entitled to be employed in all establishments for all type of work
  - Provisions for inter-state migrants: definition, database, welfare fund
- **Issues**: Civil Court barred from hearing matters under the Code (workers will have to use writ to approach HC)

CODE ON SOCIAL SECURITY, 2020

- **Key Features:**
  - 9 Acts combined such as Employees' Provident Fund Act, 1952, the Maternity Benefit Act, 1961, and the Unorganised Workers' Social Security Act, 2008
  - Applicable to all establishments subject to size-threshold
  - Social Security Fund: CG and SG will set up such funds for for unorganised workers, gig workers and platform workers
  - Provisions for registration of above 3 categories of workers (on a specified online portal)
  - National Social Security Board for the purposes of welfare of above three categories
  - Contribution for schemes will be funded through contributions of CG, SG, aggregators
- **Issues**: No universal social security (as application of law still depends on size of firm eg: Maternity Benefits to estab employing 10+worker & where estab does not incl informal sector); Overlapping definitions; To avail schemes its mandatory to link with Aadhar (thus violating Puttaswamy judgement as link can be made mandatory only when funds recd. from CFI)
  - Informal workers (91% of workforce) had provision for registration under Unorganised Workers Act 2008 but still large no. of them remain outside SS ambit due to: Lack of awareness, Lack of Digital literacy, Absence of

tangible EE-ER r'ship makes it difficult to furnish proofs of livelihood & income required for registration at the portal

2016- How Globalization led to reduction in employement in formals sector? Is increased informalisation detrimental to dev of indian economy?

Globalisation influence on reducing formal emp

- More realiance on imports- less jobs creation in manuf sector
- FDI into technology intensive service sector and not labour intesive
- Industries wanting to be more flexiblie due to cut throat competition- Fixed term employement
- Problem of 'missing middle'
- Disinvestment led to further push towards informalisation
- Indadequate focus on skill development
- Shift of production units from non-competitive countries to market favoured economics eg: Shift to south east asia, hong kong, etc.
- However
  - Work from home culture- formal jobs from abroad
    - Global competition for growth- govt focussing on formalisation- EPFO/ESIC benefit to co.

Why informalisation bad for Indian economy?

- No quality jobs- Demo. disaster- instability in country
- Most informalisation sector emp if of women- domestic workers- double burdern
- No social security benefits → Inc burden on state
- Cycle of indebtedness as less income, more consumption, no health coverage
- Disturbs the saving potential of the nation → Lesser tax to gdp → Impacts cycle of growth
- However
  - Gig economy jobs, Freelancer incomes, social media influencer incomes

2015: Jobless growth: Do you agree? Give arguments

Growth which does not translates into meaningful jobs

Fact on unemployemet along with increasing GDP %

Reasons for Jobless growth

- Service driven economy but could not absorb labour force from agriculture
- Automation,AI,Robots
- Decline in exports compared to Vietnam
- Other reasons for unemployement

Write about govt schemes for employement

Then way forward

2015- Success of make in india depend on success of Skill India and radical labour reforms- Discuss

Start with Make in India- objectives(stat on employement accroding to sectors)

Then how Skill dev benefits Make in india (industry)

Then how labour reforms help industry

Give way forward

2014: "While we flaunt India's demographic dividend, we ignore the dropping rates of employability." What are we missing while doing so? Where will the jobs that India desperately needs come from? Explain.

Write why unemployement?

Stat: Skill India Report - 47%

Then way forward for employement

- Skill dev, MSME help,Export, Labour reforms,education etc
- Other points for promoting emp

Comparison: Rural and urban unemployment in India; Difference in strategies to tackle them?

Rural areas have higher percentage of self-employed people: About 58% of the rural workers and 37% of the urban workers are self-employed.

Current Updates and Value Additions

- Terms from Eco Survey Notes:
  - GFCF, Creative destruction (disinvestment, energy transition, old laws), Resolve Chakravyuh challenge (IBC, SARFAESI), Golden rule of fiscal policy (fiscal consol), Regulatory cholestrol (labour laws), Spatial mismatch of workers and jobs (high urban cost of living), Potential GDP (included LLCO, institution, govt policies, social capital), New welfarism model IG (public prov of pvt goods, PM Wani, LPG), Focus on property tax/reduce subsidies; Cycles banao eco mein (IPEJ cycle starts with pvt investment), Behavioural economics of nudge (Richard Thaler), Ricardian equivalence (tomorrow tax hike), Pro-business policies no pro-crony (Jan Vishwas Bill); Network products (Assemble in India - eg: mobile GVC); V-shaped recovery by strong macro-eco fundamentals (ES 21), Bare Necessities Index (BNI); Triffin dilemma (indep monetary policy, open forex rate and inflation)
- Economic Survey 2024:
  - **Key Ideas**: Lethal mix, Tripartite compact needed to grow at 7%, LIC requirements, 80 lac jobs, FTA, 6 pronged strategy (incl skil, Infra-dig/soc/phy, Employment)
  - CY Target GDP **6.5-7%; FD** down to **5.6%** in FY24 (*ab tak chappan*), India's DPI churning the wheels of economy; **India's micro-fin emerges 2nd largest after China**; **4 times rise in GVC participation (2010-22)**, **After gap of 10 yrs - 4 New FTAs assigned** (Mauritius, UAE, Aus, **EFTA**), 6 pronged growth strategy (employment, skill, MSME, Infra-digi/phy/soc), **Tripartite compact** b/w **CG/SG/Pvt sector** to grow at 7%+; **IFC recognised India as the only G20 nation** in line with 2 degree cel warning; New welfare approach increasing the impact per rupee spent, POSHAN BHI-PADHAI BHI Program at angandwadi praised by survey (education & nutrition); **Manuf sector less exposed to AI as Industrial robotics are neither as nimble nor as cost effective as human labour**; SAGAR Setu Application helping cargo operations (infra, digital

