Pre-independence

09 July 2020 07:53

Syllabus:

- [x] land system, changes
- [x] commercialisation of agri
- [ ] drain theory
- [ ] laissez faire - theory & Critique
- [x] mfg jute, cotton,
- [x] Transport: railways
- [ ] money & Credit
- [x] (industry)

@Indep

Chapter wise notes from Tirthankar (re)

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Chapters from rothermund

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Land system, changes

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- [ ] 1. Assess the impact of land tenure system adopted by the British on the peasants and productivity of Indian agriculture. (10,2020)
- [ ] 2. What were the broad consideration underlying the different types of land settlement in India during the colonial rule? Discuss. (15,2017)
- [ ] 3. Land system during the British period was responsible for sustained poverty in India and stagnant growth of Indian economy. Discuss. (10,2014)
- [x] 4. Examine the features of permanent land settlement as introduced by Lord Cornwallis. (15,2018)

Pre-Colonial

- Floodplains: seats of powerful imperial states, overland trade, flourishing urban centres
- Peninsula: smaller, less wealthy, less commercialised, less urbanised states
  - Water scarce, resource poor
  - Sea-board states
    - Cultural make-up + economic means
    - Degree of autonomy
    - Vulnerable: not always backed by effective military might
- Land admin:
  - North India
    - 3-tier **welter of rights**
      - Right to cultivate (peasant)
        - Individual/ kin/ village rights
        - Village, kin stronger rights
      - Right to collect tax (landlord/ zamindar)
        - Mostly military commanders
        - ***'gentrification'*** - under weakening Mughals
        - Potential threat to state power
      - Right to grant taxation rights (kings/ warlords)
  - South India
    - Middle tier absent
    - Warlords in isolated forts
      - Levied land tax
      - Not necessarily part of imperial nobility
  - **4** types of **proprietary** land holders -> large variations
    - Individual cultivators
    - Individuals holding share in jointly owned village land
      - 'coparcenary'
      - aka 'Mirasdars' (S, W India) - saleable mirasis
    - Revenue-free/ lowly assessed lands for office holders/ temples/ men of special merit, etc
    - Chieftains of forested zones populated by indigenous people
  - Land revenue
    - No uniform rate, usually very high - upto ~50%
      - Negligible surplus for peasants

        - Severely restricted market for mass consumption goods (since no surplus income to buy them)
      - Actual collections less than stated rates
      - Remissions/ rescheduling in times of stress
      - Extreme inequality
      - Very low productivity of public investment
      - Enormous purchasing powers of minority elite in urban areas
        - Patrons for artisans, high quality crafts, services
    - Villages
      - Notion of 'village community'
      - Features:
        - Barter
        - Customary dues (Jajmani system)
        - Production for local consumption
        - Caste based specialisation
    - EIC believed private property rights DNE in India
      - Actually secure peasant property
      - Alienation difficult due to entanglement of rights
        - Poorly marketable land
      - Weak motives for active land txn (since low productivity of agri uses; alternative uses of land didn't exist)

British Arrival

- Early years:
  - Low demand for Brit goods in India
  - High demand of Indian goods in Brit
  - 'Mercantilist' approach: minimise outflow of British currency to India
- Dual objectives:
  - Weaken old military elite
    - Gaining power since Mughal decline
  - Expand tax base
  - + make land marketable
  - + standardise property rights
- Considered secure property rights as precondition for economic growth
- Solved welter of rights by recognising ONLY ownership rights
- 1841: land revenue ~60% of total public income
  - ∴ important policy issues
- 3 alternative systems
  - Zamindari/ Permanent Settlement - 57%
  - Ryotwari - 38%
  - Mahalwari - 5%

Permanent Settlement

- 1793: Cornwallis, John Shore
- **57%**
- Creation of alternative aristocracy in **Bengal** Presidency (incl **Bihar**), **Odisha**, **Central** Provinces, parts of **Madras** Presidency
- Why?
  - Unpopular, inefficient revenue farming before this
    - Widespread famine

            - Non-realisation of expected revenue
        - Brits didn't have direct access to info
        - Zamindars very powerful here
- What?
    - Zamindars: ownership + security so long as paid taxes on time
    - Hereditary zamindars
    - Tillers became tenants
    - Extensive powers to Zamindars over fixing rents
    - Govt received 10/11th of total rent; rest to zamindars as remuneration
- Impacts:
    - Free-rider problem: right of sharing produce of land w/o personal participation
    - *Absentee landlords* (moneylenders, traders) (feature of zamindari system)
        - Not interested in dispossessing the peasants of their lands
            - Used mortgages as measures of coercion
            - Substantial control over agri produce - usurious rents, market control
    - *Disruption of patron-client relationship* b/w landlords & tillers
        - Insurance against calamity
    - Land confiscation on non-payment of taxes
        - Lack of incentives to invest
        - Decline in production
        - Disruption of rural sector
    - Drastic decline in investments to improve agricultural productivity
        - Detrimental to capital formation
    - Proliferation of subleases
        - Multiple level of intermediaries
        - Exorbitant rent burden on peasants (borne the burden of multiple tiers of unproductive classes)
    - Peasants increasingly dependent on creditors (volatile markets)
        - Market power of merchants, bankers ↑
    - Impoverishment of artisans
        - ⇒ excess supply of agri labourers
        - Market power ↓
    - Statistical blackholes
        - No systematic records - difficult to mortgage and sale
- Daniel Thorner: built in 'depressor' operated in countryside characterised by low capital intensity and antiquated methods

Ryotwari

- 1820: Madras - Thomas Munro, Reed
- 1835: Bombay - Wingate, Goldsmid
- Also in Assam
- 38%
- Individual proprietorship of cultivators
    - Middle tier already weak
- 'ryot' differed in character regionally
    - Eg. Joint peasant rights in N India
- Impact on intermediary
    - Permanent weakening of office holders
        - Western India
    - Evolution into substantial cultivators
        - Southern India

    - Mix of both
        - Other areas
- Tax contracts valid for 30 years, renegotiated thereafter
- Emergence of revenue farmers w/ influx of erstwhile textile artisans
- Individualism
    - Faster decline of panchayati raj institutions + governance than Mahalwari areas
- Rise of moneylenders & mahajans as new zamindars
    - Granted loans to cultivators by mortgaging their lands

<u>Mahalwari</u>

- 1822: Gangetic plains
- Lord William Bentinck
- 5%
- Parts of N India, NW provinces, Punjab, Awadh, UP
- Tradition of communal village proprietorship + taluqdars
    - Taluqdars: owners of large estates + complete control, by law
- Ad hoc setup of revenue rates
    - Very high
- Turned very similar to Permanent Settlement in most areas

<u>Why diff systems in diff areas?</u>
- Influence of individual admin + ideologies
- Political events
    - Awadh - changed to zamindari after 1857 mutiny; initially Mahalwari
- Date of conquest
    - Later disillusionment w/ zamindars
    - Shifting views of Brit economists
- Choice of proprietary body depends on local conditions

Consequences of institutional reforms
- Land became tradeable commodity
    - ∵ clearly defined property rights + high rents
    - ⇒ elites sold their way out of villages (Mahalwari)
        - Shift to literate service occupations
- New class of landlords uninterested in investments
- Famines due to shift to cash crops
- Prevented growth of capitalist farming in India
    - Small landholdings
        - Holdings leased out to small farmers
        - Fragmented landholdings
    - Lack of investment
        - Low productivity
    - Risk averse attitude
    - No credit support from government
        - 93% from moneylenders in 1954
    - Legal recognition of commons
      ⇒ enclosures
        - Disempowerment of community, customary laws

<u>Persistent effects due to varying land tenure systems</u>
- Public investment mostly in Rytowari areas

- ∵ rents couldn't be ↑ in Permanent Settlement areas

- **Abhijit Banerjee & Lakshmi Iyer**
  - Slow adoption of HYV seeds etc post indep in erstwhile Zamindari areas
    - Income inequality
    - Political envi - class based resentment in zamindari areas
    - Effects of public investment
      - More canals, irrigation, railways in erstwhile Ryotwari areas

Post independence

Agriculture Commercialisation

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1. [x] Account for the commercialisation of Indian agriculture during the second half of the 19th C and analyse its effects. (10,2019)
2. [ ] Discuss the process of 'forced commercialization' of agriculture under colonial rule. (20,2009)
3. [x] Critically examine condition of agricultural and rural economy during the pre-independence era. (15,2016)

- Employed 2/3 labour force
- Early 20th C: 0.3% p.a. avg agri growth
- Interwar period:
  - Population growth > agri growth
    ⇒ declining per-capita food availability
- More growth in commercial crops than subsistence crops
  - Latter stagnant in 1890-1946 pd
- Correlation among
  - Commercialisation
  - Growth in production
  - Regional performances

- <u>Commercialisation</u>
  - Defn: Peasants start <u>producing primarily for sale in distant markets</u> rather than consumption/ local markets
    - Distant mkts = export + in-country markets accessible by railways
  - Began around 1860
  - 1st wave: Indigo, Opium
    - ? Declined after 1860 ?
  - 2nd wave: Cotton, Wheat, Rice, Sugarcane, Tobacco, Oilseeds

- Background:
  - Agri crisis due to <u>declining soil fertility</u>
    - Waterlogging (salinization), soil erosion
    - **Low level eqb** due to only natural replenishment; no specific efforts by farmers - manure, night soil, etc
  - <u>Irrigation</u> through canals, wells
    - EIC didn't realise their complementarity
  - Shift from wood to <u>iron implements</u> under Brits
    - Although implements remained same
  - <u>Missing input markets</u> for new equipments, seeds
  - Powered mostly by <u>bullock</u>
    - Poor efficiency
    - Underuse of buffaloes
    - Poor quality of bullocks due to prejudices against cow slaughter
  - <u>Peasantisation</u> of pastoralists
    - Disappearance of traditional knowledge on cattle health, maintenance of stock

- Factors:
  - Colonial subjugation
    - European industrialisation stimulated world dd for food, raw materials
    - Reduced to supplier of raw materials, food grains
    - Tariff policy liberalised, export duties abolished/ reduced

    - Expanded cultivation of cash crops to meet Brit dds
- Monetisation of land revenue payments
    - Higher incentive to grow monetarily profitable cash crops
    - Lighter burden due to decline in real value of taxes (esp Ryotwari areas) (inflation is good for those paying in cash)
- Increase in area under cultivation + irrigation facilities
- Better means of communication, transportation
  ⇒ long distance trade now feasible
- Increasing dd for some commercial crops abroad
- American Civil War - 1860s
    - Diversion of Brit cotton demand to India
    - Dd sustained even after civil war by rising textile industry in India
- Global changes - closer integration of local, regional, global markets
    - Suez Canal opened in 1869
    - Invention of steam engine, steam ships

- Impact:
    - ➢ Assisted industrial revolution in Britain
    - ➢ Broke economic self-sufficiency of Indian villages
    - Creation of rentier landlord class
        - No creation of rich capitalist farmer class unlike indep societies undergoing pre-capitalist to capitalist mode of production
        - Uninterested in productive investment on land
    - Increase in scale of tenancy
        - Not protected by any legislations for long
        - *Subinfeudation* - proliferation of subleases
    - Increase in extent of wage labour, migrant labour employment
        - Push factors:
            - New property rights in land
            - Decline of handicrafts
            - High risk export market
              ⇒ ↑ *indebtedness* of peasants
                - Increased peasant dependence on working capital credit
        - ➢ Reallocation of rural, artisanal men to urban industry; reallocation of domestic, artisanal women to agricultural wage labour
    - Gross cropped area led by marketable crops b/w 1870-1920
        - Wheat, cotton, oilseeds, sugarcane, tobacco
    - Large scale irrigation systems
        - Wastelands now cultivable
        - Increased cropping intensity in areas of limited rainfall
    - Stagnant agri productivity (should've increased acc to theory)
        - Poor agri organisation
        - Obsolete tech
        - Lack of resources among most peasants
        - Accentuation of inequalities
    - Regular famines
        - Due to substitution of cash crops for food grains
        - 1893-94 to 1945-46: commercial crop production ↑ by 85%; food crops ↓ by 7%
    - Volume + commodity composition of trade changed
        - Prev limited to drugs, dyes, luxuries
        - Now also food grains, fibres, staples of universal consumption
    - Regional specialisation of crop production based on climatic conditions
        - Deccan: cotton
        - Bengal: jute, indigo

        - Bihar: Opium
        - Assam: tea
        - Punjab: wheat
    - Linking of agri sector w/ world market
        - Price movements, business fluctuations
        - Choice of crops determined by world prices
    - Collapse of export market of grain by 1920s
        - No more surplus land to bring under cultivation
        - Rents, land prices outpaced agri prices

- Effects of market expansion
    - Level of non-wage incomes increasing
        - Average income still quite low for peasants
    - Little rise in real wage of agricultural labourers
        - Massive inflation during WWII
    - Urban real wages responded well, positively to import-substituting industrialisation
    - Demographic transitions -> increased ratio of labourers in agri population
    - Improvement in social status of depressed castes
        - Access to land continued to be caste-biased
        - High entry barriers for new entrants into agriculture
    - Substantial reduction in length of working day
    - Inequality in landholdings did not change in colonial period
    - Improvement, consolidation of middle peasantry
        - As opposed to neo-Marxists' 'polarisation' idea
        - Rooted in property rights reforms
    - Famines due to harvest failure rare after 1900 (changing nature of famines from scarcity famines to purchasing power famines)
        - Positive correlation b/w food security, infra + market integration (i.e. Now dependence on condition in distant markets)
        - Limited substitution of food crops w/ non-food crops

- Why stagnation
    - New property rights to groups that didn't cultivate land
    - Producers forced into long distance trade
        - New taxation regime
        - Imperfect credit markets
    - 2 zones of acute rural poverty
        - East India: Relatively high-rainfall rice growing regions w/ low land-man ratio
        - Peninsular, Central India: low rainfall regions

Irrigation infrastructure

2 (Ch2 notes here) also notes from Habib book

- Late 19th C projs: canals out of perennial rivers in Punjab, Sind, UP
- Varying economic, environmental effects of canals
    - Nature of canal, initial resource endowment
- Area under irrigation
    - 5-6% in early 1800s
    - 22% in 1938 -- 60% of additional area by govt canals
- Even after mutiny, irrigation remained among state policy priorities
- 2 broad categories
    - Productive works - built to increase agri production
        - Commercially profitable

- <u>Protective</u> works - for purely administrative/ famine relief purposes
    - Saved govt famine relief money

- Private sector excluded from water supply to avoid complicating property rights in water
- Impact:
  - Colonisation of vast areas of wastes and pastures by migrant cultivators
    - Punjab - Bari Doab canal (1850-60) - among earliest; Chenab Colony (1887) - most successful colony
  - Raised land productivity
  - Reduced impact of harvest fluctuations
  - Raised average living standards
  - Encouraged limited industrialisation
  - Increased income from plot + rental value of land
    - Land revenue on account of irrigation - estimated as indirect return on irrigation projects
    - Profitable - 6% yield on capital
  - Negative returns in Bengal, Odisha, Deccan - ill-conceived projects
  - Adverse environmental effects
    - Waterlogging
    - Saline deposits 'reh' due to oversaturation - loss of fertility
    - Over-cropping
    - Peasantisation of pastoralists - decline in livestock quality

Transport & Communication

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- [ ] 1. Evaluate the development of the transport system in India during 1857 to 1947. (15, 2020)
- [ ] 2. Do you agree that the development of Indian railways during the British Rule helped facilitate the process of industrialisation? Give reasons. (10,2019)
- [ ] 3. Trace the development of the cotton textile industry in India during the British period. Discuss the major problems faced by the industry in different stages of its growth during this period. (20,2019)
- [ ] 4. What were the considerations underlying the initiation of the railways and road transport system in India in the 19th C? (10,2017)
- [ ] 5. Explain how Railways played in important role in unifying the people of India during pre-Independence period. (15,2016)
- [ ] 6. How did railways contribute to India's economic development in the pre-Independence era? (10,2015)
- [ ] 7. Examine the problems faced by jute mills in India during the early years of their existence. (15,2018)
- [ ] 8. How was the Jute industry affected after partition? What remedial measures were taken to arrest its decline? (20,2012)
- [ ] 9. Write a brief note on the state of manufacturing in India in the 18th C and the subsequent de-industrialisation. (10,2017)
- [ ] 10. Discuss the manufacturing conditions that prevailed during pre-independence period. Do you feel that the private sector didn't come forward for investment due to fear of nationalisation? Give reasons. (20,2016)

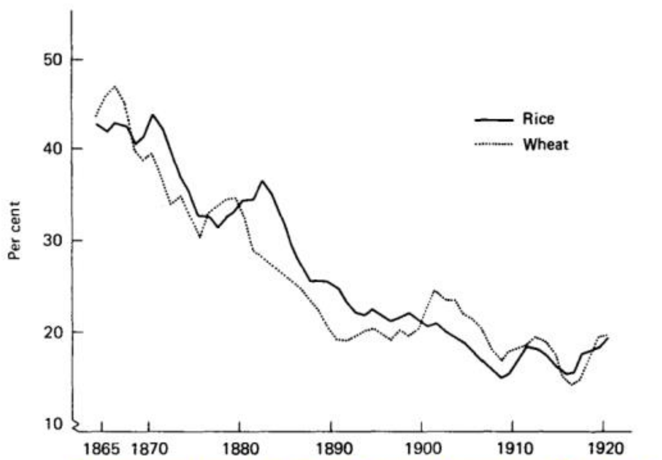
<u>Railways</u>

<u>*The armour of the isolated, self-sufficient village was pierced by the steel rail, and its lifeblood ebbed away. - DH Buchanan*</u>

- 1840s: lobbying by principal financier of railways in Britain + business communities
- <u>Lord Mayo</u>'s role
- Underlying considerations
  - Primarily commercial and political
  - Assist economic development
  - Market for British goods, source of raw materials
  - Facilitate defence of frontier + transport of troops
- Principles:
  - <u>Free land</u> from GoI to developers
  - Constructed by <u>private enterprise</u> on 99 year lease; GoI has option to purchase lines after 25 years
    - At current stock market valuation in London, not at valuation of real assets
  - <u>'Old Guarantee' system</u>: 5% return on capital guaranteed by Govt budget
    - No incentives to maintain economy, employing cheap Indian labour
    - Unutilised
  - To be entirely managed w/ only nominal govtal supervision
- 4 stages:
  - 1849-69: only private enterprise

- 1870-80: shift towards state enterprise
- 1881-1924: state ownership + private enterprise management
  - Dualistic system - undercapitalisation of railways
- 1924-__: state ownership + control (nationalisation)
- ? 2020 onwards - beginning of partial privatisation (add more stuff in post reform)

\- Before railways
- Costly, undependable, difficult - roads in disrepair, paucity of navigation canals, bullocks
- Slow, high spoilage
- Cost prohibitive
  - Exception: goods with high value relative to weight: fine handloom textiles
- Limited market size - regions self sufficient
- Restricted scale of manufacturing enterprises - small scale, mostly cottage
  - Exception: Bengal rice exporter - cheap river shipping

\- Advantages:
- Coverage
  - ~1000km railway lines laid every year b/w 1859-1909
    - <u>**4.5km per year now**</u>
    - ? Cobb Douglas, low hanging fruit
  - Theoretically, 75% area served by 1914 (Irfan Habib)
  - 4th largest network globally by 1910
  - Density: 35 route km/ 10,000 sq km (1880) - 159 (1946-47)
- Increased speed and availability of transport
- Substantial reduction in transportation costs
  - Savings worth 9% of national income; 4% even in unprofitable areas (Habib)
  - Freed up resources for other economic activities
  - (counter: substantial drain)
- Integration of markets - domestic and international
  - Freight: 3.6 mn metric tons (1871) - 42.6 mn (1901) - 143.6 mn (1947)
  - Rise in export - 230% in wheat (1860 - 1930) (in real terms)
  - Rise in imports - 350% overall (1860 -1930) (Habib)
- Promotion of internal trade
  - Transformed structure of prices in India
    - Inter-regional price differences narrowed dramatically
    - 

Graph 8.2. Five-year moving average of coefficient of variation of average price of rice and wheat in sample districts 1861–1921.

  - Indian agri linked to world trade cycles
- Agriculture
  - Reduced spoilage
  - Internationally competitive agri commodities
  - Commercialisation - national market

        - Declining regional price volatility
        - Nationalists alleged - railways intensified local food shortages during late 19th C famines
        - ! Not necessarily competitive wrt boats in many regions (Tea gardens - Brahmaputra to Bengal)
    - Foundation for regional specialisation in crops (Heckscher Ohlin - comparative advantages)
    - Production for distant markets - expansion of area under cotton, rice, wheat, jute, oilseeds, etc
    - Shift from food crops to cash crops
      1911-1941
        - Per capita food production decreased - 1.14% p.a.
        - Per capita cash crop increased - 0.57% p.a.
        - Net decline - 0.72% p.a.
    - Side effects: demand for land rose, sales of land stimulated, prices/ rent/ taxes soared
    - Gains depended on local conditions
        - Large landowners - sale of surplus + moneylending
        - Small landowners - sale of surplus, if any
        - Landless labourers - rise in real wages with expansion of labour-intensive crops
    - Net increase in jobs in agri sector
  - Non-agri sectors
    - Growth of modern industry
    - Percentage of workforce employed in industry did not increase; sizeable absolute increase though
    - Domestic:
        - Engendered competition by reduction in costs of transport
        - Aided sustainability of SSI through access to low cost input (factory yarns) (pg__)
  - Concentration of industries
    - Increased productivity
    - Migration
  - Disaster management
    - Reduced intensity of famines
  - Socio-political
    - National integration
    - Spurred flow of people, nationalistic ideas
    - Passenger km per capita: 18 (1882) to 108 (1930) and 164 (1947)
- Issues in functioning
  - High cost of construction
    - 5% Old Guarantee system
        - Excessively high freight costs for short distances
        - 1% of national income went as guaranteed interest payments for railways
        - Dis-incentivised economy
  - Drain on resources ~0.3% of national income (Habib)
    - Subsidy -- 5%
    - Track placement -- humanitarian, strategic considerations
        - Deccan, NW, Ganges
    - More than offset by savings in transportation costs though
  - Britain reaped backward linkage until WWI
    - Everything except coal came from Britain

        - Labour, admin, supervisory, technical staff, etc
        - Indianisation after WWI
    - Haphazard - w/o proper plan
        - Laid down only to meet immediate lobbyist demands
        - Lowered companies' actual rates of return
        - Unnecessary increased burden of subsidy (5%), drain
    - Didn't have highest social benefits relative to costs
        - Alternatives that could've been invested in: roads, navigation canals, improvements in existing waterways, irrigation, agri research
    - Complex multiplicity in forms of organisation
    - Indian passengers overcharged; miserable conditions of travel
        - Open racial apartheid
    - Caused deindustrialisation, commercialisation of agri
    - <u>Reduced intensity</u> of <u>famines</u>; <u>enlarged area</u> of impact
        - Restricted price rise in core distress area by bringing in supplies; corresponding rise in origin areas - widely felt scarcity
    - <u>Intensified famines</u> by exporting large quantities/ during wars for armies
        - Home Charges - food exports not curbed even during famines
        - 1943 famine explanation acc to Amartya Sen

<u>Roads</u>

- Good roads <u>scarce</u>
- Quantity of grains moved too small - large price differentials in adjoining districts
- Investment in roads given low priority
    - High construction, repair costs - terrain, rivers, monsoons
    - No monetary return to govt
    - Lobbies pushed for transport to get cheaper long-distance bulk carriage (Lancashire, etc)
- Increased inequalities b/w long distance and local trade

<u>Inland waterways</u>

- Navigable rivers mainly limited to Gangetic plains
    - Limited long distance transportation
- Cheaper than road
- Canal used for navigation in South; couldn't be done so in North
- Assam & eastern Bengal - rail, road, boats functioned in complementarities rather than competition

<u>Ports</u>

- 19th C - indifference of all stakeholders to spend on reliable infrastructure
    - 1864 cyclone: Calcutta merchants lobbied for better ports
- Military importance emphasised during WWI
- Modernisation drive during interwar period

<u>Post & Telegraph</u>

- Money order & migration connected
- Lord Dalhousie
- Private enterprise in England, America
- State enterprise for military reasons

Industry

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Pre-Colonial

- Primarily production for local customers by rural, urban artisans
- Rural industry:
  - Coarse textiles, pottery, agri implements of wood, iron, sugar, leather, oil
  - Unit of production: family, small collectives of artisan families
  - Simple organisation, division of labour rare
- Urban industry:
  - High degree of refinement
    - Not tech but use of costly materials
  - Proximity to power
    - For Consumption & Protection from piracy
    - Led to economic subordination of producers to consumers
  - Political power of guilds nothing like those in Europe
  - Division of labour, specialisation
  - Money, credit more visible here

Brit Arrival

	Large scale	Small-scale	small
		Modern	Traditional
Organisation	Workers in 100s Supervisory staff	Factories w/ <100 workers	Household, small factories
Technology	Modern machinery Steam power, electricity	Hand tools to limited machinery	Hand tools
Regulation	Factories Act + other acts governing employment, mgmt	Some regulated, some not	Not regulated
Vintage	colonial	Colonial	Pre-colonial
Examples	Cotton mills, jute mills, steel, sugar, paper, etc	Foundry, rice and flour mills, oil mills, weaving factories w/ power driven looms	Handloom weaving

- 19th C:
  - Decline in Industries
    - Cotton textiles
    - Iron and steel
  - Fall in scale of production, export of Indian cotton textiles
    - Reduced EU dd
    - Reduced dd from impoverished Indian aristocracy
    - Import of machine made cloth, yarn
  - De-industrialisation of workforce

1800	15-18%
1900	~10%

- (Bagchi) - table on population engaged in industry
- Timing
    - Regionally variable
    - In several parts, decline began with coming of railways
- Iron and steel
    - Import of iron goods steadily increased from late 18th C; but for products not generally produced by Indians
    - Decline of artisanal smelting in second half of century
    - Artisan-entrepreneurs w/ EIC connections tried to setup viable iron shops after English model (mostly failed - expensive wood fuel, no railways/ roads)
        - Eg. Andrew Duncan's charcoal based smelting factory, Birbhum, 1810
- <u>Counterpoint</u>:
    - New innovative enterprises in port towns
        - Many used EU K, Tech, artisanal skills
        - Stimulated by growth of Indo-European trade w/ end of EIC monopoly
        - Flourishing entrepreneurial culture in diverse products, including indigo
    - Foundation for industrialisation in Bombay, Calcutta, Madras
        - Consumer goods for European population - carriages, furniture, clocks, watch, glassware
        - Large scale workshops e.g. Hooghly west bank
        - Factory establishments concentrated around cities
    - Shipbuilding
        - Competition from Europeans
        - Stimulated business of ancient ports - Masulipatnam, Cambay
        - Decline of traditional enterprise in ocean shipping
        - Replaced by steamships
            - Bengal - mostly European firms
            - Bombay - Indo-European collaborations. E.g. Ardaseer Cursetji became head of Bombay shipyards in 1850s

Evolution

<u>Modern Industrial Development</u>

- Modern industrial development:
    - From 1850s modern industry began to develop in India but it was confined mainly to textiles (cotton and jute) and Bombay - Ahmedabad and Hooghly region.
    - Iron and steel began to grow only after 1907 and
    - others in 1930s.
    - Still <u>textiles</u> comprised of <u>60 % of total manufacturing output in 1951</u> (next being engineering @ 8.4% and steel @ 7.6%). (mnemonic - 60% same as the imports in the 1850- 1914 period)
    - Even though the pace of development was fast by 1951 it accounted only for 7.5% of the GDP (up from 4% in 1913). They employed only 2% of the labor force (up from 0.3% in 1913)
- Employment
    - Between 1860 and 1940, Employment in the modern factories grew @ 4% pa
    - Overall employment growth 0.5% (Sivasubramanium)
- Gradual Indianisation of capital:
    - Happened after WW1 and Indian industries developed mainly in consumer goods sector and by WW2 India mainly self-sufficient in it
    - intermediate goods industries like cement and iron and steel also
    - By independence, Indian capital controlled ~60% of the large industrial units.
    - In 1913, 60% under British

- Higher Productivity in SSIs (Sivasubramanium)
- Growing linkages: In 1930s, there began a shift of capital from usury, landlordism to industry. Links between industry and agriculture grew stronger. The new industries were mainly catering to home market instead of foreign market
- Public debt: India turned from a debtor nation to a creditor nation (from a debt of Rs. 450 cr to positive balances of Rs. 1700 cr) by the end of WW2 mainly on the account of forced savings enforced by £.

Cons about the Modern Industrialisation Process

1. Absence of core sectors:
    1. under development of capital goods and modern banking and insurance sectors.
    2. India relied on imports to meet ~90% of its machinery needs in 1951.
    3. also maintained dependence on foreign technicians
2. Share limited - At independence
    1.

Employment	2%	up from 0.3% in 1913 - pneumonic -3
GDP	7.5%	up from 4% though in 1913)

3. Showed high regional concentration, with most of the industries located in Bombay and Calcutta (transport links, labour markets, and because these cities were located close to sites of cotton and jute cultivation, respectively)
4. Factory employment was dominated by the textile industry, primarily in cotton and jute spinning and weaving mills - 60% of total output in 1951
5. Primarily male-dominated
6. Credit, Skill and Technology shortage

Large Scale industry

- limited rise in large-scale industry during colonial rule
    - Only 2% of employment
    - 7% GDP
- Led by textiles - 60% at indep
- Gradual Indianisation of capital
- Absence of core sector
- Concentrated industries
- ? 3 F issues
- Scarce capital -> undercapitalisaion
    - Sectarian clientele of informal institutions
    - Indian banking companies supplied only working capital, not fixed capital
    - Stock market - small, suffered fm speculation, insider control
    - Absence of good regulatory system in money market

Stats

- Industrial GDP - 15% in 1900 to 45% in 1947
- Share of industrial employment:
    - ~0 (1850) - 5% (1891) - 11% (1938)
    - Women participation declined (1881-1971) in large factories; increased in small-scale factories

- Small combined share of capital and intermediate goods
- High regional concentration of factory employment
    - Transportation hubs; market for labour, capital & services; sites of European settlement
    - Near cotton, jute cultivation areas

<u>Stages of Industrialisation</u>

- Preferred outline
    - Pre British
    - Deindustrialization
    - 1850s - Growth of Cotton and Jute - Role of Suez, Railways, Monetary Policy, American Revolution - Write about the Changing Trade Pattern
    - Boost due to WWs
    - Policy of Discriminating Trade and surge of Consumer Industries
    - Situation at Independence

- Continuity
    - Continued dependence on import of capital goods, manufactured inputs
    - Continued dependence on foreign technicians
        - 'Indianisation' of supervisory best seen in cotton mills

- Pre-War 1850-1914
    - 1868: opening of Suez Canal
        - Reduction in transaction, transportation costs
    - Growth of China trade after end of Company's monopoly (1834-35)
        - Foreign inv + domestic mercantile accumulation for new enterprises
    - American Civil War 1861-65
        - Dd for Indian cotton
        - Tea-mania in Assam (unrelated, but at same time)
    - Popularisation of joint-stock companies
    - Principal industries: cotton, jute (combined employment share more than half of industrial working class)
- WWI
    - Excess dd + supply bottlenecks
        - Import of machinery, raw materials, spares, chemicals fm Britain, Germany stopped
    - Shortage induced inflation → benefited existing industries
        - Gainers: steel, jute, cotton mills
- Interwar Period 1920-39
    - Change in policy
        - Prev Laissez Faire in promotion of industries
            - Govt indifferent/ hostile to Indian entrepreneurship
            - Depended on Brit imports of defence, railways, etc → shortage during WWI
        - Now: <u>*Fiscal Autonomy Convention 1919*</u>
            - India has right to pursue indep tariff policy
            - Diluted in pursuance of Brit protectionism for their goods <u>*Imperial Preference Policy*</u>
    - Worsening public finances - no direct assistance to Indian industries
        - Tariffs raised ∵ govt dependent on customs revenues
    - Keener competition in steel, textiles
        - Low, fluctuating profits + industry specific adversities
    - 1925-35: cheap imports + falling world prices

        - Competition from Japan in cotton textiles
        - Jute: mostly sold abroad, Indian capacity grew faster than world demand - hurt by falling prices
        - No deep impact of Great Depression
- WWII
    - Similar effects as WWI
    - Better prepared to take advantage
        - More growth of industrial incomes

Small scale Industry

- Overwhelming majority of India's mfg workers were employed in small-scale industries
    - At indep: 10% total industry - 8% small-scale w/ 10% GDP
    - Overall declining trend in employment in SSI
- Mostly 'traditional'
- 'Modern' SSIs grew in interwar period but most imp textiles
- More scattered; didn't usually occur together w/ large scale industries

De-industrialisation

- Destruction of traditional Indian handicraft industries due to competition fm products of British manufacturers

- Reasons:
    - Industrial revolution in England
    - British trade policies
    - Structural factors in India (Morris D Morris)
        - No domestic market for mass goods
            - Low per capita income, limited purchasing power
        - Manufacturing dispersed into villages
            - Towns evolved as pilgrimage/ admin centres
            - V/s European cities evolved as mfg hubs
        - Resistance to technology change; little exchange of knowledge
        - Scarce human capital, physical capital
            - Plenty of unskilled labour
        - Low social status of manufacturers; strongly family based
    - Myrdal
        - Caste
            - Counter:
                - Even japan has some form of caste -- more flexible though
                - African countries - no caste yet poor!
        - Monsoon failure
        - Poor work discipline
        - Lack of punctuality
        - superstition
- Impact:
    - Employment (Amiya Bagchi)

Time	Industry - HALVED	Absorbed by Agri
1881	**18%**	62%
1931	**9%**	71%
Alternatively may use		independence figures

- Larger impact on women
- Share of world trade
    - 20% in 1800 to 1.5% in 1913
    - Change of composition, direction of trade (here)
- 3 areas most affected
    - Intermediate goods (yarns)
        - Textile
            - Decline of traditional industry; major importer of Brit textiles
                - 90% export decline 1815-32
                - 25% of all Brit exports to India by 1850
    - Tools
    - Consumer goods for poor
        - But - increase in commodities for rich - silk, carpet, leather
- Pauperisation of peasantry
- SSI concentration
    - Better transport - artisans migrated to big industrial centres -> SSIs dvped there
        - More than 50% in UP, Punjab, Madras
    - Rise in productivity of SSIs (Sivasubramonian)
- Side by side survival alongside factories
    - (Morris D Morris)
        - By accepting lower wages -- no evidence
        - State role -- did little concretely to either strengthen handicrafts/ shelter from competition
        - Swadeshi -- restricted to particular regions, contradictory as blocked access to cheap imported inputs
    - Alternatively
        - Rational adaptation to new envi (segmented markets, globalisation, increasing wage employments)

Major Industries

Cotton

- Worst affected sector in SSI deindustrialisation
- Initial attempts to estb factories in 1850s
    - First successful in 1854, Bombay
- Major spurt:
    - American Civil War, Suez Canal, Railways, devaluation of Indian rupee
    - 1862: 4 to 1885: 49
    - Ahmedabad: new centre + Bombay (80%)
- China - major export destination; exceeded Brit's exports there in 1878
- 1882: all import duties eliminated (Lancashire lobby)
- Constant devaluation of rupee (gold std vs India on silver currency)
- 1893: Brit currency measures to shut off benefits of devaluation to Indian cotton mills
    - India's exports hurt
    - Japan took over China market before WWI - *Mini Crisis*
- 1894: 5% countervailing excise duty imposed on Indian exports (against free trade principles) (Lancashire lobby)
    - Still grew - 270 mills by 1914
- Indian mills limited to spinning yarn
    - Expansion possibly at expense of domestic handloom industry

- Lancashire grip on fabrics - net import
- Changes in interwar period:
    - Weaving own yarn more than before
    - Tired to spin and weave finer yarn
    - Tried to save on labour costs → industrial unrest
- Bankruptcy in inter-war period
    - Loss of China mkt
    - Increasing domestic competition ;

<u>Jute</u>

- Raw material for sacking
    - Dd expanded rapidly in 19th C -- growing commodity trade
    - 1870s - Bengal raw jute processed in Britain, Germany
    - Parallel mechanisation in Calcutta (1855 onwards)
- Export oriented industry; developed to serve foreign interests
    - 20th C: mainly to US, Germany
- Jute handlooms in Bengal - killed due to colonisation - export of raw jute instead
- Late 19th C:
    - 1855 - mills came up (5 in 1870 to 64 in 1914)
    - Brit lost comparative advantage due to rising labour cost
    - 1870s onwards: Indian jute industry held virtual monopoly in world
    - European char: Unlike Bombay cotton mills no Indian owners or managers
    - Issues: unstable conditions, low growth
- WWI - rapid expansion of demand
- Interwar years - slower demand growth
    - Unsuccessful attempt to form cartel
        - Why failed? - ethnic cartels -- too many, too diverse, exclusionary cartels
        - Club: organised Brit capitalists; fringe: small Indian entrepreneurs
        - For success cartels need - identical interests, inclusive membership, number small enough, credible enforcement systems, expulsion hurts
    - Attracted entry of domestic firms - undercut the cartel
    - Issues: Excess production, unstable profit, increased competition
    - Bengal govt intervened - set production limits
- Tech improvements delayed -> industry doomed

<u>Post-indep</u>

- National Jute Board - 2008 - statutory
    - Includes Jute Manufacturers Development Council (1984)
- Grants-in-Aid to Jute producing states for promotion of jute industry
    - By Finance Commission
- Mandatory Jute Packaging Act 1987
    - 20% in Sugar, similarly in food
    - Diluted since 2012
- JUTE-ICARE Scheme 2015
    - Improved Cultivation and Advanced Retting Exercise for Jute
- Jute Modernisation Fund
- National Center for Jute Diversification
- Jute Technology Missions
- Plantation of Jute in WB, Bihar, Odisha, Assam, Tripura
- Normal MSME schemes - KVIC, SIDBI
- Jute Policy 2005

- Jute Design Cells
- TUFS Technology Upgradation Fund Scheme
- Jute Entrepreneurs Assistance (Capital Subsidy) Scheme
- MSP for jute

Issues

- Post-partition, jute producing areas went to B'desh
    - Acute shortage of raw jute
- Stiff competition from B'desh, Philippines, Japan, Brazil
- 10% export subsidy in B'desh
- Shrinking market for jute goods - synthetic packaging materials
- Labour unrest, strikes
- Need to link wage rates w/ productivity; new sophisticated machinery
    - Resisted by labour unions

Laissez Faire theory & critique

09 July 2020 12:20

- [ ] 1. Examine how the laissez faire policy was responsible for the famine in the late 19th C India. (10,2020)
- [ ] 2. Mixed economy is an outcome of the compromise between laissez-faire capitalism and socialist state control of resource. Elaborate. Mention its salient features. (10,2013)
- [ ] 3. Do you agree with the view that the objective of industrial and commercial policies of British was to transform India as a complementary economy of England? Give reasons. (10,2018)
- [ ] 4. What were the economic consequences of discriminating protection in the trade policy during the British regime? (10,2016)
- [ ] 5. What specific trade policies during the British period led to the decline of Indian industry? Explain. (10,2015)
- [ ] 6. Write about the policy of discriminating protection during the British rule and its impact on industrial development in India. (10,2014)
- [ ] 7. Discuss policy of Discriminating Protection and its impact on Indian industrial development during the British period. (15,2011)

AS:

Indian Economy : Pre Independence Era : Laissez Faire
What was the situation of foreign trade pre and early colonial period?

The Indian continent was a major link in the maritime trade between Asia and Europe. Initially, the British used Indian cotton to pay for Indonesian spices, which were valued highly back home. However, by the end of 1600s, Europe became a bigger market for Indian textile than Southeast Asia. Cotton goods were exported in the form of muslin, calicoes, and silk-cotton mixes. They catered to both mass markets (calicoes) and also became fashion trendsetters. Other important items were rice, silver, and horses.

Major trading regions were Punjab, Gujarat, Coromandel, and Bengal, and the British set up their trading posts here (they called these 'factories'). While initially they concentrated on seaborne trade, the increasing importance of Indian goods in home markets led them to want to control inland trade as well, and given their might at sea, they began asking for concessions on inland trade from Indian rulers. The latter had to comply, because the alternative was to face the wrath of the British at sea. The English gradually coerced their way into getting trade licenses at negligible fee; however, when they saw that the Indian rulers were unwilling or unable to help them enforce contracts and generally provide security on inland trade routes, they increasingly began to wrest direct control of administration.

Over time, the company became a territorial power living on land revenue, and many of its employees established partnerships with Indians to carry on export of major goods.

Give the broad outline of trade during colonial period.

After construction of Suez canal Between 1869 and 1914 trade rose by 500%. Before the outbreak of the First World War, the exports were primarily oriented towards Britain; later, they titled significantly towards East Asia.

Screenshot (193)
However during British period India's share in world trade fell from 20% In 1800 to 2% by Independence.

What is Laissez Faire policy?

Laissez-faire is an economic theory from the 18th century that opposed any government intervention in business affairs. The driving principle behind laissez-faire, is that the less the government is involved in the economy, the better off business will be and by extension, society as a whole

What are the reasons to introduce Laissez Faire Policy?

After the Industrial Revolution, British interest increasingly started moving away form the prevailing mercantilist ideology, and move towards propounding 'free trade' values. As noted by some of its most forceful proponents (Adam Smith/ Ricardo), essentials of the doctrine was that the state shouldn't interfere in economic affairs, establish monopolies, or hinder imports by levying high, protective tariffs.
In theory, this amounted to a rejection of the mercantilist diktat of using colonies as useful adjuncts, and there would be no need to forcibly alter economic policies of colonies. In practise, this amounted to Imperialism of Free Trade, as England was to gain greatly if other countries lifted all their tariffs on British imports; force was not ruled out to secure this state of affairs.
What are the main instruments of Laissez Faire policy?

Initially, the EIC's self-interest kept the ambitions of British industrialists in check to some extent. However, after the Charter acts f 1813 and 1833 removed the EIC's monopoly
After 1858, British Free Trade interests started dominating policy like never before.
Increasingly, the hypocrisy behind the free trade rant was consistently exposed.
Until World War 1, trade between India and Britain was effectively free of tariffs. This served the exporters of British manufacturers, such as the Lancashire mill owners. They resisted attempts to impose or increase any import duties, because India was one of the most important markets for them (India bought 25% of British textile exports in 1850).
The Government of India based in Calcutta was rather poor, and from time to time advocated an increase in tariffs. However, the India Office in London listened to the British businesses, and hence till WW1 tariffs remained negligible.
What are the consequences of Laissez Faire policy?

The composition of exports changed in favour of peasant exports.
Exports not only enabled India to pay 'tribute' due to an export surplus. But it also financed the textile imports from Britain.
India was, thus, converted into an unprotected market for British consumer goods
Drain of Wealth – Both External And Internal
At the same time, the increment in capital base was very limited . This led to de-industrialization. As a result pressure on land increased, causing further pauperization of peasantry.
In 1910, Britain's share in Indian imports was 70% (but only 30% in exports). This means that apart from serving as a market, it also placed export surpluses with other countries at its disposal, thereby enabling Britain to source raw materials from other nations.
Indian export surplus with other nation was thus diverted to Britain which helped it in its trade with these countries .
It was decided to westernize Indian education so as to create western taste in Indians so that

they would be market for British goods and its supports.
Christian missionary activities were to be supported for the Anglicization of Indian society.
To support British investment British rule further strengthen.
Examine the hypocrisy of Laissez Faire policy?

Free trade policies could be easily dispensed with wherever the interests of the British manufacturers so directed, for example, the brazen 'Buy British' policy
Imposition of countervailing excise in 1894 to offset the advantages that may have accrued to the Indian textile industry because of a 5 per cent import duty levied on all foreign goods
Overvalued Currency esp after 1893.
Trade between unequal.
Lack of Modern Banking system to finance the Indian exports.Skill, Capital deficit
Britain imposed various restrictions on Shipping. For example Indian made ships were not granted licenses to trade with Britain.
What are the Ranade's view on Laissez Faire policy?

He saw predominance of agriculture and backwardness of industries as the root cause of poverty in India.
Ranade thought that Laissez faire policy had enhanced India's mass poverty as it hurted the industry.
He advocated a policy of protection to the Indian industries.
Not only that, he wanted the government to follow a positive policy for promotion of industrial development of India. Also wanted Capitalisation and not Commercialisation of Agriculture
Write a note on policy of discriminating protection.

After world war1 British introduced policy of discriminating protections.

Reasons

Provided Tariff to a fiscally starved govt
Infant Industry Argument – To protect from Japanese competition
To pacify the Indian nationalists like Ranade who has bitterly criticised the Laissez Faire Policy
Reward to India for her War Efforts
Features

Some Increase in tariff take place – Hence, it Protected the Indian industries

However, the protection was DISCRIMINATORY in nature
Protection only to the industries which had Natural Advantage.
These were mostly those goods that did not create Competition with Britain . But, their competition was more with other countries esp Japan (British adversaries).
Hence industries like cement, woolen and heavy chemicals were denied protection.
Discriminating Protection was backed with the Imperial Preference Treaty
It stated that imports from Britain and exports to Britain will enjoy the most favoured nation treatment.
Their main aim was to restrict the entry of other nations goods, mainly Japan, in Indian market to eliminate the competition.
Consequences of Discriminating Protections

Positives

This led to diversification of industrial base and new factories came up in sugar, iron and steel, matches, paper.
Manufacturing grew at the rate of 5.6% between 1920 and 1938
Industries like Tata and Birla expanded (eg Tata in Aviation)
However Gain was little because

Britain share in exports rose to 35%
It was limited only to certain industries
Over valuation of rupee continued which harmed Indian export.
Excess capacities in the world led to cheaper imports.
Lack of technological and management advancement kept Indian industries uncompetitive.
Compare and contrast the 'Swadeshi' of 1905 and the 'Swadeshi' promoted later by Mahatma Gandhi.

Swadeshi of 1905 and Swadeshi promoted by Mahatma Gandhi deferred widely in their social, economic and political range.

The movement of Swadeshi (1905) was started by Indian nationals in 1906 against the Partition of Bengal. On other hand Gandhian Swadeshi had wider co notation. It was aimed at self sufficient villages and people of India.

1905 Swadeshi was used to pressurized British government. It was protest movement. However Gandhian idea of swadeshi leads to swaraj of Indian people. People participation in 1905 swadeshi was limited. Gandhian swadeshi had large out reached. Influenced by Gandhi many people started using Khadi.

However end agenda of both the movement was same to reduce independence on foreign goods. Both the movement adapted methods of boycott of foreign goods and burning of foreign cloths.

Share this:

Free Traders & Changing Character of £ Rule

Factors Responsible

1. Up until the end of 18th century, £ company was exporting Indian goods to £ and paying for them out of Indian revenues. This benefitted the company shareholders only.
2. By this time, industrial revolution had made significant headway in £ and it had become a manufacturing hub. A new class of manufacturer capitalists had emerged which gained nothing out of the policy of £ company. They stood to gain not by import of Indian products but by export of their own manufactured goods. They also wanted imports of raw materials from India to serve as inputs for their enhanced production.