infra); **Current global strategy for CC are flawed and not universally applicable** (west overconsumption vs India - Mission LiFE-Individual Action; '***China Challenge'* highlighted by ES** (**over dep for RE**, **china not left low skill manuf** space for India); India needs to create **~80 lac jobs** pa in non-farm sector by 2030 for rising workforce; **Data deficiency** (for employment, issues in analysis); **Social media, screen time, Sedentary habits, and unhealthy food** are a lethal mix that can undermine **public health** and **economic potential**; India's traditional lifestyle, food and recipes have shown how to live healthily and in harmony with nature; **Licensing, Inspection and Compliance (LIC) requirements** (reduce regulatory bottlenecks for MSMEs)

- Data (Misc):
  - GDP of India (Indep vs current) 40 bn vs 3.5 td;
  - Tax efficiency (collection) - 10 yrs avg 4% less as per 15th FC,
  - Trade deficit $120bn, Exports target 2TD by 2030, (Exports-320 bn to 780bn)
  - Pharma (3, 14th, >50% vaccine % of world); Textile (2.3% of GDP - 2/3 kapde chahiye, 1st in cotton/jute, 2nd in silk), Gig eco (77 lac, 2.35 cr by 2030)
  - Access to Justice Survey 66% civil disputes are related to land, avg pendency 20 years
  - 2030 tak $350bn ho jayega e-commerce
  - Tourism/Real Estate/IT-BPM/Automobile all 7-8% of GDP
  - Rank in Infra (Road, Aviation Mrkt, Rail - SF=RoAR)
  - Nat Highway (2.5% vs 40% traffic)
  - Installed Capacity (total 420 GW, 800 GW by 2030)
  - Railway capacity 150%, Jails 130% occupancy
  - Infra - 1.4TD invest → for 5TD economy
  - Turnaround time (4.2 2012, 2.1 days in current, Sri L <24 hrs)
  - Import crude oil bill (96bn FY24, 101-104 FY25 - ICRA)
  - AT&C 17%, DBT (2.7 lcr),
  - **Climate change** (**Eco impact by RBI report** - **Loss 3-10% annually** by **2100** under different scenarios);
- Budget 2025:
  - Agriculture: **1 crore in NF in next 2 yrs**; National Cooperation Policy (will be brought);**DPI for agri** (*Land registry, digital crop survey*);
  - Employment & Skilling: **5 schemes - Apprenticeship promotion**
  - Social Justice: Purvodaya, Vikas & Virasat (Indus node at Gaya); **PM Janjatiya Unnat Gram Abhiyaan-JUGA** (PESA, ST, Rural)
  - Manuf & Services: **New Assessment Model for MSME Credit**; **SIDBI branches in MSME clusters**; **Internship in top 500 cos**;
  - Mining: **Off-shore mining** of minerals

- Urban Development: Cities as growth hubs, Creative re-devl of cities (of brown field assets)
- Energy: **AUSC Thermal Plant** (800 MW by BHEL/NTPC - efficiency); **PM Surya Ghar Muft Bijli Yojna**, **Bharat Small Modular Reactor**; Pump based energy storage
- Innovation: **Anusandhan NRF; Space Economy (VCF 1000 crore);**

- Thinkers:
  - **Amartya Sen** Capability, **Abhijit & Duflo** - Randomised control trial (anti-poverty measure), **Laffer curve**(Inverted 'u shape' curve, tax rate and tax revenue), Ginni coeeficient, Kuznet curve, **Daron & James (need inclusive institution incl infrastructure for sustained growth); Raghuram Rajan** (fiscal devolution formula for states)
  - **Use in FLFP, Women empowerment** - **Claudia Goldin** observed that women's empowerment has made significant strides in education and workforce participation, but gender pay gaps persist due to societal expectations and career interruptions related to family roles. Way forward: Promoting **flexible work** policies, **equal pay** reforms, and **shared caregiving responsibilities** can accelerate gender equality.
- M365 - Mains 2024
  - **GDP Estimation: Three GDP calculation approaches**
    - **Production or 'Value-added' Approach**: It sums the **"value-added" at each stage** of production.
    - **Income approach**: It measures the total **income earned by the factors of production**. » Government of India follows the consistent practice of using the income side estimates to compute economic growth.
    - **Expenditure approach**: This measures the **total expenditure incurred by all entities** on goods and services
    - **Issues**: **Outdated data**; **Organized sector as a proxy for the unorganized sector**; **Exclusion of productive works**
    - **WF**: **Robust data collection**/processing; **Update base year** (**which is decade old**);
  - **Use High CAGR instead of x/y%**
  - **LTCG tax rate inc to 12.5% from 10%; Exemption increased from 1 lac to 1.25 lac; LTCG on real estate to 12.5% without indexation; STT raised on options/future to curb speculation; Impacts: Reduce speculation; Property (attract black money); Reduce savings due to higher tax rates; Boost of revenue for govt;**
  - **Falling GFCF**: From 2011-12 onwards, private investment began to drop and **hit a low of 19.6%** of GDP in 2020-21 (**peaked at 27% in 2008**) - reduced growth multiplier/delays self sufficiency as assets not built; Due to slow reforms, bank financial problems, policy uncertainty, high cost of borrowing; **Key terms**: GFCG, Change in stock

- ○ HDI Growth has deviated from gender parity by more than 10% (as per Gender Development Index)
- ○ **Union Finance Ministry:** Govt has **saved Rs 2.73 lakh crore** of taxpayers' money from 2014 to 2023 by adopting **Direct Benefit Transfer**
- ○ **State Finances:**
  - ■ **Positives as per RBI Report**: **Gross Fiscal Deficit** to GDP decline **below 3%**; **Increased Capital Outlay** - now **~3% of GDP**
  - ■ **Issues**: **Low non-tax revenue** (1% of GDP); **Return to OPS**; **Rising off budget borrowings**;
  - ■ **WF**: **Performance-Based Transfers for reforms; NK Singh Recommendation**
- ○ **Disinvestment (only 10k of 51k target met); Why not met**: - **Geopol uncertainty** (pandemic, R-UK); **Under-valuation** of assets; **Fear of labour** unrest
- ○ **Food Inflation** at **9.2%** in **August 2023** as per **CPI**; As per ICRIER, farmers lost **₹45,000** crore due to **cereal exports ban**
- ○ IBC: **+ves** (**NPA** now around **3**%; Better perf than SARFAESI); **WF**: **IBBI said atleast 1 meeting per mnth by Resolution professionals**; **Standardise the valuation methodologies**; Introduction of voluntary mediation as per TK Vishwanathan Cmt
- ○ **G20** countries adopted **New Delhi Leaders' Declaration** which called for **effective regulation of crypto assets -** In India: Taxation on VDA; Ambit of PMLA; **RBI sees it as threat to fin stability**; **Issues: Blanket ban, Regulatory fragmentation across jurisdiction**; Can **follow IMF-FSB Synthesis Paper** for guidelines
- ○ **Economic decoupling** - India can benefit from it & become global production hub

- Committees (key terms):
  - ○ Skilling (Sharda P), Infra (Surjit S Bhalla - bonds, Rakesh Mohan-Road, Bibek Debroy-Railway), CSR (Injeti Shrinivas-Impact if 5cr or more), MSME (UK Sinha: 5k cr fund for stressed MSMEs + ES- Factoring for MSMEs), Direct tax (Akhilesh R TF), Data protection (Justice B N Srikrishna Committee), Full convertibility (Tarapore-FD, NPA, Inflation under control), Pension reforms (Somanathan cmt), Logistics Perf Index (38 jump 6), HDI rank (132), Renewable Energy overall world rank (4th), Railway (Kakodkar Cmt-statutory Railway Safety Authority), PPP (Kelkar), Micro-fin (Malegaon, 2nd largest after China)
- Digital Public Infrastructure
  - ○ **World Bank** defines DPI as digital platforms that enable the provision of essential society-wide services(India's efforts praised by IMF, BIS); **UNGA Prez- 800 mn** out of poverty just by smartphone

- **eg: UPI** to tackle *data colonization* of VISA; **ONDC** for small retailers (ease of e-commerce); **SWAYAM** for education; **Agri-stack**, **Digital India LRM; PM-WANI can act as framework for India's DPI (KFON by Kerela)**
  - **Flow of People/goods**: DigiYatra; EoDB (GSTN), **Reduce logistic cost** from current 13-14% (**GATI Shakti**)
  - **E-gov** (**CPGRAMS**, digi locker); National Single Window System
  - Flow of Money/Financial Incl (JAM, UPI, SVANidhi)
- **Issues:** of exclusion, exploitation, and **monopolisation** - **Centralization of DPI = susceptible to cyber-attacks**; Concerns of **surveillance (Pegasus)**
  - As per **RBI**, **20 lakh** payment related frauds in **FY23**
- **Way Fwd**: **Data protection bill; Open stds/interoperability**; Bridge digital divide via CSCs, literacy
- **Concl:** Harness **DPI/JAM Trinity - as it has potential to wipe each tear**