Evolution

1. In 1769, an act was passed compelling £ company to export £ 380k of £ manufactured goods p.a. even if it suffered a loss on it.
2. In 1793, they forced the £ company to grant them use of 3000 tonnes of shipping p.a.
3. In 1812, a parliamentary committee was appointed to discover how £ manufacturers could replace Indian manufacturers and finally in 1813, £ company's monopoly was ended. Thus Indian economy became a colonized economy.

Impact

(a) Economic

1. To increase the market for £ goods and source of raw materials, £ followed a policy of free trade for £ exports into India and imposed stiff tariffs on Indian manufactured products. This led to complete ruin of Indian artisans. The ruin increased the pressure on land and it was only the strong joint family system which cushioned the impact.
2. India became an economic colony. Export of handicraft products plummeted while that of raw materials zoomed. Textiles which were chief item of exports for centuries were now imported.
3. This led to the development of improved means of communications like railways, roads, telegraph.
4. Indian industry couldn't develop due to biased trade policies, import duties on machinery and preference for foreign capital.

(b) Political

1. To increase further, they followed a policy of new territorial expansion. Thus Lord Hastings and Dalhousie greatly expanded the territory of £ India empire and the areas which produced raw materials or were lucrative markets were special targets.
2. It increased £ grip on India.

(c) Social

1. It was decided to westernize Indian education so as to create western taste in Indians so that they would be market for £ goods and its supports.
2. Christian missionary activities were to be supported for the Anglicization of Indian society.

Pre-Independence Industrialization of India

Debate #1 Deindustrialisation: Result of £ Policy or Indian Socio-Economic Structure

Morris D Morris recognizes the role of £ policy in lack of Indian industrialization, but he also cites other reasons.

1. India didn't have the market for mass goods. Per capital income was low and purchasing power was in the hands of only a few people.
2. Indian towns were pilgrimage / administrative centers. Manufacturing was dispersed into villages.
3. Indians avoided technology change. Exchange of knowledge was also very little. Indians didn't adopt iron casting even though it was introduced in € in 14th century.
4. Human capital was scarce in India along with physical capital. Unskilled labor only was plenty.
5. They accorded low social status to manufacturers. Manufacturing was strongly family based.

Early Patterns

1. Organized sector grew but remained only a fraction of total employment.
2. Dominant sectors were textiles, food processing and metallurgy.
3. Regional distribution was very lopsided. Bengal and Bombay were main centers.

Common Challenges

1. Price volatility after wars.
2. £ customs policy.
3. Fx appreciation.

Indian Economy @ Independence

Social Indicators

1. Education: Illiteracy was 85%.
2. Health: Mortality rate was 2.7%, infant mortality was 180, life expectancy was 32 years.
3. Level of urbanization: Only 15% population lived in urban areas.

Economic Indicators

1. Employment: 72% of labor force was engaged in agriculture (~27% were agriculture

labor indicating pressure on land), industry employed 10% (organized industries only 2% and remaining 8% by SSIs), remaining 18% ion services.
2. Composition of national income: ~50% came from agriculture, 17% from industries (10% from SSIs and only 7% from modern manufacturing), 33% from services.

Agriculture

1. Declining productivity: Per capita production declined @ 0.72% p.a. between 1911 - 1941(Blyn). Per capita availability was only 400 g and even this was after the imports (10% of domestic production). The imports ate up 20% of our export earnings back then.
2. Shift to cash crops: Per capita food grain production declined by 1.14% p.a. between 1911 - 1941 while non food grain production increased by 0.57% p.a. in the same period. Food grain yields were down @ 0.44% p.a. while non food grain yields were up @ 1.15% p.a. The improvement in non food grains was not a result of any improved institutions or techniques but merely a shift of better land form food grains to cash crops.
3. Reasons: Zamindari system, usury, bonded labor, internal drain of capital (high LR with no investment back), high rate of tenancy (only 28% of rural households worked on their lands in 1951, rest was tenants, share croppers and labor) and poor technology (only 11% area used improved seeds, chemical fertilizers use was only 0.1 MT).

Industry

1. Deindustrialization: £ followed a systematic policy of deindustrializing India. Between 1815 to 1832 India's textiles exports dropped by 92% and in 1850 India was buying 25% of £ textiles exports. Even the benefits of railways went to £ as their positive externalities (in terms of backward linkages while construction and forward linkages while operation) went to £ as £ capital was used, £ coal and steel was used and £ used railways to export raw materials from India.
2. Modern industrial development: From 1850s modern industry began to develop in India but it was confined mainly to textiles (cotton and jute) and Bombay - Ahemdabad and Hooghly region. Iron and steel began to grow only after 1907 and others in 1930s. Still textiles comprised of 57% of total manufacturing output in 1951 (next being engineering @ 8.4% and steel @ 7.6%). Even though the pace of development was fast by 1951 it accounted only for 7.5% of the GDP (up from 3.8% in 1913). They employed only 2% of the labor force.
3. Absence of core sectors: A characteristic feature was under development of capital goods and modern banking and insurance sectors. India relied on imports to meet ~ 90% of its machinery needs in 1951.
4. Gradual indianization of capital: This happened specially during and after WW1 and Indian industries developed mainly in consumer goods sector and by WW2 India was mainly self sufficient in this sector. Some intermediate goods industries like cement and iron and steel were also in Indian hands. By independence, Indian capital controlled ~ 60% of the large industrial units.
5. Growing linkages: In 1930s, there began a shift of capital from usury, landlordism to industry. Links between industry and agriculture grew stronger. The new industries were mainly catering to home market instead of foreign market.
6. Public debt: India turned from a debtor nation to a creditor nation (from a debt of Rs. 450 cr to positive balances of Rs. 1700 cr) by the end of WW2 mainly on the account of forced savings enforced by £.

Q. Discuss the policy of discriminating protection and its impact on Indian industrial development during the £ period. (2011, II, 15)

Q. Compare and contrast the 'Swadesi' of 1905 and the 'Swadesi' promoted later by Mahatma Gandhi. (2010, II, 20)

Q. Gunder Frank held that development of one part of the world causes underdevelopment of another part. Does it explain industrialization of £ and the de-industrialization of India during the £ raj? Assess. (2010, II, 30)

Q. Is Gunder Frank's above view still valid in the contemporary world? Substantiate your answer. (2010, II, 20)

Q. What were the shortages faced by manufacturing sector in India at the dawn of independence? (2010, II, 10)

Q. Give a critical account of the underdevelopment of India during £ rule. (2007, II, 20)

Foreign Trade

09 July 2020 07:57

Pre-Colonial

- Indian subcontinent major link in maritime trade b/w Asia, Europe
- Multiple mercantile marine clusters
    - Imp: Gujarat, Malabar, Coromandel, Bengal
- No support of territorial powers in creation, sustenance of port towns
- 16th C:
    - Portuguese control of sea routes
    - Rise of continental monarchies - Mughal, Safavid, Ottoman (hajj network)
- Brit
    - Initially part of traditional structure - buy Indonesian spices in exchange for Indian textiles
    - 1670s - Europe bigger market for Indian textiles than Asia
    - Mughals, lobal nobles powerful on land, weak at sea
        - 'balance of blackmail between land and sea' w/ Europeans
    - Disputes:
        - License to trade w/o fee/ low fee
        - Issues in enforcement of contracts for supply of manufactured goods
    - Company eventually became territorial power living on land revenue
- 18th C
    - Beginning of end of horse trade w/ Central, West Asia
        - Increasing imp of artillery, infantry
        - Maratha cavalries of locally bred lighter horses
- Grain exports
    - Monsoon never failed for whole region
    - Stimulated by growing trade b/w S Asia & Europe in 17th C
    - Larger, sturdier ships
    - Larger trade settlements
    - Successor states -> warfare -> urban, military demand ↑
- Cotton exports
    - Types
        - Muslins - fine cotton yarn clothes
        - Fine calicoes - medium-to-fine yarn (incl Chintz)
        - Ordinary cotton calicoes - coarse-medium yarn
        - Silk cloths
        - Silk cotton mixed fabrics
    - Regions: Punjab, Gujarat, Coromandel, Bengal
- Seaborne-trade: watershed in Indian business history
    - European domination
        - Naval superiority
        - Fortified settlements
        - State backing
        - Bigger, sturdier, better defended ships
            - Lower freight rates charged by Indian ships
        - Joint-stock companies in Europe
            - Vs family firms in India
        - Information advantage due to shift of consumer dd towards Europe

Brit Arrival

- 1813: EIC's commercial monopoly in India ended
- By 1815: market for Indian textiles had shrunk
  - Tariffs steeply raised b/w 1797-1914
- Company territorial power by now
  - Living on land revenue
- Faster integration of Indian trade w/ world trade since 1800; 4 features
  - Importance of foreign trade in regional economy increased
  - Overall scale of trade showed no decline although India no longer dominated world textile trade in 19th C
  - Composition of trade changed
  - Nature of trade fluctuations changed
    - 18th C: due to weakness in infra, info
      - Consignments rather than order
      - Auctioning
      - Large price fluctuations
    - 19th C: contractual deals
- 4 features of foreign trade in colonial India
  - Increasing openness, trade dependence in 19th C
    - Growth of tertiary sector
  - Initial specialisation in agri export
  - Gradual shift away from agri as industrialisation progressed
  - Initial Britain centred trade; tilted towards East Asia in the interwar period
    - Diversification in capabilities + trade partners both
    - Inter-Asian trade expanded; Europe's dominance in Asian trade reduced
- 1880-1925: real volume of trade to and from India doubled
- Foreign trade as ratio of national income: 10% in 1860s to 20% in 1914
  - Comparable w/ rapidly growing economies
- Trade Composition by KN Chaudhuri

Time	Export	Import	Direction
18th century	Textiles	Gold Bullions	
1800 - 1850	Indigo, Cotton , Silk, Tobacco, Opium (i.e. Semi processed goods)	Textiles - 60% of Imports	China (Opium) and Britain - 80% of trade
1850 - 1914	Agricultural goods - 55%	Cotton Textiles - 35% Rise of import of Machineries as Indianisation of Textiles rose	B&C Decline to 35%. US and Japan more
1935 (Inter war)	Industrial goods rose and made 30% of exports	Manufacturing goods declined from 80% to 65%	(Imperial Preference Treaty) Britain share in exports rose to 35% (Pneumonic - same)

Globalisation in India

- 2 principal modes of experience

Trade policies of british

Money & Credit

09 July 2020 22:18

- [x] 1. Examine how the currency policy of the British affected the growth of monetisation in the Indian economy during 19th C. (20,2020)
- [x] 2. How did Gold Bullion Standard end with 'ratio controversy' in British India? (10,2018)

<u>Monetary Policy</u>

- Primary goal:
    - Stabilise exchange rate - for stable economic txns b/w Britain and India
    - Appreciation: hurt Indian exporters
    - Depreciation: difficult to meet sterling obligations
- GoI not allowed to pursue stabilisation policy indep of Brit interests
    - Seen whenever rupee under pressure, eg Great Depression
- Rupee constantly overvalued to ensure budgetary obligations - hurt Indian business interests
- Indian exchange rate
    - Initially on silver standard (1835)
        - Council Bills sold by India Office at fixed exchange rate, redeemable in India
        - Carry silver bullion, get it minted into coins for a fee
    - 1898 - Gold Exchange standard (diff fm Gold Standard)
        - Until 1916
        - Rupee convertible against sterling, not gold
        - Gold Std would represent freedom for India
            - Not favourable for Brits
        - Crisis:
            - Loss of confidence during WWI - silver price inflation
        - Related: Fowler Committee 1898 -
            - to examine currency situation in India
            - Recommended abandoning silver coinage due to relative decline of value of silver against gold

- Background:
    - Mughals - uniform silver based currency
        - Tradition of open minting
        - Continued by Brits
            - Also paper currency redeemable in silver; low circulation
    - Quantity of silver - major influence on money supply
        - Little domestic reserves
        - Size of silver imports important

- Balance of Payments
    - 2 major types of net inflow - 4.4% of national icome
        - Net export of goods
        - Net inflow of foreign investment
    - 3 major net outflows
        - Private remittances (2.7%)
        - Govt remittance (0.4%)
            - Home Charges
            - Payment for maintenance of army, marine force
            - Pension payments for officials served in India
        - Net purchase of gold & silver (1.3%)
    - Capital inflows
        - Short term
            - Large interest rate variations by season

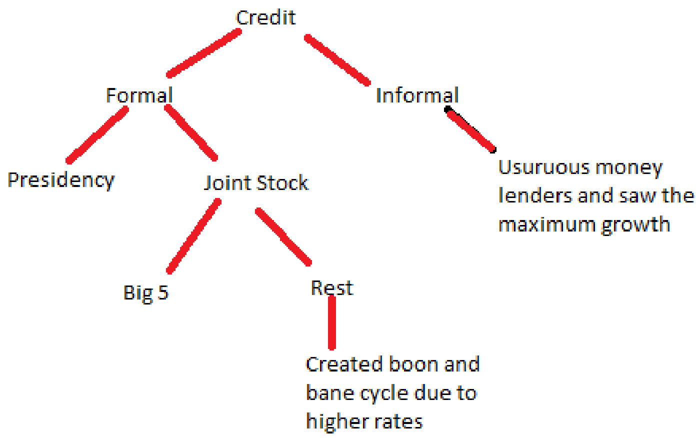
        - To meet seasonal demands of trade
    - Long term
        - Private foreign investment
        - Net increase in public debt
        - -- at indep - 25-33% foreign capital in capital stock of private corporate sector

- Trends
    - Pre-1757 (Plassey):
        - Some silver imports to pay for company's expenses,
        - but impact muted due to low volume
    - 1757-1850:
        - After the victory at Plassey, Brits started paying for their Indian expenses by Indian revenues.
        - Thus, silver imports declined ,
        - and a long-term deflationary trend set in in India (MV=PY)
    - 1850-1893:
        - Many countries across the world moved to the gold standard, which led to a spurt in demand for gold, and decline in demand for silver. Thus, global silver prices fell.
        - 2 impacts
            - <u>Inflation</u>
                - Since silver was still the currency-base in India, this led to huge imports of silver into India => money supply increased, and so did prices (=> inflation).
                - Thus, during 1873-96, when the industrial world faced the 'Long Depression' and saw falling prices, India experienced inflation.
                - Prices increased, but money wages for labourers etc. were fixed Land rents were fixed
                    - Thus, redistribution of income from the poor to rich landlords
            - <u>Depreciation</u>
                - This also led to a fall in the pound-sterling value of rupee (depreciation). Pound was on the gold standard, and India's silver currency stock was increasing even with stagnant production levels. Thus, between 1873 and 1895, the rupee fell by 42% against the pound   (*<u>Mundell Johnson model)</u>*
                - Depreciation led to boost in Exports
    - 1893 Onwards
        - The immediate impact of this was that 'Home Charges' (fixed in sterling) increased for the Government of India, and colonial officers could only send a reduced value of remittances back home to England. The colonialists were obviously worried about this, and also about the impact of this on trade (good for Indian exporters, bad for British interests – especially so in the cotton industry, where Indian cotton factories were giving stiff competition to Lancashire in the export market). Thus, in 1893, the government decided to close all Indian mints to silver coinage (decrease supply) , till the desired rupee-sterling ratio was achieved.
        - India was now pegged to the sterling at 1s 4d, and through the sterling, to the gold standard. This peculiar form of gold standard (through a silver currency) still required that a large amount of Indian revenues be used up to buy and keep substantial reserves of gold in England. The entire arrangement was quite profitable for Britain and fairly expensive for India
        - ? CASE STUDY of BRITISH influence on INDIAN TRADE & ECONOMY

<u>The Ratio Controversy</u> is the name given to the interwar strengthening of Indian nationalist protests at the overvaluation of the rupee; the controversy was worsened by the conduct of Indian monetary policy during the great depression, which seemed to serve British interests at the expense of Indian ones.

<u>Credit</u>

- Rapid growth of banking, insurance after 1870s
    - Not rooted in traditional insti
- Growth occurred in condition of pervasive capital scarcity, poor regulation, opaque business

communities
    - Scope for secrecy, opportunism
- Dualistic structure in money market -> persistent high risk of banking panics
    - Rich clients, good govt securities, stable banks
    - Poorer clients, risky securities, unstable (Indian joint-stock) banks
- Banks ⇒ fall in interest rates, rise in deposit-income ratio (doubled)
    - Limited scale of changes
    - Aggregate rates of savings, investment low
    - Choice of assets traditional
- At indep: savings rate - 10% of GDP
- 

- <u>Formal Sector</u>
    - 4 constituents
        - Exchange banks -- foreign trade, remittance
        - Presidency Banks -- domestic trade, remittance
        - Indian joint-stock banks -- domestic trade, remittance
        - Cooperative credit societies --
    - Indirect role in any occupation that did not have to do with foreign trade, remittances, modern factories

- <u>Central Bank</u>
    - Proposed by Warren Hastings 1773
    - 4 expected functions
        - Banker to govt
        - Banker to other banks
        - Regulation of currency and money supply
        - Management of foreign exchange
    - Presidency banks only served 1st purpose; also became commercial banks
    - 3rd fn done by finance dept of GoI
    - 1860s - Viceroy Lawrence -- discarded
        - Govt unwilling to accept the idea of a monetary authority independent of its influence
    - 1910 - Royal Commission on Indian Finance and Currency
        - JM Keynes, Sir Ernest Cable
        - Both favoured RBI
    - 1926 Currency Commission, 1931 Indian Central Banking Enquiry Committee
    - 1935: RBI set up
        - 1st task: integrate fragmented and chaotic banking system

- <u>Informal Sector</u>
    - Hundi - 19th, early 20th C
        - Multiplicity of names, contractual terms
        - Financed internal trade of India
        - Run by local, rural moneylenders (shroffs)
        - Community dominated - distanced from modern money markets
        - Small scale because colonial rule govt, officials not interested in making deposits with

them -- very vulnerable
- *Negotiable Instruments Act 1881* - to tax closed txns made using hundis, etc

Agri credit

- Factors:
  - Commercialised agri
  - Cash crop production -> need to borrow to buy food
  - Monetisation of tax, non-sync w/ harvest cycles - monetary advances
  - Debt trap
  - Supply side
    - Railways, gr of market towns, new profit opportunities
    - ↑ mobility, migration, settlement, enterprise of persons of trader-moneylender class
- Very high interest rates
  - Disparity b/w season of tax collection, harvests
  - Commercialisation
    - increased dd for relatively high cost inputs
    - Longer waiting period b/w inv & sale of crop
  - Inferior bargaining power of peasants as a class
  - Imperfect credit market
    - Knowledge, power asymmetry
- High interest elasticity of money supply
  - Most money used on short terms
  - Nothing like a well-integrated money market
  - Interest rates continued to be influenced by a mutually understood notion of custom
- Large txn costs of land transfers b/w peasants, non-peasants
  - Credit business came in hands of rich peasants rather than professional moneylenders
  - Power of latter declined over time in almost all regions
- Usury
  - Limited bargaining power of tenants - caste heirarchy
  - Illiteracy - duped into farcical contracts
- Rigidity
  - Rigid pricing of rents
  - Large variability of agri prices (cobweb model) - monsoon, supply inelasticity
  - ? Internal Drain
- At Indep
  - 93% rural credit from moneylenders
  - 1% fm govt banks
  - Rest from cooperatives, commercial banks

Industrial credit market

- Issues
  - Savings Rate of only 10% at independence
    - Hence, Capital Scarce and High interest Rate
  - Modern Institutions limited
    - Modern banking institutions developed very slowly
    - Presidency Banks more for European finance and thus out of reach
    - Stock market was a rather small and insignificant institution in the 19th century.
  - and the traditional community-based informal financial institutions remained sectarian in choice of their clientele.
  - Weak surplus generation
    - Given that capital was scarce, there was a tendency to overcapitalize during booms (machines were bought at time of rising prices at the high prices).
    - Similarly, to generate investor confidence, most Indian firms used to pay excessive dividends in times of boom,
    - thereby making generation of excess reserves only a secondary priority.
    - Also led to GREATER RISKS

Given this state, pioneers in large-scale industry came almost entirely from communities that specialized in trading and banking activities. There was, thus, an almost perfect correlation between hereditary trader-bankers and large-scale industry

Q. How did Gold Bullion Standard end with 'ratio controversy' in British India? (2018/10).

Under Gold Bullion standard, monetary authorities agreed to sell gold bullion on demand in exchange for circulating currency at a fixed price. Its main objective was to maintain parity of rupee with gold.

Ratio controversy (1927-39)

- Until 1916, rupee-sterling exchange rate appeared to be at natural stable rate of 1s 4d (1 £ = Rs.15).
- Post World War I rise (1918) ~~price~~ & fall (1920-21) made it difficult to keep the exchange rate stable.
- Hilton Young Commission (1926) suggested to fix it at 1s 6d (1 £ = Rs.13.33). This higher exchange rate appeared to be unfair for indebted Indian peasants & industries.
- Devaluation of rupee from 1s 6d to 1s 4d was also included as one of the eleven demands in Gandhiji ultimatum to Lord Irwin (1930).

Problems with Gold Bullion Standard (1927-31)

- Advantages of GBS – security, elasticity, public confidence, resilience to fluctuations – did not last long.
- Great depression of 1930s accompanied steep fall in agricultural prices.
- Britain turned from creditor to debtor, with overall deficit in Indian trade. This increased its interest obligations in terms of rupee.
- Britain ~~war~~, USA & several other countries went of gold standard, leading to appreciation in gold further leading to selling of 'distress gold'.

In consequence, the Government of India also abandoned gold-rupee parity & officially linked rupee to sterling (Pure Sterling Exchange)

Drain Theory

09 July 2020 22:55

- [x] 1. Examine the theory of 'Economic Drain' in the second half of the 19th C in India and discuss its economic effects. (15,2019)
- [ ] 2. What is drain theory? How does it explain the backwardness of India in the 19th C? (20,2017)
- [ ] 3. Write on 'Drain Theory' as developed by Dadabhai Naoroji. How does it explain sustained poverty during the British Rule in India? (10,2013)

Q. Analyse the theory of 'Economic drain' in the second half of the 19th century in India & discuss its economic effects. (2019/15)

'Economic drain' of wealth refers to the unilateral transfer of Indian revenues to the British treasury. The income & surplus generated by domestic Indian economic activities accrued ~~more~~ to largely to the British counterpart.

Constituents → Home charges – dividend
– interest on public debt
– civil & military expenditures

→ interest on foreign capital investment

→ Foreign Banking, Insurance, shipping

Mechanism : via council bills & sterling bills.

Estimates Dadabhai Naoroji (Welby Commission, 1895) – drain of wealth formed nearly half of govt. revenue & a third of savings.
R.C. Dutt (1901) – £ 22 million p/a.; CN Vakil (1834–1924) : £ 394–591 million.

Economic effects

- Retarded domestic capital formation, as potential 'investible surplus' did not materialize.
- vicious cycle of loans & interests spilled over to other sectors.
- benign growth of industries & agricultural development.
- stagnant per capita income & employment on aggregate level.
- Dadabhai Naoroji : moral drain, decline in human capital, ... ability, talent & intellect.

- stagnant per capita income ...
- Dadabhai Naoroji : moral drain, decline in human capital, loss of skilled nobility, talent & intellect.

Thus, to paraphrase R. Dutt, economic drain "sucked the moisture out of Indian soil & precipitated over England's soil as fertilizing rain".

Criticism of Govt remittances by Indian nationalists

- Reduced capacity of domestic economy to generate savings, investments
  - If financed fm taxes - domestic consumption/ saving could fall
  - If financed fm govt's own investment - public investment could fall
  - Financed thru foreign borrowings - volume of payments would increase by interest obligations
  - -- all 3 methods used
  - Adverse effects depended on quality of charges - no conclusive measure
- Compromised govt's capacity to follow stabilisation policy independent of British economic interests
  - Eg. During Great Depression - inv-income ratio affected (pg 97)
- High degree of instability due to dependence on agri, foreign trade

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Economic Drain from India: Concept, Extent and Consequences
Article Shared by Deepak Bhagat

In this article we will discuss about the economic drain from India:- 1. Concept of the Drain 2. Extent of the Drain 3. Constituents of the Drain 4. Critics and Drain Theory 5. Consequences of the Drain.

Contents:

1. Concept of the Drain:

The central point of the drain theory is that a portion of the national product of India was not available for capital formation or consumption by her own people but was drained away to England for political reasons without getting an adequate economic, commercial or material return.

In other words, it was a unilateral transfer of wealth from India to England. The drain took the form of an excess of exports over imports—the difference between exports and imports being a broad measure of the drain.

Economic drain had two aspects:

1. External and
2. Internal.

External drain occurred through a unilateral transfer of goods to England and would have been impossible without an internal drain. In fact, as Ganguli says, the internal drain may be regarded as the contingent effect of the external drain.

In order to meet the external drain, commodities such as food-grains and raw materials were extorted from the rural areas by oppressive land revenue, irrigation rates, salt tax and other levies which compelled the cultivators to sell their crops which were exported.

This is what happened during the depression of 1930's when large quantities of 'distress gold' flowed from the rural to the urban areas from where it flowed out again to England. So, just as there was a unilateral transfer of wealth from India to England, so was there a transfer from the poor rural areas to the relatively affluent urban areas. This was the internal drain.

In addition, there was a moral drain also which implied the loss of skill and experience in administration and knowledge of high scientific and learned professions when Englishmen possessing them retired to England.

2. Extent of the Drain:

Estimates of the drain differ from person to person and also from year to year because, firstly, the drain itself was increasing from year to year and, secondly, different persons used different methods of calculation. No firm estimates are AVAILABLE regarding the amount of tribute exerted by the East India Company prior to its passing into the hands of the British Crown.

However, according to William Digby, "probably between Plassey and Water-loo (1757-1815) a sum of 1000 million pounds sterling was transferred from India to English Banks".

From 1834 onwards, a number of reliable estimated were made by both British and Indian authorities. Montgomery Martin, writing in 1828, estimated the drain at £30 million a year. Dadabhai Naoroji's estimates were the most intricate for he continuously changed their basis. In 1867, he put the amount of the drain at £8 million but finally settled for nearly 34 million in 1905.

In recent years, Messrs Shah and Khambatta reckoned it at £ 146.5 million for 1921-22 while Visveswaraya, calculating it for the year 1934, reached the figure of £ 121 million which was "exclusive of official remittances to England for pension, other Home charges and liabilities to non-Britishers who had trade relations with India".

Pavlov concludes that during the 1930's, the British annually deprived India of £ 130-140 million in pure tribute alone.

With this amount, India could annually construct three plants of the Bhilai type, each exceeding in capacity the country's Iron and Steel industry in the pre-colonial period. After a detailed analysis of the problem, Prof. C.N. Vakil came to the conclusion that the total economic drain from 1834-1924 was between **£ 394 million—£ 591 million.**

Working on the basis of Vakil's figures, Dr Bhatt calculates that, at 1962-63 prices, the total drain from 1757-1939, on Govt. account alone, amounted to £ 6000 million or about £ 30 million a year. To this may be added part of the remittances by private parties. This comes to roughly 2-3% of India's National Income during 1757-1939.

3. Constituents of the Drain:

While the form the drain took was that of an excess balance of trade, what was its genesis? In other words, what was drain due to?

Before 1833, the drain consisted of:
(a) Outright tributes paid by Indian rulers and
(b) Investment of surplus revenue of Bengal in exports from India by the company after the grant of 'Diwani' and payment of dividends to its shareholders.
It was supplemented by the export of bullion to China, remittances of private fortunes accumulated by the company's servants through a process of undisguised looting, and by the abuse of 'Dastak'.

After 1833, the problem became much more complex and open to dispute since there was

no visible tribute paid by India to England nor was there any transfer of surplus revenue from India to the British treasury.
It mainly consisted of:
(i) Home charges
(ii) Interest and profits on private foreign capital,
(iii) Banking, insurance and shipping charges.

Home Charges:
The fountain head of the drain was the salary of England for ruling over India, called the Home charges. Home charges refer to the expenditure incurred in England by the secretary of state on behalf of India. Before the Mutiny, they varied from 10-13% of the average revenue of India.

After the Mutiny, the proportion shot up and stood at 24% in the period 1897-1901. The burden further increased in the 20th Century when home charges constituted 40% of the total revenues of the Central Govt. In 1921-22 and 36% in 1938-39.

The main components of the Home Charges are examined below:
(a) Dividend to the proprietors of the East India Stock:
With the initial capital of a bare 6 million pounds, the East India Company "traded like rulers and ruled like merchants". Under the charter Act of 1833, the company was stripped of its commercial functions but in order to protect the interests of the proprietors, it was decided to pay, out of the revenues of India, an annual dividend of £6.30 lakhs to the stock holders of the company.

The company's debts and liabilities were also charged to India. This included the commercial as well as the territorial debt of the company. As a result of this arrangement, India paid the annual dividend of £ 6.3 lakhs for forty years plus interest on a loan of £4.5 million raised in 1874 to redeem the stock of the company.

The injustice involved in the arrangement is so open and manifest that even Dr. Anstey concedes that these "ought never to have been charged to the Indian revenues". This was a tribute and a drain on Indian resources.

(b) Interest on Public Debt:

Before the Mutiny, the public debt of India was due partly to wars both in and outside India and partly to Home charges. It represented the money with which India was conquered. It amounted to £37 million in 1834 when the company ceased to be a commercial body. It rapidly rose to £49.2 million in 1856 and £93 million in 1860.

This great increase of about £44 million represents the cost of suppressing the mutiny which was debited to India. The debt went on multiplying reaching £234 million in 1900 and £274 million in 1913. The main causes were the redemption of the East India stock in 1874; famines during 1874-77 and 1896-1900, the Second and Third Afghan wars, and the Forward Policy in the N.W.EP.

Then came the I world war when a special contribution of £100 million was made. The series of unprecedented deficits since 1918, aggregating £ 66.6 million up to 1923, further pushed up the figure. The true origin and nature of the public debt is thus explained. This large public debt involved an equally large interest liability also—the total interest payments on sterling debt alone being £ 321.6 million during 1860-1920.

The contention of Anstey that most of the public debt of India, especially in the later part of the 19th Century, was on account of increased expenditure upon public works belies the facts.

Even if debt due to productive works, Forward policy and famines is excluded, still a large portion of the interest charges on the sterling debt up to 1915 was due to the fact that India was paying, for the cost of her own conquest by the British.

This was totally unjustified and clearly a drain on India's resources. The remaining portion of the interest charges on sterling debt could have been reduced if Indian revenues had not been recklessly wasted and if the policy of raising loans in India had been adopted.

(c) Guaranteed interest on Railways and irrigation Revenue Account:

The guaranteed interest on capital borrowed for railway and canal works amounted to, an on-average, £ 3.5 million during 1861-74 and £ 9.6 million during 1914—1920.

It is argued by Anstey that the public works in India, constructed either by companies or the slate, had, in all cases, contributed Lo welfare of the country, that the extension of communication increased her trade and that the railways and irrigation works were of great help in times of famines and that, therefore, the price paid by India in the form of interest charges on the Capital invested in these works was not great in comparison with the benefit received.

The question, however, is whether these benefits could not have been obtained at a cheaper cost? If the mistakes connected with the Guarantee system had not been committed, if the construction of public works by the state had been carried without undue hurry and waste, if Indian capital had been used to a greater extent, the charges in England to these works would have been greatly reduced.

The capital used in excess of requirements and interest charges on the same were, therefore, in the nature of the drain.

(d) Civil Expenditure:

This included many items, large and small, such as the India office establishment, Mission to Persia and China, Pensions and furloughs, superannuation allowances of the British employees of the govt. It was unjust to charge India for the maintenance of the India office in England whose main function was to look after and protect British interest, more so when other British colonies were not being similarly charged.

The missions to Persia and China were likewise maintained for Imperial purposes but India alone, of all colonics, was made to contribute for their maintenance. Although the inequity was later removed in the case of China and Persian missions, India continued to pay a major part of the expense of the India office establishment and this was a drain.

As regards expenditure on pensions, furlough allowances and other funds instituted for the benefit of the English employees, this was clearly a strain and a drain on Indian resources. For example in 1902-3 the sum paid as pensions and furlough allowances in England alone came to 12% of the net annual revenues of India.

As Gadgil points out, the reason was that the salary scales of British employees were fixed at a level which had no relation to the economic life or financial resources of the country. The highest judicial officer in Algeria, for instance, received £72.0 per year and a furnished house.

The chief justice of Bengal, on the other hand, earned £4911 including exchange compensation allowance. These payments, being fixed in sterling, constituted a drain on Indian resources. An additional burden was imposed whenever there was a fall in the value of the rupee because the govt. then had to find more rupees to meet these charges.

The burden was all the greater when the govt. allowed a privileged rate of exchange for transferring these payments to England. This not only raised the amount of sterling payable in respect of each pension but it stimulated early retirements and transfer of pensions from India to England.

It is evident that the large and growing expenditure under this head and the consequent drain would have been materially reduced if Indian people had been employed to a greater extent in higher services.

(e) Military and Marine:

The charges under this head included the pay, furlough allowances and pensions of the British military and naval personnel, contribution to military service funds, charges for the transport of troops and cost of foreign wars. These charges, which arose solely because India was not a free country, contained elements of both tribute as well as drain.

All charges imposed on India for the campaigns in Abyssinia, Parak, Malta, II Afghan war, Egypt, Sudan, Burma were clearly a tribute extracted from India because these campaigns were undertaken for purely British interests. Even otherwise, defence expenditure was quite disproportionate to India's needs, capacity, and resources.

India had to bear the cost of recruitment and training of British army personnel posted to India. She was also under obligation to disburse their pay and allowances at British rates. The transport service organised for carrying British troops from England to India and back was another heavy charge.

That is why an ordinary British soldier cost as much as an Indian officer Vakil aptly sums up the position when he says that the British soldier was recruited at India's expense; was brought to India at India's expense; was given valuable field experience at India's expense; was sent back home at India's expense to join the Reserve forces of England.

To the extent the pension, furlough and other charges could have been reduced by the employment of Indians in the higher military service, there was drain from India.

(f) The Purchases of Stores:

It formed a small part of the Home Charges, the annual average varied between 10—20% of the total amount of the Home Charges between 1861—1920. These stores were purchased for the Military, Civil and marine departments.

The expenditure on stores was the only item in the Home charges where a material return was obtained. So long as these stores could not be manufactured in India, this expenditure was quite proper.

However, the govt's policy was to indent for all stores in England, even for those which were available in India. The discrimination was so glaring that even Dr Anstey feels that "more articles of Indian make could have been purchased."

Even though the store-purchase policy was somewhat liberalised in the 20th century, yet the overall attitude towards industrial development was unsympathetic if not hostile. Therefore, the drain on this account continued. There is, however, the difference that in this ease we had the compensation of getting material goods in return even though at a higher price.

(ii) Interest and profits on Private Foreign Capital:

Interest and profits on private foreign capital were important leakages from the national income stream. These payments, roughly varying between £20—40 million per year in the inter-war years-imposed a heavy burden on the country.

In contrast to their role in white men's colonies, foreign capitalists, in India did little to promote genuine industrial development of the country. Rather, they exploited Indian resources for their own benefit and checked the growth of domestic enterprise by means, fair or foul, with a view to retaining their stranglehold on Indian economy.

(iii) Foreign Banking, Insurance and Shipping charges:

Banking, Insurance and shipping were other services for which India had to make a payment abroad. Messers Shah and Khambata estimated that in 1921-22, a sum of £27.7 million was paid on account of freight and passenger carriage to foreign companies while another £10 million was paid on account of banking commission.

Evidently, these charges were heavy and a burden on India. To the extent India could become self-sufficient in this vital sphere and reduce her expenditure on these services, there was an-element of drain in these payments.

Loss due to Exchange:

The real burden of the drain was increased many times by the considerable fall in the gold price of silver in 1873. This meant that the govt. required more- rupees for the payment of the Home & other charges. The total loss on this account alone amounted to £162 million between 1875—1898.

The argument that the loss by exchange was 'incidental to the administration' and beyond the control of the govt. is not tenable. During the long period, when the price of the rupee was falling, the Govt. knew that an addition to their Sterling expenditure was a source of danger and difficulty. It ought to have, therefore, made efforts to reduce their Sterling obligations.

It instead increased them, Loss by exchange had to be made good by increased exports which, in turn, were induced by higher taxation which restricted domestic consumption. The above review shows that the element of drain was present in all these items in the sense that an independent India would not have been called upon to make these payments.

4. Critics and Drain Theory:

The refutation of the theory began almost simultaneously with its enunciation. Interestingly enough, there was broad agreement on the existence of the drain. What was contested was that "it did not consist of the total sum involved" or that it was 'exaggerated' or 'over-estimated.'

Some critics like Morrison ' and Lord Curzon referred to the import of bullion into India as a proof of an inward drain rather than outward drain. The fact, however, is that India did not receive adequate bullion in lieu of her export surplus. Besides, whatever bullion came was needed for Industrial and financial purposes.

In the early days of the British, rule, India was depleted of its precious metals to such an extent as to greatly diminish its quantity in the country. Some gold and silver was required to restore the balance.

Further, the commercialisation of agriculture and the new system of payment of revenue in cash also resulted in an increased demand for money. This is confirmed by the Herschell Committee which found that between 1870-71 to 1892-93, "nearly the whole of the imported silver had passed through the mints".

In the 20th century also, India's import of bullion did not offset her export balances. For example, India imported precious metals worth Rs. 53 crores during 1920-21 to 1945-46 against her net export surplus of Rs. 1394 crores. In other words, import of precious metals constituted less than 4% of the export surplus.

It was suggested that India's connection with England enabled her to borrow in the cheapest market. Morrison goes to the extent of asserting that the saving on account of the cheapness of the debt "was not very far from being enough to wipe out the whole of the political drain".

These critics forget that many of these loans were not required at all by India and most of them were not usefully employed. Moreover, even if a higher interest had to be paid on loans raised in India, at least it would have remained and fructified in India while even the lower rate, on foreign loans, produced a drain.

Anstey herself is doubtful whether or not it was—”in India’s interest to raise these loans in England rather than in India”.

Anstey’s argument that the railways and irrigation works constructed with foreign capital ‘were of immense benefit’ to India does not carry much conviction because their construction was undertaken primarily to serve the wider interests of England.

As PR Brahmananda puts it, they were a necessary ‘concomitant of Imperialism’. They were designed, laid and worked for the benefit of England. That is the reason why they failed to give rise to a flood of ‘Satellite innovations’ and destroyed more employment opportunities than they opened up. In this respect, even Marx proved a false prophet.

Critics often compared India’s position in respect of her export surplus with that of U.S.A. America also had a large export surplus due to its indebtedness to European countries and yet was flourishing precisely because it was utilizing foreign loans to make good the paucity of its own resources. Therefore, Morrison argues that (he political status of a country had nothing to do with the existence of the export surplus.

In reality, India’s case was not comparable with that U.S.A. because, except in the 1840’s, America was an importer of capital throughout the 19th century. Her export surplus arose after 1873 and not in the early stages. Secondly, the export surplus of U.S. represented either payment for loans it had taken in the past or, alternatively, it represented deferred receipts.

In the case of India, however, the exports were not paying for past loans nor were the surplus a future claim over other countries. In other words, India’s surplus was a capital transaction without any past or future. It was extinguished in the present just at the time of its creation and was a dead loss to the country.

Regarding the remittance of savings and pensions by Europeans employed in India, the critics agree that India’s case was different from other countries.

Anstey’s apology however, is that these charges were not large, and what is more, India received, as compensation, the advantage of the services of ‘hardworking, selfless and efficient’ officials of every kind and description and also non-economic welfare in the form of peace and security..... in other words, ‘good govt.’ favourable to economic evolution and cheaper than what she could herself provide.

While employment of technicians could not be objected to, a large part of the military and civil services were not maintained for India’s benefit but for purposes that served the interests of Britain and its citizens. Regarding the establishment of peace and security, critics overlook the fact that India needed to be defended against one aggression only that of the British Imperialism.

As against the advantage of employing-British citizens, there was the disadvantage of loss of skill and experience and of a nation condemned to an inferior status in its own country.

As for the assertion that India received an administration favourable to economic development, the economic history of India bears testimony to the hostility of the British Govt. towards the development of this country. Not only that no step was taken to promote it but everything possible was done to check, retard, and stifle it with all the weapons at the command of an Imperial power.

The assertion that a major portion of India’s debt was productive which since 1900 “brought in considerably more revenue than sufficed to cover the interest charges” also cannot be accepted. The fact is that a major portion of India's debt was political in nature and useless, inessential, and unproductive in character.

It came into existence during the rule of the East India Company in order to meet the expenses of the wars leading to the conquest of India, to pay the company's dividends and to buy its stock and to meet the cost of the suppression of the revolt of 1857. The cost of servicing this debt was an obvious drain on the resources of India.

5. Consequences of the Drain:

The most important evil resulting from the drain was impoverishment of the country. It meant a direct transfer of a part of the domestic product to England. Even if the drain had no other economic effect, the sheer reduction of the national product was large enough to make it a major cause of the poverty of India.

It checked and retarded capital accumulation in the country by removing a large part of its currently accumulated capital to a foreign land. In this respect, it was at least partly responsible for India's inability to embark on industrialisation.

This had an important, though harmful, effect on income and employment within the country.

R.C. Dutt rightly observes:

"When taxes are raised and spent in a country, the money circulates among the people, fructifies trade, industries and agriculture, and in one shape or another, reaches the mass of the people. But when taxes raised in a country are remitted out of it, the money is lost to the country for even it does not stimulate her trades or industries or reach the people in any form".

In short, the multiplier effects of the expansion of investment were lost to the country.

The drain facilitated the penetration and exploitation of India by foreign capital. Firstly, by preventing the accumulation of capital in India, the drain permitted foreign capitalists to come to the country without having to face indigenous competition.

They, therefore, monopolized and reaped all the advantages of India's material resources. Secondly, the drain acted as a major source of the accumulation of British Capital invested in India because a large part of the drain was brought back to India as foreign capital.

As R.C. Dutt pointed out, financially, the drain was met directly from the public revenues whose largest constituent was land revenue. Cultivators had to sell a large part of their produce to pay land revenue; this produce was exported because the country had to create the required export surplus.

Thus, through the mechanism of land revenue, the peasant was forced both to pay for the drain and to provide the agricultural products through which it was remitted. The result was that he was, on the one hand, starved of food grains which he was expected to export and, on the other, impoverished by the heavy land revenue. This started land of productive capital resulting in agricultural stagnation.

Apart from the direct loss resulting from the unilateral transfer of capital, the drain produced the secondary injury of worsening India's terms of trade with foreign countries by giving a compulsory character to her exports. India, in her drive to export or perish, had to depress the prices of its exports to persuade foreign buyers to purchase them. This was an additional loss to her.

The Govt's concern for meeting its ever-increasing Home Charges was a predominant factor in shaping India's currency policy. The tying of the rupee to the chariot-wheel of the sterling since 1898-99, and efforts since then to maintain the Sterling value of the rupee stable at an artificial rate, maintenance of Sterling Reserves in London, refusal to accept devaluation as a measure to lift the economy out of the depths of the world depression and refusal to slop unprecedented exports of distress gold etc.—all arose from the concern of the govt. to be able to pay 'Home Charges'.

Exclusion of Indians from the govt. of their country meant loss of all experience and knowledge of administration or legislation, of high scientific and technical professions thereby preventing skill-formation in the country.

To sum up, the drain is a remarkable illustration of the operation of Imperialism. It exposed, as nothing else could, the exploitative nature of the British rule and, in the process, it lays bare one of the most important causes responsible for reducing the once 'Sone Ki Chidya' (Golden Sparrow) to a condition of abject poverty and destitution.

The Drain: Meaning, Causes, and Consequence
Article Shared by Natasha Kwatiah

In this article we will discuss about the Drain. After reading this article you will learn about: 1. Meaning of the Drain 2. Causes of the Drain 3. Estimate 4. Consequence 5. Effects on England 6. Effects on India 7. Methods of Reducing the Drain.

Meaning of the Drain:
During the last quarter of the 19th century a great controversy arose over the question of 'The Drain' between the nationalist leaders of India and the Protagonists of Britain. Indian nationalist thinkers developed the theory of Drain mainly for analysing main cause of poverty in India.

The main agreement that was advanced in this respect was that "a significant portion of India's national wealth was transferred to England without any quid pro quo." The experts described such 'Drain' on India's resources as the transfer of resources from India to England either by getting nothing in return or getting only disproportionately a smaller part of such transfer of resources.

The person who first raised this issue of drain of resources from India to England was Dadabhai Naoroji in his book "Poverty and Un-British Rule in India" published in the year 1871. Dadabhai Naoroji tried to explain in his book the causes of drain, to measure the extent of such drain and to find the consequences of such drain.

Thus the British siphoning system adopted to take away India's resources and wealth has been termed as 'The Economic Drain' by economists like R.C. Dutt, Dadabhai Naoroji and others.

Causes of the Drain:
Dadabhai Naoroji in his book observed, "The drain consists of two elements the first, arising from the remittances by European Officials of their savings, and for their expenditure in England for their various wants both there and in India ; from pensions and salaries paid in England; and the second that arising from remittances by non-official Europeans."

This indicates that in order to meet the requirements of the economic drain, India had to export much as compared to its imports.

Dadabhai Naoroji observed that the following factors were responsible for the economic drain from India:

I. Remittances to England by European employees for supporting their families and education of their children—which may be considered a feature of colonial system of government.

2. Remittances of savings by the employees of the East India Company as they preferred to invest at home.

3. Remittances for purchasing British goods demanded by British employees as well as purchasing British goods in India.

ADVERTISEMENTS:

4. Government purchase of stores manufactured in Great Britain.

5. Interest charges on public debt held in Britain (which excluded interest payment on railway loans and other debts incurred for productive works).

As a result of political, administrative and commercial connections established between India and England, the Government of India had to make huge payments to the people of England. All these payments were known as 'Home Charges'.

Home charges were consisting of interest on public debt raised from England, annuities on account of railways and irrigation works and payments to British employees, employed in India as well as pensions to retired employees worked in India.

Versa Anstey made an estimate of these Home Charges to the extent of 35 million pounds annually. Moreover, the British rulers realised the cost of battles they fought with native rulers from India by raising loans.

Estimate of the Drain:
Although it was impossible to make a correct estimate of the extent of drain from India in the form of resources and gold bullion flowed from India to Great Britain, during the British rule, however some estimates were made on the extent of such drain.

Verelst estimated that during the period of five years just after Battle of Plassey, total volume of drain from India in terms of goods and bullion was 4, 94, 16, 11 pounds sterling. S.B. Saul also made an estimate of such drain based on balance of payments alone and his figure for the year 1880 alone amounted to 4.14 per cent of India's national income.