- Railway:
  - New measures: Vande Bharat trains, KAVACH; Targets: Zero fatalities, 100% elec, Identify new DFCs, **Modal share of Railways to 45% from 27%**
  - Issues**: Cross subsidization**, Dependent on coal freight 47%, High operating cost ratio, **Increased in Capital Output ratio in 19-20**; **Ageing infra** and delay; Frequent accidents; Low **Non-fare revenue (only 8%**, target 20%)**; Organisational structure issues (delayed decision making)**
  - Issues in Railway Safety in India: High operating ratio leads to low spending for safety; Congestion on tracks (130% usage of track capacity which weakens maintenance, signalling); **CAG Report has red-flagged issues like** track defects, **engineering and maintenance issues** for derailments; Also **same report 62% coaches did not had fire extinguishers**; **Vacancies in safety** category; Unskilled staff and **overworked pilots;**
  - Schemes: **Rashtriya Rail Sanraksha Kosh** (**RRSK**; fund of 1 lcr; backclog to clear safety); LHB coaches with disk brakes; Kavach system; Bridge mgmt system; **Kakodkar Committee** (**Railway safety authority**; **Adv signalling** system needed), **Vande Bharat trains, KAVACH-**an indigenous collision prevention system; **Refresher Course to Officers**
  - WF: **Confidential safety hotline named CIRAS under British Railways**; **CAG suggestions (adhere to scheduled timelines** of accident inquiries; **Strong monitoring mechanism for maintenance activities**), National Rail Plan (future ready and sustainable plan); **Evaluation of near misses; Mission Zero Accident!**

- National Logistics Policy
    - (want our logistics to be as fast as cheetah) - **Elements**: Unified Logistics Interface (**not integrated, its interface**) Platform (ULIP); **Ease of logistics** service; **Integrated** Digital System (links 30 systems); **Multi-modal logistics** parks to be made;
- Foreign Trade Policy, 2023
    - (Quote in Answers)**: Features**: **Rationalisaiton of EPCG** Scheme; Diversification via e-commerce hubs and **developing 'Towns of Export Excellence-TEE'**; **Dispute settlement** via the vision of **Vivaad Se Vishwas**; Federal collaboration Districts as Export Hubs (**DEH) initiative**; **Concl: Export target of $2 trillion by 2030** can be achieved via this along with $5TD
    - **Contemporary issues to exports**: CBAM, Phyto sanitary measures, Low particpation in GVC (did not join RCEP/Trade pillar of IPEF), Policy uncertainity eg: Import ban on laptop parts; **Common Issues**: Diversification is low; Tariff increase (eg: in rice, etc); Regional disparity
    - **WF:** Need more diversification of export destinations (Africa, the CIS and Latin America could be prospective markets); Toy exports (capitalises inherent strength rose to over 1000 crore in Apr-Dec 2022); Reduce inverted duty structure; Emergency higher tariffs need to transparent and for limited time; Faster implementation of RoDTEP/Nirvik Scheme; Capitalise on New FTAs; New Foreign Trade Pollicy 2023
- PLI
    - **Boosts GFCF (ES24-Total of 1.2 lcr of Investments)**; **Import reduction** of solar panels, batteries; **Job creation (ES24- 80 lakh new jobs created till now**); Boost **innovation** through **tech tranfer** and tap potentail of **iCET**;
    - Issues: **High capital inv needed to qualify for PLI**, **Skilling gap 47%**, Supply C issues like R-Uk can deter progress, **Lack of technology transfer/regu hurdles (delay in incentive approval in Foxconn deal);** Might put other sec to disadv;
    - WF: **Need sunset clause; Bicycle theory of constant reforms**
    - **Eco Survey 2024**: Created **80 lac jobs**, **~1.2 lcr investments till now**
- Energy Transition
    - Global energy sector's shift from fossil-based systems to RE
    - Need: Import dep, Panchamrti, Pollution, etc
    - New Challenges for Energy Security: **New centres of power emerging** that have larger metals needed for RE; OPEC plus (Saudi + Russia) are now o/s western orbit; Energy market is under turbulence (Europe shifted demand creating pressure on prices), **India will be driver of energy transition due to large populaiton and energy demands**
    - **Challenges**: High dependence on **fossil fuel sources (more than 50%** of the total **installed capacity**); Financial constraints (need large inv); **Low**

Private participation as low return high risk; Limited access to tech/infra; Job loss; With energy transition states will experience fiscal transition ie massive dip in their revenues (coal, fuel taxes, etc); ET will **lead to substantial stranded assets such as power units** thus making diff for cash strapped states to replace capacities before assigned life span w/o monetary assistance; Effect on employment where miners of coal will have to absorbed else where → Thus to address this we need to generate additional revenue by increasing our tax base; **Other issues:** coal-bearing PSUs like CIL and NTPC set up health/schools etc which would be lost; Coal sector provides **employment to almost 13 million people** directly or indirectly