Dadabhai Naoroji also made an estimate of drain which was around Rs 8 million. Later on, the volume of drain estimated by Naoroji was Rs 12 million in 1870, Rs 25 crore in 1893. In 1897, Naoroji made another estimate of drain for the ten year period of 1883-92 and found the total drain at Rs 359 crore. In 1905, total amount of drain calculated by Naoroji was Rs 51.5 crore.

Another estimate was made by G.V. Joshi for the period 1834 to 1838 and total amount of drain from India during this period was estimated at nearly 600 million sterling.

D.E. Wacha's estimate of drain in 1901 was to the extent of Rs 30 to Rs 40 crore per year.

S.N. Banarjee's estimate of average annual drain for the last 30 years of 19th century was of the order of 30 million.

R.C. Dutta's estimate of drain was found to be around 20 million per year during the early part of 20th century.

Considering this huge drain of resources from India, Irfan Habib observed, "The fact that India had to have a rate of saving of 4 per cent of its national income just to pay the Tribute must be borne in mind when economists speak of the lack of internal capacities for development or the low per capita income base, from which the British could not lift the Indians, however much they tried."

Consequence of the Drain:

The huge amount of drain of resources and bullions from India to England created a serious impact on the economy of India and a favourable effect on the economy of England. Such consequences of drain were studied in detail by various Indian economists like Dadabhai Naoroji, M.G. Ranade, R.C. Dutta, G.K. Gokhale, G.V. Joshi and others and emphasised in detail the extremely deleterious effects of the Drain.

While criticising the drain of resources and capital from India to England, M.G. Ranade observed, "………..of the national income of India, more than one third was taken away by the British in some form or the other."

In 1901, R.C. Dutta observed that "the drain from India was unexplained in any country on earth at the present day, one half of the net revenue flows annually out of India verily the moisture of India blesses and fertilisers other lands…………. So great an Economic Drain out of the resources of land would so impoverish the most prosperous countries on earth; it has reduced India to a land of famines, more frequent, more widespread and more fatal than any other known before in the history of India, of the world."

It would be better to study the effects of Drain on both England and India.

Effects of the Drain on England:

A huge volume of drain of resources and capital from India to England resulted a better standard of living in Great Britain. The Drain also resulted huge investments in England agriculture and industry after 1750. These investments were partially responsible for agriculture revolution in England and the 18th Century and also for Industrial Revolution in England after 1750.

England attained the take-off stage of its growth by utilising the resources drained out of India. Huge amount of remittances from British officials in the form of saving and pensions after serving in India empowered those people to devote on construction of roads, railways and canals, new inventions and also for bringing rapid changes in all different sectors of its economy.

Thus Drain of resources were responsible for laying foundation of economic prosperity in England.

Effects of the Drain on India:
Huge drain of resources from India into England had resulted disastrous effects on Indian economy and its people. Huge amount of these resources which could be invested in India were snatched and siphoned off to England.

Huge public debt undertaken by the Government and its payment of interest necessitated increasing tax burden on the people of India, which were highly regressive in nature. As per Dadabhai Naoroji's estimates, tax burden in India during 1886 was 14.3 per cent of its total income which was very high as compared to 6.93 per cent in England.

Moreover, these tax proceeds were mostly used for making payments to British creditors and not for the social services and welfare activities of Indians. This type of drain of tax proceeds from India impoverished the agriculture, industry and trading activities in India and was largely responsible for stagnant stage of its economy during the 18th and 19th centuries.

Although the British undertook responsibility of maintaining law and order, centralised political and judicial administration, roads, railways, educational set up etc. but the extent of draining out of resources was too excessive leading to stagnation of the economy and poor and miserable condition of Indian masses.

Nationalist leaders of India analysed the various harmful effects of Drain in different ways.

As per Dadabhai Naoroji's opinion, the drain of resources was the major and sole cause of India's poverty. Naoroji, R.C. Dutta and S.N. Banerjee were also of the opinion that the drain had created harmful effects on the level of income and employment of India. Drain had resulted loss of generation of income and employment in the country.

In this connection, R.C. Dutta observed, "For when taxes are raised and spent in a country, the money circulates among the people, fructifies trade, industries and agriculture, and in one shape or another reaches the mass of the people. But when the taxes in a country are remitted out of it, the money is lost to the country forever. It does not stimulate her trade or industries or reach the people in any form."

The national leaders were of the opinion that drain of resources resulted loss of capital rather than loss of wealth. Drain resulted a huge depletion of productive capital leading to fall in the volume of investable resources in the country. This aspect of the loss of capital was considered as core issue of the Drain theory of Naoroji.

This drain of resources resulted industrial retardation in our country g.v. joshi, in this connection observed, "No nation can stand such a drain and yet hold its own in the industrial field."

R.C. Dutta had also tried to establish a causal relationship between the drain of resources and the improvement of the peasantry. He argued that the drain was paid mainly out of land revenue realised from the peasants.

Methods of Reducing the Drain:
In order to reduce the burden of the Drain, nationalist leaders mentioned several measures. The first measure suggested by them was the Indianisation of the civil and military services and thereby reducing the number of British personnel and increase the number of Indian personnel to a reasonable proportion.

The second method suggested was the reduction of Home Charges realised from India and bearing a major part such home charges by England.

The third method suggested for reducing the burden of drain was to purchase government stores in India and also by checking increasing import of private foreign capital.

Thus, this huge economic drain of resources from India put a serious hurdle in the path of capital formation in India. Moreover, British brought back the drained out capital to India and gradually set up various industrial concerns in India owned and managed by British industrialists.

With the active patronage of British government, British could secure nearly a monopoly position in the area of trade and principal industries.

As a result, British industries established in India drained out further resources in the form of regular remittances of interests and profit from India into Britain. Thus such a large size of economic drain created a serious hurdle in the path of economic development of India till 1947 and was also largely responsible for growing poverty in the country.

Growth and structural change

24 May 2021 13:56

3 sets of defining features

- Structural features
- Global features
- Colonial features
- Pg 79

Great Depression & India

12 July 2020 19:54

Economists comparing current crisis with Great Depression: What was it?

With the novel coronavirus pandemic severely affecting the global economy, some experts have begun comparing the current crisis with the Great Depression.

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By: Explained Desk | New Delhi |
Updated: April 6, 2020 12:16:49 pm

Waiting for relief checks during the Great Depression in California. (Source: Wikimedia Commons)

With the novel coronavirus pandemic severely affecting the global economy, some experts have begun comparing the current crisis with the Great Depression — the devastating economic decline of the 1930s that went on to shape countless world events.

Experts have warned that unemployment levels in some countries

could reach those from the 1930s era, when the unemployment rate was as high as around 25 per cent in the United States.
Currently, unemployment levels in the US are already estimated to be at 13 per cent, highest since the Great Depression, according to a New York Times report.

What was the Great Depression?

The Great Depression was a major economic crisis that began in the United States in 1929, and went to have a worldwide impact until 1939. It began on October 24, 1929, a day that is referred to as "Black Thursday", when a monumental crash occurred at the New York Stock Exchange as stock prices fell by 25 per cent.
While the Wall Street crash was triggered by minor events, the extent of the decline was due to more deep-rooted factors such as a fall in aggregate demand, misplaced monetary policies, and an unintended rise in inventory levels.

In the United States, prices and real output fell dramatically. Industrial production fell by 47 per cent, the wholesale price index by 33 per cent, and real GDP by 30 per cent.
The havoc caused in the US spread to other countries mainly due to the gold standard, which linked most of the world's currencies by fixed exchange rates.
In almost every country of the world, there were massive job losses, deflation, and a drastic contraction in output.
Unemployment in the US increased from 3.2 per cent to 24.9 per cent between 1929 and 1933. In the UK, it rose from 7.2 per cent to 15.4 per cent between 1929 and 1932.

Unemployed men queued outside a depression soup kitchen opened in Chicago by Al Capone. (Source: Wikimedia Commons)

The Depression caused extreme human suffering, and many political upheavals took place around the world.

In Europe, economic stagnation that the Depression caused is believed to be the principal reason behind the rise of fascism, and consequently the Second World War.

It had a profound impact on institutions and policymaking globally, and led to the gold standard being abandoned.

How did Great Depression impact India?

The Depression had an important impact on India's freedom struggle. Due to the global crisis, there was a drastic fall in agricultural prices, the mainstay of India's economy, and a severe credit contraction occurred as colonial policymakers refused to devalue the rupee.

German economic historian Dietmar Rothermund writes in a 1980 paper at the Indian History Congress, "The decline of agricultural prices, which was aggravated by British financial policy in India, made substantial sections of the peasantry rise in protest and this protest was articulated by members of the National Congress."

The effects of the Depression became visible around the harvest season in 1930, soon after Mahatma Gandhi had launched the Civil Disobedience movement in April the same year.
There were “No Rent” campaigns in many parts of the country, and radical Kisan Sabhas were started in Bihar and eastern UP.
Agrarian unrest provided a groundswell of support to the Congress, whose reach was yet to extend into rural India.
The endorsement by farming classes is believed to be among the reasons that enabled the party to achieve its landslide victory in the 1936-37 provincial elections held under the Government of India Act, 1935– which significantly increased the party’s political might for years to come.

Lessons from the Great Depression for India | Opinion

The virus has proved a terrible equaliser. Everyone is going through difficulties in different degrees(Burhaan Kinu/HT PHOTO)
Like Roosevelt did for the US in the 1930s, India must fix past inconsistencies, realise its potential, boost industry
By Shashi Shekhar
UPDATED ON MAY 18, 2020 06:57 PM IST
Swaraj, Suraj, Ramarajya, self-reliance — these ideas have influenced us for decades. Earlier, they pushed us towards freedom from colonialism. Today, they generate some amount of controversy. India revisited the idea of self-reliance when Prime Minister Narendra Modi addressed the nation last week. He told us that India will emerge from the coronavirus disease (Covid-19) crisis as a self-reliant nation.
But what is self-reliance? How can we achieve it? Can self-reliance achieve the sort of freedom we once wanted? From the radicals to the moderates, people believe that freedom, as it stands today, is incomplete. But it is India’s democratic set-up that allows them the right to dissent, to question, and to protest across the country. When the British left India, Winston Churchill believed that the gulf between the Hindus and Muslims would not be bridged easily. Today, 73 years since, India stands a united country, having proved many naysayers like Churchill wrong.
To overcome crises and grow as a country, leadership is important. The Great

Depression, which gripped the United States (US) in the 1930s, is being discussed in the context of the economic aftermath of Covid-19. The economic downturn began in the US around the end of 1929, with a sharp dip in production and GDP, and a sharp increase in unemployment. Production also dropped significantly in other industrialised countries of Europe.

MORE FROM THIS SECTION

It was in these dark days that Franklin D Roosevelt was elected president. He had a monumental task ahead of him, but he proved that leadership is forged in the crucible of crises. Roosevelt took several hard decisions to stabilise agriculture production and improve the quality of life for farmers. In 1933, one-fourth of the workforce was unemployed. By forming the Tennessee Valley Authority, Roosevelt began the construction of dams and power stations. He took measures to control floods — a common occurrence at that time. In 1935, he instituted the social security Act which guaranteed pensions.

The federal government took on the responsibility to ensure meals for children of the unemployed. Under the head of public work administration, his government provided direct financial assistance to at least three million people. To fund this, he increased the taxes on the rich. Roosevelt's efforts led to the birth of a new nation. Consumerism became the new way of life. The US transformed into a superpower. World War II began around this time and the US assumed a leadership role. Roosevelt was engaged in two battles, one on the domestic front and the other on the global battlefield.

Let us circle back to India. While we do not have all the advantages that the US has, why can we not aspire to become an economic superpower? We have the largest pool of graduates in the world. Yet, India is the source of a massive brain drain. The talented young men and women who have gone from India to different countries have contributed immensely by sheer intelligence and hard work.

But now, when they are under pressure to come back, due to economic setbacks as a result of the pandemic, India needs to ensure that these valuable resources are used to enhance domestic productivity. When Mahatma Gandhi, Jawaharlal Nehru and Subhas Chandra Bose came back to India armed with the ideas that they picked up from different countries, they played an important role in the freedom struggle. These young people with bright minds can help find a way out for India, and carry on the baton in different sectors.

India has taken several steps to mitigate the problems brought on by the crisis. It has used the Mahatma Gandhi National Employment Guarantee Scheme to help those without work; it has lent a helping hand to many industries; it has provided funds for industries that were struggling; it has stepped up the free distribution of rations for the people who are vulnerable. A lot is being done, but this is not nearly enough. India needs to think about the long-term.

At a time like this, we have to use our resources to the maximum benefit. For example, India is the largest producer of cotton — our global share is 23%. But are we able to leverage it enough in being central to global brands? Even Bangladesh is ahead of India. The plight of Indian cotton farmers is worrying. Many have committed suicide as a result of poor income generation and loans which they could not pay back. But farm produce for the international market is one of the many options that India has. The country is filled with opportunities in both rural and urban areas. Health, tourism and digital technology are a few sectors that have enormous potential that needs to be realised. In the last 30 years of liberalisation, India has achieved a great deal. But there have been inconsistencies in our growth path. This must be looked into.

The virus has proved a terrible equaliser. Everyone is going through difficulties in different degrees. India must now examine how these can be turned into an opportunity in the long-term while ascertaining who needs a helping hand in the short-term.

The path India and its people choose today will determine the future of the nation.

Shashi Shekhar is editor-in-chief, Hindustan

The views expressed are personal

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09 July 2020 08:03

Indian Economy Before Independence

Indian economy in pre-independence era:
* Land system and its changes
* Commercialization of agriculture
* Drain Theory
* Laissez Faire theory and critique
* Manufacture and transport: Jute, Cotton, Railways
* Money and Credit
* Changes in Agriculture and Industry *(this is not mentioned in syllabus, but make short notes anyway)*

Land System and its Changes in Pre-Independence India

Pre-colonial

Around 1750, when the British were just about gaining a foothold in India, the land administration basically had a three-tiered framework of rights- right to cultivate (peasants), right to collect taxes (zamindars), and the right to grant these taxation rights (king). Peasant rights could be individual, village, or kin-rights. Tax collectors were usually military officers, who were given tax collection rights in return for the promise to supply soldiers in times of need. They often farmed out their right to collect taxes (leading to jotedars etc., I think; need to check this). Private property as a modern concept did not exist, as the King was, in the end, the sole proprietor of the land, and all tax collectors were officers of the state.

When the Mughal power started declining, these military tax-collector officials, and anyone else with influence (like nawabs and other powerful court officials), grabbed power where they could to become de-facto hereditary landlords and petty chiefs in their local areas, and emerged as a new class of landlords with something akin to property rights over the land. They increasingly came to control the administration of the their lands **(gentrification)**.

During these times (as also the Mughal ones), the burden of taxation was fairly high (sometimes up to 50%), but there was also a history of remissions and rescheduling in times of distress. However, high taxation left little for the rural cultivators, and hence their purchasing power was close to nil. Those connected with the state (zamindars and intermediate revenue farmers) were wealthy, and their demand sustained a class of artisans. Most trade in producer goods, thus, was limited between urban centers, where these tax collectors resided.

In come the British

When the British were just settling in, they realized that the demand for British products in India wasn't very high, whereas Indian handicrafts and clothes were quite popular in Europe. To minimize outflow of British currency to India (basic tenet of mercantilism), they decided that Indians should be made to pay themselves for the imports they send to Britain. The colonial government also needed money to maintain the large administrative machinery and army.

The major source of revenue for the colonial government was land. As late as 1841, land revenue accounted for about 60% of total British Government revenue. Thus, land revenue and its collection were the most important policy issues during the colonial period.

In the pre-British system, there was a problem of **'welter of rights'**; as explained above, the peasants, the revenue farmers, and the landlords all had some claim on their lands. The British wanted to weaken the emerging military elite (who were becoming landlords and administrators), and they also wanted to make land a marketable commodity. They achieved these objec8109 tives by granting clearly defined property rights, which the state was to respect, as long as the taxes were paid. Almost all cultivable land in British India thus came to fall under one of three alternative systems, based on who was granted the property rights:

Permanent Settlement (57% of total lands), Ryotwari (38%), and Mahalwari (5%) systems.

Permanent Settlement: Creation of an alternative aristocracy in Bengal Presidency (included modern-day Bihar), Orissa, Central Provinces (MP), and parts of Madras presidency (TN and AP)

After having take control of Bengal, the British realized that land was the key revenue generating resource for the colonial government. However, they found it hard to exercise control over land administration because of competing claims on land **('welter of rights' problem)**, and also because the existing local elites knew the region much better than the company. So, their first efforts were to fix legal ownership rights. They started off by dividing various *parganas* and auctioning off the lots for a specified duration. This put land rights out of reach of the actual cultivators, and created a new aristocracy wherein moneylenders and traders came to legally own most of the land (as against under Mughals, where they were just tax-collecting agents of the King).

The revenue liability for a village or a group of villages lay with a single landlord, who was free to set the revenue terms for his peasants, and on non-payment, could revoke the peasants' rights over cultivating the land. Whatever remained after paying the British was for the landlord to keep, and he was free to bequeath, sell, and buy revenue-collecting rights. This essentially meant that the landlord now had property rights over the lands in his jurisdiction.

This system, where absentee landlords (moneylenders and traders) came to extract speculative rents out of actual cultivators, led to widespread famines, and ultimately, non-realization of expected revenue by the British. They mistakenly attributed this problem to the tenure of land rights being too short- to remedy this they went on to introduce the **Permanent Settlement** system in **1793 (Cornwallis and John Shore)**. This gave the landlords almost unlimited rights to fix the rents they would derive from their cultivators, in return for a sum, fixed in perpetuity, to be given to the colonial government.

By this single piece of legislation, tillers became tenants, while a class of revenue farmers became landowners, although they didn't cultivate the land. This had widespread consequences, and by the mid-19th century, the whole agrarian sector had reached a decaying condition. Some of the effects were:

- Appointment of zamindars disrupted the traditional patron-client relationship between landlords and tillers, which used to serve as an insurance against natural calamities
- Confiscation of land by the British for non-payment of dues led to disruption of the rural sector, and decline in production
- Given that the interest of the landlords was mostly in extracting usurious rent, investments in improving agricultural productivity, already very low to begin with, drastically declined even further

These creditor-landlords usually weren't interested in disposseing the peasants of their lands- they rather used land mortgages as measures of coercion, to exercise substantial control over agricultural produce, charge usurious rents, and exercise market control.

Given the simultaneous impoverishment of Indian artisans due to British trade policies, availability of agricultural labour also increased, and led to emergence of a large number of sharecroppers. This gave more power to landlords to extract ever-greater rents.

With increase in extent of land under a particular landlord (many of whom were moneylenders), it became common for landlords to outsource the revenue collection function, thereby creating many levels of intermediaries, each of which was exploitative, and led to spiraling rents for cultivators. This led to many agrarian revolts, and over time, the revenue started declining because of rents being fixed in perpetuity. Hence, the British were vary of implementing it in other parts.

Ryotwari System in Southern India (Madras and Bombay (1835) Presidencies) and Assam (just say Western and Southern India)

(Introduced by Thomas Munroe and Read in Madras in 1820, and Wingate and Goldsmid in Bombay in 1835)

Most Permanent Settlement areas were the ones that were captured by the British in their initial burst of taking control. Initially, they could not have run a tax administration without the support of the local elite. However, as their rule consolidated and the middle-tier of landlords became weaker, the British began to introduce peasant proprietorship.

Ryotwari should, in principle, have eliminated the need for any intermediary between the state and the peasantry, and initially this was the attempt. This move, however, in some cases affected the internal management of villages, so the British started to go slow on strict Ryotwari settlements. The results were mixed. In western India, the erstwhile office holders did lose their strongholds; in southern India, many of them emerged as substantial cultivators themselves, while in other areas it was a mix of both. Also, a large influx of erstwhile textile artisans gave the government an opportunity to outsource the collection function in these areas as well, and there was emergence of revenue farmers.

Unlike the Permanent Settlement, revenue commitment was not always fixed, and was usually calculated as the money value of a share of the estimated annual output. In many areas, the rents were revised every 30 years.

Farmers had property rights over their lands. However, collection was strict, and rent was expected even in harsh times of famines.

In theory, the settlement was supposed to be direct, but a large number of intermediaries developed anyway, bringing the system close to what was followed in permanent settlement areas. In essence, then, the difference between Ryotwari and Zamindari areas was reduced to one of the possibility of increments in tax (which was allowed in Ryotwari areas, but not in zamindari areas).

Where rytowari system took place properly, the resulting individualism caused a faster decline of panchayati raj institutions and mode of governance much faster than in mahalwari settlements.

Mahalwari Settlement in the Gangetic Plains (parts of North India (North-West Provinces (1822), Punjab, Awadh, United Provinces etc.)

Northern India had a tradition of communal village proprietorship, and *taluqdars* (owners of large estates who had complete control over their areas, by law) were very influential. So in these areas, the *mahalwari* system was introduced, initially involving mostly the already existing taluqdars. However, even here (especially in Awadh), the revenue assessment from these *mahals* was very high, and a lot of the land went into payment overdues, and was subsequently auctioned. Thus, even in Awadh, there was a shift from the old landowning class of taluqdars to a new commercial landowning class. As a result, Awadh came to have something very similar to the Permanent Settlement system, even though it started out as a mahalwari area.

Other parts of northern India continued to have mahalwari settlement system. In many areas, where a single influential family effectively controlled village bodies responsible for revenue payments, the system came to resemble the Permanent Settlement system.

The revenue rates in these areas were set on fairly ad-hoc grounds.

Reasons for Different Land Revenue Systems in Different Areas:

1. Influence of individual administrators, and their ideologies (Munroe, Holt Mackenzie etc.). For example, Permanent Settlement was initially introduced in Madras, but Thomas Munroe later convinced the administration to use Ryotwari settlement

2. Political Events: In Awadh, initially the mahalwari system was introduced. After the 1857 mutiny, the British felt that having big landlords on their side would help prevent such revolutions, and hence zamindari was reinstated in 1858 (was called taluqdari, but was essentially the same thing)

3. Date of conquest: Areas that came under British control later were more likely to have Ryotwari system, because of shifts in views of economists and others in Britain

Consequences of British Land Settlement Systems:

1. Due to clearly defined property rights, as also rack-renting which led to frequent foreclosures, **land became a tradable commodity and property**. The effect of this was most pronounced in Ryotwari areas, where erstwhile elites began to sell their way out of the village and turn towards literate urban occupations, and the peasants began to buy land on their way out of peasanthood

2. Increasing dispossession of land on non-payment of rent and indebtedness of farmers, leading to **a new class of moneylenders and traders to become landlords** who weren't interested in investing in agriculture

3. Given high rents, many farmers moved from growing food crops to cash crops like cotton and sugarcane, leading to **famines**

4. **Prevented growth of capitalist farming in India:** small size of landholdings because large landowners leased out their holdings to many small farmers; lack of investments, so low productivity; landlords lacked 'risk-taking' attitude; no support from the government in terms of credit

- In 1954, 93% of all rural credit came from moneylenders
- 97% of all farms utilized wooden ploughs
- Rare use of improved seeds, artificial fertilizers etc.

5. Fragmented structure of landholdings: In xx*(check when)* 7% of the villagers (landlords) owned 75% of fertile land, 48% (tenants and sub-tenets) owned 25%, while 45% owned no land, and worked as farm laborers

Persisting Differences Till Today Due to Varying Land Tenure Systems:

Zamindari and Ryotwari areas differed in their subsequent development. Even during colonial times, given that rents could not be raised in Permanent Settlement areas, most public investments in irrigation etc. flowed towards Ryotwari areas (more productive agriculture in these areas would allow collection of more land revenue).

Abhijeet Banerjee and Lakshmi Iyer show that post-independence, although there was a massive effort to improve agricultural productivity, erstwhile zamindari areas were slower to adopt HYV seeds etc. Could be because of:

1. **Income inequality:** In areas with zamindari systems, landlord classes grew rich and peasants poor, so inequality increased. In Ryotwari areas, everyone was exploited, so everyone was impoverished

2. **Political environment:** Zamindari system created a political ethos of class-based resentment in those areas, which persists even till today (Bihar, Maoists etc.). Peasants in non-zamindari areas were much more likely to work harmoniously with local elites

3. **Persisting effects of public investments:** It was easier to raise rents in Ryotwari areas, which gave the British some leeway to invest more in canals, irrigation, railways etc. in Ryotwari areas

Agriculture

Throughout the colonial period, agriculture was the mainstay of the workforce, employing over 2/3rd of the entire labour. Yet, growth rates were low- in the 50 years before independence, average agricultural growth was about **0.3% per annum**, and during the interwar period, population growth was higher than agricultural growth, indicating **declining per-capital food availability.**

In general, commercial crops experienced more growth than subsistence crops.

Commercialization of Agriculture
Commercialization can be defined as <u>the process wherein farmers start producing primarily for sale in distant markets rather than for localized consumption or for sale in domestic markets</u> (*distant* doesn't necessarily mean exports; long-distance in-country trade, made possible by railways, also counts).

Commercialization of agriculture in India became prominent around 1860 A.D. The **first wave of commercial agriculture was driven largely by Indigo and Opium**. However, after 1860, their importance fell (indigo revolt; decline of opium's returns as compared to other products), and the next, major wave of commercialization came from **cotton, wheat, sugarcane, tobacco, and oilseeds.**

Between 1870 *(Suez opened in 1869)* and 1914, exports increased 500% in *value* (about 80% of all exports were non-manufactured). Cash transactions become the basis of exchange and largely replaced the barter system, thereby disturbing the traditional self-sufficient village economy of India.

Factors that led to the commercialization of agriculture:

- Colonial subjugation:
  - The world demand for food and raw materials was immensely stimulated by industrialization in Europe
  - India was reduced to the supplier of raw materials and food grains, and importer of British manufactured goods
  - British government liberalized the tariff policy, and abolished or reduced export duties on many commodities
  - Cultivation in India of many commercial crops like cotton, jute, tea, tobacco was introduced/ expanded to meet the demand in Britain

- Monetization of land revenue payments (higher incentive to grow more monetarily profitable cash crops)

- Better means of communication (telegraph) and transportation (railways, steam ships, opening up of the Suez canal in 1869) made long-distance trade in agricultural products feasible

- Increasing demand for some of the commercial crops in other foreign countries

- The American Civil War caused the British cotton demand to divert to India. This demand was maintained even after the civil war ceased because of the rise of cotton textile industries in India

- Global changes: opening up of the Suez canal in 1869, invention of the steam engine, steam ships etc.

Impact of commercialization of agriculture:
While the commercialization of agriculture in India assisted industrial revolution in Britain, it broke the economic self-sufficiency of villages in India:

- Unlike independent societies undergoing transition from pre-capitalist to capitalist mode of production, in India commercialization of agriculture did not lead to the creation of a rich capitalist farmer class, but instead led to the **creation of a rentier landlord class**, who had no interest in channelling productive investments towards agriculture. Their prime motivation was to usurp as much land revenue as possible

- Gross cropped area increased in most regions between 1870 and 1920, usually led by marketable crops such as wheat, cotton, oilseeds, sugarcane, and tobacco

- Large-scale irrigation systems such as canals made wastelands cultivable, and increased cropping intensity in areas where rainfall was limited

- Economic theory says that agricultural productivity should have increased, **but this didn't happen** because of **poor agricultural organization, obsolete technology, and lack of resources among most peasants.** It was only the rich farmers; who benefited and this in turn, accentuated inequalities of income in the rural society

- Substitution of commercial non-food grains in place of food grains: Between 1893-94 to 1945-46, production of commercial crops increased by 85% and that of food crops *fell* by 7%. This caused **regular famines**

- Commercialization affected not only the volume, but also the commodity composition of the trade. It was no longer practically confined to 'drugs, dyes, luxuries', and now included in large quantities foodgrains, fibres, and other great staples of universal consumption

- Regional specialization of crop production based on climatic conditions, soil etc.: Deccan districts of Bombay presidency grew cotton, Bengal grew jute and Indigo, Bihar grew opium, Assam grew tea, Punjab grew wheat

- Linking of the agricultural sector to the world market: Price movements and business fluctuations in the world markets began to greatly affect the Indian farmer. Choice of crops was determined more by market demand and price than home needs. **By the 1920s,** world agricultural markets had started facing persistent oversupply and price depression; in India, major cash crops faced stagnant or falling prices

Overall, agriculture suffered; between 1901 and 1941, per capita agricultural output *declined* by 14%, and foodgrain output fell by 24%, leading to a situation where during the first FYP of independent India, the value of food imports was nearly half of the total capital investment!

Foreign Trade

Pre and Early Colonial
The Indian continent was a major link in the maritime trade between Asia and Europe. Initially, the British used Indian cotton to pay for Indonesian spices, which were valued highly back home. However, by the end of 1600s, Europe became a bigger market for Indian textile than Southeast Asia. Cotton goods were exported in the form of muslin, calicoes, and silk-cotton mixes. They catered to both mass markets (calicoes) and also became fashion trendsetters. Other important items were rice, silver, and horses.

Major trading regions were Punjab, Gujarat, Coromandel, and Bengal, and the British set up their trading posts here (they called these 'factories'). While initially they concentrated on seaborne trade, the increasing importance of Indian goods in home markets led them to want to control inland trade as well, and given their might at sea, they began asking for concessions on inland trade from Indian rulers. The latter had to comply, because the alternative was to face the wrath of the British at sea. The English gradually coerced their way into getting trade licenses at negligible fee; however, when they saw that the Indian rulers were unwilling or unable to help them enforce contracts and generally provide security on inland trade routes, they increasingly began to wrest direct control of administration.

Over time, the company became a territorial power living on land revenue, and many of its employees established partnerships with Indians to carry on export of major goods.

Colonial Period
The integration of India in world trade sped up considerable after 1800- average growth rate of trade was about 5% p.a. between 1830 and 1914. The composition of trade also changed: in 1811, cotton textiles accounted for about 33% of the total export value; by 1850, their share dropped to negligible, while raw cotton, jute, tea, indigo, and opium emerged as the major items (India became primarily a commodities exporter).

Among the new exports, most important were Indigo (which became problematic because of the advance payment system), opium (a cause of the 'opium wars' between Britain and China), and raw cotton *(see below)*

Between 1880 and 1925, the real volume of trade to and from India nearly doubled. Before the outbreak of the First World War, the exports were primarily oriented towards Britain; later, they titled significantly towards East Asia.

Laissez Faire
Until World War 1, trade between India and Britain was effectively free of tariffs. This served the exporters of British manufacturers, such as the Lancashire mill owners. They resisted attempts to impose or increase any import duties, because India was one of the most important markets for them (India bought 30% of British textile exports in 1865). The Government of India based in Calcutta was rather poor, and from time to time advocated an increase in tariffs. However, the India Office in London listened to the British businesses, and hence till WW1 tariffs remained negligible.

India's contribution to the WW1 effort was critical to Britain, and after this, the India Office relented to some extent and allowed small but steady increases in tariffs so that the Government of India could shore up some resources **('Policy of Discriminating Protection')**.

Money and Credit

Monetary Policy
Primary goal of monetary policy in colonial India was to stabilize economic transactions between Britain and India by means of a stable exchange rate. An appreciation hurt Indian exporters, while depreciation hurt Government of India's chances of paying back its sterling obligations to the India Office in London. Many scholars argue that rupee was constantly overvalued to ensure that budgetary payment obligations to Britain were met, and this policy hurt Indian business interests.

Indian exchange rate was initially on the silver standard, wherein there were two ways money could be transferred between India and the rest of the world: the **Council Draft** (wherein India Office sold Council Bills at a fixed exchange rate; these bills were redeemable in India), or by means of silver. In 1898, a 'Gold Exchange Standard' was introduced (not the same as Gold Standard- think how).

The Ratio Controversy is the name given to the interwar strengthening of Indian nationalist protests at the overvaluation of the rupee; the controversy was worsened by the conduct of Indian monetary policy during the great depression, which seemed to serve British interests at the expense of Indian ones.

Credit
Banking in colonial India could be divided into 2 broad segments: informal (consisting of moneylenders and financiers who were not legally recognized), and formal (exchange banks, presidency banks, Indian joint-stock banks, and cooperative credit societies). Formal banking had, at best, an indirect role to play in any occupation that did not have to do with foreign trade, remittances, or modern factories.

After 1870, banking and insurance grew rapidly; however, this growth occurred in a condition of pervasive capital scarcity, poor regulation, and opaque business communities. Overall, the aggregate rate of savings and investments remained low, and choice of assets mainly traditional.

The market for money, thus, suffered from a dualistic structure- rich clients, good government securities, and stable banks formed one segment, whereas poorer clients, risky securities, and unstable (Indian Joint-Stock) banks formed another. This kept the risks of banking panics persistently high.

Informal Sector
Banks rarely, if ever, lent to peasants and artisans. The informal sector stepped in to fulfill the needs of local small-scale moneylending, and existed to finance agriculture and craft traders. Most of the clients of moneylenders were people in need of quick money, and who couldn't give any security. The strengths of the moneylenders were their intimate knowledge of clients, and absence of regulations, meaning low transaction costs for their customers

Formal Sector
Exchange banks financed trade to and from India; the Presidency banks mainly served businesses connected with European enterprise, and Indian Joint-Stock banks fulfilled that need for Indian businesses.

The Indian Joint-Stock banks, however, were characterized by a history of booms followed by crashes. Among these were some stable banks (the big 5- Allahabad bank, Bank of Baroda, Bank of India, Punjab National Bank, and Central Bank of India). However, many Indian banks were backed by lesser-known firms, and were less conservative about their clients as compared to the big 5. Given that they didn't have big names, they felt like they had to offer high incentives to attract borrowers and depositors; this, combined with the lack of an explicit regulatory system, led them to take excessive risks.

Agricultural Credit market
There was a large growth in rural credit. Without a doubt (TR), some of the highest interest rates occurred in rural lending, as the peasants had much less bargaining power as compared to the moneylenders, who were often the sole source of credit. Also, these interest rates were less variable than prices, which were volatile because of the effects of the monsoon. As a result, the control of professional moneylenders over rural assets increased to the detriment of the peasantry.

This growth in credit was mostly attributable to commercialization of agriculture:

- Higher production of non-food crops meant peasants had to buy food crops from the market, which could lead them to borrow
- Cash crops like **cotton** required more finances, because of relatively higher input costs and investments in things such as land preparation, irrigation, fertilizers etc.
- Cash crops also remained on the field longer than food crops, thus requiring a longer waiting period between investment and sale of crop
- Monetization of tax and it's non-synchronization with harvest cycles required money advances
- **Supply:** The railways, growth of market towns, and new profit opportunities increased the mobility, migration, settlement, and enterprise of persons of trader-moneylender class

The effects of the credit structure that prevailed in colonial times could be seen for a long time after independence. **Even in 1954, 93% of all rural credit came from moneylenders,** and **only about 1% from the government banks** (rest from cooperatives and commercial banks)

Industrial Credit market
Capital for industry was scarce, and the interest rates in prevailing urban transactions were high. Modern banking institutions developed very slowly, and the traditional community-based informal financial institutions remained sectarian in choice of their clientele. Stock market was a rather small and insignificant institution in the 19th century.

Thus, capital was scarce, and new industrial investment followed a high-risk trajectory. Given that capital was scarce, there was a tendency to overcapitalize during booms (machines were bought at time of rising prices at the high prices). Similarly, to generate investor confidence, most Indian firms used to pay excessive dividends in times of boom, thereby making generation of excess reserves only a secondary priority.

Given this state, pioneers in large-scale industry came almost entirely from communities that specialized in trading and banking activities. There was, thus, an almost perfect correlation between hereditary trader-bankers and large-scale industry

Industry

Small-Scale Industrialization
During the colonial rule, there was some rise in large-scale industry. However, the overwhelming majority of India's manufacturing workers were employed in small-scale industries, even though overall the employment in SSIs showed a declining trend. Most of these SSIs were 'traditional', such as handloom weaving, leather manufacturing, furniture, carpets, pottery etc. 'Modern' SSIs, such as cotton gins, jute presses, rice mills, brick kilns etc. grew to some extent in the interwar period. By far, the most important SSI was textiles, employing one in every four industrial worker.

Evidence suggests that in the 19th century, imported European manufactures began to flood Indian markets, and the rich artisan tradition suffered a catastrophic shock **('de-industrialization'):**

- Before colonization, craft traditions in India could be divided into four categories: intermediate goods (cotton yarn, dyes), tools (hand implements), consumer goods for the poor (coarse cloth, pottery), and consumer goods for the rich (muslin, brassware, carpets etc.). The industrial revolution more or less decimated the first three categories
- The colonial state did little to either strengthen the crafts or shield them from competition
- Due to the advent of better means of transportation, artisans began migrating to big industrial centers, and SSI development happened in concentrated areas, with more than half of all SSIs being located in UP, Punjab, and Madras
- While in the early years of colonialism, women participated majorly in SSIs, their participation declined over time due to increased migration pressures (migration was a male-biased process)
- Increasingly, there was a move away from family labour towards wage labour

Large Scale Industrialization
Three things characterize large-scale industry: large factory, machinery, and government regulation. Between 1860 and 1940, employment in factories increased at an average annual rate of 4% per annum.

Factory employment was:
- Primarily male-dominated
- Showed high regional concentration, with most of the industries located in Bombay and Calcutta (transport links, labour markets, and because these cities were located close to sites of cotton and jute cultivation, respectively)
- Factory employment was dominated by the textile industry, primarily in cotton and jute spinning and weaving mills
- Throughout, Indian industry depended on the import of capital goods and manufactured inputs such as electrical machinery, transport equipment, and heavy and fine chemicals; it also maintained dependence on foreign technicians

Stages of industrialization:

1. ***Pre-war period:*** After the Suez canal opened in 1869, transcontinental shipping rates came down massively, and new forms of industry began to grow in India. A key episode was the American civil war (1861-65) which cut-off supplies of American cotton to Britain's textile industry, which turned to India, creating a temporary boom that resulted in a great crash once the American civil war was over. Primary industries that came up in this period were cotton and jute weaving

2. ***World War 1:*** Demand for goods made in India (and now in worldwide shortage) increased, but also inputs such as machinery, raw materials, chemicals etc., which were imported by Indian industry, became scarce. Industries that gained were cotton, jute mills, and steel

3. ***Interwar period:*** Until the First World War, the government followed a policy of **LAISSEZ FAIRE** in the promotion of industry. Thus, purchase of industrial goods for defense, railways etc. was heavily dependent on Britain, and this created sudden shortages in India during the war. After the war, the government spoke of promoting Indian industry, but worsening finances kept it from doing much to support Indian industry.

   Indian industry faced both cheap imports and falling world prices. Within older industries such as cotton and jute, the situation became worse; greater competition came from other centers such as Japan. In jute, which was mostly sold abroad Indian capacity grew faster than world demand, and falling world prices hurt it badly

4. ***World War II:*** Similar effects as WW1- excess demand (=> high prices), but supply constraints

   Major industries **(GET NUMBERS HERE)**:

   <u>Cotton:</u>

   Because of the industrial revolution cotton spinning industry grew in Britain. However, cotton was not an indigenous crop in that country. In the early 1800s, the demand for raw cotton increased manifold, and over 90% of the supplies came from USA. At this time, the experience of selling raw Indian cotton in Britain was disappointing, as it was seen to be of inferior quality. The first time Indian cotton exports received a boost was during the Napoleonic wars; however, the boom created by the wars was ended shortly after the wars were over, and supplies from the USA restored. Having got a taste of the British market for Indian raw cotton, Indian cotton exporters made sustained attempts to improve the quality of their product. Around the 1850s, after the construction of the railways in India, combined with the outbreak of American civil war in 1861, Indian cotton established itself as the fiber of choice in Britain.

   Responding to this, there were 10 cotton mills in India by 1865, most of them in Bombay. After the crash due to resumption of American supplies, when the dust settled, a furious expansion of cotton mills started. By 1914, there were 271 mills; any small town that had a cotton trade, a railway connection, and a pool of cheap, un-unionized labour, became an attractive location for a spinning mill, and a new cluster of cotton trading towns developed in the Deccan.

   Before the First World War, cotton mills were selling primarily to handloom weavers in India and China. After the war, the Chinese market was taken over by Japan; the loss of this market, as well as increasing competition at home (more and more cotton mills), led the cotton mill owners to want to save on labour costs. This intensified industrial unrest. The process eventually culminated in the bankruptcy of many of Bombay's cotton mills.

   <u>Jute:</u>

   -
   Jute is grown mainly in West Bengal and Bangladesh, and is used as a raw material for making gunnysacks. Given that the volume of world trade increased manifold in the 19^{th} century, the demand for jute also increased exponentially. After the 1870s, Indian jute industry held the virtual monopoly in the world. Until World War 1, the industry was mainly based in Calcutta and managed largely by Europeans, which made it different from the Cotton mills, which were largely based in Bombay and managed by Indians. During the war and interwar periods, world trade declined, and so did the demand for jute. To counter this, the Indian industry unsuccessfully tried forming a cartel, but this only promoted entry of new firms, which were easily willing to undercut the existing firms. The result was excess production, unstable profits, and increased competition. In any case, a large part of the industry was doomed already for having delayed technical improvements.

Transport

In colonial India, the immediate driver for infrastructural development was governance, rather than development.

Railways:

Until the 1850s, the common system of long-distance transportation of cargo was pack animals and small sailing vessels on navigable rivers. These forms of long-distance travel required a lot of labour and time, and the railways decimated them without much resistance.

From the beginning, railways was built on two principles:

1. Railways would be constructed by private enterprise
2. The government would guarantee a 5% return on capital from its own budget, wherever the investing company failed to make a minimum 5% profit, and in return would retain the right to exercise supervisory and advisory powers on railway development and administration

This dualistic system led to perennial undercapitalization of railways. The companies charged high rates of tariff for a small volume of traffic, and never felt the need to enter into price competition (as 5% returns were assured). The guarantee clause enabled this, and also led to constant outflows from government coffers. By 1924, the public opinion against the companies had reached a crescendo, and the railways came under full government ownership and control.

Economic effects of the railways:

1. Railways had significant backward and forward linkages. As far as Indian industry is concerned, it was denied most of the backward linkages (these went to Britain), and coal mining was perhaps the only major one that accrued to Indians. Spillover effect of the railways upon the capital markets was small too, since most of the capital came from London. The most significant forward linkage was on labour markets, with the railways slowly becoming the largest employer in the organized sector
2. Great reduction in average transportation costs measured in money or time. Thus, import and export trades increased enormously
3. Railways also facilitated integration of markets, which was visible in declining regional variability in foodgrain prices; it should be noted that by increasing the supply response of grain to the world market prices, the railways also intensified local shortages of food during late 19th century famines

Roads:

Investments in roads continued to be low, because:

1. Given the terrain and frequent need of repairs due to monsoons, road construction was too costly
2. Roads brought the government no monetary returns, while the railways did
3. Lobbies (such as the Lancashire mills) were more interested in long-distance bulk carriage, which was provided by Railways. They weren't interested in short-distance travel, provided by roads, and hence these remained under-funded

Indian Economists

10 November 2020 16:35

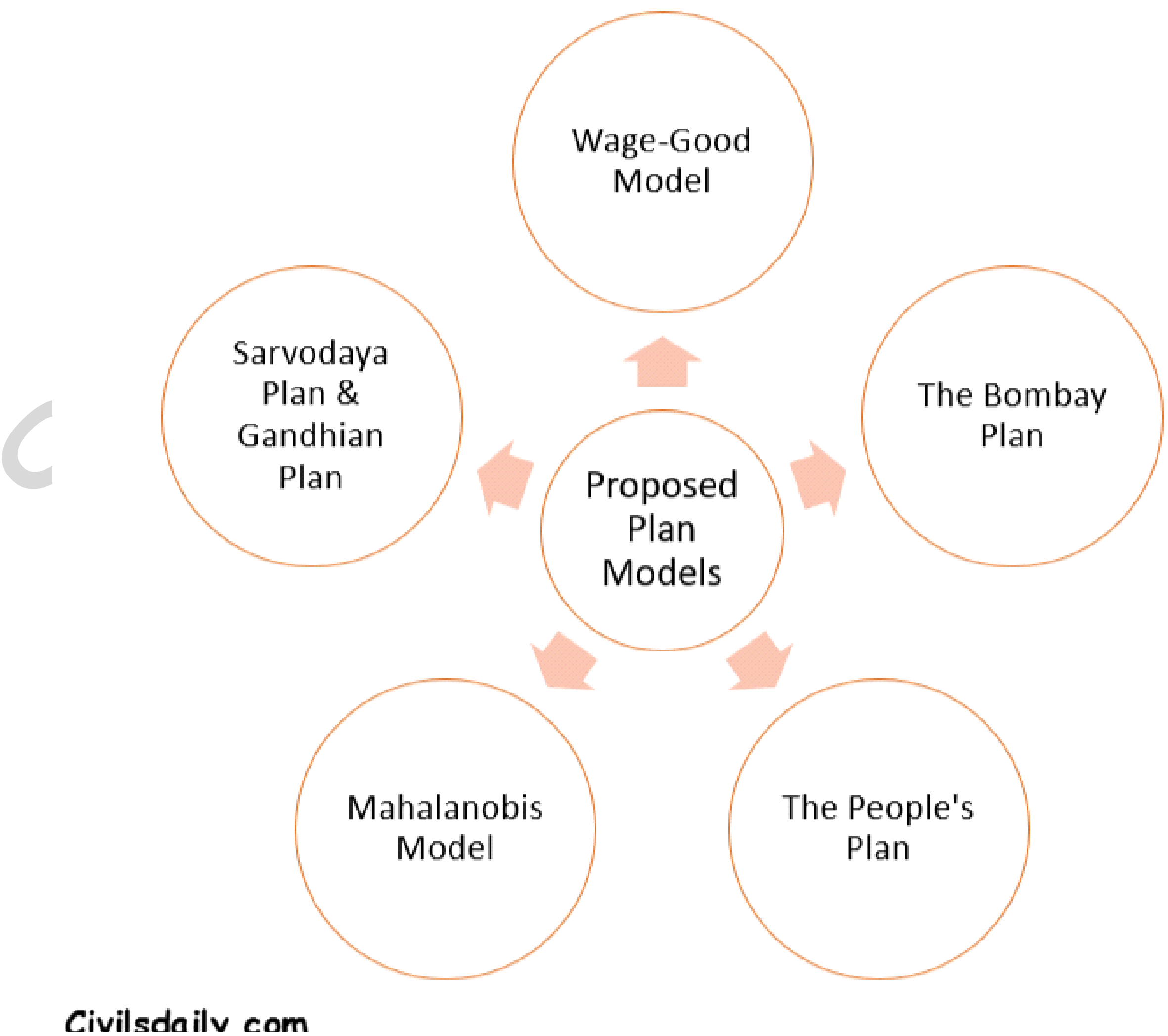
Vakil, Gadgil, VKRV Rao

1.How did VKRV Rao improved upon earlier national income estimates of India? (2018)
2.Discuss the Wage-Goods model of development as given by C.N. Vakil & P.R. Brahmananda. (2016), (2011)
3.Explain the contribution of V.K.R.V. Rao in the estimation of National Income. (2016)
4.State the basic features of Mahalanobis model. (2013)
5.A close connection between the finance on the one hand, and politics and administration on the other hand, and the influence of the latter on the former cannot be avoided. This is all the more true in India." Do you agree with this statement of C. N. Vakil? Is it relevant even today? (2013)
6.Discuss in detail the views of VKRV Rao on deficit financing. (2012)
7.Discuss the contributions of D.R. Gadgil to Indian Economic Planning and Policy. Evaluate the key elements of the 'Gadgil Formula' used by the Planning Commission. (2010)
8. Evaluate the contributions of VKRV Rao in National Income Accounting of India. (10,2020)
9. Highlight the main contributions of CN Vakil to Indian planning as opposed to that of Mahalanobis Model at the time of formulation of the Second Five year plan for India. (10,2019)

Planning debates
Bombay Plan; People's Plan; Mahalanobis Plan; Wage-Good Model; Gandhian Plan – Civilsdaily

Planning in India

The Planning Debates



The Bombay Plan

1. A small group of influential business leaders in Bombay drew up and published in January 1944, a plan for the economic development of India. The Bombay Plan, as it is now popularly called, did not represent the opinion of the whole business community. But it claimed public attention because it set forth the considered views of some of the front-rank businessmen and captains of Indian industry.
2. Mr. J. R. D. Tata and Mr. G. D. Birla were primarily responsible for the initiation of the study. The other industrialists who were part of Bombay plan were P. Thakurdas, Kasturbhai Lalbhai and Sir Shri Ram, Ardeshir Dalal, Mr. A. D. Shroff and Dr. John Matthai.
3. Toward the end of March 1944, the Federation of Indian Chambers of Commerce representing all business organizations of the country endorsed the Bombay Plan at its annual meeting, and from then on, the plan came to be regarded as the proposal of India's business community, if not of India's big business.
4. The Bombay Plan put forward as a basis of discussion, a statement in as concrete a form as possible, of the objectives to be kept in mind in economic planning in India, the general lines on which development should proceed and the demands which planning is likely to make on the country's resources.
5. The principal objectives of the plan are to achieve a balanced economy and to raise the standard of living of the masses of the population rapidly by doubling the present per capita income — i.e. increasing it from $22 to about $45 — within a period of 15 years from the time the plan goes into operation.
6. The planners have laid down minimum living standards on the basis of about 2,800 calories of well-balanced food a day for each person, 30 yards of clothing and 100 square feet of housing; and they also outline the minimum needs for elementary education, sanitation, water supply, village dispensaries and hospitals. The plan points out that absolutely minimum needs require an annual income of at least $25; and if the income of the country were equally distributed it would give each individual only about $22.
7. The shares of agriculture, industry and services in the total production is to be changed from 53, 17 and 22 percent, respectively, to 40, 35 and 20 percent.
8. The plan emphasizes the importance of basic industries but also calls for the development of consumption goods industries in the early years of the plan. Power heads the list of basic industries which are to be developed, followed by mining and metallurgy, engineering, chemicals, armaments, transport, cement and others.
9. The plan proposes doubling the present total of 300,000 miles of roads, increasing railway mileage by 50 percent from its present 41,000 miles, expanding coastal shipping and investing $150,000,000 on improvement of harbors.
10. The plan offers a comprehensive program of mass education, including primary, secondary and vocational and university schooling. Provision is also made for adult education and scientific training and research.

Sarvodaya Plan (1950)

It was drafted by Jaiprakash Narayan. The plan was mainly inspired by the Gandhian Plan provided by S N Agarwal & the Idea of Sarvodaya presented by another Gandhian leader Vinoba Bhave.
The sarvodaya plan put forward and emphasized the importance of agriculture and village industries especially small-scale textile & cottage industries in the process of economic development. The plan also recommended the Luddite approach and was pessimistic towards the usage of foreign technology.
The most important and well acclaimed part of the plan was its emphasis upon land reforms and decentralized participatory people planning.

People’s Plan

The People’s Plan was Authored by M N Roy and drafted by the Post- War Re-Construction Committee of the Indian Federation of Labour.

The object of the Plan is to provide for the satisfaction of the immediate basic needs of the Indian people within a period of ten years. This objective is to be achieved by expanding production and by ensuring an equitable distribution of the goods produced. Therefore, the Plan prescribes increased production in every sphere of economic activity. But its main emphasis is on agricultural development, since its authors believe that the purchasing power of the people cannot be raised unless agriculture, which is the biggest occupation in the country, becomes a paying proposition.

Agriculture, it is argued, forms the foundation of a planned economy for India. Apart from the nationalization of land and the compulsory scaling down of rural indebtedness, the Plan formulates two schemes for increasing agricultural production: (a) extension of the area under cultivation and (b) intensification of cultivation in the area which is already under cultivation.

In the field of industry, the People’s Plan gives priority to the manufacture of consumer goods. It is argued that as a large volume of demand for essential good for the community remains perpetually unsatisfied, the goal of planned economy in industry must be to satisfy it first.

The People’s Plan attaches great importance to railways, roads and shipping in a planned economy. Therefore, it recommends the rapid development of the means of communication and transport to cope with the increased movement of goods and traffic between town arid country.

The Mahalanobis Strategy

The three main aspects of the strategy of development in the earlier phase of planning was:

Developing a sound base for initiating the process of the long-term growth.

- On the eve of independence, the Indian economy was in bad condition. Under this circumstance, it was strategically decided by the planners to direct all efforts towards solving the problems of the economy by laying a strong foundation for planned development of industries.

High priority to industrialisation.

- The complete strategy for the long term planned development was laid down in the second Five-Year plan. The Plan was prepared by P C Mahalanobis whose contribution in formulating the plan was well documented.
- The Mahalanobis plan main emphasis was on heavy industrialisation.

Import Substitution

- The Mahalanobis strategy of development was based on Import Substitution. Import Substitution strategy is based on the infant industry argument. The strategy enables the developing countries to develop their industrial structure without exposing the domestic industries to external competition. The twin objectives of IS strategy was: to become self-sufficient in the production of capital and consumer goods which were otherwise imported and to save on scarce foreign exchange reserves which otherwise would have to be used in paying for imports. Such a process of industrialisation once initiated, will be self-sustaining in future. The strategy was largely followed by the Latin American Nations (Brazil, Argentina & Mexico) and South East Asian Nations in the 1950s and 1960s.

Emphasis on development of the capital goods industry first and consumer good industry later.

The Model: Under Mahalanobis Model, investment was targeted towards production of capital goods especially machinery making, and within the machine making industry, two parts were distinguished – one that made machinery to make consumption goods, and one that made machines.

The machine-making capital good sector could be used to make machines as well as for the production of consumption goods. The idea was to mechanize consumer goods production at the earliest date; with mechanization, workers would produce more, and their standards of living would reach the highest achievable level.

The question was, how to get from a stage when people spun their own cloth and lived in thatched huts to one where they drove tractors, wore mill cloth and lived in skyscrapers.

Mahalanobis's answer was, first let's develop a machine making industry and let all consumer goods be made without any machinery. The idea was to build up as big a machine-making industry as possible, and use capital good sector to make machines only (machines will produce machines). That would maximize the speed of expansion of the machine-making industry.

A point would come when it employed so many people that if it expanded any more, there would be a shortage of consumer goods. At that point, part of it should start producing machines to make consumer goods, and they should be used to mechanize the consumer goods sector. That will release workers who were producing consumer goods; they should be sent to the machine-making industry to sustain its expansion. That was the quickest way to mechanize the making of consumer goods and raise people's standard of living.

The Critique of Mahalanobis Mobel:

The Wage Good Model

Prominent Economist like, C N Vakil and P R Brahmananda advocated Wage Good model for the development of the Indian economy and Industrialisation. Vakil and Brahamanda differed from the Mahalanobis strategy as they believe "At the low level of consumption (this was the situation in India) the productivity of the workers depends on how much they consumed.

According to them, if people were undernourished, they will lose their productivity and become less efficient, at this juncture it is necessary to feed them to increase their productivity. But this is not true for all consumer good; so they differentiated between Wage Good (whose consumption increase worker productivity) and Non-Wage Good (whose consumption did not).

To sum up, Wage Good model says; worker's productivity depends on not on whether they use machines to produce goods but also on the consumption of wage goods like, food, cloth and other basics. Therefore, the first step towards development is to mechanize agriculture and raise food production; once this objective is reached, one should go for Mahalanobis strategy of Heavy Industrialisation.

Anyway, Vakil and Bharmananda strategies were ignored and India launched heavy Industrialisation in the Second plan without mechanising agriculture. The result was failure of Mahalanobis Strategy and by 1965-66 India was hit by a severe food shortage crisis. Finally, in the wake of the crisis, the government adopted Bharamananda strategy of mechanizing agriculture sector and engineered green revolution.

Changing Objectives of Successive Plans.

Fourth Five-year plan	• In the Fourth Five-year plan, the basic framework of industrialisation was retained. • The objective of self-reliance was not given up, but the main emphasis was shifted to economic growth. • The government had starting putting focus on light industries. The agriculture sector was given due importance with adoption of new technologies, improved seeds and fertilizers. • The biggest paradox of the industrialisation strategy was that 'poverty has failed to subside despite growth. • The paradox is rightly capture by the Renowned Economist Mahbub-Ul Haq in his famous quote "People are not going to eat tractors".
Fifth plan	• The Fifth plan bough the focus of poverty reduction back on the agenda with government prioritising 'Minimum Needs Program'. The plan had accorded highest priority to the removal of poverty. • The plan document mentioned "The existence of poverty in incompatible with the vision of an advanced, prosperous, democratic, egalitarian and just society". • The forthcoming periods saw turmoil in the country in general and economy in particular. The new Janta Party government decided to terminate the strategy of planning and put a moratorium on the fifth five year plan. • The Janta Party presented their own draft plan (1978-83) which stated a new development strategy. For the first time, the planning commission acknowledge the fact that the benefits of growth had failed to reach the poor. • The commission further decided that there would not be undue emphasis on numbers such as growth rates. The focus will be on raising the standard of living of the people. • The Janta government however could not last long and when the new congress government come in power it terminated the fifth plan and adopted sixth five-year plan (1980-85).
Sixth plan	The Sixth plan puts its objective as: • To structurally transform the economy; • To achieve sustained and high growth rate; • To improve standard of living of masses & Eradication of poverty and unemployment. Several anti-poverty programs like IRDP AND NREM was initiated with the aim of removing poverty and unemployment.
Seventh plan	The Seventh plan marks a departure from earlier plan strategies and spelt out new long-term strategy. • The plans objectives were: solving the basic problems (food, shelter, clothing, education and health) of the people besides creating conditions

	for self-sustaining growth in terms of both the capacity to finance growth internally and the development of technology. • The seventh plan contained key elements of change. • It gave highest priority to increasing agricultural production through adoption on new technology. • It reversed the role of public sector and induced privatisation of industrial activity. • Liberalisation of external sector with the aim of increasing efficiency in the manufacturing sector. • The administrative procedures were changed from regulatory to faciliatory procedures. The strategy was a variant of what is now known as "Agricultural Development led Growth" Strategy.
Eighth Five-year Plan	The new development strategy: • The economic growth during the 1980s was not capable of stopping the economy from economic crisis. The reckless spending's and fiscal mismanagement by the government has put India on the edge of an economic crisis. • The full-scale crisis began in 1990-91 and the year of 1991-92 turned out be a severely bad year for the Indian economy. The crisis was market by an Inflation rate of 16 percent and severe shortages of foreign exchange and Balance of payment difficulties. The severity of the crisis was such that India had to shipped its gold to the Bank of England as collateral against a loan of $ 600 million. • As a response to the economic crisis, India adopted structural changes to its economy. The changes which will transform the Indian economy for betterment and will took economy to new heights. **The new approach (Liberalisation, Privatisation and Globalisation) adopted have major policy initiatives:** • Macroeconomic stabilisation • Fiscal reforms • Trade policy reforms • Industrial Policy reforms • Financial sector reforms The new development strategy was a complete reversal form the earlier strategies. The old rigidities of the command economy were dismantled and the strategy of external pessimism was eliminated. The new strategy favoured globalisation and was characterised with Export Led Growth.
Ninth plan	The Ninth plan proposed to achieve a 7% growth rate during the plan period. It introduced fiscal discipline and aimed to control rise in prices through controlling money supply. It aimed at resource mobilization and attracting foreign direct investment. The thrust of the plan was to achieve agricultural growth. The proposition was to broaden the direct tax base for raising resources at the center. Target Growth: 6.5% Actual Growth: 5.35%
Tenth plan	The Tenth plan laid emphasis on the role of government in the new emerging economic scenario. The plan mentions specific areas where the state has to play a proactive role. • The social sector • The infrastructure sectors. • Equity and social justice was given priority. The 10th Five Year Plan (2002-2007) targeted at a GDP growth rate of 8% per annum. The primary aim of the 10th Five Year Plan was to renovate the nation extensively, making it competent enough with some of the fastest growing economies across the globe. It intended to initiate an economic growth of 10% on an annual basis. In fact, this decision was taken only after the nation recorded a consistent 7% GDP growth, throughout the past decade. GDP growth target: 8% (realized: 7.8%), savings rate target: 27% (realized: 31.4%)

Eleventh plan

The Eleventh plan emphasised on 'faster and more inclusive economic growth'.

- The objective of inclusiveness and sustainability were accorded with highest priority.
- The plan mentioned that the strategy must be based on sound macroeconomic policies which establish the precondition for rapid and inclusive growth.

The eleventh plan aimed at:

- Rapid growth (more than 9%) to reduce poverty and unemployment.
- Access to health and education for all.
- Equality of opportunity
- Empowerment through skill development
- Employment opportunities underpinned by the National Rural Employment Guarantee Act.
- Environment Sustainability
- Good Governance
- Recognition of Women's agency.

Twelfth Plan

The Twelfth Plan seeks to achieve the growth rate of 8.2 per cent, down from 9 per cent envisaged earlier, in view of fragile global recovery.

The theme of the plan document is "Faster, Sustainable and more Inclusive growth".

The plan projects an average investment rate of 37 per cent of GDP in the 12th Plan. The projected gross domestic savings rate is 34.2 per cent of GDP.

Besides other things, the 12th Plan seeks to achieve 4 per cent agriculture sector growth during 2012-17. The growth target for manufacturing sector has been pegged at 10 per cent. The total plan size has been estimated at Rs.47.7 lakh crore, 135 per cent more that for the 11th Plan (2007-12).

Key Highlights:

- The target growth rate has been set at 8.2 percent.
- The priority areas are: Infrastructure, Health and Education.
- Agriculture is given its due importance and it has been documented in the plan that agriculture should maintain a growth rate of 4%, in order to reduce rural poverty.
- The targeted growth rate for the manufacturing sector has been pegged at 10 percent.
- Health, Education and Skill development continues to be the focus areas for the government in the Twelfth Plan. The plan mentioned that there is a need to ensure adequate resources to these sectors.
- Simultaneously, it also points to the need to ensure maximum efficiency in terms of outcomes for the resources allocated to these sectors. The need to harness private investment in these sectors has also been emphasized by the approach.
- Poverty alleviation needs to be done at a much faster rate. The Planning commission envisage to reduce the poverty Head count Ratio by additional 10 percent during the plan period. At present, the poverty HCR is 21.8 per cent of the population.
- The outlay on health, Drinking Water and Sanitation should be increased.
- It suggests the need to take steps to reduce energy intensity of production processes, increase domestic energy supply as quickly as possible and ensure rational energy pricing that will help achieve both objectives viz. reduced energy intensity of production process and enhance domestic energy supply, even though it may seem difficult to attempt.
- Generation of employment for the youth is the key challenge. The plan targets the creation of additional 50 million jobs.
- Infrastructure investment should be increased to 9% of GDP.
- The plan document mentions of providing 'Affordable and accessible Banking Facility to at least 90% of the population'.

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CN Vakil

14 May 2021 16:10

Background

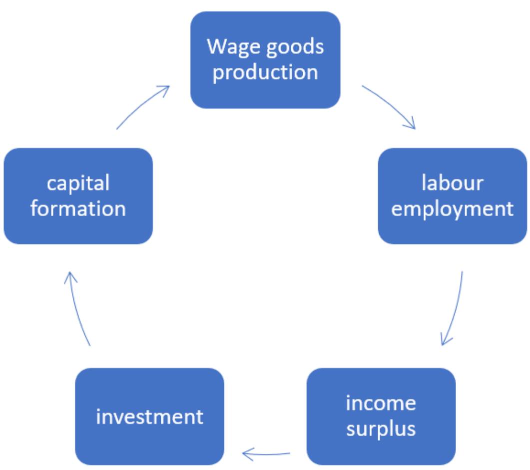
- Founding father of Bombay School of Economics
- Established perception of 'self reliance' and instituted new institutions and academic platforms
- Main aim: make economics in India self contained & self reliant
- Thesis on high govt burden of expenditure and tax incidence in relation to per capita income and taxable capacity of people in British India had a close bearing on Dadabhai Naoroji's perception of Drain of Wealth theory
- Also closely related with Ranade's angle of approach
- Did NOT believe in providential mission of Colonisers - British govt had always worked in every matter more in favour of Brit interest than that of large masses of the Indian community
- Initiated nationalistic move for justification of economic upliftment and distributive justice to vast majority of Indian society
- Most powerful critique of monetary financial policy of Brit Govt; against financing war operations through imposition of forced burdens on Indians
- Approach to inflation -- similar to Ricardo, Hume, Fisher; differed from Friedman
    - Inflation = volume of currency increases unaccompanied by corresponding increase in production
- Emphasised importance of maintenance of comparative stable price level in context of priority of wage-goods in planning process
- Believed Economics to be an evolutionary science -- any given question can not be settled for all times to come; each generation must look at their own problems in their own way
- Considered economies as the handmaid of economic policy
- On poverty -- close interaction of ideas w/ Gandhi
    - Remedy: strategic importance of agricultural production, land reforms, expansion of industry & commerce, Indianisation of foreign investment, setting up of Reserve Bank of India, social reforms and educational reform, Indianisation of education system, etc
    - Differed on Charkha being the most effective tool for removing mass poverty; conceded that cottage industry would absorb and create gainful employment for surplus labour force
- On large scale industries
    - Impossible to progress there w/o vigorous protectionist policy
    - Int'l trade + effects of modern tech would link Indian economy with RoW
    - thus 'Charkha' would have limited absorptive/ employment generation capability
- 'Young India' - series of articles in 1928 -- solutions still applicable in 21st C
- Also ideas regarding internationalisation of Indian economy, formation of optimum trade bloc, maximising trade gain to India from preferential arrangements
- Planning for an Expanding Economy
    - Alternative approach to Mahalanobis Plan
    - Wage goods strategy - emphasis on higher allocation of investment and organisational attention to agricultural and related directions of activities
    - Keep up export growth rate

- Avoid need of high cost home mfg of heavy industry & related products
- Provide higher growth rate of wage goods and surpluses + high rate of employment (since wage goods gap automatically bridged in the model)

Vakil-Brahmananda Wage-Goods Model

(Reference: Planning Strategies in India, pdf, 2013)
Refer Mahalanobis Plan, esp Vakil-Brahmananda Critique

Background

- Believed **poverty removal necessitates increase in aggregate supply of wage goods**
- Wage goods =
  - Food - food grains, pulses, milk products, fruits, vegetables
  - Tea, coffee, cloth, matches, soap, salt, kerosene
  - Also, some public goods provisioned at collective level - common drugs, hospitals, min education and library facilities, utilities - water, electricity, roads, law & order, recreational services
- Wage goods gap
  - Difference b/w reqd magnitude of wage goods and the actually available supply of wage goods
- Why wage goods deficiency?
  - Deficiency of capital stock designed and diverted for wage goods production; must be expanded
- Capital stock - 2 types
  - Type 1 - used in heavy industries
  - Type 2 - used in wage goods production
- Economic growth depends on
  - Economic factors - K accu, technical progress, investment
  - Non-economic factors - institutional changes
- Problem in developing countries
  - Low income -> limited market size -> low investment -> increased unemployment
- Solution
  - Disguised unemployed regarded as potential savings
  - Transfer of workers from agri to industry -> production of wage goods -> wage goods gap is fulfilled
  - 

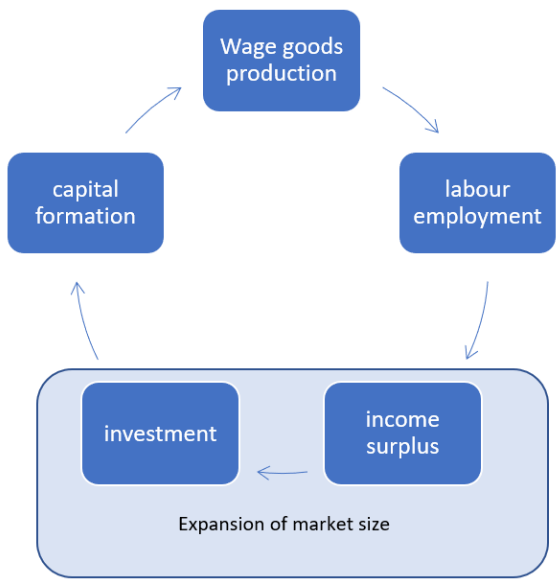
  - If wage goods gap is not fulfilled and investment is instead focussed on heavy industries, would lead to the ridiculous situation of unemployment of both capital and labour

Assumptions

i. **Wages are paid in advance** of production (~ Marx, Von-Neumann, Leontief, Nurkse)
ii. Variable capital, aka wage goods constitute exclusively food. (!expanded in 1995)
iii. Labour could produce capital goods w/o assistance of other factors of production. (!modified in 1973, 95 -- **integrated wage-goods complex)**
iv. Role of potential surplus might not be procurable.
v. There might be **need to provide for slightly higher consumption levels than in agri to workers engaged in non-agri**.
vi. Model includes **multiplier** formula - based on autonomous increase in stock of wage goods by planning authorities
vii. **Large industrial reserve army** - huge disguised unemployment to great extent.
    1. Their reserve army different from Marx's
    2. Marx: due to technical changes; sole purpose of reserve army is to keep wage rates low - aids accumulation process
    3. V&B: excess labour doesn't depress wages but adversely affects rate of capital accumulation
viii. Transfer of disguised unemployed from rural sectors does NOT lead to decrease in output in the farm sector
ix. Gap in accumulation of wage goods. **Require forced savings equal to that gap**; effected by reducing present consumption (taxes) OR import of wage goods. (must keep deficit financing to minimum here to avoid inflation)
x. Wages paid to newly employed workers will be higher than consumption of disguised unemployed.

Notional Model

Outlined in book, Planning for an expanding economy - 1956
- Population pressure on land should be reduced; labour power thus released must be employed in production of wage goods and capital goods
- Would require forced savings equal to wage-goods gap
- Would eventually lead to a state of full employment



Thus, cumulative and self sustaining model

<u>Formal Model</u>

- 5 blocks -- output, employment, price level, savings, growth
- Dichotomisation of general economic categories based on involvement in wage goods production and non wage goods production is fundamental feature
- Output
    - YW = f(KW, RF)
        - YW is output of wage goods, KW - real capital stock involved in wage good production
        - RF rainfall -- random var; autonomous component
    - YU = f(KU, YW)
        - YU is output of non wage goods; KU - real K stock non-wage
        - Thus, ***output of non wage goods depends on output of wage goods***
    - Y = YU + YW
        - Thus in SR, Y = f(YW) <=> Y = ky YW
        - ***In SR, real output is function of wage*** goods
        - Ky is the Wage-Goods multiplier aka ***basic consumption multiplier***
    - (omit!) YU = YC + YIW + YIU + YIF
        - YC - output of luxury goods
        - YIW, YIU, YIF are respectively capital investment in wage goods, non-wage goods and investment for the sake of investment
- Employment
    - NW = f(KW, YW, w) (w - real wage in wage goods sector)
    - NU = f(KU, YW, wu) (wu - real wage in non wage goods sector)
    - Thus N = f(YW, w)
        - ? Given the flow of wage-goods, there has to be an inverse relation b/w wage rate and total employment (how?)
    - N = NU + NW
    - In SR, N = f(NW) <=> N = kn NW
        - Kn - empirical Wage-goods employment multiplier
- Price Level
    - P = f(PW) -- P general price level
    - PW = f(YW, CU, rd, rb)
        - depends on interaction b/w currency stock & wage goods output/ ss factors
        - rd - rate of interest on year deposits, rb - rate of interest on G-secs
    - PW affects P thru cost of living index, nominal wages, resource use alternatives
    - Sympathetic movements of prices
- Savings
    - Sn = f(K/Y, rb, Px, RD)
        - Sn - nominal savings
        - Px - inflation expectations
        - RD - revenue deficit
    - S = Sn/ Pk (Pk - price index relevant to capital formation)
    - S = I
    - $s_w = \frac{SW}{YW}\ x\ \frac{YW}{Y}$; $\quad s_u = \frac{SU}{YU}\ x\ \frac{YU}{Y}$
    - S = sw + su; sw, su - savings ratios in resp sectors

- Growth
    - $YW_g = s_w \; x \; \frac{1}{\beta_w}$ $where, \beta\ is\ capital\ output\ ratio\ of\ wage\ goods\ sector$
    - $YU_g = s_u \; x \; \frac{1}{\beta_u}$
    - $g = YW_g \; x \; \frac{YW}{Y} + YU_g x \; \frac{YU}{Y}$
    - Overall growth rate is the sum of the weighted growth rates of YW & YU

<u>Clarifications</u>

<u>Praise</u>

- **K/L much lower** in wage goods industries. Thus faster economic growth would occur for any given level of investment resources
- Does NOT involve forex requirements for capacity building
- Wage goods industries have large export potential (Agri, cotton textiles, sugar); thus exports rise while import requirement falls
- Solves open and disguised unemployment
- Good **income redistribution** effect
- 2 way agri industry linkage -- agri will generate a large demand for the products of mfg industries
    - Nurkse also believed in 2 way linkage b/w labour surplus and wage goods o/p; labour had saving potential which could be exploited for market creation
- Built in **bias for employment expansion**
- **Implicit social welfare function** which emphasised need to minimise time reqd to reach full employment

<u>Critique</u>

- **Underestimates importance of capital good**s; ignores TFP
- Ignores necessity of **forward & backward linkages** and **infrastructure development**; assumes their presence
- No infrastructure to shift AS rightward
- Wage good surplus insufficient for capital goods import
- Demand of wage goods like clothing, equipment would have sharply fell after war (?)

<u>Comparison w/ Mahalanobis</u>

Wage-Goods	Mahalanobis
Complementarity b/w C & I	*Conflict* b/w C& I As increase in consumption goods o/p leads to decrease in investment in heavy industries => leads to decline in eco gr
Low K/L ratio reqd -- faster growth	High K/L ratio - slower growth
Solution to disguised unemployment among central problems in wage goods model	Not concerned with employment
Complementarity Rapid increase in wage goods production, resources needed for investment in capital goods sector can be mobilised without decrease in output of wage goods sector as labour can be reduced in the latter	Conflict b/w sectors -- resource allocation to capital goods sector at the cost of consumption goods sector and vice versa
Price stability among major objectives	Inflationary

Views on various economic Issues

Int'l Trade
- Protection
  - Should only be for a temporary period
  - Favoured slow and partial competition rather than opening up whole economy at once
- Devaluation of Indian Rupee
  - In 1966, would give powerful impetus to foreign investment

Measures to Raise public confidence in 1966
- Both Union, State budgets must be revised immediately for 1966-67
  - Should be balanced, and possibly with surplus
- Ordinance freezing all incomes for atleast one year -- no rise in wages, salaries, dividends, profits, etc
- Appeal to people to avoid unnecessary expenditure to curb inflation
- Restrict internal consumption of some exportable items, to generate exportable surplus

Relation b/w finance and political economy
- Economic reforms and political reforms go hand in hand
  - Mikhail Gorbachev
  - Deng Xiaoping
- Present considerations!

Kumar Gaurav's notes for views on
- Fiscal policy
- Financial Development
- Economic consequences of new constitution
- Economic consequences of divided India
- Planning
  - For shortage economy
  - For expanding economy -- alternative to 2nd FYP; postulated wage goods model

Source: Economics discussions.net
Top 9 Contributions of C.N. Vakil to Economics
Article Shared by Kirti Shailesh

The following points highlight the top nine contributions of C.N. Vakil to Economics. The contributions are: 1. Planning 2. Wage-Goods Model 3. Role of Technological Progress 4.

Consumption Multiplier 5. Poverty 6. Deficit Financing and Public Expenditure 7. International Trade 8. Extension Work 9. Inflation.

Contribution # 1. **Planning**:
Prof. Vakil (along with Prof. P.R. Brahmananda) put forward an alternative approach to Indian planning, which was **opposite to that of the Mahalanobis mode**l, at the time of the formulation of the second five year plan for India. Vakil's plan frame was related to Marxian concept of variable capital (v). This model is based on classical economic philosophy, in particular Ricardo, Marx, Rosenstein Rodan and Ragnar Nurkse.

All these models are based on the assumption that, there exist a massive reserve army of labour in rural areas of developing economies. In other words, the **disguised unemployed formed the savings potential**. This is based on the view of that labour could be transferred from agriculture, without decreasing production and deployed for producing real capital goods. In short, **for the development of the Indian economy, with large-scale disguised unemployment, the bottleneck good is not the basic and heavy capital goods (as felt by Mahalanobis) but the wage-goods**.

Assumptions:

The plan frame proposed by Vakil was based on the following assumptions:

1. **Wages are paid in advance** of production. This assumption is similar to that of Marx, Van-Neumann, Leontif, Nurkse, etc.

2. Variable capital or wage goods constitute exclusively food.

3. Labour could produce capital goods without the assistance of other factors of production.

4. The role of the potential surplus might not be procurable and further that there might be a need to provide for slightly higher consumption levels than in agriculture to workers engaged in Non-agriculture (consumption). The model is developed with a multiplier formula which is based/autonomous increase in the stock of wage foods in the hands of planning authorities.

5. In rural areas there prevails disguised unemployment to a great extent. Therefore, existence of large industrial reserve army.

6. The transfer of disguised unemployed workers from rural sector does not lead to the decrease in the output in the farm sector.

7. There exists a **gap in accumulation of wage good**s. To the extent of that/gap, forced savings have to be effected by reducing present consumption (by imposing taxes) or by importing wage goods.

8. The wages paid to the newly employed workers will be higher than the consumption of disguised unemployed.

Contribution # 2. **Wage-Goods Model**:
According to Vakil, the rate of growth of the economy is influenced by several economic and non- economic factors. Among economic factors, **accumulation of capital** is the most important, which in turns depends upon **technical progress**.

So as non-economic factors are concerned, **institutional changes** are important. The living conditions of people are very poor. Higher level of investment will break this vicious circle. Demand for investment depends upon the demand for consumption goods.

The demand for consumption depends upon the **size of the market**. But due to low level of income in developing economies, the size of the market is **limited**. The lower productivity of labour leads to lower level of income and hence the size of the market end level of investment is low, that is, small investments have to be made in several avenues.

In the context of the large-scale employment(?) that was prevailing at the time of the finalization of the second five year plan frame, Vakil suggested a wage-goods strategy as the best alternative to the Mahalanobis model.

The model suggested that **disguised unemployed be regarded as potential saving.** To transfer these workers from agriculture to industry by itself, did not lead to the existence of a wage-goods gap. By filling the wage-goods gap only could one increase employment in developing economies.

Since economic system does not supply wage-goods in the short-run, employment and investment will decrease. The rate of transfer of unemployed workers from the farm sector to the non-farm sector (capital goods sector) depends upon the rate of increase in the supply of wage-goods.

Until this wage-goods gap is removed, it will not be possible to remove workers from the farm sector to the non-farm sector. Thus the provision of wage goods constitutes the most important element of Vakil's planned model. In India, the population is high, but the avenues to provide employment to them are limited. Capital unemployment is less harmful than labour unemployment.

Therefore, the problem of unemployment has to be tackled without sacrificing technical progress and rapid accumulation of capital, Vakil felt that, the Mahalanobis model does not solve the problem of unemployment and economic growth in India, because the model has a contradiction between theory and statistical frame.

Therefore, provision of unemployment to the tune of 11 million people (of which 8 million people in non-agricultural sector was the target) would not be achieved in the second five year plan period because the employment target was not fixed on the basis of demand and supply of additional wage-goods. Vakil says that, in a country like India it is not only the availability of fixed capital which leads to provision of employment, but also the level of wage goods. Scarcity of both types of capital is the cause of unemployment.

In the Vakil Plan frame, there is a complementarity between consumption and investment whereas, in the Mahalanobis model there is a conflict between consumption and investment. This is because, an increase in consumption goods output leads to decrease in investment, which in turn leads to decrease in the growth of the economy.

When more resources are allocated to the capital goods sector, allocation of resources to consumption goods sector has to be reduced. But this conflict is not present in Vakil's model, as the **consumption goods sector and capital goods sector are complementary to each other**. By increasing wage goods production, at a rapid rate, the resources needed for investment in capital goods sector can be mobilized without decrease in the output of wage-goods sector as labour can be reduced in the latter.

Contribution # 3. Role of Technological Progress:

Vakil emphasized that technological progress is a powerful engine of growth in output as it did not cause unemployment in developed economies (at the full employment level) and also that it led to increase in the standard of living of people. However, in a country like India, if the required capital accumulation does not take place technological progress aggravates unemployment.

Vakil was of the opinion that **labour intensive techniques are not always relevant in labour-abundant economics**. After a certain stage, abundance of labour does not increase factor price. To increase capital accumulation, employment has to be increased. This leads to profitability in the agricultural sector which was for long discouraged. By decreasing luxury goods production, avenues for investment will increase in under-developed countries. Abundance of unskilled labour is available but availability of skilled labour for employment is limited.

In short, Vakil argued that, for the development of the Indian economy, what was needed was an abundant of wage goods, technological progress, reorganization of institutions, changes in the price policy, and mobilisation of resources for investment through taxation and compulsory savings. To mobilize compulsory savings, taxes, adjustment in monopoly prices, and other receipts are needed.

Though deficit finance also forms a part of compulsory savings, the model envisaged keeping it at a low level. To mobilise investible resources, the model reorganized the role of public and private sectors. The classical economists (particularly Ricardo) stated that scarcity of supply of food grains is a hurdle to economic growth.

Similarly, in Vakil's model, the wage-goods equation determines level of employment and growth of the economy. Increase in the supply of wage-goods by one unit will lead to an increase in employment by certain units. This relation is described by Vakil as the consumption multiplier.

Contribution # 4. **Consumption Multiplier**:
The consumption multiplier developed by Vakil is based on certain specific assumptions, as under:

1. The marginal propensity to consume of wage-goods producers is zero.

2. The money and real wage rate remain constant.

3. Price level remains constant.

4. Large-scale disguised unemployment exists in the wage-goods farm sector. The average wage goods consumption of the disguised unemployed worker (d) is less than the real wage (W).

5. The supply of credit is perfectly elastic, therefore, rate of interest remains constant.

6. Increase in the activities of the public sector does not lead to disincentives in the private sector.

7. There are not difficulties in the mobilization and transportation of goods.

8. The size of the population remains constant.

Contribution # 5. Poverty:
According to Prof. C.N. Vakil, poverty in a country may be due to defects either in the production of wealth or in its distribution. Both these problems are equally important, but it is obvious that if the production or the national dividend is small, the question of distribution would be of comparatively less importance.

Further, he viewed the causes as two separate entities:

(1) Internal and

(2) External.

1. Internal causes:

(a) Not enough work for the vast mass of the agricultural population during the off season:

The majority of our people demand upon agriculture directly or indirectly. In spite of the presence of employment opportunities provided by industries and also other secondary occupations in different parts of the country, the majority of the agricultural population did not have enough work during the off season, which extends to about five months in a year.

(b) Presence of the type of social life where there are few active workers in each family:

According to Prof. C.N. Vakil, the number of dependents in an average family in the country is large. Usually, an only earning member supports a large family. This kind of situation exists not only among the agricultural population but also among urban population and the higher classes.

(c) Presence of a large number of able-bodied beggars miscalled sadhus:

Prof. C.N. Vakil rightly pointed out that India the number of persons doing religious service is quite high. They are called as Sadhus. He is of the view that the Sadhus are not doing any kind of religious service in the true sense, either for themselves or to the society. They are actually living off society. Their presence in large number, Prof. Vakil feels, adds to the burden of poverty on the productive members of society.

(d) Climatic disadvantages:

Presence of different climates in different parts of the country stands in the way of continuous and sustained work, either physical or mental. This again increases the number of unemployed, another index poverty.

(e) Fatalism and consequent want of determination to struggle against odds:

The peculiar cause operating in our country against greater production, as stated by Prof. C.N. Vakil was the mental attitude which may be described as the lack of economic motivation either due to the philosophic idea of renunciation of all desires, or to the continuous state of helplessness and poverty in which the people have been living, or to the want of education and consciousness about their own potentialities, or a combination of these.

(f) Faulty educational system:

Prof. Vakil also mentioned the faulty or one-sided educational system which creates large numbers of educated but in people, suitable for no fit work other than that of the liberal professions or clerical occupations. The great magnitude of unemployment or under employment among the educated young men of the country was due largely to ills of the educational system.

2. External causes:

(a) International trade and commerce:

Prof. Vakil is of the view that the chief external cause of poverty is the great change in the economic life and organization of the people brought about by international trade and commerce, facilitated by modem means by communication.

According to him, the nature of our commercial relations with other countries has not been to our best advantage, and the internal adjustment in the internal economy of the people required by the great change is not yet complete.

(b) Commercial and industrial relations with other countries:

He has brought out well the main features of India's commercial and industrial relations with other countries. During British rule in India there was a silent and pervasive economic invasion of the country, supported by the highly organised industrial system of England and other countries and patronized by the Indian administration.

On the one hand, India produced large quantities of varied manufactured articles, the introduction of which had been systematically encouraged; on the other, a large number of foreign capitalists had been allowed to settle in the country for the purpose of industrial and commercial exploitation. This can definitely affect the internal production, employment, etc. and finally aggravate conditions of poverty.

Remedies:

Prof. C.N. Vakil has suggested several measures to remove poverty. He stated that stress had to be laid on increased production and equitable distribution. He advocated consolidation of holdings, for agricultural improvement, as in the use of better inputs in terms of seeds, implements, and manure, sinking of large number of wells and creation of other irrigation facilities, concerted efforts to promote the co-operative movement and suitable education to assure enough employment opportunity and reward to the agricultural family.

He further suggested that in order to overcome the problem of indebtedness of farmers, there should be Land Mortgage Banks, to take over the existing debt of the farmers from the sow-cars on easier conditions. In addition, finance should be provided through the co-operatives.

He advocated the development of cottage industries to provide more employment opportunities for those who were not willing to migrate from rural to other areas and also for the small farmers during the off season.

Regarding land tax, Prof. Vakil stated that it should be brought in line with the income tax, where an exemption limit below a certain specified income from land could be fixed with reference to agricultural life and conditions. It may be possible at the same time to allow Local Bodies to tax agriculturists to a certain extent, by some cases on the land the proceeds to be utilized for the benefit of the people of the area concerned.

He is of the view that unless steps are taken to prevent foreigners or non-Indians from enjoying the fruits of the industrial exploitation of the country, the problem of Indian poverty cannot be solved. In order to bring about desired social change, he advocated the prevention of early marriages, lowering of mortality rates and incidence of diseases, provision of sanitation, removal of purdah system and provision of suitable work to them etc. Further, he reminds us that unnecessary ceremonial expenditure should be curtailed since it is not productive.

Prof. Vakil believed that free and compulsory primary education was desirable. He was also of the view that rural universities should be established to create an interest in the better understanding of and efforts to solve, the problems that affect the life of the rural people in their proximity.

Contribution # 6. Deficit Financing and Public Expenditure:
Prof. Vakil strongly objected to deficit financing as a means to finance the plans. He floated the idea that. It is the Keynesian concept of pumping money into the economy to offset a depression which is one of the evils of capitalism. This is a short-term remedy for developed countries to remove depression or to bring out equilibrium in the economy. It has created a great havoc, inflation and poverty also.

His significant contribution lay in truncating the public expenditure by appointing a Public Expenditure Commission. One Public Expenditure Commission was set up in 1921 by the Britishers, since then we have no such Commission. It had a salutary effect in bringing things to reasonable proportions.

Contribution # 7. International Trade:
On the question of protection, he emphasized that, "Protection should only be for a temporary period and once an industry has been properly established, it should be able to face competition. This is the only way to safeguard the interest of the consumer which one usually ignored in such matters.

Thus he was in favour of slow and partial competition rather than opening of the whole economy at once. He welcomed the New Gold Policy of the Government to sell gold at international price and import gold. He described it as anti-inflationary, employment-oriented and for checking smuggling.

He was in favour of joint ventures abroad, consultancy in Gulf countries and trade with OECD countries in primary products. Branch offices in foreign countries like Japan were to be activated to keep pace with the world demand by supplying quality goods at competitive prices with timely deliveries. He also proposed setting up an Import-Export Bank for international trading, commerce and financial matters.

Contribution # 8. Extension Work:
Prof.Vakil laid much emphasis on extension work without which the colossal task of rural development was not possible. He stressed that people with a missionary zeal should be enthused for this task and devoted officers were to be entrusted to implement the plans.

A class of young volunteers and trainees should be raised to integrate knowledge of agricultural sciences, agricultural economics, rural sociology, village industries, public administration health and family welfare and so on. Agricultural poly-techniques and a centre for rural development were needed to fill the gap between higher education and the needs of the people.

The proposed research centres might select a few villages and appropriate methods. He lamented the bureaucratic methods, due to which “a large percentage of plan expenditure for rural development, about 60 percent was spent for administration. It was not known whether or not remaining 40 percent reached the farmer. Therefore, the machinery for implementing the same, had to be created as the existing bureaucratic machinery has failed to function effectively so far”.

Contribution # 9. Inflation:
Vakil was the first Indian economist who drew attention to the price rise spiral. The definition of inflation, as given by Prof. C.N. Vakil is that, when supply of money in a country increases and the supply of goods does not increase to the same extent, the situation is described as one in which more money chases scarce goods.

Such a tendency is called inflation. If it continues for a long period, it causes a lot of disturbance to the economy which gets distorted. Excess supply of money may be due to either government expenditure exceeding its receipts from revenue and loans from the public, which is known as deficit financing or larger credit given by banks to the commercial sector not supported by the latter’s productive activities.

The Reserve Bank regulates the latter by imposing restrictions on credit in order to bring about some equilibrium. The former can be controlled by government imposing greater self-discipline and keeping its expenditure within the limits of its resources.

Prof. Vakil said that, “We inherited inflation on Independence and we have followed an inflationary policy due to incorrect notions or wrong application of western theories to our conditions. This has seriously interfered with our attack on poverty and our efforts at planning”. Vakil had suggested that the immediate object of policy should be to roll back prices to a lower level and to reduce significantly the incidence of ‘black money’.

This necessitates immobilisation of say 30 per cent of money supply through partial re-monetisation and issuance of 20 years fixed interest-yielding but illiquid savings certificates and black accounts; there should be a national Ceiling of 5 per Cent on the annual growth rate of money supply during the Fifth Plan; Government borrowing from the entire banking system should be completely eschewed during the first two years of the Fifth Plan.

The step up in government expenditure contemplated in the Fifth Plan should be brought about through rationalization of expenditure and maximum dependence upon non-inflationary sources of receipts. The growth rate of credit to the industrial commercial sector should be pruned with reference to the Macro-ceiling of 5 per cent.

The proportion of value of inventories financed by bank credit should be reduced to about 33 per cent; rationalisation of government expenditures can be achieved by economizing severely on non-accumulation expenditure.

All future capital projects must be examined with reference to their fiscal viability before they are sanctioned. Norms of work standards should be laid down for all levels of employees in the government. The services of Defence personnel should be considered for deployment in short gestation projects, and in step-up of emergency production schemes particularly in food articles.

Suitable arrangements should be made to examine continuously the desirability and feasibility of granting of, or of the continuance of, subsidies of various types from the public exchequer. All subsidies to certain categories of consumers and government and public servants in the form of supply of goods at subsidized rates, loans at concessional interest, quarters, travel concessions, etc., should be subject to periodical review.

A drastic upward revision is needed in the level of the Bank Rate, the structure of deposit rates and yield rates. The term-structure of rates should be so devised as to favour the medium-term and the long-term savers. The lending rates by banks for prime borrowers should be increased.

The instrument of taxation should be effectively used to reduce luxury consumption by individuals and firms of siphon off excess demand on scarce commodities to encourage exports, to promote savings in specific financial and other assets and generally to realign the pattern of private production along a product-mix enabling the speedy attainment of self-reliance.

Discriminatory excise taxes, exemption of increment in savings from income tax, tax credit schemes based on degrees of utilization of capacity, are all in order. Tax loopholes should be closed. The tax revenue from agriculture should be raised to 3 per cent of net output of agriculture.

Exchange reserves should be built up to stand normally at a level of about six months of annual imports. Through appropriate redesigning of construction, encouragement of indigenous methods of transport, greater use of public transport, promotion of organic manures and in input mix, the direct and indirect repercussions of the oil crisis can be partly overcome.

At a time when India is facing the problem of containing the spectra of double, digit inflation, one can’t but appreciate the ideas of C.N. Vakil, many of which have currency even today. The quote Alexander Gray, “No point of view, once expressed, ever seems wholly to die; and in periods of transition like the present, our ears are full of the whisperings of dead man”. For both academic and practical reasons, Vakil’s contribution to inflation will be remembered.

Evaluation of Contributions by C.N. Vakil:
Prof.Vakil can be rightly considered as the originator and pro-pounder of certain standpoints and approaches relevant to modern economics in India:

1. He was among the earliest of economists anywhere to have empirically applied the full-fledged quantity theory to understand price behavior. He took into account the quantity of money, the velocity of money and the supply of real output. He separated the monetary factors from the real factors.

2. Vakil was among the earliest to have pursued the non-autonomy of money supply and its changes in a country which lodges its gold/foreign exchange/foreign security reserves in a foreign country and makes its own money supply determined by the former.

3. Prof. Vakil noticed the strong relation between deficit financing in the form of sales of ad hoc treasury bill and currency supply.

4. Prof. Vakil emphasized the need for linking money supply changes to aggregate real output changes rather than to volume of trade changes. He thus rejected the link between money supply and the needs of foreign trade. Total trade changes, foreign as well as internal would be a better proxy for real output changes.

5. Prof. Vakil widened the concept of the brain to include more items than the 'English'(Home) charges. The entire financial policy of the British Government had to be scrutinized in order to understand the magnitude of the excess brain-burden imposed on the Indian people.

6. Prof. Vakil also was the earliest in India to have related the incidence of the public expenditure and taxation to the per-capita income of the community. The case for a reduction in public expenditure was argued on the score of its adverse effects on the poor people of the country.