- **Positives**: **Saving in cost** by states which can be **used for skilling** as eventually cost of renewables will become less than coal-based energy; **Transition might undo the displacement of people** and lead to unity; Env health benefits
- **Way Fwd**: Supply side: Increase productivity of existing producing fields; Enhanced oil recovery technologies; **Secure LT r'ship** with SA/Iran by leveraging large market potential; **Chip diplomacy**; Correct status of discoms; **Newer fuels such hydrogen**/biofuels; Keep diversifying suppliers (now 39 suppliers in FY22 from 27 in FY07); **Clean coal/gas technologies**; Demand side: take **demand conservation** measures (eg: energy efficient buildings)
  - According to NITI Aayog, the demand for coal is likely to increase by 2030-35, then decline. This gives time to the policymakers to ensure the capacity building of informal workers
- **Concl**: Energy transition (ET) must balance livelihood and green agenda (Fully phasing out coal while compelling is not yet a marcoeconomic or social possibility)

- Other developments:
  - **Jan Vishwas Bill**: EoDB, MSME, FDI
  - **GSTAT** setup for EoDB, Efficiency;
  - Parliamentary Standing Committee on Rural Development and Panchayati Raj said 96-97% of targets under PM Gram Sadak Yojana attained
  - **Jobs, Skill, Textile**: **PM-MITRA scheme** for creating **integrated value chains** at one location; **Cluster Based** Initiative for ELS cotton announced in budget 2023; **PLI** for technical textile; Silk Samagra to boost sericulture
  - **Boosting economy**: Need to boost investment ratio to GDP (currently around 30% vs 40%+ in China); **Need to push exports of goods (not just services); Kick up FLFP** (which stands at 22% vs 61% in China); Creation of low/semi skilled jobs in manufacturing sector **(as 80x jobs by leather/textile compared to automobile)**

- Saptrishis Quote karo: (read quickly)
    - I GUY FIR: Inclusive G (Agri, Health for all nursing college, Sickle Cell), National Digital Library; Green Growth, Unleashing (Jan Vishwas, 3 CoE for AI, e-court 3.0), Youth (PMKVY 4.0, Nat Apprenticeship Program), Fin Sector (Mahila Samman Patra, SEBI, fiscal def), Infra & Invest (10 lcr, Sustainable cities for tomorrow, Muni bond ready), Reaching last mile (Bharat SHRI, PM Awas, PM PVTG mission, ABP)
- ES said Leverage the Behavioral Economics of "Nudge": From 'Tax evasion' to 'Tax compliance'
- ES said Economic Policy Uncertainty reduces investment (as increase the systematic risk and cost of capital) Wf: provide forward guidance on the stance of policy)

- Internationalisation of Rupee
    - ⭐**Prime Minister** asked RBI to prepare a **10-year strategy to promote internationalisation**
    - **Meaning**: Process for **increasing use of local currency for cross border transac** (invoicing and settlement, capital account transaction, exports); India fastest growing so chances
    - **Measures**: **Agreement with SL,** Rupee trade with Russia (Vostro/Nostro), RBI WG Suggestions; **Masala bonds**, **Currency Swaps in SAARC**; **LCSS with UAE**; **Internationalisation of UPI**
    - Pros: Reduce need to hold forex reserves; **Save dollar on imports** eg: Crude; Get protected from forex fluctuations/**BoP crisis** (US fed hike); De dollarisation and **Backdrop of R-Uk (weaponisation of SWIFT)**; **Can boost capital flows from countries where we run deficit**; Increasing bargaining power of Indian biz; Enable trading with dollar scarce countries; **Lower cost of capital** due to better access to international financial markets
    - Cons: Creating a **'rupee-trap' for partner countries**; **Non full-capital convertibility** deter it; Unlikely to be accepted by trading partners such US/China; Forgo dollar recd on exports; Russia prefers yuan etc, **Increased volatility** (open channel of the flow of funds into and out), **Complicate Monetary policy due to Triffin Trilemma** (free capital movement, exchange rate stability, and independent monetary policy.); Might not dethrone **dollar as it accounts for 60% of reserves**
    - India will benefit from rupee trade with countries such as Russia/SA/UAE where its a larger importer and potential exists for investments/exports (**India also needs enabling environment for attracting investment, not just rupee internationalisatin**)
    - **WF:** RBI WG (headed by Radha Shyam Ratho) Suggestions Short (**incentivising exporters** to accept indian currency, **synchronising tax**

regimes) Long (RBI suggestion to **include in SDR**, will **need full capital ac convertability**); **Develop SoP** for it