7. Prof. Vakil voiced concerns at the growth of defence expenditure in India and urged the case for close economic monitoring of defence expenditures.

8. Prof. Vakil also recognized the need for large scale regional and urban social surveys to understand the economic conditions of the people. He was also instrumental in recognizing the need for scientific surveys of public opinion in matters like group tensions, effects of war and rising prices on the middle class, etc. his achievement in this connection is parallel to that of Prof. Mahalanobis, who pioneered National Sample Surveys, to understand the economic conditions of the people.

9. Prof. Vakil was also among the few public men who thought that the basic causes behind communal tensions and riots was economic insecurity along with economic disparities.

Source: Abhishek Dudhal

Write a note on Vakil & Brahmanand's wage good model.

Vakil and Brahmanand are also called as Bombay economist.

Assumption

1. **Wages** are paid in **advance** of production.
2. Variable capital or **wage goods** constitute **exclusively food.**
3. Labour could produce capital goods without the assistance of other factors of production.
4. Need to provide for **slightly higher consumption levels than in agriculture** to workers engaged in Non-agriculture (consumption).
5. The wages paid to the newly employed workers will be higher than the consumption of disguised unemployed

Features

6. Opposite to that of Mahalnobis model
7. Decreasing production and deployed for producing real capital goods.

In short, for the **development** of the Indian economy, with large-scale disguised unemployment, the **bottleneck good is not the basic and heavy capital goods** (as felt by Mahalanobis) **but the wage-goods.**

8. Wage goods are the typical consumer goods necessary for subsistence and work.
9. Since not all capital goods are related to wage good production, o**nly those capital goods should be encouraged which help in wage goods.**
10. This **integrated wage goods complex** (the wage goods industries along with the capital industries that help in promotion of wage goods) **should grow at a rate higher than population growth** in order to absorb disguised unemployment.
11. They explained the unemployment in underdeveloped countries as a result of wage goods gap.
12. The disguised labor earns λ.w which is the APPL in agriculture. If he is employed in the wage goods sector, he will be paid w. So increment for him will be (1-λ).w. Thus **he consumes less and produces more**. (Since, his consumption is unlikely to change much. The **rest will be channeled into the savings**) So a multiplier effect comes into play.
13. This surplus is the savings which if channelized back, can fuel multiplier growth.
14. Also since the COR is lower, lower savings would be required for growth.

Benefits

15. Equal **distribution of wealth**.
16. Location wise it will be defused,
17. **Non inflationary.**
18. No dependence on foreign capital.
19. Does not require very large saving
20. Would reduce Disguised Unemployment

Limitations

21. It ignores TFP gains (Total factor productivity – Since, it focusses on only 1 industry – wage goods industry without taking into account efficiency)
22. It **ignores the necessity of forward and backward linkages**, development of infrastructure.
23. It will only lead to s**hort term gains**. (Since, no infrastructure to shift AS rightward)
24. It is high cost and inefficient. – MSME issues Contrary to modern factory system of production.

Compare wage goods model with Mahalnobis model of planning.

Comparison with Mahalonobis Plan

25. Mahalonobis was **not concerned with employment** which was central to Vakil.
26. Mahalonobis plan was **inflationary** since capital goods investments have long gestation period. So while AD increases, AS doesn't.
27. Vakil was more of a **private venture plan**, Mahalonobis was **left oriented plan**.

28. Vakil model was the **export oriented model** pursued by SE Asian countries while Mahalonobis model was an **import substitution model**.

How Vakil explained role of technological progress?

29. Vakil emphasized that technological progress is **a powerful engine of growth** in output as it did not cause unemployment in **developed economies** (at the full employment level) and also that it led to increase in the standard of living of people.
30. However, **in a country like India**, if the **required capital accumulation does not take place** technological progress a**ggravates unemployment.**
31. Vakil was of the opinion that **labour intensive techniques are not always relevant in labour- abundant economics**. After a certain stage, abundance of labour does not increase factor price.
32. Vakil argued that, for the development of the Indian economy, what was needed was an abundant of wage goods, technological progress, reorganization of institutions, changes in the price policy, and mobilisation of resources for investment through taxation and compulsory savings.

Write about consumption multiplier of Vakil.

Consumption multiplier of Vakil was based on following assumption

33. The marginal propensity to consume of wage-goods producers is zero.
34. The money and real wage rate remain constant.
35. Price level remains constant.
36. The supply of credit is perfectly elastic, therefore, rate of interest remains constant.
37. Increase in the activities of the public sector does not lead to disincentives in the private sector.
38. There are not difficulties in the mobilization and transportation of goods.
39. The size of the population remains constant.

Thy put forward a concept of multiplier which relates the increase in the supply of wage goods to the increase in real income. In a later econometric study, Dr. Brahmananda found that 'Rs. 100 worth of increase in the supply of wage goods leads to an increase in real domestic product (national income) equivalent to more than Rs, 300. There is a stable multiplier.

What are the Vakil's view on international trade?

40. **Protection** should only be **for a temporary period** and once an industry has been properly established, it should be able to face competition.
41. This is the only way to safeguard the interest of the consumer which one usually ignored in such matters. Thus he was in **favour of slow and partial competition rather than opening of the whole economy at once**.
42. He welcomed the New Gold Policy of the Government to sell gold at

international price and import gold. He described it as anti-inflationary, employment-oriented and for checking smuggling.

43. He was in **favour of joint ventures abroad**, consultancy in Gulf countries and trade with OECD countries in primary products.
44. He also proposed setting up an **Import-Export Bank** for international trading, commerce and financial matters.

What are the Vakil's view on deficit financing and public expenditure?

45. Prof. Vakil strongly **objected to deficit financing** as a means to finance the plans.
46. He floated the idea that. It is the Keynesian concept of pumping money into the economy to offset a depression which is one of the evils of capitalism.
47. This is a **short-term remedy for developed countries** to remove depression or to bring out equilibrium in the economy. It has **created a great havoc, inflation and poverty** also.
48. There is strong relation between deficit financing in the form of sales of ad hoc treasury bill and currency supply.

What are the Vakil's view on poverty?

Poverty

Defects either in the **production of wealth or** in its **distribution**

Causes

Internal

49. **Not enough work** in non agriculture season
50. **Beggar** mislead **as Sadhu**
51. **Faulty education system** – Suitable to work in liberal profession or clerical work (Still relevant)
52. **lack of economic motivation** either due to the philosophic idea of renunciation of all desires (Still relevant)
53. Climatic disadvantages
54. basic **causes behind communal tensions and riots** was economic insecurity along with economic disparities.

External

Nature of our commercial relations with other countries has not been to our best advantage

Remedies

55. Increased production and **equitable distribution.**
56. He advocated **consolidation of holdings**, for agricultural improvement
57. Land Mortgage Banks, to take over the existing debt of the farmers from the sow-cars on easier conditions.
58. Development of **cottage industries** [For Dattu like people]
59. Rural universities should be established to create an interest in the better understanding of and efforts to solve, the problems that affect the life of the rural people in their proximity.
60. A class of young volunteers and trainees should be raised to integrate knowledge of agricultural sciences, agricultural economics, rural sociology, village industries, public administration health and family

welfare and so on

What are the Vakil's view on inflation?

61. **first Indian economist** who drew attention to the **price rise spiral.**
62. **Supply of money increase more than supply of goods**
63. Reason – **deficit financing** or larger credit given by banks to the commercial sector not supported by the latter's productive activities.
64. All future capital projects must be examined with reference to their fiscal viability before they are sanctioned.
65. drastic upward revision is needed in the level of the Bank Rate

From <https://abhishekdudhal.wordpress.com/indian-economist-vakil/>

DR Gadgil

14 May 2021 16:10

Background

- Emphasis on empiricism & pragmatism
- Influenced by German, French historical thoughts
- Opposed laissez faire
    - Believed India's problems of unemployment, mass poverty, inequalities of income & wealth could be dealt favourable with determined action of intervention.
    - Perception of state intervention resembles w/ Ranade
    - State must be actively associated w/ welfare activities
    - Refusal to use powers of the state in a highly non-egalitarian society under the name of liberty or 'Sarvodaya' is tantamount to encouraging growth of evil forces and perpetuating social injustice
- Vis-à-vis Naoroji
    - Both dealt w/ Indian economic problems from the angle of int'l scale of comparison
        - Naoroji - tax imposed by alien govt on India vs on England, Scotland, Ireland
        - Gadgil - difference b/w highest and lowest salaries in Brit India vs other countries
    - Differed on railways expansion
        - Naoroji - only to exploit our internal resources for meeting their self interest
        - Gadgil - helpful in commercialising Indian agri, better relief operations during famines, effective expansion of both internal and external trade; cautious wrt differential rate policies in railways (favoured export of raw materials)
- Believed in balanced interaction of agri & industry as necessary concomitant of development
- Area of interest - rural development through proper planning -- positive & negative implications + concrete solutions
- Favoured **decentralisation**
    - Wrt needs, resources, possibilities
    - Thru Panchayati Raj System
    - 2 necessary pre-reqs
        - Knowledge of local conditions
        - Local participation in formation and implementation
- Among earliest proponents of industrialisation as impetus to agricultural improvement
- Institutions - setup Gokhale Institute of Economics & Politics in Pune (1930)

Views on Economic Issues

Planning

- Any effective action on planning front must be **examined from 3 angle**s
    - Programme of investment + methodology
    - Measures for attainment of targets + adequacy and efficiency
    - Social directives in the Indian Constitution + potential socio-economic implications of the plan
- Critique of first 3 FYPs
    - Most serious issue: failed to address unemployment, esp rural employment -> lack of improvement in standard of living

        - Criticised Mahalanobis policy of industrialisation
            - Emphasis on economic & social overheads and on basic capital goods industries starved agri of much needed capital resources
            - Severe distortion of already inequitable distn of income
            - Distortion due to
                - Dependence on private savings
                - Preferential treatment
                - Unregulated private investment
- Gadgil Strategy
    - Incorporated in the 4th & 5th FYP
    - 3 significant features
        - New agri strategy
        - Industrial planning
        - Special foreign aid and trade
    - Plan should be largely concerned w/ agri, countryside -- greater public expenditure
    - Emphasis on prevention of unearned increment (addressing inequity, redistribution)
    - Plans must be preceded/ accompanied by laws securing proper utilisation of resources
    - Need to change attitudes as social stratification can mould economic behaviour in a variety of ways

<u>Industrial labour</u>

- Issues: low wages, wage disparity for similar work
- Suggestions
    - Wage regulation at higher level
    - State supported welfare programs - industrial housing, unemployment insurance, paid leave, morbidity insurance

<u>Agriculture</u>

- Issues: surplus labour, underemployment
    - Rapid population growth
    - Non-existence of agro-based and allied activities, rural industries
- Measures
    - Increase efficiency
    - Diversified non-agri sector in rural areas to absorb surplus labour
- Main elements of agri development
    - Planning of land use
    - Determination of LR & SR targets
    - Linking development programs and govt assistance to attainment of targets
    - Appropriate price policy
- Requires effective planning from the bottom
- Emphasis on stabilisation of prices of agri products
- Unless ToT are secured at some min favourable level to agri community, no general plan of development could succeed
- Such policies must be self-financing -- i.e. No long run net burden on govt finances

<u>Price Policy</u>

- Immediate goals
    - Stabilisation of agri price
    - Holding the price line

- Regulation of prices of commodities essential for rural population reqd (1960)
- Govt must procure these at std rates and distribute through retail shops
- Emphasis on cooperative distribution through consumer societies

<u>Cooperatives</u>
- Builder of co-operative movement
  - Felt urgent need to establish multipurpose co-operative societies of medium size for widening resource base; must be supported by State action
  - Process of nationalisation should include co-operation
- Moving spirit behind establishment of 'Cooperative Common Wealth'
  - Active means to organise the common people
  - Links horizontal and vertical activities of rural animation
- Key role in development of cooperative movement in Maharashtra

<u>War and Economic Policy</u>
- Enormous expansion of currency during 1939-43 to fund Brit war efforts -> inflation
- Suggested sound economic & financial policy to remedy -- increase in direct taxes, increased public borrowing, increase utilisation of public resources, economy in administrative expenditure, control over investment and profits, price control

<u>On Industrial Evolution & British Policy</u>
- Important events in 1850-1914
  - Decline of handicrafts due to railway policy
  - Free trade policy
  - Lack of technical education
  - Commercialisation of agri
  - Rapid population growth
- Important events in 1920-40
  - World wide trade depression - agri prices depressed; govt did nothing to support
  - Emergence of provincial autonomy - popular ministries (1937-39) didn't visualise problems facing country in the right perspective. Couldn't solve agrarian problems

Gadgil Formula

Gadgil formula - Wikipedia
The Gadgil formula was formulated with the formulation of the third five-year plan for the distribution of plan transfers amongst the states. It was named after D. R. Gadgil, then deputy chairman of the Planning Commission. The central assistance provided for in the first three plans and annual plans of 1966–1969 lacked objectivity in its formulation and did not lead to equal and balanced growth in the states.[2]
The National Development Council (NDC) approved the following formula:

1. Special Category states like Assam, Jammu and Kashmir and Nagaland were given preference. Their needs should first be met out of the total pool of Central assistance.

2. The remaining balance of the Central assistance should be distributed among the remaining states on the basis of the following criteria:

60 per cent on the basis of **population**;
7.5 per cent on the basis of **tax effort**, determined on the basis of individual State's per capita tax receipts as percentage of the State's per capita income;
25 per cent on the basis of **per capita state income**, assistance going only to States whose per

capita incomes are below the national average;
7.5 per cent for **special problems of individual state**s.
Reasoning behind the given weights:

i. Population

In a country like India, population acts as an apt measure to represent the requirements of the people because a major portion of the population lives below the poverty line. This proposition was also supported by the empirical data which showed a negative correlation between population of states and their per capita income.

ii. Tax effort

This is an important factor to measure the potential of the state as far as its own resources are concerned. This relative measure incentivizes the states to undertake measures to increase their own potential through various tax measures.

iii. State per capita income

A problem regarding unequal development amongst the states was faced in the earlier plans because of larger states with their large plans were able to get a larger share of resources from the centre. This led to increased inequalities amongst the states. Therefore, to make the distribution fairer to the smaller states with a lesser than national per capita average income were given extra share in the resources.

iv. Special problems

This factor was introduced so as to provide enough resources to states to overcome problems like droughts, famines etc. In the absence of this share, such states would have suffered huge losses because of these problems and the implementation of their plans could have been hindered. This was a discretionary element in the formula which required proper scrutiny of the states situation by the Finance Commission.

v. Irrigation and power projects

These projects have been in the process of implementation before the fourth plan was formulated. They needed extra resources for the successful completion of these projects.

Background
The offer of financial assistance from the centre to the states for implementing planned development has been an extremely important matter right from the beginning of the Indian Planning process.[3] The constitution divides the responsibilities between the Union government and the state governments. There was an imbalance between responsibilities assigned to the states and the revenue resources possessed by them to carry out those responsibilities. The transfer of resources for development purposes under the Plans came to be made under Article 282 of the Constitution. The states were highly dependent on the Union government for financing their development plans because the extra resources on which states could bank on were largely concentrated with the Union government.

There was a need for a separate body to look into the division of resources. Therefore the finance commission was appointed in 1951 for the allocation of resources of revenue between the central and the state governments. It was held responsible for examining their liabilities, the resources of the states, their budgeted promises and the effort undertaken to fulfil their commitment. Each five year, the finance commission puts in its recommendations on the proportion of the total collections to be allocated to each of the states. The Planning Commission which was formed soon after the framing of the constitution of India looked into the problems of financing development, which had added to the old problem of financial relations. It came into being because the issue of formulating development plans and implement them efficiently for the development of the economy was not only a very important but also a necessary one. This commission provides for a settlement between the Centre and the states in two categories:

Division of revenues
Grants in special cases
The centre adds to state resources by conferring fixed percentage of revenue from taxation and from other sources to the states. However, this does not ensure a proper balance in distribution. There are states which are poorer or more backward than the others and therefore require central finances on a much larger scale than the others. This is why recommendations for special grants were introduced. Hence in this manner, the extra resources controlled by the centre were shared with the states to finance the state plans. However, this system in turn induced the states to undertake those schemes in which they got a higher share of the central finances and therefore a steady central assistance was given to the states for a planned period. The grants were supposed to be given to the states which did not have enough capital assets that would have earned them enough money to pay for loans taken from the centre. They were provided to the states outright according to their needs. But in reality, no correlation was found between grants and the need for them.

The first Five Year Plan had provision of only a marginal central assistance which did not play an important part. Due to this, in the second five-year plan, substantial importance was given to it. And in the third five-year plan, the states had laid more stress on planning and had become critical. In fact, they were given a choice set of various schemes with various proportions of grants and loans attached. This led to an obvious result. The states with larger resources and power could choose schemes with a greater share of grants in them. On the other hand, poor states had to finance almost all their plans by the loans given by the central government. Consequently, there were huge variations in the averages of grants and loans received by the states. A developed state which had resources got 40% as grants; an under-developed state which had no resources got 12% as grants while the average was 22% . The commissions did not have a distinct criteria which was used while allocation of resources. As a result, the states were dissatisfied when they realised that the larger states were getting a bigger share in the pie.

Therefore, in 1965 when the fourth plan was being thought of, the states demanded for a set of firm objective criteria for the distribution of central assistance. The planning commission left it on the states to decide on the criteria. But no agreement was reached in the National Development Council (NDC). Thus, the planning commission thought of an award system, where the finance commission had the discretion to award states in times of need after a proper scrutiny of their situation. In 1968, Planning Commission induced the state governments to come to an agreement. The system of varying proportions of grants and loans from scheme to scheme was abolished. Central assistance to states was now given uniformly in blocks. Each state got 70% loans and 30% grants. There was no special manoeuvrability and therefore no special advantage on the part of the bigger states. This type of settlement also faced problems because of the artificial division between the plan and the non-plan expenditures. The former type of expenditure was to be looked after by the finance commission awards and the latter by central assistance given by either NDC or the

Planning Commission. The loan part which was given to the state had gotten accumulated and for some of the states the loan obligation and repayments were bigger than the assistance they got. In 1969, after the draft the fourth five-year plan was presented, the Planning Commission officially discussed with the states the impact of the Finance Commission Awards on their finances. Great variations in the provision of these awards were witnessed amongst the states. Some states had a substantial surplus and other states could not even meet their budgetary responsibilities.

Another problem was of the ways and means advances. To overcome the temporary difficulties faced by the state governments, the Reserve Bank of India provided this facility so that the states could balance their balance sheet and remain solvent. This was the extra debt that was to be cleared quickly. After the droughts and famines hit India, states had huge overdrafts year after year. Therefore it was recommended by the Planning commission that resources must first be set aside for meeting the deficits of the states and then help in enabling states to put the new resources into their plans. This was an effort towards bringing non plan and plan expenditures together. This has partially helped in solving the problem of artificial division of expenditures into plan and non-plan expenditures.

The other problem was that the total division of resources did not lead to equality in the development in the states. The larger states with their own resources could have a larger plan and the states with less of own resources at their disposal could only have smaller plans. This led to unequal patterns of development in the country. This problem was partly solved by providing 10% of the total resources to states with lesser per capita income than the national average in the formula. This solution led to two other problems:

The states at the margin suffered a loss due to this as the state, even marginally upper than the national average could not avail of its rightful share
Even after giving no central assistance to certain states, their per capita plan expenditure was larger than those states which entirely depended on central assistance for the finance of their plans. And it was inevitable for the government not to give any central assistance to these states
The Gadgil Formula, though well-intentioned, did not achieve much success in reducing inter State disparities. For instance, Andhra Pradesh and Tamil Nadu, which came under the low income category at the time, received below average Plan assistance and Bihar and Uttar Pradesh, just managed to get Plan assistance equal to all the States' average. Therefore, there was an increasing clamour for modification of the formula, especially from the economically backward states.

Modified Gadgil Formula
The formula was modified on the eve of the formulation of the Sixth Plan. The 10 percent indicator for ongoing power and irrigation projects was dropped and the share of per capita income was increased to 20 percent, to be distributed to those states whose per capita incomes were below the national average. The modified Gadgil formula continued for the Sixth and the Seventh Plans. Compared to the allocations in the Fourth and Fifth Plans, the allocations during the Sixth and the Seventh Plans show a definite shift in favour of the poorer states. All the low income states, except Tamil Nadu, received Plan assistance higher than the average income of the 14 states taken into consideration at the time. This can certainly be attributed to the higher weightage given to per capita income as per the modification. Per capita income serves as a suitable proxy for changes in the economy. If the states are ranked according to their per capita income as well as their per capita Plan assistance and the rank correlation coefficient is worked out, it should give a fair idea of the effectiveness of the modified Gadgil Formula in terms of progressivity. The rank correlation

coefficients worked out for the four Plan periods are as follows:

Plan Period	Rank Correlation Coefficient
IV	(-)0.17
V	(-)0.04
VI	(-)0.66*
VII	(-)0.72**

Notes: *Significant at 5 percent level **Significant at 1 percent level

The low income states received better allocations during all the four Plan periods, as there is a negative correlation. However, for the Fourth and the Fifth Plans, the correlation coefficients are not significant, which shows that allocations in these periods were only marginally progressive. In the Sixth and the Seventh Plan periods, there was a marked improvement in the progressivity of Plan allocations, as can be deduced from the statistically significant correlation coefficients. Therefore, the modified Gadgil formula resulted in a more progressive distribution of Central Plan assistance.

In the period spanning the beginning of the Fourth Plan to the Seventh Plan, the dependence of the states on Central Plan Assistance for financing their Plan outlays has been declining for all states. Despite this trend, the low income states depended heavily on Central Plan assistance for funding their outlays, despite this assistance increasing considerably after the modification made to the Gadgil formula. Also, it has been seen that the states with a higher per capita outlay are usually the high income states. Therefore, unless the distribution of the Central Plan assistance is made sharply progressive, narrowing down of inter State differentials in per capita outlays will be impossible.

While Plan outlays have increased by over nine times, Central Plan assistance has increased only by half the amount from the Fourth to the Seventh Plan period. This is the reason for persistent inter state inequality. The Centre has resorted to funding states for the implementation of Centrally Sponsored Schemes, which form 80 percent of Plan Assistance. This has led to the sidelining of the states' own Plan outlays. Due to the problem of increasing gaps between the assistance provided and outlay of the states, calls for further revision of the Gadgil Formula increased, which resulted in the next revision of the formula in 1990.

Gadgil-Mukherjee Formula

The National Development Council (NDC) meeting held in October 11, 1990; discussed and approved a New Revised formula. The new revised formula is popularly known as Gadgil-Mukherjee formula after the name of then deputy chairman of Planning commission and the former President of India Dr.Pranab Mukherjee. The new revised formula as approved by NDC is given in the following table. Criteria for inter-state allocation of Plan Assistance

Criteria	Weight (%)
Population	55
Per Capita Income	25
Fiscal Management	5
Special Problems	15
Total	100

Under the new revised formula, Population was given maximum weightage by considering it as most important factor for the allocation of central assistance, but in comparison with old Gadgil formula the weightage has been reduced by 5 percentage points.

The share of Per Capita Income has increased from 20% to 25%. Out of 25%, 20% will continue to be allocated on the principle of The Deviation method (The per capita state domestic product is calculated by taking an average of per capita state domestic product whose actual data are available, for the latest three years.) to those states whose per capita income is below the average national per capita income and the rest 5% will be allocated to all states on the principle of The Distance method (The distance of per capita income of each state from the state which has the highest per capita income is calculated, then these values are multiplied with the respective value of the population of each state. This was done to meet the objections like, less developed states were allocated less and given low weightage, also the states whose per capita income were slightly higher than the average national per capita income, were deprived of share under this particular criterion.

Fiscal management, as a new criterion has been introduced with 5% weightage by discarding the earlier Tax effort criterion which was given 10% weightage in old Gadgil formula. Fiscal management criterion is to be assessed on the basis of a state's actual resource mobilization for its plan in comparison with the target agreed upon the Planning Commission. Therefore this criterion is considered to be more comprehensive for fiscal efficiency than The Tax effort criterion. The Fiscal Management was given only 5% weightage due to the danger arises from the manner in which it is defined. It can develop an unhealthy competition among the states to show their resources less at the time of preparing initial resource estimates.

The remaining 5% weightage of Tax effort has been given to The Special problems criterion due to which its weightage increased from 10% to 15%. The NDC has defined special problems under these seven heads:

Coastal areas
Flood and drought prone areas
Desert problems
Special environmental issues
Exceptionally sparse and densely populated areas
Problem of slums in urban areas
Special financial difficulties for achieving minimum reasonable plan size.
By comparing the new revised Gadgil formula with the old Gadgil formula as a whole, only 85% of the total central assistance has been distributed on the basis of four well defined criteria, whereas, in the old Gadgil formula these criteria were given 90% weightage.

The Gadgil Formula in 2000
At the advent of the 21st century the formula was reviewed and the component of 'performance' by the respective states was adopted. The allocation accruing to the states under this head was 7.5 percent. Within this, 2.5 percent of the allocation was based on tax efforts of the states, 2 percent for fiscal management at state level and 1 percent for undertaking population control measures. Special attention was also paid to the sluggish improvements in female literacy and 1 percent allocation was set aside taking female literacy into account. Timely completion of externally funded projects and land reforms undertaken accounted for the remainder of the 7.5 percent figure.

The Gadgil Formula-based grants after NITI Ayog 2015
As the Planning Commission has been dismantled, the Gadgil formula based grants have also been discontinued.[4] This has been compensated by increasing devolution from the divisible pool.

VKRV Rao

14 May 2021 16:10

Go through book later, if you have time

Background

- Institutions
  - Founder, 1st director of Delhi School of Economics - 1948
  - Founder, Institute of Economic Growth - 1957
    - Imparts training to IES, ISS, NABARD, etc
    - Autonomous body under GoI for advanced research on economic & social development
  - Founder, Institute of Social and Economic Change - 1972
  - Innovated Agro-economic Research Units in demography in different parts of the country
- Awarded Padma Vibhushan in 1974
- PhD at Cambridge - under Keynes, Pigou, Kahn, Joan Robinson, Austin Robinson
- Important Publications
  - Taxation of Income in India (Master's Thesis)
    - Under CN Vakil at University of Bombay
    - Innovative suggestion for reform on IT legislation in India - adopted in later years
  - What is Wrong with Indian Economic Life
  - National Income of the British India (PhD Thesis)
    - Earlier expositions based on published material
    - Rao's study purely confined to primary data, margin of error carefully estimated
    - Sectoral classification of economy as primary, secondary, tertiary far reaching
  - Essay on the Nature and purpose of Economic Activity
    - Human beings -- (i) ends in themselves (ii) means of production
    - Our biggest resources are labour force/ human beings
    - Later, in an article in Sankhya, **presaged human development indicators rather than mere per capita income as a measure of development**
- Chairman of 4 committees whose reports are still considered noteworthy
- Chaired **UN** Committee on **International Distribution and Measurement of Standards and Levels of Living**
  - Led to establishment of ICSSR in 1968
- Staunch follower of historicism -- historical method is a powerful tool for in-depth analysis and practical model building
- Highly inspired by Vivekananda's call for social change to rejuvenate Indian society
- 'Where there is no vision, the people perish, where the value system is in shambles, there is no attempt to restore ethical social norms of conduct, there is no hope for future of its people...'
- 'India drew her strength in past from spirituality. She will recover her strength in future if she reverts to spirituality and supremacy of value system in all walks of life.'

- Gandhi's follower on self-sufficient villages; recommended following features of planning and development
    - Decentralisation
    - Limit on urban growth
    - Labour intensive technology for rural areas
    - Universalisation of basic needs
    - Equality in educational and employment opportunities
- **Cluster approach** mechanism - for transmitting benefits of growth
- Employment - (i) means of living (ii) value in itself
- Poverty - deficiency in total level of living
    - Recaptured in Amartya Sen's concept of frontier of human capabilities
- Supporter of capitalism in production; socialist from the POV of distn of national income/ consumption
- Substantial achievements in fields
    - Income tax
    - National income
    - War time economic policies
    - Post-war economic policy
    - Full employment and economic development
    - Deficit financing
    - Keynesian multiplier
    - Freedom and economic development
    - Post devaluation problems
    - University education and employment
    - Education and human resources development
    - Indian road to democratic socialism
    - Gandhian alternative to western socialism
    - Vivekananda's message to the young
    - Nehru's legacy

Major Ideas

National Income Estimation

- Applied scientific methodology in estimation -- unique achievement
- Pointed out 3 major issues
    - Invisible goods & services in underdvped economies -- unrecorded, underestimated
    - In developed economies, national income is ~true representative of welfare; not reflected in developing nations' GDPs
    - No scientific basis for estimating value of govt expenditures -- don't always have commercial significance
- Solutions
    - Included services
    - ? Practical application of Marshall & Pigou's synthesis - account for everything that has money price attached
    - Relied on income approach -- best use of available data
        - 'Inventory method' for agriculture
        - 'income method' for services

Deficit Financing

- Deficit financing causes initial rise in prices due to

- Expansion of currency
  - Absence of direct return
  - Absence of supplies of goods and services
  - Absence of saleable securities
  - ? Greater possibility of wastage
  - Failure to promote greater productivity
- Forced savings possible, but inflationary because:
  - Govt attempts to make up for fall in real value of deficit financed outlay
  - Govt fails to mop up increased profits to exchequer following deficit financing
  - Govt fails to prevent banking system from adopting liberal credit policy (creation of money -> easy money -> liberal credit)
  - Govt fails to undertake effective price control, distribution of essential wage goods
  - Compensatory rise in nominal wages
  - Use of deficit financing for unproductive expenditure -- adds neither to consumption nor capital formation
- Suggested measures
  - **Prefer bank credit** over creating money for meeting deficit expenditure
  - **Optimise size** of induced outlay
  - Flow of output should be increased simultaneously (real economy growth along with monetary growth eases inflationary pressures)
  - Increments in income to be mopped up through taxes (& loans??)
  - Prevent rise in nominal wages
  - Raise reserve ratio of banks
  - Regulate flow of additional bank credit
  - Public understanding, cooperation to avoid resentment

<u>Fiscal Policy</u>

- Policy conclusions emerge for **preventing deficit financing from degenerating into inflationary** finance, enabling the mobilisation of a given measure of forced saving for the successful achievement of capital formation
- Aims of fiscal policy
  - Maximise mopping up deficit induced income increments (Taxes, loans)
  - Have these measures built in with income increases for automatic and effective flow back into the exchequer
  - Wage policy: prevent rise in nominal income
  - Control prices of basic wage goods, arrange controlled distribution of essential goods
  - Public cooperation and participation in choice + implementation of projects

<u>Income Tax</u>

- 1860-1929 - no coherent theory or principle in system of taxation; piecemeal
- Suggestions
  - Clear distinction b/w gross and net incomes
  - Statutory recognition for HUFs Hindu Undivided Family
  - NO exemption for agri income
  - Properly graduated taxation rates
  - Establishment of court of appeals

<u>Poverty</u>

- Criticised Dandekar & Rath's **calorie intake** approach
    - Paradox: poor thus defined also included non-poor and vice-versa
    - Claimed paradoxical results occur due to calorie approach
- Preferred **balanced diet approach**; b'cos accounts for nutritional quality of calorie intake
- As Planning Advisor (1946) for GoI, brought out systematic food plan for India both for production and distribution, accounting for nutritional and regional deficiencies
- 'Poverty must be identified with deficiency in the total level of living. And **total level of living** includes not only **energy** requirements but also **balanced diet** needed for health, and other **basic needs** essential for human existence at tolerable level.'
    - Recaptured in Amartya Sen's concept of frontier human capabilities

Keynesian Multiplier
- Conditions required for functioning of Keynesian multiplier in an economy
    - Only Keynesian (i.e. Involuntary) unemployment in the economy; no other kind of unemployment (but underdvped have disguised unemp)
    - Primarily industrial economy
    - Positive slope of supply curve of consumer goods
    - Excess capacity in consumer goods industries (allows output expansion in response to demand expansion)
    - Capital abundance --> fairly elastic supply of working capital
- Rarely satisfied in underdeveloped economies
- Thus, Keynesian multiplier remains inoperative in case of real part of economy; only works w/ reference to nominal part of economy
- Attempts to attain significant improvement in real income/ employment thru increased investments fail
- 'Blind application of Keynesian formula to the problems of economic development has inflicted considerable injury on the economics of underdeveloped countries and added to the forces of inflation afflicting the whole world.'

Features of Underdeveloped Countries
- Prevalence of *disguised unemployment*
- Dominance of production under *household enterprises*
- Largely production for self consumption (i.e. Absence of marketable surplus)
- Predominance of agri
- Deficient technical knowledge
- Deficient capital equipment
- MPC ~1
- High proportion of incremental demand towards food in any incremental income-generation (low income portion of Engel's curve)
- Claimed nominal income multiplier would work in underdeveloped economies, but not real income multiplier
    - B'cos inelasticity of agricultural output
    - Decline in marketable surplus (due to food inflation)

No need to go through below this

Source http://www.isec.ac.in/VKRV%20Rao%20Achievements.htm

He won the prestigious Adam Smith Prize in 1935; he was one of the three in the first group of Ph.Ds that Cambridge University produced in economics, the other two being Hans W Singer (of the World Bank) and Alec K Cairncross (Economic advisor to Prime Minister Margaret Thatcher).

- His academic brilliance brought him close to the likes of Lord John Maynard Keynes who enrolled him as a member of his famous Political Economy Club. (Keynes was at the time engaged in producing his epoch making work, "The General Theory of Employment, Interest and Money", which triggered off the Keynesian revolution in economic theory and policy)
- He was awarded Ph.D degree from Cambridge in 1936; his dissertation was a pioneering exercise in estimating India's national income, which became a classic soon after its publication in 1940 and provided a method for national income estimation for many decades thereafter. .
- On return to India, after a brief stint as Senior Lecturer in Economics in Andhra University, Waltair, he was appointed as Principal and Professor of Economics in L D Arts College, Ahmedabad in 1937, where he continued till 1942. (He was also concurrently Principal, H.L College of Commerce).
- He was the first Chairholder in Economics at Delhi University in 1942 and continued in that position till 1961. He was instrumental in introducing innovative courses for B.A (Honours) and M.A degrees as also for putting in place (for the first time) a Ph.D. programme in Delhi University.
- In his assignment as Director of Statistics, Govt. of India (1944-45) he prepared the first Food Statistics of India in 1944, which later became a regular exercise. The year 1945 saw the publication of his book Planning Economic Transition from War to Peace in India (Vora, Bombay).
- As Planning Advisor, Government of India (1946) he brought out a **systematic food Plan for India both for production and distribution taking into account nutritional and regional deficiencies**. He also drew up a project for a large scale nutritional survey to be conducted all over the country and got the survey scheme sent to Provincial Governments. This also led him to write a path-breaking article in Sankhya that **presaged human development indicators rather than mere per capita income as a measure of development.**
- The year 1946 saw the publication of his book "India and International Currency Plans" which was a milestone in the research in Indian monetary economics.
- In 1947, Rao was appointed as the Indian expert to the United Nations Sub-Commission on Economic Development on the recommendation of Hans Singer, in which capacity, he was instrumental in getting food from America under PL 480 at subsidized prices. Later, Rao served on the Committee that set up the World Food Programme with Hans Singer in the Chair. All these experiences culminated in the book "Turning World Resources to the World Welfare, 1950".
- He founded the Delhi School of Economics and became its first Director in 1948. He envisaged it as an institution which would

Director in 1948. He envisaged it as an institution which would combine the activities of a department of economics and an all-India research centre where besides basic research appropriate for a university department, research on development policies relevant for a developing economy like India would also be pursued. He attracted talented young people as faculty, many of whom became very influential as scholars and policy makers.

- By 1953, Delhi School had embarked on an expansion drive; shifted its premises to the new arts faculty building; new faculty was absorbed and new research projects were taken up, and in 1955 sifted to its own spacious building. He was very proud of it and took pains to keep it impeccable and shining. . The focus of the DSE which was limited to Economics later expanded to include Sociology, Commerce, and Human Geography. A valuable study during these years was "Economic Review of Refugee Rehabilitation in India" in five parts one each of five townships – Tripuri, Faridabad, Kingsway Camp, Nilokheri and Rajpura.

- In 1957, assumed charge as Vice Chancellor of Delhi University. Notable among his achievements are: introduction of the novel concept of taking the University to the public by which he arranged lectures on different topics for the benefit of the general public at the nominal admit fee of Re 1 per head; dress code for convocation ceremony which was well received by both faculty and students; brought about changes in curriculum and methods in the light of his Cambridge experience, particularly for M.A and Honours students. Another novel endeavor was the constitution of a statutory Board of Non-Collegiate Women Education with led to greater enrolment of women in courses of instruction. The Gandhian in him prompted him, with assistance from UGC and Gandhi Peace foundation to offer Rs. One lakh to any Indian university which built a Gandhi Bhawan, made provisions for Gandhian Studies and for meetings or discussions on Gandhian ideas.

- He took over as Director of the Institute of Economic Growth which he had nursed into life as a breakaway from the DSE. In fact his becoming the Vice Chancellor of Delhi University helped him to do the needed spadework for the creation IEG. During his tenure as Director, IEG (1960- 1963), Rao managed to get financial help from the Government of India – Morarji Desai was the Finance Minister then – for all-round development of the Institute, particularly its Library. A significant research work undertaken by the Institute was 'Greater Delhi: A Study in Urbanization 1940-57' under the direction of P B Desai. A few of his notable academic contributions were made during this period: in 1961, his book 'Education and Employment – A case Study of Delhi University Graduates (Bombay, Asia) was published, followed by 'Foreign Aid and India's Economic Development (jointly with Dharam Narayan) (Bombay, Asia) and 'Essays in Economic Development' (Bombay, Asia).

- Rao joined the Planning Commission in 1963; he was the Member in charge of Education and other allied areas. Notable publications during his days at Planning Commission are: Evaluation Report of Intensive Area Scheme, Delhi, IEG, followed in 1965 by A Study on the Working of Intensive Area Scheme of Khadi and Village Industries Commission, and "Education and Human Resource Development" (1966).

- He was elected to Parliament from Bellary Constituency in Karnataka (a place he had visited for many years on vacation to stay with his brother in law RMVSRao) and he was sworn in as Cabinet Minister for Shipping and Transport in 1967. His stewardship of the Ministry saw the setting of an expert committee to examine the conditions of the roads and on the basis of their recommendations he was instrumental in getting the Finance Ministry to increase grants to the states and also making them on continuing basis. He gave special attention to the completion of West Coast road and made the road from Bombay to Cape Camorin all along the West cost eminently motorable. Nava Sheva port in Bombay and extension of Madras outer harbor and Ports of Vishakapatnam in Andhra Pradesh, Halida in Bengal, etc. also received a fillip in Rao's time. Other notable events during his tenure are: Nationalization of Jayanti Shipping Corporation, acquisition of new fleet of ships to Indian Merchant Navy from East Germany & Yugoslavia, the Indo –Soviet Shipping Agreement, providing additional seats for Haj pilgrims, streamlining the Ship building facilities at Vishakapatnam, and Cochin , etc.

- Rao, during his stewardship of Education Ministry, realizing the importance of promoting social science research in the country created an autonomous body which would sponsor social science research programmes as well as research projects and administer grants to the institutions and individuals, give financial support to learned associations, standard journals and institutions, and to achieve this objective, he brought into existence the ICSSR in 1969. Both NCERT and ICSSR have played a major role in the qualitative development of education and research in the country. Three of his significant works appeared during his stewardship of the two Ministries: 1)The Gandhian Alternative to Western Socialism (Bharatiya Vidya Bhavan – 1970) Values and Economic Development – The Indian Challenge (Vikas Publications- 1971) and The Nehru Legacy (Popular Prakashan - 1971).

- When the second term in the Parliament was over, he wanted to return to academic life once again and IEG was the natural choice. But later developments made to change his mind; he decided to return to his cultural home state to establish his third and largest institution, the Institute for Social and Economic Change, Bangalore which came into existence in Jan. 1972, with substantial financial help from the State Government of Karnataka, the then Chief Minister of the State Devraj Urs, Chief Secretary, GVK Rao and many others, and the ICSSR. As his academic response to the drought of 1972 and oil crisis of 1973, Rao quickly got into the act of influencing policy: With some of his colleagues at the IEG, he came out with a book "Inflation and India's Economic Crisis"(Vikas, 1973).

- His subsequent major works were: Bangala Desh Economy: Problems and Prospects (ed.) (Vikas Publications 1972); Planning for Change: Issues in Mysore's Development (ed.) (Vikas Publications 1975); Swami Vivekananda - Prophet of Vedantic Socialism (Publications Division, Govt. of India – 1979); Food, Nutrition & Poverty (Vikas Publishing House, Delhi – 1982); Indian Socialism: Retrospect & Prospect (Concept Publishing Company (P) Ltd. Delhi 1982); India's National Income 1950-80: An Analysis of Economic Growth and Change (Sage Publications, Delhi – 1983); Current Indian Crisis: Darkness Before Dawn (Vohra Publications, Allahabad – 1984); National Integration: Some Unsolved Issues (Bharatiya Vidya Bhavan – 1984)

Listed here are a few of the academic awards/ fellowships conferred on him:

- Hon. D.C.L from Oxford
- Hon. Fellowship of Gonville and Caius College
- He was member of several national and international Learned Bodies and Conferences which include:
- Corresponding Member, Institute de Science Economique, Paris

- Correspondent, Royal Economic Society, London
- Member, International Statistical Institute, Amsterdam
- Member, Governing Body, International Association for Research in income and wealth
- Member, Governing Body, International Economic Association
- Member, Governing Body, International Institute for Educational Planning
- President, Indian Agricultural Economic Conference
- President, Indian Economic Conference

His membership of Commissions, Committees include:

- Member-Secretary, Bombay Economic and Industrial Committee (1938-40)
- Member, Consultative Committee of Economists (1940-42)
- Chairman, U.N. Sub-Commission for Economic Development (1947-50)
- Member, Taxation Enquiry Commission (1953-55);
- Chairman, Indian National Commission for UNESCO (1969-71).

He was awarded PADMAVIBHUSHAN by the Government of India in 1974.

From <http://www.isec.ac.in/VKRV%20Rao%20Achievements.htm>

Source: https://www.economicsdiscussion.net/economists/top-13-contributions-of-v-k-r-v-rao-to-economics/21131

- Top 13 Contributions of V.K.R.V. Rao to Economics
- Article Shared by Kirti Shailesh
- ADVERTISEMENTS:
-
- The following points highlight the top thirteen contributions of V.K.R.V. Rao to Economics. The contributions are: 1. Economic Activity 2. Features of Underdeveloped Countries 3. Industrial Development 4. National Income Methodology 5. Institutional Development 6. Poverty 7. Deficit Financing 8. Fiscal Policy 9. Income Tax 10. Price Policy 11. The Human Factor in Economic Growth and Others.
-
- Contribution # 1. **Economic Activity**:
- V.K.R.V. Rao examined the relation of economic activity to the end of all human activity. The methods employed for securing economic goods, or what is called economic activity, can either promote or hinder the development of human personality.
-
- There are **four elements** in economic activity which have a bearing on the development of human personality and, therefore, on the ultimate end of human activity. These are:
-
- (1) The **art** element in work;
-
- (2) The **dignity and pride** element in work;
-

- (3) The **personality-killing** element in work; and
-
- (4) The **character-forming** element in work.
-
- The art element gives an opportunity to the individual to develop his personality though his work has no special value for the economist and is rejected by him in favour of a way of production which will yield a larger output per unit cost in terms of money.
- The dignity and pride element in work is also not taken into account by the principle of economy.
- The third factor, viz., the personality-killing element in work performs, by its presence, the negative function of getting economic activity to thwart the end of human activity.
- The fourth factor, effect on the character and outlook of the worker, can be either positive or negative. It may promote ability and willingness in the worker to develop his personality or it may result in the opposite. That the mechanized industrial system of today based on the principle of economy – tends to do the opposite is an admitted fact.
-
- Contribution # 2. **Features of Underdeveloped Countries:**
- Dr. Rao identified the following, features of an underdeveloped economy:
    - (1) Prevalence of disguised unemployment;
    - (2) Dominance of production under household enterprises;
    - (3) A significant extent of production for self-consumption;
    - (4) Predominance of Agriculture;
    - (5) Deficiency of technical knowledge;
    - (6) Deficiency of capital equipment;
    - (7) A marginal propensity to consume equal to or about unity;
    - (8) A high proportion of incremental demand towards food in any incremental income-generation.
- Dr. Rao argued that whereas a primary increase in investment would take place, a subsequent, secondary and tertiary affects through the expansion of output in the consumption goods sector would not take place. Consequently, the **multiplier process would not be operation**.

- Dr. Rao came to the conclusion even that the **money income multiplier would be workin**g but **real income multiplier would not be working**. He drew attention to the **inelasticity in the agricultural outpu**t, and more particularly, to the probability of some decline in proportion of such output coming to the market, consequent upon a **rise in price**s of food and other agricultural commodities.
-
- Contribution # 3. <u>Industrial Development</u>:
- Dr. Rao believed that **industrialization would provide a solution to the population pressure in agriculture**. However, during the years prior to his passing away, Dr.Rao had started voicing strong concern at the hiatus between the raising share of industry and the falling share of agriculture in national output accompanied by a falling share in agriculture of employment.
-
- Contribution # 4. <u>**National Income Methodology:**</u>
- Dr. Rao applied **pure scientific exercise** in the estimation of National Income. This was his unique achievement at that time and gave credibility to his work over the years he became more and more assertive on the analytical limitations of inter-

country comparisons of national and per capita income. He was bothered truly by **three issues.**

- First, at great deal of what becomes marketed and exchange- value derived output in developed countries gets **unrecorded** and **underestimated** in developing countries.
- ? Secondly, a significant portion of national income in **developed** countries represents compensation or **countervailing costs of final goods**. This is so both in the material production and tertiary sectors.
- Thirdly, there is **no scientific basis for estimating values of government expenditures** not all of which may have a marketable/commercial significance. Dr. Rao's own theoretical and applied contributions to national income analysis can bear out a full-fledged research dissention of international significance.
-
- Contribution # 5. <u>Institutional Development</u>:
- Dr. Rao founded the three major institutions of post-graduate work, training and research. These are:
- i. Delhi School of Economics, 1948,
- ii. The Institute of Economic Growth in 1957 and
- iii. The Institute of Social and Economic Change in 1972.
-
- The Delhi School of Economics is among the foremost of University Post-graduate Teaching Institutions in the country in the orientation to mainstream modern economic theory; it has wide international contacts. The Institute of Economic Growth is among the leading research institutions in the country with its staff intimately involved in governmental consultation and delegation.
-
- It has record of national level research work. The Institute of Social and Economic change is largely devoted to regional research spheres and is closely connected with the State Government. These three institutions reflect Dr. Rao's perception of balance among international, national and regional angles and facets in economics.
-
- As a minister of education Dr.Rao initiated in 1965 the Indian Council of Social Science Research which is now founding the number of research institutions in the country. He also innovated Agro-Economic Research Centres and Research Units in demography in different parts of the country.
-
- Contribution # 6. <u>Poverty</u>:
- V.K.R. V. Rao examined various issues and dimensions relating to poverty and under-nutrition in India and also **criticized** research studies undertaken by eminent economists like Dandekar, Rath, Bardhan and Sukhatme, etc., on the extent and measurement of poverty in rural and urban India.
- According to Rao, a method commonly employed for the measurement of poverty is to take the **nutritional norm** in terms of daily calorie intake by consumer unit, and the cut-off point by the expenditure class which has an average daily calorie intake per consumer unit nearest to the norm and then treat half the population lying in this expenditure class and the entire population in the lower expenditure classes as the poor.
- This is the method employed by Dandekar and Rath (1971) in their famous book 'Poverty in India'. And it has been followed by more studies using a more or less similar method.., but the **methodology… does not appear to be correct**. While the proportion of under-nutritional poverty undoubtedly declines with increasing income, and the paradoxical result was found that the poor as defined also include

the non-poor and that the non-poor include the poor (Rao, 1977).
- Rao seemed to believe that Dandekar and Rath got the 'paradoxical result' because they based the estimates of poverty on the sole criterion of calorie intake. He says: **'The balanced diet approach is … preferable to the calorie intake approach**.
- And this is what writers like Bardhan (1974). Rudra (1974) and others have done, unlike Dandekar and Rath (1971) who have only used the calorie intake criterion'. Rao preferred the balanced diet approach because he believed that it **took into account the nutritional quality of the calorie intake**.
- Though he prefers the balanced diet to calorie intake as a criterion for determining the poverty line, Rao was not entirely satisfied with the balanced diet approach either. He said: '**Poverty has to be identified with deficiency in the total level of living. And total level of living includes not only energy requirements but also balanced diet needed for health, and the other basic needs essential for human existence at a tolerable level**.
-
- Contribution # 7. <u>Deficit Financing</u>:
- Dr. Rao has pointed out that in case of deficit financing by the government the **danger of initial rise in prices is greater due to expansion of curren**cy, **absence of direct retur**n or absence of the supplies of goods and services, **absence of saleable securitie**s and **greater possibility of wastag**e and **failure to promote greater productivi**ty. There **can be forced savings** for financing economic development.
- The only question is the **extent** to which it can be resorted, because it is bound to result in a certain rise in prices due to the following factors:
- (a) Attempt on the part of the Government to make up for the fall in the real value of its deficit- financed outlay;
- (b) Failure on the part of the Government to mop up for the exchequer any part of the increase in profit that follows deficit financing;
- (c) Failure of the Government to prevent the banking system from adopting a liberal credit policy;
- (d) Failure on the part of the Government to undertake an effective system f price control and controlled distribution of essential wage goods;
- (e) Compensatory rise in money wage rate; and
- (f) Use of deficit financing for unproductive expenditure which adds neither to consumption nor to capital formation.
-
- For reducing this rise in prices, Dr. Rao has suggested that it is **better to use bank credit rather than credit money for meeting the deficit expenditur**e. The size of **induced outlay should be reduced** as much as possible; and the **flow of output should be increased simultaneousl**y. A suitable fiscal policy should be adopted under which the **increments in income should be mopped up by means of taxes and loans.**
- A ri**se in the money rates of wages should be prevented**. The r**eserve ratio** of banks should be **raised** and the **flow of additional bank credit should be well-regulated under credit polic**y. In addition, **public-understanding and cooperatio**n are needed since taxation, wage, credit and price controls normally create resentment.
-
- Contribution # 8. <u>Fiscal Policy</u>:
- According to V.K.R.V. Rao fiscal policy should **aim at maximizing the mopping up of deficit- induced increment in incom**es by means of both taxes and loans; and the **more these can be built-in with the increase in income, the more automatic and effective will be the flow-back into the exch**equer. **Wage polic**y should take the form of **preventing** to the maximum possible extent a **rise in the money rate** of wages.
- In order to do this, it would be **necessary to control the prices of basic wage goods**

and also arrange for their **controlled distributio**n wherever expedient. It would also be necessary to get the **positive support of labou**r for the policy of deficit-financed investment by an appropriate choice of projects and by seeking its **cooperation and participation** not merely in the **choice** the projects but also in their **implementation**.

- Rao emphasised the role of public understanding and public cooperation as a positive factor intending to diminish the price effect of deficit financing. Taxation, savings, credit controls, wage controls, price controls, and controlled distribution, all these normally cause resentment.
- It is only when their rationale is fully understood and the purpose for which they are used fully accepted and supported that they get the best chance of successful functioning; hence the imperative need for promoting public understanding and cooperation when undertaking deficit financing for capital formation.
- As a logical result of the argument, **policy conclusions emerge for preventing deficit financing from degenerating into inflationary finance and enabling the mobilization of a given measure of forced saving for the successful achievement of capital formation**.
-
- Contribution # 9. <u>Income Tax</u>:
- In his work "Taxation of Income in India", which dealt with the history of income tax from **1860 to 1929**, he concluded by saying that "the Indian system of income tax reveals an **absence of any background of the theory or principle.** No attempt has so far been made by the government to examine the fundamental principle underlying its levy or to analyse its incidence. Such improvements as have been made from time to time are of a piecemeal character".
- Hence, for improving the system he suggested the following measures:
- (i) Gross and net incomes should be clearly distinguished;
- (ii) Hindu undivided families should be statutorily recognized;
- (iii) Agricultural incomes should not be exempted;
- (iv) The rate of tax should be properly graduated; and
- (v) The courts of appeal should be established.
-
- Contribution # 10. <u>Price Policy</u>:
- V.K.R.V. Rao emphasized that price is an **important economic mechanism** that has certain functions to perform; and any policy that is formulated has to be in this functional context, viz., it has to help in the more adequate and more efficient performance of these functions. Primarily this function is to **bring about the required equilibrium between demand and suppl**y both of **goods** and of **factors of production**.
-
- Contribution # 11. <u>The Human Factor in Economic Growth</u>:
- V.K.R.V. Rao emphasized that science and technology have succeeded in devising measures for reducing the death rate without the prerequisite of a high standard of life. But they not succeeded in devising measures for bringing about a similar reduction in the birth rate in the context of underdevelopment. What is needed, therefore, is a deliberate effort on the part of science and technology to devise methods that would lead to a sharp fall in the birth rate and are capable of application in the underdeveloped world.
- There is need to include in the role of the human factor in economic growth an important place for **deliberate regulation of the growth of numbers and a drastic reduction in the birth rate**. The psychological and sociological factors necessary for this purpose have of course to be studied and acted upon by the governments and peoples of the underdeveloped countries; but a conference that deals with the application of science and technology for promoting economic growth, should also

give adequate attention to the application of science and technology for reducing the birth rate in the underdeveloped countries to something like half or less of their current rates and that too within a period of not more than one or two decades at the outset.

- There is one more element concerning the role of the human factor in the underdeveloped countries which needs stressing. In all underdeveloped economies, there are large number of people who are not able to take advantage of even the limited facilities that are available for modernization and increase in productivity. These classes are described in India as the **weaker sections** of the community.
- They are weak and unable to grow partly because of their **sub-human economic status** and also because of their s**ocial organization, their traditional values and ways of living, and other sociological, cultural and psychological characteristics** that are inhibitive of their taking advantage of the facilities that planning and economic development places at their disposal.
- Rao depicted that underdeveloped economies have tended to pay far more attention to the role of capital and investment in the promotion of economic growth and in fact have been so obsessed by this factor that, on the one hand, they set their targets low and, on the other, lean unduly on foreign aid.
- The result has been that progress in slow and the gap continues to widen between the developing and the developed economies. Especially countries like India, which are rich in human resources, have to adopt a far more positive and studied approach to the productive use of the human factor than they done so far.
-
- Contribution # 12. <u>**Full-Employment and Economic Development**</u>:
- After reviewing the ideas of Keynes, William Fellner, Ohlin, Beveridge, Mrs. Robinson, A.P. Lerner, etc., about full -employment and frictional unemployment Dr Rao feels that in **underdeveloped** counties there is another category of unemployment – **disguised unemploymen**t which is different from the type of involuntary unemployed which is found in developed countries.
- It is the most formidable problem for the solution of which the first committee of UN-experts had suggested economic development; and the second committee pointed out that the task of economic development was to create new employment rapidly. In other words, **economic development would create employment opportunities** thus raising the level of employment.
- Now e**mphasis is shifte**d from reaching a given level of full-employment to creating additional employment. Whereas **full-employment is essentially a short period concep**t, economic **development** is a **long period** one involving movement form **one level of full employment to a higher level**. This process is continuous; and is determined by the rate of development.
- The disguised unemployed, with nil products, begin to produce output under economic development, and add to the average productivity of all the employment works. When such persons get employment, they add to the volume of employment.
- According to Dr Rao, economic development involves something more. In this connection, he has **quoted** the UN Sub-commission on Economic Development. "The objective is the promotion of higher standards of living, full employment and condition of economic and social progress and development in the countries concerned, and the manner for achieving it is a sound, efficient and fuller utilization of man-power, natural resources, energy and capital". Dr. Rao concludes that the **Keynesian treatment of full employment is not only unsatisfactory as regards the removal of the types of involuntary unemployment in both developed and undeveloped economics, but is also deficient as regards the productivity of employed**

labour.

-
- Contribution # 13. **On Relevance of Keynesian Multiplier Principle to Under-Developed Countries**:
- How far Keynes' theory is relevant to under-developed countries is a question which Dr.Rao had attempted to answer about four decades ago. According to him, Keynes' theory of employment and more particularly the multiplier principle has **little relevance** for policy decisions in **underdeveloped** countries.
- He thought that as i**n underdeveloped countries, supplies of consumer goods fail to respond to price changes, Keynesian multiplier principle works with reference to money income onl**y. Any **attempt to attain significant improvement in real income or employment by increasing investment would fail** as the multiplier principle would not work with reference to any of these.
- Thus the investment or **income multiplie**r (K) and the **employment multiplier** (K') would normally be **smaller** than the multiplier linking up increment in money investment to increment in **money incom**e. But all these multipliers **must have a positive value and should move in the same direction, if the Keynesian multiplier principle is to have any relevanc**e for policy decision in the under-developed counties.

- Dr. Rao has underlined the following **conditions** which must be satisfied in an economy, if the multiplier principle is to be applied in practice:
- i) There must not exist unemployment in any form other than **Keynesian unemployment**.
- ii) The economy must be **primarily industrial** and the **supply** curves of **consumer goods must have a positive slope.**
- iii) **Excess capacity** should exist in the **consumer goods industries** which would enable them to expand their output in response to increasing demand for their products.
- iv) There has to be **abundance of capital** in the country, making the supply of working capital required for increased output fairly elastic.
-
- Dr. Rao asserts that these conditions are **rarely satisfied in under-developed** economies and, therefore, Keynesian multiplier principle remains inoperative in these countries.
-
- India must follow the ideals suggested by V.K.R.V. Rao which urns as follows: Poverty must go. Disparity must diminish. Injustice must end. These are but essential steps towards our ultimate goal – the goal of an India which is united and strong, an India which lives up to its ancient and enduring ideals, yet is modern in thought and achievement, meeting the future with vision and confidence.
-

Other Economists of Note

14 May 2021 16:11

Mahalanobis Plan

Broad ideas

- Basic strategy of planning - simultaneously increase both consumption and investment
- Unemployment
    - Due to shortage of capital goods
    - Irresp of vast primary resource availability
    - Remedy: increased rate of investment
    - Chief aim of planning: solve unemployment
- Small and household industries
    - Capital light, labour intensive sector
    - Would utilise idle man power and raw materials
    - Expansion through demand generation
        - Increase investment in heavy industries -> investment goods -> new purchasing power -> new dd
        - Increase expenditure on health, education, social services
    - Provide protection through excise duty on factory made goods -- => addl resources for investment
- Basic heavy industries
    - **Sound foundation** for mfg of machinery
    - Improved efficiency of industrial production
    - **Long term growth of economy depends on rate of increase of means of production**
    - Long term aim: **import substitution** of capital goods
    - Production of steel thought to have highest correlation w/ national income in various ctries
- Inflation
    - Need to balance ss & dd of essential goods
- Resource allocation
    - Crucial decision in perspective plan: proportion of investment to be allocated to capital goods industries
    - Estimated ~30-35% optimum for India (was <10% at the time)
- Technical methods
    - 3 parameters
        - Output coefficient of capital $\frac{output}{investment}$
        - Income coefficient of capital (β) $\frac{increase\ in\ income}{investment}$
        - Capital co-efficient of labour (θ) $\frac{capital\ reqd}{no.\ of\ workers}$
- Emphasised on **role of public sector**
- Followed Soviet way of planning
- Objectives
    - Overall 25% increase in national income in 5 years, at 5% p.a.
    - Created 11 mn addl employment opportunities over 5 years
    - -- suggested rate of investment should be increased from 7% to 11% over 5 yrs
    - -- assumed capital co-efficient of 2.2:1

4 sector model

Derived from 2 sector model by dividing consumption goods sector 'C' into 3 different sectors.

- Sectors
  - K = investment goods sector
  - C1 = factory produced consumer goods
  - C2 = small and household industries produced consumer goods
  - C3 = services - health, education
- Parameters
  - $\lambda_i = \text{fraction of investment in sector i (summation} = 1)$
  - β_i = capital output ratio of sector i
  - $\theta_i = capital\ labour\ ratio\ of\ sector\ i$
- Total Income E = $E_k + E_1 + E_2 + E_3$
- Employment N = n_k + n_1 + n_2 + n_3
- Total Investment A = $\lambda_k A + \lambda_1 A + \lambda_2 A + \lambda_3 A$
- Increase in employment in sector i = $n_i = \lambda_i A/\theta_i$
- Increase in income in sector i = $\Delta E_i = \lambda_i A \beta_i$
- Parameters for 2nd FYP
  - **Parameters of capital-output and capital-labour ratios**

Sectors	Description	Parameters	
		β	θ
(01)	(02)	(03)	(04)
K	Basic investment goods	β_k= 0.20	θ_k= Rs.20,000
C_1	Factory consumer goods	β_1= 0.35	θ_1 = Rs.8,750
C_2	Household industries (including agriculture)	β_2 =1.25	θ_2 = Rs.2,500
C_3	Services	β_3 = 0.45	θ_3= Rs.3,750

- C2 sector further subdivided into agriculture (a) & household enterprises (h)
  - **Parameters for C_2 Sector**

Sectors	β	θ
(01)	(02)	(03)
Agriculture-a	1.10	Rs. 6,250
Household enterprises-h	2	Rs. 620

- <u>Reality Check of 2nd FYP</u> (*accomplishments?*)
  - Total investments and sectoral allocations in convergence with the Model
    - Crucially, λ_k was 0.32, in accordance with prescribed range around 0.3 in the model
  - Income Generation

Anticipated and Realised National Income in the Second Plan at the Sectoral and Aggregate Levels

Sectors	Anticipated Incremental income (at Rs. 1952-53 prices)		Realized Incremental income (at Rs. 1948-49 prices)		Short-fall of income realized in the Second Plan (at 1952-53 prices)	
	(Rs. crore)	Sectoral contributions (%)	(Rs. crore)	Sectoral contributions (%)	(Rs. crore)	(%)
K	370	12.8	205(207)	9.2	163	44
C_1	340	11.7	180(182)	8.1	158	43
C_2	1470	50.7	1347(1361)	60.6	109	7
C_3	720	24.8	518 (523)	23.3	197	27
Total	2900	100.0	2250(2273)	101.2	627	22

Note : The figures in parenthesis give the inflated income estimates at 1952-53 prices.

    - Subdivisions of C2
        - 14% anticipated from SSI, only obtained 3.6%
        - **No** absolute increase in agri production; nominal incomes rose due to inflation
        - Inflationary pressures indicated setback in production; busted assumption of agricultural self-sufficiency
    - C3 - substantial progress in **tertiary** education, health (=> didn't address ground level deficiencies)
    - Although investment exceeded target by 20%, still saw 22% **shortfall in income**
- Employment
    - Anticipated 11mn new jobs
    - Targets fulfilled in K, C1 sectors
    - C2 most disappointing, mainly due to huge shortfall (only 20% of target jobs created)
- Other dimensions
    - **Severe forex gap, wage-goods gap, savings gap**
    - **High domestic inflation** -- exports adversely affected; unmanageable imports
    - 1965 - politics caused ceasing of foreign aid -- **growth based on foreign project-aid halted**

<u>Critique</u>

- BR Shenoy
    - Large size of investment - overambitious
    - Would lead to uncontrolled inflation
- BC Roy
    - Impracticable size & sectoral allocations
    - Little scope of new savings w/o curtailment of existing standard of living
    - Inflationary pressures due to wages being spend on non-consumer goods
- KC Neogy
    - Inflationary pressures
    - Unrealistic, over ambitious
- JB Kripalani
    - Kind of industrialisation -- misery of lower classes
- VK Krishna Menon
    - Favoured development of essential consumption goods
- Vakil & Brahmananda

- Systematic critique in 'Planning for and Expanding Economy' in 1956
- Investment Pattern
    - Entirely based on Soviet's experience
    - Investment outlay concentrated on establishing heavy industries
    - Posed 2 questions
        - Given the structure of investment, what would be the rate of income growth?
        - Taking income growth rate thus derived, what would be the SR & LR repercussions of investment structure of 2nd FYP?
    - Refuted that expansion of investment goods would lead to rise in output growth of consumption goods
- Income targets
    - Methodological error in calculation as investment goods contribute to final output with significant lag
    - Aggregate capital coefficient would be 5.1:1 (v/s 2.2:1 in plan)
    - Average productivity of capital - 20% instead of 46% in plan
    - Expected growth rate to be 2.5% (vs 5% p.a.)
- Investment targets
    - Large magnitude of forced savings required
    - Investment - 13% of national income would be required to fulfil investment targets (current: 7%, expected to go upto 11% in plan)
    - Gap in investible resources - calculated based on 7% vs 13%
    - Plan did not visualise changes in level of productivity in consumption sector, thus investment target would have to depend on forced savings
    - Major burden of forced savings to be borne by workers in non-agricultural sector
    - Employment would grow at faster rate than output of consumption goods
    - Real wages would fall during 2nd FYP
- Inflationary pressures
    - Mutually contradictory -- large deficit financing vs assumption of constant prices
    - Severe, prolonged inflation potential of plan
- Employment targets
    - Entirely based on 1st FYP
    - Pattern of expenditure, estimated at 40:60 for (agri products (esp food grains): other consumption goods)
    - Used this to estimate required investment outlay on other consumption goods
    - Concluded, given the plan outlay at max only ~35-40% of employment target could be achieved
- Methodological deficiencies
    - Correlation b/w contemplated expansion of industries and expansion in dd for their produced goods?
    - Questioned validity of assumptions
        - Constant value of capital co-efficient
            - Distinct bias in favour of capital intensive projects
            - Rise in capital intensity => rise in capital co-efficient value
        - Possibility of bringing about a substantial rise in investment rate
            - Income targets of plan based on assumption that change in composition of investment outlay on productivity of investments during plan period -- methodological error!
    - Rejection of pillar hypothesis - heavy industry growth could spur

consumption goods growth; it would be specific for futher heavy industry output

- Inconsistent approach
    - Plan advocates reintroduction of less efficient methods of production for expansion of consumption goods
    - Vs introduction of most modern types of equipments (capital intensive, labour saving) for expansion of investment goods
    - Why not a common policy?
- Disguised employment
    - Plan doesn't address this at all

Naoroji

ad

BR Shenoy

Etc

djflajf

Agriculture

10 November 2020 11:03

Pre liberalisation:

- [ ] Land reforms
- [ ] Land tenure
- [ ] Green revolution
- [ ] Capital formation in agri

Post liberalisation

- [ ] New Economic Reform and Agriculture
- [ ] Agriculture and WTO
- [ ] Food processing
- [ ] Subsidies
- [ ] Agricultural prices and public distribution system
- [ ] Impact of public expenditure on agricultural growth

GS 3

- [ ] Major crops
  - [ ] Cropping patterns in various parts of the country
- [ ] Different types of irrigation and irrigation systems
- [ ] --
  - [x] Storage
  - [ ] transport and
  - [x] marketing of agricultural produce
  - [x] issues and related constraints;
- [x] e-technology in the aid of farmers.
- [ ] Issues related to direct and indirect farm subsidies and minimum support prices;
- [ ] Public Distribution System-
  - [ ] Objectives
  - [ ] Functioning
  - [ ] Limitations
  - [ ] Revamping
  - [ ] issues of buffer stocks and food security
- [x] Technology missions
- [x] Economics of animal-rearing.
- [x] Food processing and related industries in India
  - [x] Scope and significance
  - [x] Location
  - [x] Upstream and downstream requirements
  - [x] Supply chain management.

Vision VAMs

- [ ] Cropping patterns (not done)
- [ ] Data (notes not needed)
- [x] E-tech aiding farmers (Qs remaining)
- [ ] Economics of animal rearing (Qs remaining)

- [ ] Farm subsidies and msp (some topics remaining)
- [ ] Food processing (Qs remaining)
- [ ] Govt budgeting (not done)
- [ ] Inclusive growth (not done)
- [ ] Infrastructure (not done)
- [x] Investment models (Qs remaining)
- [ ] Irrigation systems (Not done)
- [x] PDS, buffer stocks and food security
- [ ] Storage transport and marketing of agriculture (few topics remaining)

Overall

General + cooperatives

10 November 2020 11:06

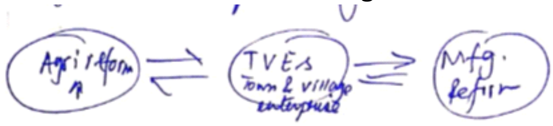
3 goals for Indian agriculture (Mahendra Dev, agro-economist)

- **Efficiency**
  - 4% growth rate
  - Raise farmer's income
    - Productivity
    - Diversification to HVCs (high value crops)
    - Promote non farm rural sector
- **Equity**
  - Regional inequity
  - Small and marginal farmers
- **Sustainability**

Mahatma Gandhi on Indian agriculture: 'production by masses, not mass production'

Role of agriculture in Indian economy

- Share in national income - 14% of GDP
- Largest employment providing sector
  - 43% of male workers
  - 60% of female workers
  - Greater share of female employment here
- Food surplus to expanding population
  - Food grains staple
  - High growth potential in high value commodities
    - Higher expenditure elasticity (Engel's law)
    - Gulati (2017) 47% share in 2007-08
    - Shifting production patterns
- Contribution to capital formation
- Raw material to industries
- Market for industrial products
  - Increased rural purchasing power - stimulus for industrial development (Lewis 2 sector model)
  - Importance in industrial trade
    - 12.7% - share in export (2014-15)
    - ? 44.2% in 1960-61
- Role in poverty reduction
  - WDR 2008 - BRICS nation - 1% agri-gr 2-3x more effective than non-agri sector
  - China's Bottom Up approach - 1978-84 reforms
    - Commune based to household responsibility
    - Upward agri price revision by 20%
    - 7% increase in agri gr
    - Dramatic poverty reduction - 33% -15%
    - Farm income rose by 14%
      - Boosted demand for mfg goods from TVEs (town & village enterprises)
      - Kickstarted manufacturing revolution in China



-
   - v/s India's top-down approach
     - Reforms initiated in non-agri sector
     - Poverty redn held hostage to trickle down effect

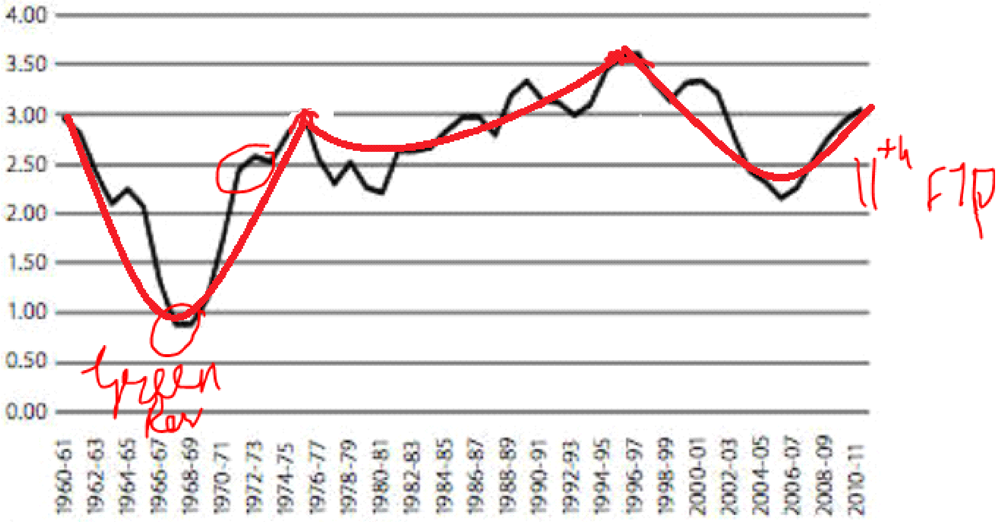
Nature of Indian Agriculture

- Feudal relations of productions
- Usurious capital, rural indebtedness
- Labour market dualism
  - Wages in agri sector vs industrial sector
  - Highly paid regular workers vs low paid casual labourers
  - -- increasing trend towards narrowing of gap b/w regular & casual -- gig economy
- Technological dualism
  - Outmoded farming techniques
- Fluctuations, instability in crop output
  - Monsoon gamble
- Diverse agri sector; problem of generalization
  - My take: generalised analysis of sector as a whole rather than specific sub sectors hampers addressing issues properly
- Low yield phenomenon
  - Swaminathan (1999)
    - consider this as unutilised 'yield reservoir'
    - Treat as asset for future development
    - Exploiting yield reservoir
      - Substantial investment
      - R&D

Economic significance of agriculture

- World Bank's WDR 2008
  - Agricultural growth atleast TWICE effective in poverty reduction than non-agri growth
  - Resonated in Gulati (2012) - 12th FYP
  - China: 3.5 times
  - Latin America: 2.7 times
- Huge population supported
  - 49% farmers
  - ? Economic survey: growth currently virtually domestic driven only
    - Haven't expanded into exports or acquiring tracts in foreign country to produce for domestic needs (probably)
  - Raising agri income -> spurs demands
- If subsidies remain high -> fiscal deficit takes a hit
- No trickle down
  - Gap b/w rural & urban consumption has grown
  - Non-farm income 3x of farm income - despite high agri gr 2005-12
- Inflation control
  - 50% CPI
- Rostow Take Off model (fm development)
- ? Agriculture and Industry Linkage (Rosenstein-Rodan model, Lewis model, balanced growth theory)

Figure 1: Trend Growth in GDP-Agriculture (at 2004-05 Prices) based on 10-Year Periods (Decade Ending with 1960-61 to 2010-11, %)



- Broad share

	1951	1981	2014
Agriculture	53	36	14
Industries	17	26	26
services	30	38	60

- Employment
  - 54.6% by 2011 census
  - 72% at independence
  - Absolute levels declined for the first time in 2011 census
- Linkage with manufacturing
  - RBI Annual report 2009-10
    - Consumption of services by mfg sector rising
    - ? Above trend not yet observed in case of agri
    - Share of agri inputs in mfg has declined from 20% (1993-94) to 5% (2006-07)

3. Rainfall ← agri-GDP → 1. Trends in both public & private capital formation in agriculture over multipl years

↓

2. Terms of Trade (Ratio of agri-prices to prices of manufactured goods)

-
- Secondary agriculture (Chengappa 2013)
  - All practices/ process that add value to primary agri commodities
    - Efficient tech
    - Market info
    - Consumer preferences
  - Value addn in agri
    - Economic value

        - Consumer appeal
    - Sunrise sector -- increasing dd for value added
        - Ready to eat, ready to serve convenience food

- Value Chains (post lib)
    - WB 2007 study
        - Mango, litchi value chains in Bihar -- significant amount of consumer price lost in transport and wastage
        - Farmers receive 34% & 42% of price resp

- Pandemic

<u>Cooperative farming</u>

- Each member farmer owner of his land individually
- Farming is done jointly
- Profit distributed among members in ratio of land owned
- Wages distributed according to number of days worked
- Remarks
    - Tried before; mismanaged by bureaucracy, bogus land owners
    - Disinterestedness, lack of competition
    - Lack of expertise

- Basic idea: farmers with small land holdings - join hands and pool their lands for cultivation
- To solve problems due to subdivision of holdings -- seen as panacea
- Need
    - 85% holdings below 2 hectares
    - 45% of total operated area below 2 hectares

Pros	Cons

- Economies of scale
- Big agricultural investments, machinery now affordable
- Scientific basis
- Efficient transportation
- Easier market access
- Spirit of cooperation, public participation in planning, planning from below
	- Slow progress - by 1969, less than 0.38% of cultivated land
	- Nijaling Appa Committee - examined working of cooperative societies
	  ○ Not genuine motivation behind formation
	  ○ For benefits like financial assistance, subsidies, technical assistance, etc
	- Cooperatives hijacked by large, powerful farmers
	- Lack of necessary professional skills in mgmt
	- Corrupt practices

- 12th FYP (2012-17)
    - Proposed land transfers by govt to D&W Disadvantaged and women farmers
    - Surplus land should be distributed to groups of D&W farmers rather than individual families
    - Loan cum grant scheme to help purchase land collectively
    - Case: 1980s Andhra -- poor Dalit women formed small groups to buy land collectively for joint farming -- support from NGO - Deccan Development scoiety in Medak District

Corporate Farming

- Aka extensive farming
- Production of food, food-related products on exceptionally large scale
- Includes agri production, marketing, distribution
- Cons:
    - Loss of market for small farms
    - Possibility of exploitation thru overuse of chemicals
    - Changing soil character
    - Monopolisation

Contract farming

- Agreement b/w farmers and marketing firms for production and supply of agricultural products, under forward agreements, frequently at pre-determined prices
- Agri production based on agreement b/w buyer and farm producers
    - Eg. Pepsi & farmers
- Could involve buyer specifying quality reqd & price; w/ farmer agreeing to deliver at a future date
- Model Contract Farming Act 2017
    - To ensure buying-selling as per contract -- price protection to farmers
    - Guide contracting parties to fix pre-agreed prices
    - Decide sale-purchase price in case of violent price movements
    - Contract Farming (Development & Promotion) Authority
        - At state level to carry out assigned mandates
        - Registering contracts
        - Ensuring price discoverty
    - Bars the transfer of ownership of farmer's land to companies under ALL circumstances
- Cons
    - Similar to corporate farming
    - Contract can be modified to allow farmer to farm by himself; provide promised amount of crop to investor later
    - Needs regulation
    - Market failures
        - Monopsony - firm as sole buyer, farmers become price takers
        - Information asymmetry - contracting firms do not have complete info on productivity, land quality
    - Encourages monoculture farming -- similar to MSP leading to wheat, rice monocultures

Diversification -- horticulture

Land Reforms, Land Tenure

23 June 2021 15:12

2 modes of changing agrarian structures
- Spontaneous operation of socio-economic progress
- Direct intervention in the agrarian structure (aka land reforms)

Objectives
- Increase agri production, growth
- Eliminate exploitation and social injustice w/in agrarian system
- Security for tiller of soil
- Equality of status and opportunity to all sections of rural population
- 2nd FYP says:
    - Remove impediments in the way of agri production arising from character of agrarian structure & evolve an agri economy conducive for high levels of efficiency & productivity
    - Establish an egalitarian society, eliminate social inequality

Reforms, direct impacts
*Haque: NITI Expert Committee Report on Land Leasing (2016)
PS Appu: 1992 Book on land reforms in India

Measure	Assessment

Zamindari abolition acts
- Anti-zamindari legislation in all states
- Staggered manner
- On paper abolition
- Abolition of moneylender zamindaris in ryotwari, mahalwari areas too
	+ve
	- Most work during 1st FYP
	- Haque: area under tenancy 50% (1951) to 20% (1960)
	- Good in communist govt states
	  • Kerala - eviction illegalised w/in 48 hrs of assuming office; ceiling of 10 acres
	  • WB - Barga
	- J&K
	  • Legislation for abolition of intermediary
	  • Simultaneous land ceiling laws
	-ve
	- Loophole: could still obtain land for 'personal cultivation'
	  • ~personal supervision by zamindar/ family member
	- Changed garb
	  • High ceilings
	- Refusal of zamindars
	  • Litany
	  • Refusal to hand over land records
	- Loose implementation
	  • Bihar - 10,000 acre estates even post-reform (Thorner)

Tenancy regulation - Tenants allowed to buy land at	Challenges - Highly defective land records

minimal cost
- Ceiling on rent payable
- Prevent unlawful evictions
- Ensure min land with tenants even in case of eviction for personal cultivation

4 distinct patterns observed
- Banned leasing out of agri land except by certain disabled categories of land owners
    - Andhra, Bihar, HP, UP, MP
- Banned altogether, without exception
    - Kerala
- Not banned; tenants after continuous tenancy for x years acquired right of purchase of land they cultivated
    - Punjab, Haryana, Gujarat
- No ban; sharecroppers not recognised as tenants
    - WB, Odisha, TN

- Prevalence of oral leases
- Absence of rent receipts
- Legal non-reco of share croppers as tenants
- Punitive provisions of tenancy laws - misused by landlords for evictions

+ve
- Decline in area under tenancy
- Situation in 2000 of ownership rights

WB	12%
Kerala	23%

-ve
- PS APPU: as in 1992 - ownership rights conferred to only 4% of operated land
- 7 states accounted for 97% transfer
    - Assam, Guj, HP, Karnataka, Kerala, Maha, WB
- Future tenants pushed underground
    - Renamed as farm servants/ sharecroppers
    - 'voluntary surrender'
- UP, WB: sharecroppers not even considered tenants
- Decline in tenancy -> eviction of tenants, rise in landless labour
- Missing land accounts
- Legal barriers
    - 5 lakh+ cases in AP alone
    - 1st amendment
    - Shankari Prasad Case
        - Challenged 1st CAA - took away right to property as FR
- No incentive for tenants to buy land, get involved in disputes
- Marginal zamindars impoverished by land snatch

Original intents no longer relevant

Land ceiling
- 2 rounds of reform legislations
- 50s
- Early 70s

+ve
- WB share of total surplus land distributed : 20% of all India
- Operation Barga
    - 1977, time bound
    - Aim:
        - Register share croppers
        - Permanent occupancy, heritable rights
        - 25% to zamindar
    - Success
        - Reg 15% to 60%
        - Within 10 yrs

	▪ Voice to rural poor ▪ Neutralised lower level officials ▪ WB: 20% of all surplus land distribution after land ceiling; 12% of all tenant rights conferment -ve - Very high land ceilings - Subjective relaxations for plantations - Zamindari ○ Benami transfers ○ Land transferred to family members ○ Tenants fired (xx years provision) - PS APPU: as of 2000, <2% land declared as surplus, distributed among 4.76 mn peasants
Loan waivers - All principal/ interest dues to moneylenders waived	-ve - Rise of peasantry led political parties (80s, 90s) - vicious circle of waivers - Large debt overdue ○ 45% in 70s ○ 80% in Bihar
Consolidation of scattered land holdings into cooperatives	Haque: at all India level, only 1/3rd of consolidable area has been consolidated - Punjab, Haryana completed - Some states not even begun - State led cooperatives ○ Poor land quality ○ Inefficient ○ Over bureaucratization - Leadership of cooperatives by dominant individuals ○ Siphoned off govt support like credit, machinery for pvt use

Indirect Impacts of Land Reforms

+ve	-ve
- Besley and Burgess ▪ Reduced poverty ▪ Increased rural wages - Reduction of absentee ownership - Change in govt mentality from rent seeker to agri facilitator - Expansion of bank credit - Empowerment - Collapse of feudal structure - Inclusive growth	- Increase in landless labourers - Loss of access to 30% of tenants ▪ 50% to 20% area under tenancy ▪ Mostly gone underground, not reformed - Impediment to modernisation ▪ Economically unviable landholdings ▪ Marginal farmers stick to land b'cos pro-tenant legislations □ Punjab's reverse leasing (marginals lease out to large farmers; become landless themselves)

	- Mechanisation by rich peasants to avoid wage related disputes - Casualisation of labour - 25% to 40% - Hurt capitalist farming - Haque - pros and cons of tenant laws - Ghatak and Besley and Burgess

Ghatak (2007)

- Overall negative impact of land reforms on agri productivity
    - Absent in WB - rigorous implementation of tenancy laws
    - Impact could have been positive if properly implemented
- Considerable variation across types, regions
- Main driver of negative impact: land ceiling legislation
- Tenancy reforms
    - insignificant effect, averaged across all states
    - Increased inequality of operational landholdings (excluding WB)
    - => eviction in anticipation of tenancy laws out of WB, where poor implementation

Besley and Burgess (2000)

- Overall positive impact on agri wages

Reform	Effect on productivity	Effect on poverty
tenancy	-	+ve(reduced)
consolidation	+	0
Ceiling	0	0
Abolition of intermediaries	0	+ve

Stiglitz

- Tiger economies quickly reinvested surplus in land reform, edu, infra
- Enabled faster, inclusive growth

Haque (2016)

- Pros of land tenancy
    - Agricultural productivity: promotion of land consolidation

pros	cons
○ Reduction in pressure on land (pro)	○ Short tenancy to avoid adverse possession -> deters investment in land (con) ○ Landowners keep land fallow (con) □ Underutilization of land □ Restricted access to land for poor

- Equity

pros	cons
Small farmers could augment size of operational holding (pro)	○ Informal tenancy leads to exploitation (con) □ Eviction, rotation, adverse possession risk

- Occupational diversification

pros	cons

○ Leasing out land by landowners, investment in non farm enterprise (pro) ○ Small, marginal farmers lease out to supplement non farm income w/ rental income (pro) ○ Reduction in pressure on land	

Evaluation

- Snags in legislation
  - Personal cultivation
  - Absentee landlords
  - Transfer of land to family members
  - Inadequate definition of tenant
  - 'voluntary surrender' - no legal recourse for tenants
  - Inadequacies in ceiling laws
- Lack of political will
  - Taskforce on Agrarian Relations - Planning Commission Report
  - 'in the context of the socio-economic conditions prevailing in the rural areas of the country, no tangible progress can be expected in the field of land reform in the absence of requisite political will. The sad truth is that this crucial factor has been wanting.
  - Contrast WB & Kerala - <48 hrs vs UP - 4 years for Zamindari legislation
- Apathy of bureaucracy
  - Transfer of enthusiastic bureaucrats under political pressure
  - Higher echelons of administration themselves landowners
  - Lukewarm attitude
  - Har Charan Singh Committee Report - on Punjab, 1972 - land intended for landless, Harijans grabbed by prominent politicians, govt officials at extremely low prices

Q: Are tenant cultivators as efficient as owner cultivators?

Yes	No
- Pooling argument ○ Skill, knowledge of both landlord, tenant applied ○ Cost sharing -> higher capital availability ▪ Working capital ▪ Some fixed capital - Agri tech argument ○ Equipment owned by landlord; cost sharing/ renting to tenant ○ Existence of large hiring market for agriculture equipment ○ => fixed capital paid similarly to working capital	- Investment Argument ○ Sharecropper unlikely to invest ▪ Have to share benefits with landlord ▪ Tenancy tenure not fixed - possibility of eviction in next season ▪ Soln: agreement on joint sharing of costs ○ Landlords unlikely to invest ▪ Freerider tenants ▪ Aggravated due to Indian laws favoring tenant ▪ Landlords unwilling to sign long term lease agreements

Panagariya

- Restrictive tenancy laws no longer relevant
  - Tenant lacks security of tenure in absence of freely written transparent contracts
  - Insecure cultivation rights

        - Deprived of access to credit
        - Landowners insecure of ownership - fallow lands
        - Problem in beneficiary identification for DBT
            - Leakage in fertilizer subsidy

    Solutions
    - Simultaneous liberalisation of both agri and non-agri land usage
    - (for red tape/ permission process of agri to non-agri)
        - Amendment of law
        - OR time-bound clearances
    - Long term land leases
    - Address landholders insecurity (on misuse of written contracts)
        - Give landowners indefeasible titles
            - K'taka - fully digitized land records, regn system
        - Record contracts at Panchayat level
            - Tenant not acknowledge in revenue records

Unfinished agenda of land reforms

K Venkatasubramanian (Former Planning Commission Member)
- Zamindari abolition didn't benefit sub-tenants and share croppers, as they didn't have occupancy rights on the land they cultivated
- Intermediaries abolished; yet rent receiving class continued to exist
- Many landholders managed to retain considerable land areas under various provisions of the laws. Benami holdings popular.
- Problems in transferring ownership rights to actual cultivators
- Wrt land ceilings, until 7th FYP - area declared surplus was 72 lakh acre, area taken over by Govt - 56 lakh acres, area actually distributed - 44 lakh acre

The vast majority of farm households -- an overwhelming 85% -- are marginal and small holdings and rely primarily on own family labour, and consume half or more of what they produce. Economists characterise this as subsistence farming. The predominant economic feature of the farmer household is its limited resources and the narrow range of economic choices before it. Since rain-fed agriculture predominates, soil, water and climate conditions combine to compel the farmer to produce the same crop or set of crops year after year. Farming practices remain unchanged, relying on simple implements and limited mechanisation. From a market perspective, the return the farm household seeks is simple and undifferentiated -- after meeting expenditure and debt obligations -- to have enough produce to feed itself. The farm household is not a link between the ‘products market’ on the one side and the ‘factors market’ on the other. Indeed, it is a micro model of the two rolled into one. A sure and certain way of misunderstanding farm households in India is to view them as a business.

2009: MoRD - Committee on State Agrarian Relations and Unfinished Task of Land Reforms
2009 CSLR
- Recos (pdf downloaded)
- No implementation in over a decade

Farm Size v Productivity Debate

- Inverse Relationship (IR) b/w farm size and productivity in India
- Conceptualised in Chayanovian model -- family labour-led small farmers had relative

superiority in terms of productivity (1986)

- Theorem of technological adaptation of farmers:
    - Labour is not supposed to be a criterion to intensify cultivation due to the advancement of mechanisation
- Arguments in favour of IR
    - Intensified utilisation of land by crop inputs
    - Risk taking capacity -- higher proportion of area for high-valued crop
    - Use of family labour
- Explanation of observed IR

Due to soil quality, climatic factors	- Bhalla & Roy 1988
Due to Labour/ Mechanisation/ Other farm inputs	- Sen (1964) • Farm size NOT crucial indicator for productivity variation • IR b'cos total amt of labour per acre inversely correlated w/ size of farm - Mazumdar (1965) • Labour use per acre higher on smaller farms • Other inputs like seed, fertiliser also used intensively in small farms - Rao (1966) • Tenancy based explanation • Proportion of leased in area expands with increasing landholding size • Disincentive of tenurial contract reduces productivity of large farm • Rate at which output decreases is less than proportionate to increase in landholding size • Better fit of equation with inclusion of irrigation variable - Srinivasan (1972) • Small farmers use inputs more optimally + less risk-averse - Ghose (1979) • IR due to technological backwardness in agriculturally backward regions - Chattopadhyay & Sengupta (1997) • IR exists (WB data) • Stronger due to better utilisation of green revolution tech by small farmers • Contrary to mainstream view
Cropping Pattern	- Bardhan (1973) • Wrt policy formulation, need to focus on impact of cropping pattern on size-productivity relation • No point of comparing productivity of higher value crop with others - Bharadwaj (1974) • Cropping pattern, intensity of cultivation only explains productivity level of small farms, not economic situation • Productivity varies due to command over resources, impacts profitability per acre - Das (2021) [EPW Feb 2021]

	• Robust IR persists at all-India level • Relationship depends on cropping pattern • Impact of farm size on productivity more distinct for cereal production compared to other non-cereal and horticultural crops • Eastern state -- stronger IR than elsewhere in cereals, pulses, oilseeds - inefficiency of medium and large farms due to low adoption of mechanisation + intense utilisation of land by small farmers • Absence of IR in high-value crops, even in WB, UP -> growth is not small farmer led • Absence of IR in agriculturally advanced states -- due to higher level of irrigation intensity and input use can explain higher productivity level • Suggestions: ○ Need of land consolidation for economic upliftment of land-poor agricultural households ○ Too small farm size for high-value crop productivity ○ Need to increase access to non-land inputs for economic viability of marginal, small farmers
No IR/ Weak IR	- Rao (1967) • Productivity remained constant over all landholding sizes (if fallow excluded) • Current fallow increases w/ increasing landholding size -> reduction of productivity across farm size groups - Saini (1969) • No general IR b/w farm size and productivity • Non-profitability of Indian agri not justified by labour based explanation but by imputed value of owned resources • B'cos: MPL >0, higher than wage rate - Rani (1971) • Overall IR b/w farm size & productivity but weak statistical validation • Inclusion/ exclusion of fallow makes no difference - Chadha (1978) • Regions w/ low K/L ratio retain IR • IR disappeared in regions with high capital investment (Punjab) • Small farmers have adv in human & bullock labour but can't compete with mechanisation efficiency - Deolalikar (1981) • Yield advantage of small farmers diminishes and even reverses w/ technical progress

21st century land reforms
- Female empowerment
  - Jharkhand
  - 2013 Act
    - all new land distn in women's name
    - Id uncultivated arable land w/ govt, distribute to women's groups
    - Downward revision of land ceiling limits

- Computerization of land records
- Pro owner tenancy laws
- Agri credit needs to be given in name of tillers, not land owner
- Digitization of land records
  - How?
    - Unique land identification number
    - GIS augmentation
    - Linking with bank, insurance provider,
  - Impact
    - Better access to credit, insurance
    - Assured ownership to landowners
    - DBT possible
    - Recorded tenancy -> they get benefits too
  - Why?
    - McKinsey - 90% land records unclear; costs 1.3% GDP/ yr

NITI Aayog Model Land Leasing Bill, 2016

- Leasing
  - Farmers, farmer groups allowed to lease out land
  - Broaden defn of farm land to include food processing
  - Automatic resumption after lease period is over
  - Remove adverse possession law by state govt
- Tenants
  - Obj: insurance, disaster relief, bank credit to tenant w/o mortgaging of leased land
  - Clear ownership of land with lessor; disallows use for mortgage purposes
  - Secure tenant rights if land sold before tenure completion
- Also
  - Attestation of lease at level of Sarpanch/ local bank official/ notary
  - Faster litigation via special tribunal

Case studies

- 0 landless scheme: Kunnur, Kerala - declared 1st landless district (2013)
- Sada Baimana - Telangana
  - Registration of farm at 0 cost
  - 3 lakh aspirants
  - (regularisation of land transactions on plain paper)
- Jharkhand
  - 0 registration charges for land under women's name

Bhoodan

- Acharya Vinoba Bhave, JP
- Launched 1951, in response to peasant uprising in Telangana, AP
- Sarvodaya Samaj

Land Reforms, Land Tenure

2 modes of changing agrarian structures

- Spontaneous operation of socio-economic progress
- Direct intervention in the agrarian structure (aka land reforms)

Objectives
- Increase agri production, growth
- Eliminate exploitation and social injustice w/in agrarian system
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Measure	Assessment
Zamindari abolition acts - Anti-zamindari legislation in all states - Staggered manner - On paper abolition - Abolition of moneylender zamindaris in ryotwari, mahalwari areas too	+ve - Most work during 1st FYP - Haque: area under tenancy 50% (1951) to 20% (1960) - Good in communist govt states • Kerala - eviction illegalised w/in 48 hrs of assuming office; ceiling of 10 acres • WB - Barga - J&K • Legislation for abolition of intermediary • Simultaneous land ceiling laws -ve - Loophole: could still obtain land for 'personal cultivation' • ~personal supervision by zamindar/ family member - Changed garb • High ceilings - Refusal of zamindars • Litany • Refusal to hand over land records - Loose implementation • Bihar - 10,000 acre estates even post-reform (Thorner)
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Decline in area under tenancy
Situation in 2000 of ownership rights

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- All principal/ interest dues to moneylenders waived
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	- Large debt overdue
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	    ○ 80% in Bihar

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	- State led cooperatives
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	- Leadership of cooperatives by dominant individuals
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Indirect Impacts of Land Reforms

+ve	-ve

- Besley and Burgess
    ▪ Reduced poverty
    ▪ Increased rural wages
- Reduction of absentee ownership
- Change in govt mentality from rent seeker to agri facilitator
- Expansion of bank credit
- Empowerment
- Collapse of feudal structure
- Inclusive growth
	- Increase in landless labourers
	- Loss of access to 30% of tenants
	    ▪ 50% to 20% area under tenancy
	    ▪ Mostly gone underground, not reformed
	- Impediment to modernisation
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Besley and Burgess (2000)

- Overall positive impact on agri wages

Reform	Effect on productivity	Effect on poverty
tenancy	-	+ve(reduced)
consolidation	+	0
Ceiling	0	0
Abolition of intermediaries	0	+ve

Stiglitz

- **Tiger economies** quickly reinvested surplus in land reform, edu, infra
- Enabled faster, inclusive growth

Haque (2016)

- Pros of land tenancy
    - Agricultural *productivity*: promotion of land consolidation

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○ Reduction in pressure on land (pro)	○ Short tenancy to avoid adverse possession -> deters investment in land (con) ○ Landowners keep land fallow (con) □ Underutilization of land □ Restricted access to land for poor

- *Equity*

pros	cons
Small farmers could augment size of operational holding (pro)	○ Informal tenancy leads to exploitation (con) □ Eviction, rotation, adverse possession risk

- *Occupational diversification*

pros	cons
○ Leasing out land by landowners, investment in non farm enterprise (pro) ○ Small, marginal farmers lease out to supplement non farm	

income w/ rental income (pro) ○ Reduction in pressure on land	

Evaluation
- Snags in legislation
    - Personal cultivation
    - Absentee landlords
    - Transfer of land to family members
    - Inadequate definition of tenant
    - 'voluntary surrender' - no legal recourse for tenants
    - Inadequacies in ceiling laws
- Lack of political will
    - **Taskforce on Agrarian Relations** - Planning Commission Report
    - 'in the context of the socio-economic conditions prevailing in the rural areas of the country, no tangible progress can be expected in the field of land reform in the absence of requisite political will. The sad truth is that this crucial factor has been wanting.
    - Contrast WB & Kerala - <48 hrs vs UP - 4 years for Zamindari legislation
- Apathy of bureaucracy
    - Transfer of enthusiastic bureaucrats under political pressure
    - Higher echelons of administration themselves landowners
    - Lukewarm attitude
    - **Har Charan Singh Committee Report** - on Punjab, 1972 - land intended for landless, Harijans grabbed by prominent politicians, govt officials at extremely low prices

Q: Are tenant cultivators as efficient as owner cultivators?