- Multilateral Financial Institutions:
    - Institutions established by two or more countries to encourage international cooperation in managing the worldwide financial system
    - FM highlighted that multilateral financial institutions **need to recalibrate their functioning to remain relevant** in the post-pandemic world; Also agenda at G20 (discussed at FM-CBG Meeting Bangalore)
    - Relevance for India/dev countries: Funds (India largest borrower in AIIB); Better rates of int (while our credit rating poor); Technical advice (IMF helped from license quota to LPG); Climate/Pandemic finance; Support to investors
    - **Isses: Skewed ownership**, Conditionality; Governace/Bureaucratic issues deter expansion; **Dispute settlement not working (WTO)**
    - **WF**: **Strengthening of new financial institutions like NDB; Phase out conditionalities; External oversight** on MFIs;
    - Side Note: Global Debt Management: as per IMF 60% of low income countries are debt distress compared to 25% in 2015 (reasons disruption of global supply chain, food and energy prices); China has been the deterrent in restructuring debt; Solutions: Debt suspension, debt relief, granting unhindered market access to these countries so that they can boost their exports; Favor green and inclusive growth and live the slogan one earth one family one future
- Labour Code
    - Benefits: Missing middle, Tackle militant unionism; Social Security for workers (gig workers), Gender eq (with equal wages), Benefits to govt (investment boost tap China+1, growth); Issues: No tripartism consultation (Convention 144, ILC demanded by TUs), Enactment delayed due to rules, Hire & Fire, Exclusion of unpaid labour; WF: Triaprtism, Nordic Model for stakeholder capitalism → Use content indirectly (lab vs capital, lab intensive)
- CBDC
    - **CBDC is digital token representing legal tender** issued in same denomination (e-rupee **would not need interbank settlement**) 2 forms: retail and wholesale
    - **Pros** (**Sovereign-backed** unlike Crypto; Beneficial for large scale secondary transaction; **Fin Incl as offline**feature; **Less transac cost** for remmitances; Low cost of issuing);
    - **Cons** (Weaker **banks might stuggle to get deposits**; People **savvy with UPI**; Tech not final; **used for illegal means;** Cyber attacks, Privacy)
    - **WF**: It must be **easily understood by masses** and RBI must **learn from global experiments** that are going on along with pilot stage testing

- GST:
    - **5 years**; **Success** (Reduced rate arbitrage, 1.55 lcr monthly; 1.4 cr payers**, Formalisation of economy, Tech usage-E-Invoicing, Logistical eff-E-Way Bills**); **Failures** (**5 products still out;** SC said GST council holds persuasive values; Tax and cess usage; delay in compensation cess payment; **Fake ITC claims**; Compliances issue for small; GSTAT); **CAG Report - GSTN poor backend mgmt; WF**: **Data triangulation** to boost revenue; Reach out to Tier 2-3 cities as growing imp
    - GST Reg 1.4 crore vs MSME units 1.87 cr (shows further scope of formalisation)
- Fact Sheet
    - MACRO FUNDAMENTLES:
        - Size (GDP) of Economy 2022-23: Rs. ~**270 lcr ($ 3.5 Trillion)**
        - **Per Capita (nominal) Income: Rs. 2 lakh/annum**
    - GOVERNMENT BUDGET (2023-24)
        - Capital Expenditure: 10 lcr
        - **Average Monthly GST Collection: Rs. 1.55 lcr**
        - Fiscal Deficit: **5.9%, now 5.6%**
            - **Target 4.5% by FY26**; FRBM Targets also given by **NK Singh** (60% GDP for total debt)
        - Centre's Debt (as on 31st March 23): **~56% of GDP (अब तक छप्पन)**
        - State's Debt (as on 31st March 23): **~30%** of SGDP
        - Explicit Subsidies of GoI (Food, Fertilizer, Fuel): **Rs. 3.75 lcr**
        - MGNREGA budget allocation: 60k crore; Jal Jeevan 70k, PM-AWAS - 80k crore
    - MSMEs/INDUSTRY
        - Make in India target (**share of Mfg. in GDP**): **25% by 2025**
        - India's overall exports reached **$780 billion** in FY24, India's **share of exports in global trade** is still **less than 3%**
        - **India's Material Intensity is 6 times** of Germany (NITI Aayog)
        - **MSME**: <10% access to formal credit; 85% not registered, Dwarfism
    - LABOUR FORCE
        - **Formal vs Informal: 10% vs 90%**
        - **Skilled workforce: 4.7% (vs 96% South Korea) = Total 101%**
    - **INCLUSIVE GROWTH**
        - Number of people under multidimensional poverty: ~14% (one in seven) as per NITI MPI
        - Top **1%** of the Indian population **holds 40% of the total national wealth (Oxfam 2023)**
        - Make Triangle of any 3: Har Ghar Jal Har Ghar Bijli Har Khet Ko Pani Har Ghar Ayushman