Yes	No
- Pooling argument ○ Skill, knowledge of both landlord, tenant applied ○ Cost sharing -> higher capital availability ▪ Working capital ▪ Some fixed capital - Agri tech argument ○ Equipment owned by landlord; cost sharing/ renting to tenant ○ Existence of large hiring market for agriculture equipment ○ => fixed capital paid similarly to working capital	- Investment Argument ○ Sharecropper unlikely to invest ▪ Have to share benefits with landlord ▪ Tenancy tenure not fixed - possibility of eviction in next season ▪ Soln: agreement on joint sharing of costs ○ Landlords unlikely to invest ▪ Freerider tenants ▪ Aggravated due to Indian laws favoring tenant ▪ Landlords unwilling to sign long term lease agreements

Panagariya
- Restrictive tenancy laws no longer relevant
    - Tenant lacks security of tenure in absence of freely written transparent contracts
    - Insecure cultivation rights
    - Deprived of access to credit
    - Landowners insecure of ownership - fallow lands

    - Problem in beneficiary identification for DBT
        - Leakage in fertilizer subsidy

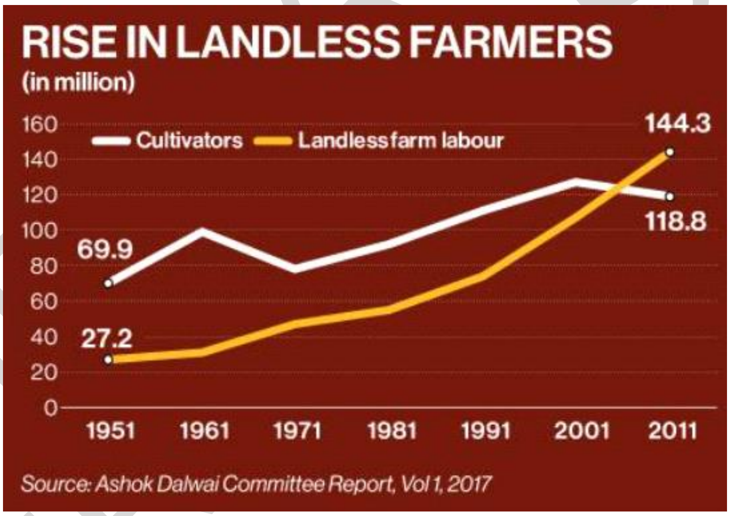
Solutions

- Simultaneous liberalisation of both agri and non-agri land usage
- (for red tape/ permission process of agri to non-agri)
    - Amendment of law
    - OR time-bound clearances
- Long term land leases
- Address landholders insecurity (on misuse of written contracts)
    - Give landowners indefeasible titles
        - K'taka - fully digitized land records, regn system
    - Record contracts at Panchayat level
        - Tenant not acknowledge in revenue records

Unfinished agenda of land reforms

K Venkatasubramanian (Former Planning Commission Member)

- Zamindari abolition didn't benefit sub-tenants and share croppers, as they didn't have occupancy rights on the land they cultivated
- Intermediaries abolished; yet rent receiving class continued to exist
- Many landholders managed to retain considerable land areas under various provisions of the laws. Benami holdings popular.
- Problems in transferring ownership rights to actual cultivators
- Wrt land ceilings, until 7th FYP - area declared surplus was 72 lakh acre, area taken over by Govt - 56 lakh acres, area actually distributed - 44 lakh acre



Source: Ashok Dalwai Committee Report, Vol 1, 2017

The vast majority of farm households -- an overwhelming 85% -- are marginal and small holdings and rely primarily on own family labour, and consume half or more of what they produce. Economists characterise this as subsistence farming. The predominant economic feature of the farmer household is its limited resources and the narrow range of economic choices before it. Since rain-fed agriculture predominates, soil, water and climate conditions combine to compel the farmer to produce the same crop or set of crops year after year. Farming practices remain unchanged, relying on simple implements and limited mechanisation. From a market perspective, the return the farm household seeks is simple and undifferentiated -- after meeting expenditure and debt obligations -- to have enough produce to feed itself. The farm household is not a link between the 'products market' on the one side and the 'factors market' on the other. Indeed, it is a micro model of the two rolled into one. A sure and certain way of misunderstanding farm households in India is to view them as a business.

2009: MoRD - Committee on State Agrarian Relations and Unfinished Task of Land Reforms 2009 CSLR

? - Recos (pdf downloaded)
- No implementation in over a decade

<u>**Farm Size v Productivity Debate**</u>

- Inverse Relationship (IR) b/w farm size and productivity in India
- Conceptualised in Chayanovian model -- family labour-led small farmers had relative superiority in terms of productivity (1986)
- Theorem of technological adaptation of farmers:
    - Labour is not supposed to be a criterion to intensify cultivation due to the advancement of mechanisation
- Arguments in favour of IR
    - Intensified utilisation of land by crop inputs
    - Risk taking capacity -- higher proportion of area for high-valued crop
    - Use of family labour
- Explanation of observed IR

Due to soil quality, climatic factors	- Bhalla & Roy 1988
Due to Labour/ Mechanisation/ Other farm inputs	- Sen (1964) • Farm size NOT crucial indicator for productivity variation • IR b'cos total amt of labour per acre inversely correlated w/ size of farm - Mazumdar (1965) • Labour use per acre higher on smaller farms • Other inputs like seed, fertiliser also used intensively in small farms - Rao (1966) • Tenancy based explanation • Proportion of leased in area expands with increasing landholding size • Disincentive of tenurial contract reduces productivity of large farm • Rate at which output decreases is less than proportionate to increase in landholding size • Better fit of equation with inclusion of irrigation variable - Srinivasan (1972) • Small farmers use inputs more optimally + less risk-averse - Ghose (1979) • IR due to technological backwardness in agriculturally backward regions - Chattopadhyay & Sengupta (1997)

	• IR exists (WB data) • Stronger due to better utilisation of green revolution tech by small farmers • Contrary to mainstream view
Cropping Pattern	- Bardhan (1973) • Wrt policy formulation, need to focus on impact of cropping pattern on size-productivity relation • No point of comparing productivity of higher value crop with others - Bharadwaj (1974) • Cropping pattern, intensity of cultivation only explains productivity level of small farms, not economic situation • Productivity varies due to command over resources, impacts profitability per acre - Das (2021) [EPW Feb 2021] • Robust IR persists at all-India level • Relationship depends on cropping pattern • Impact of farm size on productivity more distinct for cereal production compared to other non-cereal and horticultural crops • Eastern state -- stronger IR than elsewhere in cereals, pulses, oilseeds - inefficiency of medium and large farms due to low adoption of mechanisation + intense utilisation of land by small farmers • Absence of IR in high-value crops, even in WB, UP -> growth is not small farmer led • Absence of IR in agriculturally advanced states -- due to higher level of irrigation intensity and input use can explain higher productivity level • Suggestions: ○ Need of land consolidation for economic upliftment of land-poor agricultural households ○ Too small farm size for high-value crop productivity ○ Need to increase access to non-land inputs for economic viability of marginal, small farmers
No IR/ Weak IR	- Rao (1967) • Productivity remained constant over all landholding sizes (if fallow excluded) • Current fallow increases w/ increasing landholding size -> reduction of productivity across farm size groups - Saini (1969) • No general IR b/w farm size and productivity • Non-profitability of Indian agri not justified by labour based explanation but by imputed value of owned resources • B'cos: MPL >0, higher than wage rate - Rani (1971) • Overall IR b/w farm size & productivity but weak statistical validation

	• Inclusion/ exclusion of fallow makes no difference - Chadha (1978) • Regions w/ low K/L ratio retain IR • IR disappeared in regions with high capital investment (Punjab) • Small farmers have adv in human & bullock labour but can't compete with mechanisation efficiency - Deolalikar (1981) • Yield advantage of small farmers diminishes and even reverses w/ technical progress

<u>21st century land reforms</u>

- Female empowerment
    - Jharkhand
    - 2013 Act
        - all new land distn in women's name
        - Id uncultivated arable land w/ govt, distribute to women's groups
        - Downward revision of land ceiling limits
        - Computerization of land records
- Pro owner tenancy laws
- Agri credit needs to be given in name of tillers, not land owner
- Digitization of land records
    - How?
        - Unique land identification number
        - GIS augmentation
        - Linking with bank, insurance provider,
    - Impact
        - Better access to credit, insurance
        - Assured ownership to landowners
        - DBT possible
        - Recorded tenancy -> they get benefits too
    - Why?
        - McKinsey - 90% land records unclear; costs **1.3%** GDP/ yr

NITI Aayog Model Land Leasing Bill, 2016

- Leasing
    - Farmers, farmer groups allowed to lease out land
    - Broaden defn of farm land to include food processing
    - Automatic resumption after lease period is over
    - Remove adverse possession law by state govt
- Tenants
    - Obj: insurance, disaster relief, bank credit to tenant w/o mortgaging of leased land
    - Clear ownership of land with lessor; disallows use for mortgage purposes
    - Secure tenant rights if land sold before tenure completion
- Also
    - Attestation of lease at level of Sarpanch/ local bank official/ notary
    - Faster litigation via special tribunal

<u>Case studies</u>

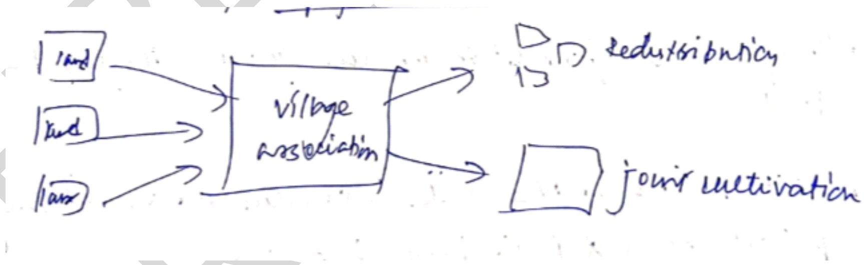
- 0 landless scheme: Kunnur, Kerala - declared 1st landless district (2013)
- Sada Baimana - Telangana
    - Registration of farm at 0 cost
    - 3 lakh aspirants
    - (regularisation of land transactions on plain paper)
- Jharkhand
    - 0 registration charges for land under women's name

Bhoodan

- Acharya Vinoba Bhave, JP
- Launched 1951, in response to peasant uprising in Telangana, AP
- Sarvodaya Samaj
- Padyatra
- Persuaded to part w/ at least 1/6th of land
- Impact
    - Quantity
        - 4mn acres transferred (7%)
        - Target: 60 mn
        - Fizzled out
    - Quality
        - Transferred lands mostly infertile or disputed
    - Redistribution
        - Bihar - less than 50% of Bhoodan land distributed even after 40 yrs; had to be shut down by govt

Gramdan

- Land collectivization program
- Launched in 1957
- Voluntary
- Successful in Odisha - caste-class bdaries not yet developed



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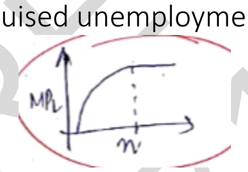
Agriculture Holdings

- Declining size of average landholdings in India
  - 2000-01: 1.33 hectares
  - 2010-11: 1.16 hectares
- 2010-11 stats
  - 67% operational holdings marginal (< 1 hectare) - 92.83 mn hectares
  - 85% of holdings (on 45% cultivated area) <2 hectares
  - 0.7% holdings large (>10 hectares) - cover 10.6% cultivated area
- Causes of fragmentation
  - Social
    - Laws of inheritance
    - Decline of joint family system
    - Psychological attachment to land
  - Economic
    - Population pressure: non agri sector unable to absorb labour force
    - Farmer indebtedness: forced to sell part of land
    - Crop sharing practice
- Disadvantages
  - Wastage of land
  - Difficulties in modernisation
  - Difficulties in land management
  - Disputes over boundaries
  - Low productivity
  - Disguised unemployment
    - 

- Case: NCRB Data: 12.6k farmer suicides in 2015 -- 75% had <2 hectares of land

Green Revolution

23 June 2021 15:12

Case studies collection https://hnrs353.wordpress.com/2013/05/03/introduction-to-the-case-studies-specifically-outlined-in-relation-to-the-green-revolution/

Technological interventions: https://hnrs353.wordpress.com/science-section/technology-of-the-green-revolution/

- Background:
    - mid 1960s - 2 successive major droughts
        - Severe decline in foodgrain production
        - 89 mt (1964-65) -> 72 mt (65-66) -> 74.2 mt (66-67)
    - 1950s: GMFC Grow More Food Campaign

- 2 schemes
    - IADP - Intensive Agriculture Development Program (1960)
        - Incl improved agri practices
        - Assistance to cultivators to develop farm production
        - Extended to IAAP Intensive Agriculture Area Program in 1965
    - HYVP - High Yield Variety Program (1967)
        - Under NAS New Agricultural Strategy in 1966
        - Sensitivity to water - both excess, inadequacy detrimental
        - Sensitivity to fertilisers - more is better; side-effect: weeds
        - Short maturity period - non-photo sensitive

- 3 phases of Green Revolution (Gulati & Fan, 2008)
    - First phase
        - 1966-72
        - Measures
            - Introduction of MSP, FCI
            - 18k tonnes of HYV wheat from Mexico
                - Dvped by Prof. Norman Borlaug
                - Prodn in Mexico - 5000-6000 kg/ hectare
        - Impacts
            - Increase in food grain output
                - 75MT (1966-67) to 105 MT (1971-72)
                - Record output in 2016-17: 257.1 mn tonnes
            - Self sufficient in food
            - Agri growth rate rose from 0.8% to 3%
            - Agriculture production trickled down
                - Datanet (2006) - rural poverty declined from 64% to 56% (8% decline)
                - Income increased
    - Second phase
        - 1973-80
        - Production declined
        - Growth rate down from 3% to 2.2%
        - Imports from USA

- Factors
  - 2 consecutive drought years - 1972, 73
  - Oil shocks - fertiliser price rise
  - Decline in public and total GCF
    - ? (how much)
- Pros:
  - HYVs spread to rice cultivation
- Cons:
  - Increase in subsidies
    - 0.5% of Agri GDP to 4%
    - Power subsidies - 45% of total
    - Fertiliser subsidy - 2nd highest at 35% of total
      - Retention Price Scheme for Urea

▪ Third phase
- 1981-90
- Steady rise in agricultural growth from 2.2% to 3%
- **GS Bhalla**: 'maturing of green revolution'
- **11th FYP**: 'wider technology dissemination period'
- Output growth

Rice ~2x	37MT 1964	64 MT 1986
Wheat 4x	12 MT 1964	48 MT 1986

- HYV eastward spread
  - WB: rice yield up by 5%
  - Bihar: rice yield up by 4%
- Cons
  - Ran out of steam in rest of India
  - Increase in input subsidies
    - Further increased with slowdown in yields, to maintain production levels
    - 1980s: 4% of agri GDP
    - 1991: 7%
    - ? Present:
  - ? ToT worsened due to high indirect taxes
  - Investment in agri R&D stagnated to 0.3% of Agri GDP
    - v/s 2-3% in west

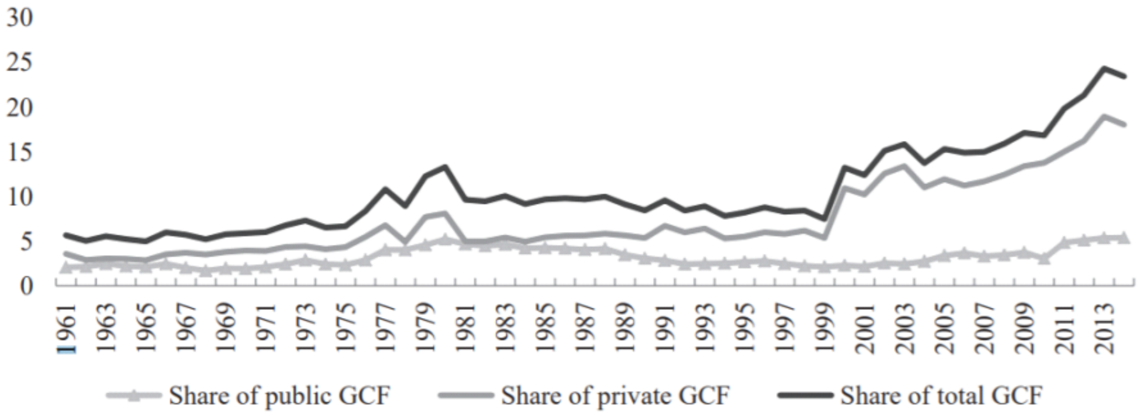


Figure 2.5 Gross capital formation (GCF) in agriculture (both public and private) as a percentage of agricultural GDP in India

Sources: Compiled from Ministry of Agriculture and Farmers Welfare, and Directorate of Economics and Statistics, Government of India (https://data.gov.in)

- Impact of LPG (Gulati)
    - Aka 4th phase of Green revolution
    - 'watershed in growth of Indian agri' -- resurgent growth from mid-1960s arrested
    - Diversification in consumption, increased dd
        - ? Per capita income gr at 4% pa vs *.3%(?)* in 80s
    - Diversification of food demand into non-food grain crops (Engel's Law)
        - Fruits, vegetables
        - Meat - mainly poultry
        - Dairy products
    - Improvement in domestic ToT b/w agri & industrial prices
        - 0.9 to 1.2 (1991-2000)
        - Industrial prices reduced due to LPG
        - Depreciation boosted exports
    - Increase in pvt investments
        - Double of public inv in agri
        - Due to better profitability
        - Pvt inv directed to horticulture -- declined soon
    - Devaluation of rupee
    - Agri-exports doubled during 1991 to 1996-97
    - Access to new technologies - biotech
- Negatives
    - Rate of growth of productivity - fell in 1990s, rose in 2000's
    - Volatility in global prices is higher than domestic prices
    - Poverty figures didn't improve -- 35% to 45% (Lakdawala, Tendulkar -- different data sets)
- ? Chand - structural break in 1996 (also in 2004)
- Overall Yield rise only 2% b/w 1990-2006
    - Stagnation of public investment in agriculture
        - <2% of GDP
    - Restriction on wheat and rice exports
- ? Swaminathan
    - Technology fatigue
- Structural issues

- Smaller operational landholding size
- Environmental issues - water and soil health
- Green revolution had lost its steam
- No tech to compensate productivity decline

Impact of Green Revolution

- Pros
    - Self sufficient in food 1972
    - No more dependence on PL480
    - ? Food grain production risen from 75 MTA in 1967 to 250 MTA now
    - Shares

Wheat	13% in 1960s to 33% now Production - 11MT to 95MT now
Rice	Overall fallen share Picked up late Production absolute increase 35MT to 100MT
Coarse grains	Static
pulses	Drop in share, per-person 61gm in 1951 per person per day 42 gm now

-
    - Equity
        - Early period - increase in inequality
        - Later phases - reduction in inequality (Blyn, Bhalla)
            - 2001-02 - unirrigated land - 53% small, marginal farmers used HYV while only 30% land under large farmers did; similar trends for irrigated land and technology
            - Decline of food grain prices and food securities accrues more benefits to lower segment
        - Increased commercialisation of agriculture
        - Increased linkages with industry
        - Transitioned from import dependency to exports - $40bn
        - Need for post harvest mgmt - better storage, post harvest facilities
        - Shorter maturing period of new seeds -> allows multi cropping
- Cons
    - Cereal centricity
        - Didn't expand to coarse cereals, pulses
            - Decline in per capita pulse productivity from 61 to 42 gm ??
        - Bhalla - fall in employment elasticity of agriculture
            - Increased mechanisation
            - Increased casualisation of labour - 25% to 40%
        - Not scale neutral initially
            - Benefited richer farmers more
            - Bhalla - benefit gradually trickled down
        - ? Subsidy - EXIT issues
            - 0.5% to 7% of agri GDP now
            - Crowding out, fiscal costs
        - Environmental impacts
            - Soil degradation, soil composition
            - Distortion in farm ecology - require a technologically optimum mix of fertilisers, water; economic signals may be distorted & not reflect

optimum
        - Subsidies, etc
      - Water crisis (30cm/ yr drop)
      - More than harm by fertilisers and pesticides, degradation and deforestation of marginal and common land
      - ? Green revolution has reduced pressure on land; empirical studies: deforestation higher in areas with low penetration of new tech
    - Decline in public investment
      - Highest externalities
      - Only 16% now
    - Wide regional disparity
      - Punjab, haryana, western UP benefited
      - Bhalla: despite wide differences, benefits have permeated to most states now, esp after 1990s
    - Didn't benefit dryland farming

? Chand et al: 11th FYP - 2007-2012

- Period of high growth
  - 4% v/s 2.1% in 10th FYP
  - Real income gr 7% pa
- Diversification of crops
  - Horticulture gr - 2.5% in 1995-2005; 6% in 2007-12
  - High expenditure elasticity as income increases (Engel's law)
- Export earnings
  - 3-6 bn 1991-92 to 2001-02
  - $40bn in 2011-12
- Growth much higher in states with low irrigation cover
  - Gujarat, Jharkhand, Rajasthan
  - Consistent with fact that period gave greater emphasis on filling the gaps rather than new tech
- Reasons
  - ? Role of National Food Security Mission
  - High input growth - mahendra dev
  - Boost in investment - planning commission
    - Both private and public (? Really ?)
    - Rose from 16% to 21% of agri GDP
    - Esp in irrigation
    - Bharat Nirman, etc schemes
    - Private inv rose b'cos
      - ToT improved (MSP, int'l prices)
      - Complementarity benefits asso w/ growth induced demand
    - Augmentation of agri extension services, tech
  - Major reason behind reduction in poverty

? <u>Second green revolution</u>

Problems w/ first GR

- Lack of equity in implementation
  - Heavy capital investment beyond capacity of small farmers
  - Limited to highly irrigated NW areas
  - Expansion to central and eastern areas saw limited gains in productivity
  - Predominant focus on cereal crops having peculiar input & climatic requirements

    - Side-tracked complementary institutional and infrastructural reforms
        - Lack of market integration, widespread pricing and trading controls -> muted price signalling mechanism
- Unsustainable
    - Seed-water-fertiliser package saw diminishing returns due to limited irrigation and declining soil health
    - Excessive & inefficient use of inputs
    - Subsidies became ingrained as cost of inputs rose gradually
    - By end of 1990s, increase in yield through HYV seeds plateaued due to depletion of soil nutrients
    - Absence of technological dissemination & extension services hampered growth and diversification

Evergreen Revolution

- Enhancement of productivity in perpetuity, w/o associated environmental & social harmony (Swaminathan, 2010)
- Paves the way for long term sustainability, keeping in view local needs and capabilities
- Need:
    - Persistent malnutrition & hunger
    - Develop resilience against climate change & stress
    - Regain soil fertility
    - Improve agri as source of livelihood
- Salient features
    - Integrated natural resource management
    - Participatory research with farm families
    - Diversification towards non-cereal crops: pulses, oilseeds, millets
    - Expansion of gains through dryland farming, hill areas and islands
    - Interrelation with livestock systems
    - Promote conservation agri
    - Adoption of organic farming -- low use of chemical fertilisers; replace them w/ biological alternatives
    - Use of precision agri technology w/ real time biomonitoring
    - Village knowledge centres, bio-villages
    - Integrated and strategic gene mgmt

- Emphasis on
    - 80% farms belong to small and marginal - yields need to be increased here
    - Precision agri for effective use of resources
    - Mobile apps for providing timely info
    - Post harvest losses need to be addressed thru marketing reforms
    - Contract farming
    - Future trading
    - Credit, insurance
    - Land leasing
    - Tech fatigue
        - Biotech for raising yield
    - Externalities
        - Soil health
        - Micro irrigation

(more in Anurag's notes on GR)

Regional inequality

2005-06 onwards - phase IV

Capital Formation in Agriculture

23 June 2021 15:12

- Is the net addition to assets
- Helps in improving stock of tools, productivity of resources
- Better utilisation of existing resources of land and labour
- Direct correlation b/w Capital formation, agri growth and decline in poverty
- BRICS: 1% agricultural growth -> 2-3 times more effective than 1% growth in non agri sectors
- Capital formation is more important in agri
    - Paramount importance of increasing production and productivity to keep pace with increased population
- Rate of Investment in agri = $\frac{gross\ capital\ formation}{GDP\ in\ the\ sector}$
- Poor investment in agri among main causes of slow growth in agriculture in recent years

<u>Trends</u>

- Important measures
    - $\frac{GCF\ of\ agri\ \&\ allied}{GVA\ of\ agri\ \&\ allied}$

2011-12	2013-14	2014-15
18.3%	17%	15%

    - $\frac{GCF\ of\ agri}{Total\ domestic\ GCF}$ decline in post-reform period

1990-91	1999-2000
9.9%	3.5%

        - New series:

2011-12	2013-14
8.6%	7.4%

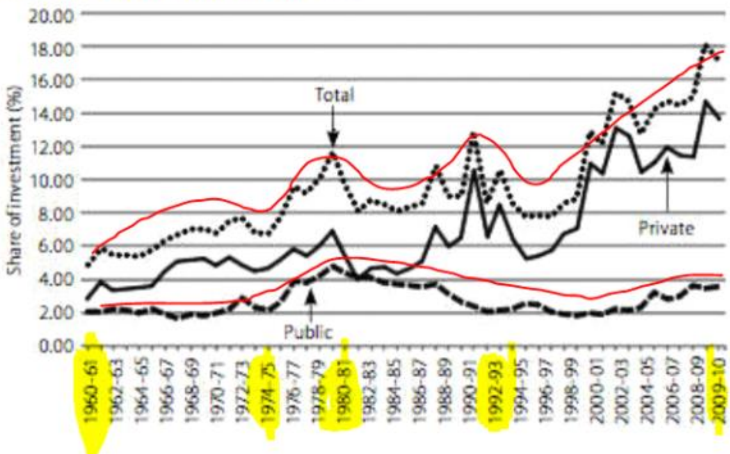
    - $\frac{public\ sector\ GCF\ in\ agri}{total\ GCF\ in\ agri}$ declined

1990s	2004-05	2009-10	2013-14
30%	21.3%	18%	16.4%

    - $\frac{total\ investment\ in\ agri}{GDP}$ same as $\frac{GCF\ Agri}{Total\ Domestic\ GDP}$

Historical trends

Figure 2: Gross Fixed Capital Formation in Agriculture as a Share of GDP-Agriculture at Current Prices (%)

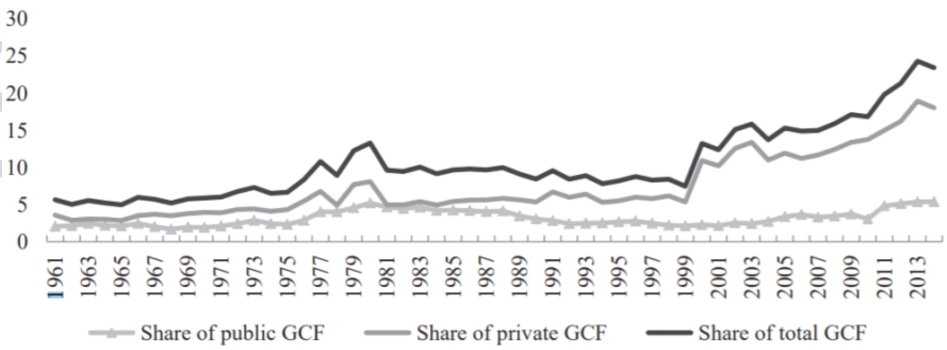


- Both public and private investment started rising after Green Revolution (1966)
- Trend of public capital formation

70s	increased	From 2% to 4%
80s	static	~4%
Late 80s	falling	Fell to <2% by late 90s
11th FYP	rose	To ~4% again

- Private investment
  - Dip in early 1990s, along with public investment
    - Absolute terms as well as share in GDP
    - Led to perceptible slowdown in agricultural growth in 1996-2006
    - Also supports the assumption that a part of the deficit in public investment translated into reduced availability/ use of inputs -> deceleration in output growth
- 11th FYP - GCFA rose to 21% from 16% (2004); growth picked up to 4%
- EcoSur 2021
  - Positive growth rate of GVA Agriculture - 3.4%
  - Fluctuating trend in GCF

2013-14	2015-16	2018-19
17.7%	14.7%	16.4%



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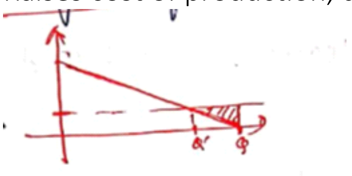
? - Budget - projections for FY22 - (?)
- Changing mix of public private

Early 80s	Public - 50%; each grew at ~4%
now	Public - 16%

- Divergence came in b/w mid 1980s to 1990s
- Private investment jumped from 4% of GDP to 10% in this period

- Reasons for lower public investment since late 80s
  - Urban bias -- share of GCFA in total GCF was 6-7%, though agri GDP had 25% share
  - Subsidy - rose from 4% to 7% -- diversion of funds
    - Food subsidy - ₹140 k crore in 2015-16
    - Fertiliser subsidy - ₹70 k crore in 2015-16
  - Under pricing of inputs - indiscriminate and wasteful use
    - Raises cost of production, degradation of land
    - 
  - Fiscal crisis
  - Opposition to big dams
- Reasons for higher private investment since 1980s
  - ToT improved due to higher MSP and higher international commodity prices
  - Growth of institutional credit - savings >20%
- Supplementary vs complementary relation
  - Some argue supplementary -> private investment can fill the gap (seen in 80s divergence)
  - Existence of strong degree of complementarity
  - Thus, need for higher public investment
    - Gulati
      - public investment has strong inducement on private investment
      - operates with time lag due to high gestation period of public investment
      - Possibly why private investment fell in 90s
    - Sawant et al (2002)
      - Private investment can NEVER fill the gap of large scale public investment in dams, rural infra due to capital constraints...
    - Private and public investment are not mutual substitutes
      - Public: long term assets, irrigation works, roads, infrastructure, etc
      - Private - short term asset building: mechanisation, private irrigation, etc
    - Public investment flows into activities where private investment does not -- watershed development, electrification
      - Private inv mainly dependent on groundwater exploitation
      - Thus public investment reqd for sustainability considerations
    - Public investment has +ve indirect externalities in terms of long term impact
      - Asset augmentation capacity w/ forward linkage
    - Reduction in inequality
    - Complementarity may have disappeared in some states where private capacity has significantly expanded; but necessary to undertake massive projects, esp in rainfed areas

Instruments for public investment

- RIDF - Rural Infra Development Fund 1995

        - Instituted in NABARD
        - Fund support to state govts, state owned corporations since 1995
        - Multipurpose loans - irrigation, watershed mgmt
        - Critique
            - Not an addl resource to agri sector; just another mechanism to divert private sector resources to public sector
            - NABARD sanctions funds to state; unimpressive disbursement on part of states
            - RIDF - commercial banks can park funds w/o risk -> low inclination for PSL expansion now
- Bharat Nirman - Rural Roads
- PMGSY
- Agri Infrastructure Fund (opened to APMCs in Budget 2021)
- Micro Irrigation Fund, created under NABARD
- ? Under Aatmanirbhar Bharat

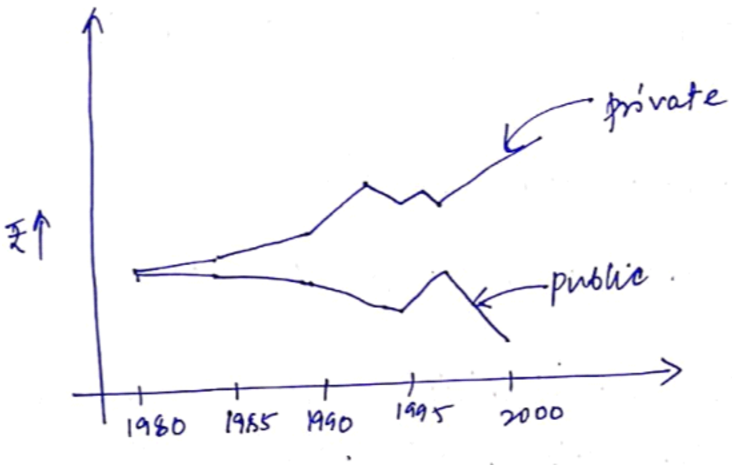
<u>GCF and GDP growth relation</u>

- Time lag
    - High GCFA in 70s led to higher growth in 80s
    - Declining GCFA in 90s led to lower growth in 90-2006 period
- Anomaly
    - GCFA declined in 80s (Public) -- must have led to lower growth in early 90s
    - Explanation
        - Private investment increased, increasing total GCFA
        - Food grains did decline; horticulture production expanded
        - ? Higher per capita growth 4.5% (in what?)
        - Favourable export shock

<u>Public vs Private sector capital formation</u>

- Public sector - for building necessary infrastructure
- Private inv -
    - Includes investment by private corporates and households
    - Why?
        - for augmenting productivity of natural resources
        - undertaking activities supplementing sources of income
    - Constitutes dominant share in total GCF Agri
    - 2011-12: share of private sector: 85% of total capital formation in agriculture sector
        - Taxing agri income might decrease this
    - Modes
        - Agricultural credit -- short term, long term (investment credit)
        - Loans
            - Crop loans - working capital requirements
            - Term loans - asset creation at farm level
        - Strong association observed b/w term loans disbursal and private sector capital formation in agriculture

<u>Trend in Capital Formation</u>



- Reasons for decline in public GCF Agri
  - Increasing subsidies to agri
  - Adverse ToT
  - Decline in international price of rice, wheat
  - Steep rise in construction activities
  - Reduction in resource flows from centre to states
  - Decline in capital outlays by states
  - State agri policies to augment private investment
- Reasons for decline in private investment
  - Low growth rate of per capita income in agriculture
  - Squeezing of rural savings
  - Low net bank credit to agriculture
  - Decline in profitability of investments in agri vis-a-vis other sectors
- Complementary, though unique role of both
  - Das & Sircar - output elasticities of GFCF (0.86) > that of subsidies (0.75)
  - Mahendra Dev - increase GFCF for productivity increase
  - Pangariya (2008) - investment priority in rural roads, electricity and major & medium irrigation projects

Investment vs Subsidies
- Gulati & Fan - returns to investments - 3x of subsidies
- Subsidies lead to inefficiencies, distortion, environmental degradation
- IFPRI - marginal return in terms of agri GDP from a unit of public expenditure:
  - Highest in R&D > rural roads > education > irrigation > fertiliser subsidies
- Gulati data in FY18
  - Investment - 40k crore
  - Subsidies - 2.25 lakh crore

<u>Irrigation</u>
- Erratic monsoon
  - RBI 2015 - positive monsoon shock less intense than negative monsoon shock
  - 75% of rainfalls received through monsoon
- Positives
  - Comprises 90% of GCFA
  - ? Contributed to rise in cropping intensity from 120 in 1971 to 140 (units)
  - Gross Cropped Area with irrigation <u>tripled</u> since 1950-51 (15% to 45%)
  - Equity
    - Inter-state disparities in area under surface irrigation considerably lower than disparities among areas under ground water irrigation
    - ? Proportion of area under surface irrigation has progressively declined --

increasing inequality

- Negatives
    - India's existing storage capacity at dismal 13% of annual availability
    - Decline in (irrigation potential utilised/ irrigation potential created) -- poor utilisation
        - 80s - 0.8; 0.3 now
    - ~50% of projects pending despite AIBP (Accelerated Irrigation Benefit Program)
    - Groundwater as major source for irrigation -- over-exploited
        - Need: institutional reforms, developing smaller irrigation projects, right incentive structures (eg feeder separation)
    - ? Parthasarthy Shome Recommendations for Dryland farming
    - ? Swaminathan Committee -- launch Million Wells Recharge Program

<u>Research</u>

- Part of public investment
- Agri R&D - 0.3% of agri GDP vis-a-vis 2-3% in dvped countries
    - Increased post Green Revolution
    - Stagnated in 80s, fallen since
- ICAR
    - Need for greater autonomy
    - Deterioration b'cos proliferation of private colleges w/o adequate facility, funds, skill, lack of coordination b/w colleges
- Need Pull factors to attract private investment in R&D
    - Advanced Marketing Committee AMC
        - Suggested by Harvard economist Michael Kremer for health funding
        - As pvt companies unlikely to fund for health benefits with low returns, esp in LDCs
        - Install a mechanism where 1st to develop a vaccine is awarded a large bounty, yet IP lies w/ govt
- Extension services to take research to the farmer
    - ATMA Agriculture Technology Management Agency
    - KVKs Krishi Vigyan Kendra
    - m-Kisan
    - KCC Kisan Call Centre

<u>Credit</u>

- Spurs private investment
- Schemes: all financial inclusion schemes -- nationalisation, PSL, NABARD, Land Banks
- Share of credit to agri GDP
    - 10% in 2000 -to- **40**% now
- Decline in share long term credit
    - Fell from 55% to **40**% in same period
- RBI
    - Credit flow NOT commensurate with production
        - 15% of total credit in 2014-15
    - Reasons:
        - Leakage
        - Farmers used it for working capital rather than capital formation
        - Tenant farmers still rely mostly on moneylenders
        - Only 6% of credit to farmers; rest to agriculture industry
    - Other issues
        - Regional inequality

    - South India - makes up 18% of Gross Cropped Area; **40**% of total credit offtake
  - Informal
    - NSS 70th Round - **40**% farmers still borrow from informal sources of lending
- Mnemonic - 40% appears 4 times here

Agricultural Labour

23 June 2021 15:17

Agricultural labour - Abhijeet's Notes

- Casualisation of agriculture labour force
    - Share of agri labour consistently rising since independence
    - 25% (1947) to 40% (1991) -- stayed there since
    - Worse, if account for decreasing share of agri GDP
- India Labour and Employment Report 2016
    - Reversal in casualisation trend recently
- Cultivation Data -- labour makes upto 40% of variable cost

Rural Wage Trends
- Gulati (real wage trends)

Till 80s	const; < minimum wages
90s	grew @3.5%
2000s	- Grew @2% - **V shaped curve** - **2001-06: -1.8% (ie decline in real wages)** - **2006-11: rose by 6.8%**
2007-10	- Avg cumulative real farm wage rates inc by 16% at all India level (since MGNREGA) - **Currently at 4%**

- Explaining wage growth
    - RBI Report
        - MGNREGA - push factor; pushes out labour from agriculture and raises wages
    - Gulati
        - Impact of other variables like GDP, agri GDP, construction GDP is 4-6x more powerful than the effect of MGNREGA
        - Pull factors
        - Lewis Model
        - Consistent w/ employment data

	agri	construction
1993	65%	3%
2013	**47%**	**10%**

        - Also consistent w/ agri growth data
            - Dipped to 2% in 9th, 10th FYP
            - Rose to about 4.5% in 11th FYP
        - Gulati recommendation for MGNREGA
            - Link to farm works
            - Should aim for more employment during agri lean season
    - Dasgupta
        - Impact of higher MSP

        - Other possibilities
            - Greater dd for education
            - Women participation reduced because of income effect, education effect
            - Labour ss states like Bihar - highest gr rates
    - Impact of rising wages
        - Poverty decline -- prevalent 2006-2010
        - RBI: fuelled the inflationary spiral
            - Goyal & Baikar - opposite -- rising inflation is cause of rising wages
            - Either way, correlation b/w CPI & rural wages is 0.9 -- very high!
        - Mechanisation
    - Current slowdown possibly due to
        - Construction slow down
        - MGNREGA - drop in real investments
        - Glut of agri produce

    - Wage Equity
        - Mid 1970s - inter regional agri wage disparities have been declining; b'cos:
            - Relative decline in food grain prices -- greater impact on purchasing power of wage earners in low wage areas
            - Agri labour migration
            - Mechanisation of labour in high wage areas
            - MGNREGA
        - Gender disparity also declining
            - Adoption of farm mechanisation tech in operations traditionally done by women has been low
            - B'cos dd was highly seasonal; intense over few days only

Factors affecting growth potential
- Lack of long term strategy for agri dvpment
    - 2nd FYP onwards: industrial bias/ service bias
    - 8th FYP reforms - bypassed agri
    - Depressed agri prices in India -- much lower than int'l prices
    - Anti-export envi for protection and growth of industries
    - Unfavourable ToT due to tariff protection to industries
    - Focus on price; ignored non-price factors (water, infra, R&D, extension services, etc)
    - Anti agri bias stems from Lewis Model; seen in post-indep policies

Problems in Indian Agriculture
- Irrigation
- Credit
- Monsoon
- Capital formation - investment, R&D
- Land reforms
- Small size of landholdings -- prevents economies of scale
    - Counter: Sen (1964) showed smaller farms more productive per hectare (using Indian data) -- balances more capital intensive argument of larger farms
    - Why? More intensive use of family labour
    - China - avg farm size half of India; productivity double!
- Environmental
    - Water export (?), fertiliser overuse, climate change
- Dumping

        - Talks ongoing for developing countries to use Special Safeguard Mechanism SSM
        - To be used when agri prices go down
- Demand side
    - Paradox of plenty
        - Calories demand falling down (NSSO) - more automated lives; lesser incidences of acute diseases
        - Switch to non vegetarian, esp chicken
        - Thus price falling
    - Elasticity to price and income low
        - Engel's law
        - Elasticity to price factors less than non-price factors
        - More than MSP, infra reqd
- Cereal centricity
    - Broader issue of MSP
    - Arising due to Green Revolution
    - Need Rainbow Revolution
- Decreasing land under agriculture
    - 2.25 lakh hectare agri land diverted to non-agri uses
    - Area under cultivation:

1980	1850 ha
2012	1830 ha

    - Per capita land fallen to 0.18 ha from 0.27 ha
- Market segmentation
    - APMC, lack of transportation, storage capacity impedes creation of national market
    - Price dispersion - range b/w highest and lowest prices received by farmers
        - Max price dispersion in US < min price dispersion in India (for any crop)
    - Regional variation in dispersion
    - Variation for crops too; higher mark up for perishables
    - Wastage of 15% (EcoSur)
        - Upto 40% for fruits, vegetables
    - Requirement of logistics
- Risk averse tendency in farmers close to subsistence level
- Diminishing returns
- Urban bias
    - Schemes, subsidies, tax benefits, infra benefits to urban area
    - Attempts to keep food prices low (inflation targeting - CPI) to keep industry & middle class better off
- Share cropping -- reduced incentive for invest
- Employment only for a few months
- NITI -- necessity of Digitisation of Land Records for better access, reduce leakage

Effect
- Low yield
    - Wheat India: 3k kg/ha < 3.25k kg/ha (world average)
    - Pulse: in MP (largest producer) ~60% yield of China
    - Stagnated productivity in wheat, rice, pulses
    - Regional variation
        - Generally highest in Punjab, Haryana
        - Domestic convergence required
            - Yield of pulses would rise by 40% if all states converge to Bihar's

productivity

- Low income
  - NSS data - average annual income of median farmer in 17 states <20k
  - Non farm income thrice as farm
- Low growth rate in agriculture
  - ? Graph
  - 3.2% in 11th FYP; v/s 7.8% overall growth
  - 12th FYP - 4%
  - Volatile growth
    - Coefficient of variation in agri growth is 6x of that for GDP growth
  - Guj, Nagaland -- grown by over 10%; probably catching up effect
- Farmer suicide
  - @3 lakh in last 20 years
  - Mostly - marginal, small farmers
  - More for cash crops -- volatile prices
  - Highest in Maha, MP, AP - monsoon dependent
  - ? Drought years -- farm riots increased 4x (NCRB data)
- Inflation
  - Rapidly rising prices; prices in West declining -> uncompetitive
- Changing sectoral composition
  - Declining relative incomes, smaller OHLs
  - Forced diversification into livestock, horticulture, fisheries