        - **IG measures**: Pol representation (Nari Shakti Vandan Adhiniyam); NFSA'13;
    - DEMOGRAPHY
        - Below 35 yrs: 65% Population
    - AGRICULTURE
        - By **abolition of intermediaries** (**land reforms**), **nearly 2 crore tenants became owners** of their own land
        - India is the largest producer of 🥛 milk & millets (M Factor 🆒) and second largest producer of rice, wheat, sugarcane and fruits & vegetables. India is the largest exporter of rice and second largest exporter of beef & cotton
            - Quote 2nd largest fruits/veg in Horticulture Question
            - India is the **largest producer of millet as of 2021,** with a **total share of 41%**
        - FPI: Annual growth rate 9%
            - Wastage of food item from farm to fork/consumer: 25%
    - ENERGY & INFRASTRUCTURE
        - India has improved in the **logistics ranking** of the World Bank by **jumping 6 places to Rank 38** out of 139 countries in **2023**
        - **Ethanol** (use when talking of energy) blending in Petrol, Present & Target: **Present 10% & Target 20%** (2025)
        - **Logistics Cost to GDP**: 13-14%; 60% freight skewed on road; **RITES Report**: Freight IWT 1.06/km, Highways Rs. 2.5/km
        - **Issues**: **Coal tariff deterrence for RE**; **High AT&C - DISCOMs (17%)** load shedding; **Ineffective grid balancing in RE**; **Tax subsidy distort to favour ineff over eff**, **200+ ineff coal plants** (need to retire)
        - **Rakesh Mohan Cmt** (Road Transport): **See road as multi-modal transport** not isolated; **NITI@75: 0.1%** of MoRTH **budget to R&D**
        - **Bibek Debroy Cmt**: **Private entry**, **Independent regulator**; **NITT@75**: **Revisit pricing model; Establish Rail Development Authoriy (RDA)**
- Digital Tax:
    - Steps by India: 6% on adv services by Non-resident digital cos; 2% on foreign e-commerce cos above 2 crore
    - Reasons: Sovereignty (India act as a market but gets no tax share); **Old laws as per brick mortar economy; Level playing field;**
    - Issues: **USTR announced retaliatory tariffs**; Lack of consensus (**developed world wants sovereign commitments to not introduce any future digital services which India denied**); India currently gets approx. Rs 4,000 cr. in tax revenues through Equalisation Levy, which will be forgone after implementation of pillar one of BEPS 2.0

        - **Pillar One** (fairer distribution of profits based on business activity) **apply to MNEs will then re-allocate part of their profit to countries** where they sell their products and provide their services
        - Pillar **Two** aims to get a level playing field across jurisdictions by **ensuring a Global Minimum Tax (GMT)**
    - WF: Need **Global coordination G20** also aiming also aiming for a deal
- Miscellaneous Points:
    - Intro/Conclusion for Maritime: **Maritime Amrit Kaal Vision 2047; Blue Economy 2.0 Scheme; 'Great Nicobar project**
    - **IMF** World Economic Outlook: Growth **projection for India 7%** while for the **world 3.3% for FY25 (India growing double the pace** - make diagram)
    - **IMF Data -** Economic Impact: A **1% increase in public investment** can boost **GDP by 2.7%,** private investment by 10%, and employment by **1.2%**
    - **4 'I's** to make India developed by **2047** FM Minister: **Infra, Innovation, Investment, Inclusiveness**
    - **Success of 4 schemes = 11 crore in MDM students & JJM Households & Ujjwala LPG connection & PM KISAN farmers**
    - **American roads are not good because America is rich, America is rich because American roads are good- JFK Kennedy**
    - **RBI Governor** said 'In an **ocean of high turbulence**, **Indian economy is an island of macroeconmic and financial stability'**. It stands resilient **despite two back-to-back black swan** events such as pandemic and Russia-Ukraine crisis

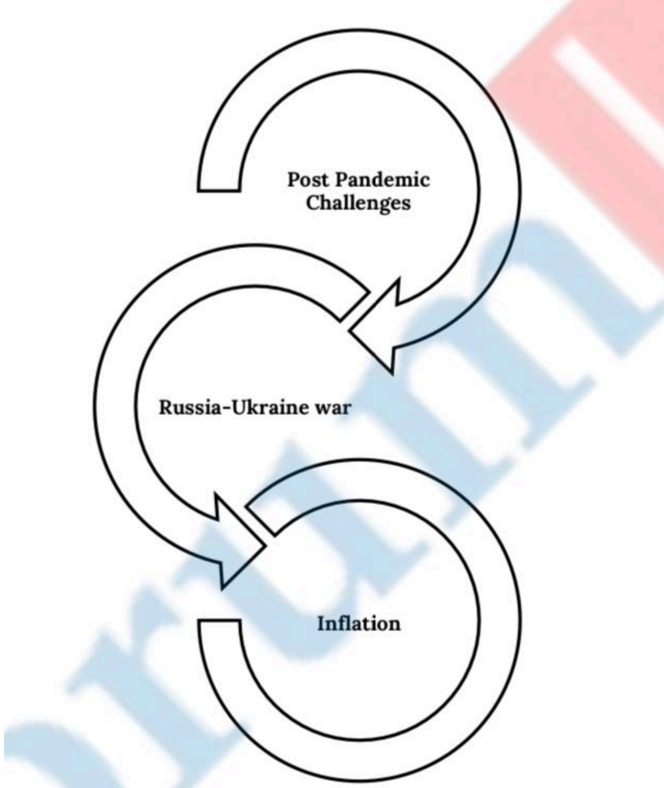


Figure: Emerging global polycrisis

- Macro-economic stability pe effect aaye suppose say polycrisis then can also talk of food security, energy security (not just pure economics)
- Ways outs from **Polycrisis**: Diversification of trade/energy basket; Risk mgmt and regulatory oversight eg for DSIB; Boosting domestic resilience (PLI), Diplomacy, Innovation of LT growth
- **Infrastructure** is the set of **physical and digital facilities** which are vital for the growth and development of the country
  - Therefore **will include: FPI (agriculture),** Roads**, Agri sector infra, Defence infra, IT/digital infra** (4th IR), **Sports**, Quality of life, boost human dignity (safe water, house for all, clean energy instead of firewood)
- Potential GDP: Institutions, social harmony, govt policies too, apart from LLCO
- Terms: **China+1** ko tap karne mein help karega xyz sector (eg: Textile); **Impact on IG/women**; New dev in sector (eg: Techincal textile)
- Talk about **Regulator as a point** in answers: eg: Gas economy mein role of **PNGRB**. National Gas Grid; Also PESTEL se socho points **also talk of governance** aspect in pts framing
- PPP aaye toh normal benefits se link karo: Modern tech, investment, optimise risk allocation, knowledge sharing, etc

        - **Energy Trilemma** : Balancing affordability, energy security, and environmental sustainability
    - **Why to control fiscal deficit**: Can create BoP crisis like in SL due to **Fiscal profligacy;** Fiscal discipline is needed for inter-generational equity in fiscal management; Achieving **long term macro-economic stability; Tackle off-budget borrowing issue;** Ricardian equivalence; **Crowding out pvt sector; Monetising the deficit**
        - **Target**: Fiscal deficit is 3% of the GDP by FY2021; 60% of the GDP by FY2025; **CAG reviews compliance with FRBM Act**
        - Indep fiscal council can - address the problem of off-budget financing (by unbiased reporting to parliament); IMF and OECD also suggested formation of fiscal council
    - In a **socially and culturally diverse** country like India, **domestic demand remains strong across the year**on account of several festivals, cultural exhibitions etc. E.g., **spurt in domestic demand during Dhanteras, Deepawali, Holi, Eid** etc
    - **NARCL** (Resume lending to productive sectors; Has Swiss challenge for valuation concerns) Issues: End up being a storehouse of stressed assets
    - **Issues of India's FDI**: Volatile forex (by FII); High US dollar basket (can led to vulnerability); High debt to forex ratio (foregin debt in dollars > than total forex reserves)

Gross Domestic Product (GDP) is the **final value of goods and services produced** within the domestic territory of an economy in a particular financial year. Central Statistical Office (CSO), in 2015, changed its methodology to calculate GDP as recommended by the United Nations System of National Accounts in which -

1. **Sector-wise estimates of Gross Value Added (GVA)** were taken into account.
2. GDP figures were now calculated based on **Market Price and** not Factor Cost.
3. Base year change from 2004-05 to **2011-12.**
4. A new series of **data from MCA-21 was introduced, w**hich includes the data of all the companies registered with the ministry of corporate affairs.

The **various advantages of adopting new computation methodology** for calculation of GDP are-

1. Change of base year provides **comprehensive covering of financial institutions and regulatory bodies' like- SEBI, PFRDA, and IRDA** along with representation of local organizations and institutions.
2. Data for corporate income is taken which allows the **collection of granular information even from the level of the small firms**.
3. **GVA** provides a better picture of GDP as it provides **sector-wise breakdown which helps policymakers to formulate sector-specific policies**.
4. **Widened the scope by calculating value addition in the agricultural and manufacturing sector** by using GVA.
5. The new method is **more robust** as it estimates more indicators such as consumption, employment, and the **performance of enterprises**.
6. More **globally aligned** with the United Nations guidelines in System of National Accounts-2008 and also **highlights the underestimation of industrial growth coverage** when compared with 2004-2005 GDP data.

Some of the **issues pertaining to the new methodology** are:

1. **Unreliable MCA21 data**, as NSSO report highlights that 36% of active companies in the MCA database were untraceable and added needless growth.
2. **Inaccurate estimation** of the strength of the **unorganized sector** as new methodology uses data from the organized sector as a proxy for the unorganized sector.
3. As per some experts, the new method is too **complex and may present an overestimation of growth data**

-
    - **NITI**: **Issues** (Less time for CMs as highlighted; GFCF not adeq increased; Govt think tank so indep doubted; old wine in new bottle); **Pros** (Approach of measurement & index National MPI; NITI for NE; Devised POSHAN, battery swapping, Tech-Responsible AI)