	1991	2009-10	
livestock	20%	25%	
Horticulture	6%	33%	
Fisheries			5% of agri GDP

- Growing role of private sector
  - Share of public investment declined from 50% in 1980s to 20% now
  - 1960s Green revolution driven by public sector
  - Presently - BT cotton, hybrid maize -- driven by pvt sector
- Change in land holding size
  - Avg size

1971	2.2 ha
now	1.2 ha

  - 70th round of NSSO (2014)
    - 42% rural hhs are landless -- do not receive most benefits
  - Among Agri households (AHHs)

	Land	share	Avg landholding
Marginal	< 1 ha	70% of AHHs	0.7 ha
Small	b/w 1 & 2 ha	17% AHHs	1.4 ha
Total S& M			<2 ha

  - Among landless, those with small holdings - share of income fm agri < 50% (NSSO)
    - 17 states - median income <20k
  - Swaminathan MSP (= 1.5 times cost) is of little help -- implemented now !
  - Need for horticulture, livestock support
- Trade
  - 1991 reforms -- liberalisation of trade, devaluation of exchange rate
  - Greater integration with world markets

- Share of trade in agri GDP -- 5% (1990) to 13% in 2010
- Main exports - cotton, marine products, oil meals, basmati rice, sugar - $40 bn

Farmer Crisis
- Why?
    - Price volatility
    - Structural factors
    - ? Political reasons -- new farmers movement
- Swaminathan Committee Report 2006
    - Incomplete land reforms
    - Technology fatigue
        - No new tech; (not applicable now - GM; though not getting much traction, opposition by environmentalist groups)
    - Credit, pricing, land holding, weather

Pulses
- Also refer to food security under eco2
- Pulse yield in MP (largest producer) - 60% of China's yield
- >50% of pulse production on unirrigated land
    - Very little production in well irrigated states
    - Need to shift priority in these regions through artficial measures
- ? Good news: higher prices attracted 33% more cropping area in Kharif 2016-17 v/s an year ago (updates)

? Fertiliser - refer govt schemes under GS

Seeds
- Seed quality alone explains 20-25% of productivity
- Trends & institutional fw
    - Introduction of BT seeds in maize & cotton have increased their productivity tremendously
    - Green revolution vs now -- earlier public sector introduced seeds; now private sector develops, sells seeds
    - Organised sector acc for 15% of seed distribution (public + private); rest unorganised
    - Need to protect farmers' rights + incentivise seed development

Agricultural finance and marketing [anurag's notes finance & mkting]

Subsidies, agri income

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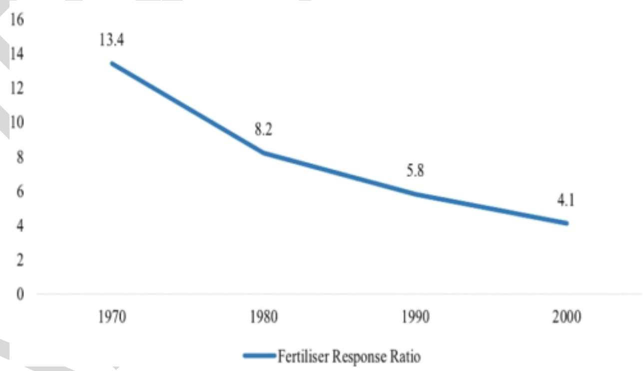
Subsidies

Types of subsidies

- Input subsidy
- Price subsidy
- Infrastructural subsidy
- Export subsidy

Input Subsidies

- On fertilisers - by central govt
    - Why?
        - Accessibility, affordability -- encourage HYV cultivation
        - Ensure fair returns on investment to attract more capital to fertiliser industry
        - http://164.100.47.193/lsscommittee/Chemicals%20&%20Fertilizers/17_Chemicals_And_Fertilizers_5.pdf
    - Policies
        - Retention Price Scheme (1997)
            - Farmers buy fertilisers at MSP - max selling price
            - Manufacturers paid retention price -- cost + 12% return
            - Subsidy = retention price - MSP
            - Farmers pay only 25-40% of actual cost
        - Nutrient Based Subsidy Scheme
            - Fixed subsidy announced per kg basis nutrient annually
            - Addl subsidy for micro nutrients
            - Updates 2020
        - Urea - only fertiliser under statutory price control
    - 

- On water - by state govt
    - Power subsidy - for power used to draw groundwater; to promote private means of irrigation; high
        - Pricing policy of SEBs
        - Free power -Punjab, TN
        - Flat rate system, irresp of capacity of pumpsets
        - *Gulati & Narayanan* -- in 2000, SEBs were recovering from agri only 9.35% of avg unit cost of power supply
    - ➢ Gujarat's Jyotigram expt - separate feeder lines for agri; shown that situation can be improved (Shah & Verma, 2008)

            - Technical solns (Gulati & Narayanan, 2003)
                - Feeder separation
                - Distributing power subsidies directly to farmers through smart cards that enable electronic meters to work
    - Irrigation subsidy - subsidy on canal water (surface water) usage
        - Gulati & Narayanan - pricing of canal water didn't cover more than 20% of operation, maintenance expenses in mid 1990s
- Seed subsidy
- Credit

Cons

- *Low effectiveness*
    - Das & Sircar -- output elasticity of investment (GFCF) = 0.86 > that of total subsidy (0.75)
- *Consequences of irrigation subsidy*
    - Inefficient use of surface water, over exploitation
    - Problems of water logging and salinity
    - Adverse effect on public sector investment in agri
    - Large no of major and medium irrigation projects - at various stages of completion -- substantial spill over costs due to policy paralysis
    - Time overruns - high real cost per ha of irrigation potential created
- *Consequences of power subsidy*
    - Heavy fiscal burden; fiscally unsustainable level
    - Pushed SEBs into heavy losses; hampered ability to undertake modernisation and upgradation of power systems in the country
    - Marginal cost of power to farmer ~0
    - Gulati & Narayanan - 'perverse incentives' -> excessive, inefficient use of power
    - Reckless exploitation of ground water
- *Consequences of Fertiliser subsidy*
    - Imbalance in fertiliser consumption (NPK ratios)

ideal	1997	2015
4:2:1	10:3:1	7:3:1

    - Vested interests due to RPS policy Retention
    - Very low fertiliser use efficiency

N - 33%	P - 15%	K - 20%

    - Harmful effects on health and environment
    - Decrease in capital formation and public investment in agri
- *Irrigation vs Fertiliser*
    - Elasticity of food grain output to irrigation is much higher than that of fertilisers
    - Investment in irrigation superior to subsidising fertilisers from POV of raising food grain production, equity in distribution
- *R*egressive, urban bias
    - LPG cylinders - 97% consumed by richest 30% (EcoSur 2015)
    - Small Savings

> ? ◻ Eco Survey 2015-16
>
> - Actual Small Saving scehemes (savings scheme for old and women) operate under TTT (Tax Tax Tax) and have a net interest rate of 4%
> - Not so small like - EEE (Exempt *3) - effective interest rate after counting exempt at 16 %

            - Emplirical analysis Says most of the subsidy on savings at 12k crore benefits the SUPER Rich who make up the top 1-2%

    - Gold
        - EcoSur - taxed at 1-1.5% (Centre + states) - v/s 26% for normal goods
        - 80% consumed by rich
    - Railways & electricity
        - EcoSur - largest bounty for rich is in subsidies of railways -- very high -- LPG, Gold
    - Total subsidy accrued by well off - 1 lakh crore - EcoSur 2015-16; revenue foregone - 5 lakh crore
        - Still underestimation bias
        - Consumption of rich under captured in NSS surveys
    - However, distribution pattern can't be changed outright b'cos
        - States in US, Europe first provided essential services like infra, health, edu before taking on redistribution role
        - Hirschman - state predominantly taking redistribution role will lead to middle class 'exiting from the state'
            - Will try avoiding taxes, using private schools & hospitals
            - Delegitimize state - vicious circle
- *Leakage*
    - NSS data - only 46% of subsidised kerosene consumed by BPL or AAY Antyodaya Anna Yojana holders
        - Jharkhand DBT for kerosene, needs to be replicated on all-India basis
    - Only 46% of wheat reaches intended target
    - Fertiliser - only 35% consumed by small & medium farmers
- *Distortionary*
    - Charan Singh - subsidies distort food pattern
    - Raises relative price of non MSP crops, like pulses
    - Misallocation due to forecast errors
- *Fiscal costs*
    - 1.25 lakh crore annual expenditure on food subsidy
    - Total figure - 2.5 lakh crore - 1.6% GDP
    - Was as high as 4% in 2013
    - Diverts resources from productive investment -- subsidy-investment connection
- *Externalities*
    - ? Water export (water intensive crops make up major portion of export)
    - Fertiliser overuse
- Inefficiency
    - Wastage of FCI
    - Railways
        - Costs have become 4x since 1993; ticket prices increased by <2x
        - Adverse consequences
            - Regressive
            - Hurts investment program of railways
            - Increasing share of roadways - railways freight - 36% in India vs 50% in US, China; down from 65% in 70s India
            - Leads to traffic congestion, environmental pollution, accidents
            - Freight tariff highest in world leading to reduction of competitiveness
    - DISCOMS
- Vimrani (2008) - subsidies negatively impact growth due to distortions
    - Empirical studies -- marginal reduction in poverty and output elasticity of

subsidy -- less than that from investment
- Inflation
  - Parikh et al -- 10% MSP rise - 1% inflation
- Populism, downward rigidity

<u>Direct Benefit Transfers DBT</u>
- Inspired by Brazil -- Bolsa familia
  - Increased income for 80% of Bolsa hhs
- ? 20% of population currently receives payments through DBT
- Total DBT - 60k crore annually - max for MGNREGA - 35k crore annually

Benefits
- Reduction of leakage
  - ? Violation of One Product One Price creates strong incentive to create ghost accounts
  - EcoSur 2015
    - 27% reduction in sales of subsidised cylinder after PAHAL
    - Savings 15k crore annually
    - Black market prices went up by 30% (Barnwal)
    - Sale of non-subsidised cylinders went up at the cost of commercial cylinders (as another violation of One Product One Price here)
  - Helps poorer states more, which witnessed more leakages earlier
- Fiscal savings
  - WB - $10bn if used in all programs
  - Savings due to PAHAL - 15k crore annually
  - 10k crore saved in PDS
- Other benefits
  - Oil companies can get their dues quickly -- improving financial condition
  - DBT helps banks
    - Govt provides margin on DBT transfers
    - Banks incentivised to expand rural banking
  - DBT platform is based on open architecture; state govts can also use it
  - IT & Financial Literacy can be spread further
  - Very fast transfer possible
  - Will incentivise financial inclusion
  - Door step delivery via banking correspondents
- Muralidharan (2014)
  - Pilot study on DBT use in MGNREGA
  - Payment received 10 days faster
  - Leakages reduced by 10% point
  - Fiscal savings 8x cost of implementing the programme

Challenges
- Last mile challenge
  - No of BCs in India - 3% of Kenya (m-Pesa revolutionised)
  - Only 25% villages have bank within 5km radius
  - Soln:
    - Need for mobile banking - 80 connection/ 100 citizens in Jan, 2016
    - Payment banks
    - Another JAM Model - BAPU Biometrically authenticated Physical uptake of subsidised goods (Krishna, Andhra)
    - Strengthen BC network by raising commission rates

        - Link bank accounts w/ Aadhaar card -- help meet technical requirements of opening Bank acc
        - Awareness campaigns regarding DBT and importance of bank accs (for both public, bank staff)
- First mile
    - Inclusion/ exclusion errors in universal schemes
    - Hh v individual connection - NFSA works at hh level while maternity payments to eldest lady of the house
    - Beneficiary database - linking data like Aadhaar, SECC data, Mobile, data from OMCs
- Middle mile
    - Resistance from middlemen to adapt
        - As seen by limited adaptation of PoS machines for biometric id
        - Need to share rent w/ them
    - Coordination w/ states
        - Incentivise states fpr first and last mile investment by revenue sharing
        - Centre should prioritise the areas where it has greatest control over first and last mile factors like in fertilisers
- IE > SE
    - Can possibly reduce work efforts
    - Farmers in particular shown to have backward bending labour ss curve
- Corruption in banking system
- Identity frauds already reduced; main issue - quantity frauds - can't be solved by PDS
- Technological
    - Finger print based Aadhaar has faulty hardware
    - Issue of mobile connectivity to micro ATM
    - EcoSur - only 50% of PoS machines worked in Jharkhand
- Legal
    - SC ruling against making Aadhaar mandatory
    - Low penetration of Aadhaar
- Choice
    - Can't be used to influence choice
    - Amartya Sen's capabilities
    - With same structure, people will still have no option except for crumpled schools, hospitals, exploiting market
        - Conditionality would increase efficiency
    - Food distribution targets children & women equally if not more; DBT could lead to alcoholism
    - Dreze & Himanshu on role of PDS in poverty reduction
    - Agri will be exposed to oligopolistic market forces if govt withdraws from food procurement; can hamper food security

Implementation issues in kerosene DBT
- Targeting is hh based v Aadhaar is individual based
- Robust database in standardised digital format is lacking
- Inter govt coordination incl with states
- Vested interests of Fair Price Shops
- Unsubsidised kerosene is cheaper than diesel; adulteration will continue
- Beneficiary financial inclusion low
- Environmental concern - time is ripe to shift to renewable energy and LPG

BAPU

- Biometrically Authenticated Physical Uptake

Pros	Cons
- Mitigates BC/ Bank problem faced by DBT - EcoSur 15 - preparedness level at 12% vs 3% of DBT - Can be used as short term cover before DBT makes inroads	- Own pre-reqs like POS machines - EcoSur - preparedness level 0 in Bihar, UP, Punjab, Haryana - Very high in Andhra, CG, MP

Agricultural Prices

Objectives of Agri Price Policy in Developing countries

- Protect/ insure the producer through guaranteed MSP
- Induce desired outputs of different crops, acc to growth targets
- Induce increase in aggregate agri output through large input use, adoption of HYV seeds, fertiliser, water responsive tech
- Induce farmers to part w/ a large proportion of food grain production as marketed surplus
- Protect the consumers from excessive rise in prices
- Balance ToT b/w agri & non agri

Agri Price Policy in India

- Organisation of food zones in 1964
  - 8 wheat zones; rice zones in S India -- failed experiment
- Fixation of MSP, govt procurement
  - CACP setup in 1965
- Rationing, sales through FPS, ration shops
- Buffer stocks, PDS, import of food grains, etc
- PDS -> TPDS
- Steps to contain price rise in essential commodities
  - Reduce import duties to zero for wheat, onion, pulses
    - 7.5% for edible oils, 10% for sugar
  - Banned export of edible oils, pulses w/ certain exceptions
    - Arvind Subramanian Committee
  - Periodic stock limit imposition on essential commodities
  - Suspended future trading in rice, urad, guar gum, guar seed

Impact of increase in agricultural prices

Profitability of agri producers increases	Real income of consumer decreases	Input cost of industrial producers rise
- Agri investment rises - Cropping pattern changes in favour of profitable crop - Resource gets diverted in favour of more profitable crop	- Demand for industrial goods & services decreases - Poverty, inequality may rise	Output and employment in the industrial sector declines (also because dd has fallen)

Govt's Pricing Policy

anurag's notes

MSP

- Minimum Support Price

- Min guaranteed price for produce in case market prices fall below that level
- Foodgrains Price Committee 1964 - recommended setting up of Agricultural Prices Commission
- Agricultural Prices Commission was accordingly set up in Jan 1965
  - Renamed CACP in 1985
- MSP - cornerstone of agri policy since 1965
- 22 major crops in 2 crop seasons - Kharif, Rabi
- CACP criteria
  - Cost of production
  - Changes in input prices
  - I/O price parity
  - Inter crop price parity
  - Demand and supply situation
  - Effect on general price level etc (ie inflation)
- MSP increase among major contributing factor in sustained agri production increase

FRP
- In case of essential commodities, instead of Statutory Minimum Price
- In context of need for remunerative price & present prevailing situation
- Eg sugarcanes

MIS - Market Intervention Scheme
- For perishables - horticulture products not covered under Price Support Scheme
- Guidelines:
  - pre determined quantity
  - at a fixed Market Intervention Price
  - Procuring Agency: NAFED (central), state govt designated agencies
  - For a fixed period/ till prices stabilised above MIP - whichever earlier
  - Area of opn: restricted to concerned state ONLY

PSS
- Procurement of oil seeds, pulses, cotton through NAFED (Central nodal agency)
- At MSP

CIP
- Wheat, rice issued to state govt/ UT from central pool at CIP for distn under TPDS

CPS
- Procurement of kapas at MSP, largely operated by Cotton Corporation of India
- Losses fully reimbursed by Union Min of Textiles

PSF
- Refers to ANY fund constituted for containing extreme volatility in prices of selected commodities
- Set up in 2014-15 under Dept of Agri, Cooperatives & Farmers Welfare (DAC&FW)
- Previously created b/w 2003-13
- PSF scheme transferred from DAC&FW to Dept of Consumer Affairs wef 2016
- To help regulate price volatility of important agri-horticultural commodities like onion, potatoes, pulses
- Scheme - provides for maintaining strategic buffer of aforementioned commodities for subsequent calibrated release to moderate price volatility and discourage hoarding and unscrupulous speculations -- by NAFED, SFAC

- Apart form MSP already existing for certain goods

Thus MSP provided to farmers through

PDS	PSS	PSF	CPS	MIS

<u>MSP</u>

- Currently on A2+FL
    - A2 is all actual expenses - cash + kind
    - FL is opportunity cost of family labour
- Demand is C2
    - Comprehensive costs
    - Opportunity costs of rent, interest on capital
- Price policy
    - Main price intervention from govt comes in form of MSPs and CIPs
    - Diff b/w MSP and CIP is central subsidy
    - Initially (introduced in 60s)
        - Focus on maintaining balance b/w interests of consumers & producers
        - Govt realised importance of public inv in non-price interventions as well
        - Regime: low cost of production, low MSPs
        - Greater focus on public investment in 70s
    - Late 80s
        - Trend towards higher MSPs
        - Relative exclusion of non-price interventions (high input, high output costs)
        - Public inv in irrigation, research, extension, other infra went down
    - Excessive reliance on price policy -> yields kept decreasing

Significance

- Price volatility in agri due to Cobweb model
    - Causes
        - Volatility of supply
        - Backward looking supply price
        - International effects
        - Information asymmetry
        - Lack of market integration
    - Solns
        - Futures market
        - Warehousing
        - International trade
        - Domestic trade -- national market for agri
- Induces greater investments and production;
    - Gulati & Bathla: inv depends on ToT
- Meets the objective of food security through complementary programme of PDS
- Used to <u>induce inter crop shift</u> - comparative advantage, availability of superior technology in diff crops
- Protection against global shocks
    - Abhijit Sen - int'l price variation greater than domestic
- Protect farmers from middlemen exploitation, distress sales
- Assurance of minimum returns -- acts as price insurance
- Ensures adequate income transfers to farmers

- Positively correlated to rural wage (Dasgupta et al)

Challenges
- Lack of awareness
  - Shanta Kuma Committee(2015): only 6% of farmers benefit from MSP
  - NSS survey - only 20-30% farmers about existence of MSPs for some crops
  - Only 10% farmers aware about MSP before sowing
- NITI Aayog observations on Procurement Centres
  - Distant location
  - Do not open timely
  - ? Insist on revenue records
  - Lack of storage facilities
  - Payment delays

Solution
- Announce it well in advance
- Increase awareness through state, FCI, agri-dept officials for increasing bargaining power of farmers
- On spot payments will encourage farmers to take MSP route
- PCs should be within villages
- More storage facilities should be provided at PCs along w/ electronic weighing machine
- PCs within villages

Cons
- Cereal centricity
  - Triggered pulses, oilseeds, protein inflation
- Announced for 22 crops; procurement limited to few (paddy, wheat, limited pulses)
  - Ashok Gulati - decrease no. Of crops (5-7), increase procurement to 100%
- Equity
  - Major beneficiaries - rich farmers
  - Inter-regional: states like Punjab, Haryana - not dependent on monsoon rains
  - In poorer states, high costs of production, inadequate returns out of MSP
- Inflation
  - Food is sucked from market, prices rise
  - Downward rigidity in real MSP due to political reasons
  - Parikh et al (2003)
    - 10% rise in MSP -> rise in overall index by 1-1.5%
    - Bottom 80% of rural and urban population has been worse off by intervention of higher support prices due to inflation -- hurts poor more
  - SBI study
    - Insignificant contribution to inflation
- Geography
  - Procurement largely from a few states
  - Punjab, Haryana, MP - acc for 49% of national wheat o/p for 93%
  - Paddy - 6 states w/ 40% production have 77% share of procurement
- Fixed uniformly for entire country; production costs vary across states
- Distortion of market
  - Market becomes monopoly; no competitive pricing
  - Political populism further distortionary
  - Deadweight loss - diff crops planted rather than ones ideally reqd mkt wise
- Environment - water export
- International pressure

    - WTO food subsidy issue
    - Amber Box subsidy - under de minimis (?) provision would exceed 10%
- Complementary issues
    - Rotting of food stocks
        - High level committee report - buffer w/ FCI has been on avg 2x of norms -> inflation
        - OMSS ad hoc, slow
    - NSSO: 46% under TPDS is diverted

Other side
- MSP is linked to cost of production
    - Inadequate incentive for farmers to switch to cost saving technologies
        - Need to promote labour saving farm implements
    - Current policy favours cereals; distorted production
    - CACP - India's MSP among lowest in Asia Pacific - indicates Urban Bias
    - Cost of production has escalated sharply for most crops during last 3 years; rise in MSP unsurprising
    - Cost of production for paddy in 2012 - 50% higher than 2008; MSP only rose by 20%
    - Critics of MSP fail to highlight production impact of delay in such hikes

Some recommendations
- NITI Aayog
    - Price deficiency payment mechanism
    - Fix a floor price based on last 3 yr avg
    - Compensate the difference b/w this floor price and price realised (based on APMC mandis)
    - DBT
    - ? Bhavantar Bhugtan Yojana - Haryana
        - Similar scheme in MP, undermined by traders who depressed prices in mandis as farmers would be compensated anyway
    - Also,
        - Procurement centres at village level
        - Announce MSP before sowing
        - Tech at procurement centres -- electronic weighing machines
        - Increase awareness
        - Criteria of MSP must be based on current year rather than past data
- Swaminathan Committee Report
    - MSP = 1.5x cost of production
    - Cons - fiscal cost, distortion; still not enough
- Economic Survey
    - Have an MSP Policy that does price signalling based on social rather than private returns of production
    - Social returns to pulses higher -- externalities of lower water usage, nitrogen fixation, aeration of soil, etc
- Bring down cost of production through public investments and other non-price interventions
    - Farm profitability and food security
    - Gulati - public investment 3x more effective than price subsidies
- Rationalisation of MSP for pulses, oilseeds
- Cooperation b/w states & Centre for fixing prices based on updated data
- S Mahendra Dev & Chandrasekhar Rao: System of variable tariffs (linked w/ global

prices) should be used to insulate domestic prices from global volatility

Pricing and Income Support Models

Scheme	Challenges
Scheme 1: MSP = 1.5x cost of production	- Impact on inflation - Issues w/ MSP
Scheme 2: Price Compensation Scheme (PCS) at all India level - MP, Haryana - Bhavantar Bhugtan Yojana	- BBY could benefit only 23% of production - Financial costs of ramping up PCS at national level estimated to be ₹58 crore to ₹1.3 trillion to ₹1.69 trillion depending on whether market price is 10% or 20% or 30% below MSP - Manipulation by traders and mandi officials to depress both prices, inflate production • Parallels w/ China's Great Leap?
Scheme 3: Agriculture Investment Support Scheme - Rythu Bandhu (Telangana) -- support to 5.8 mn farmers at ₹4000 per acre per season to support farm investment twice a year, for rabi and kharif seasons - Easy to implement, w/o leakage	- Ashok Gulati et al estimated cost of scheme would be around ₹1.97 tn if govt implemented it at all India level assuming payout of ₹10,000/ hectare/year - Fiscal nightmare if ₹4000 per acre -> ₹3 trillion
Solution: hybrid of MSP + PCS	- For cereals, continue procurement at MSP - MSP for crops like groundnut, sesamum, niger seed, soyabean - Pulses, sunflower seed - PCS - as limited impact on inflation and fiscal cost

<u>Futures Market</u>
- Helps in price discovery
- Crops can be sown based on forward rather than backward looking prices
- Brings in stability and fluctuations of agri price subsides (cobweb)
- India issues
    - Late entrant; comprehensive future market started only in 2003
    - Element of ad hoc-ism, suspicion -- commodity market gets suspended
- Way out
    - China model
        - Started in 1990s
        - At present 69% of world's future trade occurs in China
        - What did they do?
            - Focus on non-food crops; so food security is not compromised
            - State participation in future trade
            - No abrupt suspensions

Pricing policy also involves ideas like e-NAM that reduce price dispersion

National Agricultural Market (Burman et al, 2018 - NIPFP)
- A soln to high price volatility in India
- Hindrances

    - State control over production and trade in essential commodities (ECA 1955) -- amended 2020
    - Incomplete markets in futures
    - Arbitrary export and import controls
- Legal aspects
    - Schedule 7th
    - Article 301 - freedom of trade, commerce and intercourse -- intrastate, inter state
    - Article 307 enables Parliament to create any authority and vest it with any power to regulate and promote inter-state commerce
- Solutions
    - Use powers under Schedule 7 to institute modern APMC framework, conducive to creation of national market
    - Statutory body to identify technical barriers to agricultural trade

Agricultural Income

Doubling Farmers' Income

- Target: In real terms by 2022
    - Avg farmer household earned ₹96,703 in 2015-16; doubling income would mean ₹1,93,406 by 2022-23 (Dalwai Committee)
    - Would required real income to grow at CAGR 10.4% at all India level
- Requires growth rate of 10%; currently at 3.5%
- Not impossible though -- China managed this in 6 yrs (78-84)
- India
    - 2006 to 2013-14 -- agri income doubled in Guj, Jharkhan, MP, Raj
    - Took 7 years
- Ashok Dalwai Committee recommendations
    - Would require addl investment of 6.5 lakh crore

- 5 segment approach
    - Productivity
        - Irrigation, capital formation
        - Innovative systems - SRI
        - Seeds, fertilisers: optimum use through SHC, KVK
        - Soil quality, awareness
    - Rationalising subsidies
        - Nutrient based
        - Neem coated urea
        - DBT experimentation
        - Power subsidies rationalisation -- separate feeder, smart card
    - Integrated farming
        - Agro forestry
        - Livestock
        - Horticulture, aquaculture
        - Linkage with food processing
    - Marketing and price realisation
        - e-NAM, e-GRAM
        - Model APMC - for inclusion of private mandis, direct marketing
        - Contract farming
        - MSP to DBT Model
    - Special policy measures

    - Structural reforms - distribution of ceiling surplus, waste land; land titles (SVAMITVA)
    - Essential Commodities Act -- agri products removed except under extreme circumstances (2020 amendment)
    - Promote agri exports

<u>Taxing Agri income</u>

- CAG finding:
  - ₹500 crore agricultural income allowed as exemption in 2017-18 w/o adequate ve rification by tax authorities
  - ~25% cases reviewed by CAG had tax claims approved w/o supporting document verification (land records, crop info, invoices, etc)
- Tax Administration Reform Commission TARC (2014)
  - Agricultural income of 'non agriculturalists' is being increasingly used to avoid tax, and for laundering funds
  - Influenced CAG's focus on the topic
  - Reco: famers w/ agri income above ₹50 lakh must pay income tax
  - Why? Farmers w/ >4 hectares of land form ~4% of total farming families; corner 20% of agri income
- Vijay Kelkar Task Force, 2002
  - Not taxing agri income violates horizontal, vertical equity -- no point leaving rich farmers out of tax net and taxing others
- RTI reply 2016
  - Avg income of 8 lakh taxpayers who had declared agri income in 2012 was ₹83 crore
- Centre in a reply to Chandigarh HC:
  - Decision to levy tax on agri income lies w/ state govt
  - Can impose only if states pass resolution under Art 252 authorising the Centre to do so
  - ? What about Rajya Sabha?
- Bibek Debroy (NITI)
  - NITI recommended taxing agri income in it's 3 yr action plan
  - State specific acts to tax agri income - Bihar (1938), Assam (1939), Bengal (1944), Odisha (1948), UP (1948), Hyderabad (1950), Travancore & Cochin (1951), Madras & Old Mysore (1955) -- some of these still persist
- Subsidies
  - Adequate tax data would help govt to identify small, big farmers for targeted subsidy schemes
- NSS
  - 70% agri hh have marginal holdings (<1 hectare)
  - Only 0.4% hold over 10 hectares
  - Taxing income of top 4.1% agri hhs at an average of 30% -> ₹25,000 crore could be collected as agricultural tax
- Inequities
  - Exemptions under IT Act have been reaped mostly by rich farmers who abuse it
  - Small scale farmers barely impacted by them
- PM-KISAN also benefits 8lakh+ big landholders (>10 hectares)
  - 0.6% of overall farmers
  - Punjab - 5.5%, Rajasthan 4.7%

Challenges

- Political will -- vote bank, state legislatures populated by landowners
- Cash transactions
- Burden small farmers
-

Farm Subsidies & MSP (GS3 - Vision)

- Govt role in agri sector:
  - Self sufficiency
  - employment creation
  - support to small scale producers for adoption of modern tech & inputs
  - reduction of price instability
  - improvement of income of farm households
- Subsidies
  - Direct or indirect
  - Cash or kind
  - General or particular
  - Budgetary or non budgetary
- Social justification: Reducing inter personal income inequalities, inter regional development imbalance

Agricultural Subsidies

- Govt financial support paid to farmers, agribusiness to supplement their income, manage supply of agri commodities, influence cost & supply of such commodities
- *Types*

Explicit input subsidies	- Explicit payments to partially offset cost of an input - Generally for small, medium farmers
Implicit input subsidies	- Emerge from mechanics of pricing of inputs themselves - When administratively determined prices are lower than economic cost
Output subsidies	- Product prices in domestic market maintained higher than in absence of restrictions on trade - Vis a vis ~taxation - when trade causes lower product prices than autarky
Food subsidies	- Complementarity of NFSA & MSP

- *Types based on mode of payment*

  <u>Direct</u>

  - Money transfers by govt reaching ultimate beneficiary through formal predetermined route

Pros	Cons
- Farmers' purchasing power ↑ -> multiplier effect - Proper identification of beneficiaries - Greater transparency, efficiency + regional balance + crop diversification - Sense of agency to beneficiaries - More likely to control inflation, decrease prices	- Cash may be used in non priority activities/ non productive works - Vulnerable to volatility of market mechanisms - Widespread illiteracy and lack of awareness

of fertiliser - Induce behavioural changes - Better nutrition -- cereal centric food policy ignores micro nutrients requirement of human body	

<u>Indirect</u>

- Through price reduction, welfare, etc; do not include a direct cash payment

Pros	Cons
- Address development concerns of priority sectors - Better tools at govt's disposal for fulfilment of specific targets	- Takes away incentives from other areas ◆ Eg Indian agri -- cereal centric, regionally biased, input intensive - Over exploitation of ground water, indiscriminate use of fertilisers - Not successful in reaching target beneficiaries - Liable for misuse -- populist measures

- *Issues + possible resolutions*
  - Heavy fiscal burden

Table 2: Expenditure on Major Agricultural Subsidies (Rs. Crores)

Name	Source	Year	Year
Fertilizer	Union Budget	2017/18	70,000
Power	Dharmadhikari et.al (2018) based on Power Finance Corporation data	2015/16	90,000
Credit	Union Budget	2017/18	20,000
Irrigation	Central Water Commission (2017)	2013/14	17,500
Crop Insurance	Union Budget	2018/19	13,000
Price Support	Author's estimate	2014/15-2016/17	24,000
Total (without inflation to 2017/18 price levels)			2,35,500
Lona waivers	PRS Legislative Research https://www.prsindia.org/policy/discussion-papers/state-state-finances-2018-19	2017/18	1,22,200

Source: Compiled from the sources mentioned in the Table. The price support subsidy are the author's computations.

    - <u>Resolution</u>: better targeting w/ JAM
  - Excessive use of natural resources
    - Policy design, implementation skewed towards excessive use of subsidised resources
    - <u>Resolution</u>:
      - separate agri feeder network - electricity supply only few hours a day
      - Done in Gujarat - positive results (under Deen Dayal Upadhyay Gram Jyoti Yojana)
  - Environmental effects, decline in soil fertility
    - Imbalance in fertiliser use -- wider consumption ratio of NPK 6.7:2.4:1 vis a vis desirable 4:2:1
    - Harms soil fertility, biodiversity
    - Causes eutrophication, bio accumulation/ bio magnification
    - Resolution:
      - creating awareness among farmers
      - increasing penetration of soil health card scheme
      - promoting organic farming
      - innovative products (neem coated urea, etc)
  - No benefits to targeted group

        - Generally benefits cornered by rich farmers
        - Resolution
            - Nutrient based subsidy
            - DBT of fertiliser subsidy
            - Phased increase in price of urea
            - Organic farming
    - Cereal centric, regionally biased, input intensive
        - Causes food insecurity in lower strata dependent on coarse cereals
        - Subsidies mostly go to rich states able to grow marketable surplus with well developed infra
        - Resolution:
            - crop diversification
            - Horticulture, organic & cooperative farming
            - Food processing
            - Mixed farming
            - DBT
    - Indiscriminate use of price subsidies
        - Create inefficiencies due to incentives for fraud, diversion, waste
        - Threatens sustainability of subsidy itself
        - Resolution
            - Explore alternatives eg. Price deficiency payments
    - Better use of credit or interest subsidies
        - No rationale for credit subsidies
        - B'cos formal sector interest rates not the constraint to access to formal credit
        - Resolution
            - Better to spend on strengthening credit infra & rural banking

Agriculture Subsidies & WTO

- Covered under GATT (1948) w/ numerous exemptions
    - Didn't have strict discipline (vis-a-vis industrial products)
    - Trade distorting practices: import bans, import quotas, high import duties, variation in import duties rates, minimum import prices, non-tariff barriers (NTBs), domestic subsidies (dvped ctries)

Uruguay Round, 1995

- AoA Agreement on Agriculture 1995
- Long-term aim: fair & market oriented agri trading system
- Committed to reduce support, protection
- Also accounts for non-trade concerns - food security, environment
- Implementation period: 6 yrs for dvped ctries; 10 yrs for dvping ctries
- Special Safeguard Mechanism SSM - extra duty in case of import surge/ extraordinary price fall
- 2 types of domestic support

Trade distorting	Non-trade distorting
- Amber box measures - Need to reduce - Eg. MSP, input subsidies - Blue Box - Amber Box subsidies w/ production limit	- Green box measures - Exempt from reduction commitments - Can be increased to any levels - Eg: R&D, pest & disease control, training, infra, decoupled direct payments - Ambiguity in classification though as some direct

	payments also included under thi

- S&DT Special & Differential Treatment for Dvping Ctries
    - Investment subsidies, agri input services for low income farmers; measures for diversification of narcotics crops
- De-minimis - minimal amt of trade-distorting support allowed
    - Ceiling: 5% of value of that agri product in dvped ctries; 10% for dvping
    - Base prices considered wrt 2 decades ago
- Peace clause
    - domestic support measures, export subsidies under Art 13 (AoA) can't be challenged by other WTO members for being illegal wrt some other WTO agreement
    - Can't bar food security programs even if breaches limits
    - Expired 2004; Temporary peace clause @ Bali for 2013-17
        - Partial success for India's stance
        - Accepting temporary peace clause ≠ dvping ctry subsidy programmes are in violation of global norms
        - Requires full disclosure -> opens domestic policies to int'l scrutiny
    - India invoked in 2021 for rice subsidies
    - Way forward -
        - Dvping ctries must seek clubbing all kinds of agri support & seek parity w/ dvped ctries
        - Other members must have freedom to impose protective tariff linked to differences in domestic support
        - Attention to infra development to counter adverse impact of Green Box subsidies

Doha Round, 2001

Bali Ministerial 2013	Nairobi Package 2015
- Agreement to negotiate for permanent solution to Public Stockholding for food security - Expand Green Box list of 'general services' - Reduce all forms of export subsidies, enhance transparency & monitoring - Temporary peace clause for 2013-17	- Decided to eliminate agricultural export subsidies - Set disciplines on export measures w/ equivalent effect - Different timelines for dvped/ dvping (SDG 2 - Zero Hunger) - Discipline in food aid to avoid -ve effect on domestic producers/ regional mkts - Continued negotiations on SSM

Indian Agricultural Subsidies & WTO

- India's expectations from AoA
    - Reduce domestic support by OECD to agri sectors
    - Increase price of agri products in int'l markets
    - Improve export prospects
- **India's contentions:**

Permanent & workable soln to food security at WTO	- Only temporary reprieve for dvping ctries at present - Issue: procurement of foodgrains from farmers at prices fixed by govt to promote food security in poor ctries - India not satisfied w/ 'Peace Clause' for perpetuity - No resolution at Bali (2013), Nairobi (2015), Buenos Aires (2017)
High farm subsidies by developed ctries	- AoA: AMS cap 5% (dvped), 10% (dvping) - AMS: Aggregate Measures of Support - 2 components - product specific, non-product specific - Dvped ctries get away w/ ~200% support despite 5% de-minimis b'cos historical bound AMS levels very high - Dvped ctries do NOT admit variation in capacity, structural composition of economies in dvped and dvping ctries
Use of SPS & TBT by Developed Ctries	- Non-tariff measures - Selectively ward off imports by imposing higher std than those imposed by int'l bodies - Agreement on Sanitary & Phytosanitary Measures (SPS): must be only to extent necessary; not arbitrary - Agreement on Technical Barriers to Trade (TBT): non-discriminatory technical regulations, standards and conformity assessments - Use of NTMs has increase in last 2 decades (UNCTAD, 2019)

Agricultural Pricing Policy

- Evolved in context of shortage, excess dd (1960s)
- Objective: balance and stable price structure, protect interests of both consumers & producers, attain growth & equity in eco dvp
- 3 types of administered prices: support, procurement, issue price

Support price	- Announced at sowing, indirectly affect farmers' decisions depending on price realisation from previous crop and expectations for coming season; long term guarantee
Procurement price	- More than MSP - Meant for PDS disbursals, buffer stock - Quantity must be disbursement requirements under PDS - Actual qty depends on price set by govt
Issue price	- For foodgrain supply under PDS thru Fair Price Shops, ration depots

CACP Commission for Agricultural Costs & Prices

- Attached office of Ministry of Agriculture & Farmers Welfare, since 1965
- Initially Agricultural Prices Commission; renamed in 1985
- Composition: Chairperson + Member Secy + 1 official member + 2 non-official members (farmer representatives)

- Mandate: recommend MSPs to incentivise modern tech adoption, raise productivity, overall grain prodn
- Recommends MSP for 23 commodities
  - 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley and ragi)
  - 5 pulses (gram, tur, moong, urad, lentil/Masur)
  - 7 oilseeds (groundnut, rapeseed/mustard, soyabean, seasmum, sunflower, safflower, nigerseed)
  - 4 commercial crops (copra, sugarcane, cotton and raw jute)
- Submits annual Price Policy Reports
  - Doesn't do any field-based cost estimates
  - Projections based on estimates by Directorate of Economics & Statistics in Agricultural Ministry (state-wise, crop-specific production costs)

MSP

- Since 1960s
- Aims:
  - Remunerative, stable price envi for farmers
  - Economic access of food
  - Evolve production pattern aligned with overall economy's needs
- Consequences of rapid, violent price fluctuations
  - Sharp fall in price -> contraction of ss in following year -> sharp price rise for consumers
  - Steep decline -> cultivators won't grow same crop next year -> if staple crop, govt will have to import -> fiscal burden
  - Steep rise in price -> consumers suffer -> if necessary item, won't have enough to spend on other items -> other sectors of economy suffer
- <u>Determination of MSP</u>
  - Factors: supply and demand situation of commodity, market price trends (Domestic & global), parity vis-a-vis other crops, inflation implication for consumers, environment (soil and water use), terms of trade b/w agri & non-agri sectors
  - 3 types of productions costs, at state & all-India avg levels

A2	- Actual costs paid by farmer for input purchase
A2 + FL	- FL: family labour (imputed costs)
C2	- Comprehensive cost - notional costs of family labour, notional rent of owned land, notional interest on owned capital

- Recent changes in MSP calculation
  - Promised 50% margin over C2; never implemented
  - Budget 2018-19: 1.5x costs (didn't specify which costs)
  - CACP - 1.5x (A2 + FL)
  - Farm activists: want 1.5x C2 (MS Swaminathan Commission)
- Constraints
  - 1.5x C2 in all crops impractical as 35-40% higher than (A2+FL)
  - Would require 46% rise in paddy MSPs
  - Cost based calculation ignores dd side
- <u>Critical evaluation of MSP</u>
  - Contributes to inflationary trend
  - Bias in favour of surplus states: 95% wheat procurement from Punjab, Haryana, West UP; 90% paddy procurement from Punjab, Andhra, Haryana, UP, TN
  - Adverse impact on investment in other sectors: 10% increase in MSP of wheat &

rice leads to 1.9% fall in investment, 0.33% GDP slump
    - Distortion in cropping pattern in favour of wheat & rice; no pulses, coarse cereals
    - Faulty criterion for calculation based on costs -> inefficiencies
    - Bias in favour of large farmers
    - Deters crop diversification due to cereal centricity; large shortage of pulses (10% import), edible oils (50% import)
    - Flaws in PDS - urban bias, cereal bias, high cost, poor targeting
    - High burden on rural poor due to higher MSP and price rise of cereals
    - Price incentives & fiscal squeeze
- Way forward
    - Increase scope of procurement under MSP; not restricted to regions/ crops
    - Overcome state-wise differences in awareness levels, lacuna in MSP announcements
    - Meaningful consultation w/ State Govt on methodology of MSP computation
    - Ensure swift payments
    - Announce well in advance of sowing season to enable planning by farmers

Some Alternatives to MSP

- Price deficiency payment - DBT the difference b/w MSP & selling price
- Area planning/ restrictions - UK - all farms >5ha must get approval for use of land for growing crops -> checks price crash due to over-production
- Direct income support - less distortionary; Telangana, K'taka

Impact of Farm Acts 2020

- 3 acts:

The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020	- Opens up agri sale & marketing outside notified APMC Mandis - Removes barriers to inter-state trade - Fw for electronic trading of agri produce - Prohibits State govts from collecting market fee, cess or levy outside APMC markets
The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020	- Fw on trade agreements for sale and purchase of farm produce - Mutually agreed remunerative price fw to protect, empower farmers - Written farming agreement - prior to production, rearing -- T&C for supply, quality, grade, standards, price of farm produce & services
The Essential Commodities (Amendment) Act, 2020	- Removal of cereals, pulses, oilseeds, edible oils, onion, potatoes from list of essential commodities - Deregulate production, storage, movement, distribution - Regulation by Centre ONLY during war, famine, extraordinary price rise, natural calamity; provide exemptions from exporters & processors even at such times - Imposition of stock limit must be based on price rise

PDS, Food Security, Buffer Stocks

25 June 2021 20:21

Food Security

- [ ] anurag's notes

- Global food crisis in 1970s -> origin of concept of 'food security'
- FAO, 2001 report on 'State of Food Insecurity'
  - Food security = when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life
- Food Security = availability + access + affordability
  - So far govt focus has been on affordability
  - Need thrust on access and availability now
- Parikh et al. Food inflation disproportionately hurts the poor and their food security
- **World Summit** on Food Security **(FAO)**
  - 4 pillars of food security
  -

Availability	Access	Utilisation	Stability

- Constitution
  - Article 21 - right to live w/ human dignity - includes right to food and other basic necessities
  - Article 47 - primary duty of state to raise nutrition level and standard of living of citizens

<table>
<tr><td>Qualitative dimensions</td><td>- Self sufficiency in food grains since 1970s
- Stable per capita net availability of food grain over years</td></tr>
<tr><td>Quantitative dimensions</td><td>- Not equally distributed
- FAO 2020, State of Food Security and Nutrition:
<table>
<tr><td></td><td>2012</td><td>2019</td><td>Trend</td></tr>
<tr><td>Undernourished</td><td>249 mn (2005)</td><td>189.2 mn</td><td>Decline</td></tr>
<tr><td>Stunting under 5yo</td><td>47.8%</td><td>34.7%</td><td>Decline</td></tr>
<tr><td>Obese adults (18 -)</td><td>25.2 mn</td><td>34.3 mn</td><td>Rise</td></tr>
<tr><td>Anaemia in women of reproductive age (15-49)</td><td>165.6 mn</td><td>175.6 mn</td><td>Rise</td></tr>
<tr><td>Infants (0-5 mo) exclusively breastfed</td><td>11.2 mn</td><td>13.9 mn</td><td>Rise</td></tr>
</table>
- Global Hunger Index 2020: 94th/107 (behind Bangladesh, Pakistan, Nepal)
? - NFHS 5 findings</td></tr>
</table>

- 3 basic safety nets and 1 monitoring programme
  - PDS, ICDS, MDM, Poshan Abhiyaan

Programme	Objectives/ features	Target	Remarks
ICDS Integrated Child Development	- Holistic package 6 basic services - Supplementary feedings for 300 days	Children <6yo	- Centrally sponsored - 1975 - Largest child

<table>
<tr>
<td>Scheme</td>
<td>
<table>
<tr><td></td><td>calories</td><td>protein</td></tr>
<tr><td>Child</td><td>500</td><td>12-15 g</td></tr>
<tr><td>Pregnant</td><td>600</td><td>18-20 g</td></tr>
</table>
- Immunisation
- Health check-ups
- Referral services
- Health, nutritional edu to adult women
- Non-formal, pre-school edu for 3-6yo
</td>
<td></td>
<td>intervention program globally
- Critical appraisal</td>
</tr>
<tr>
<td>MDM Mid Day Meal Scheme</td>
<td>
- Nationwide central scheme
To improve
- Enrolment and regular attendance
- Reduce dropouts
- Improve nutritional status of primary school children
- Norms:
<table>
<tr><td></td><td>Calorie</td><td>Protein</td></tr>
<tr><td>Primary</td><td>300</td><td>8-12 g</td></tr>
<tr><td>Upper primary</td><td>700</td><td>20 g</td></tr>
</table>
</td>
<td>- 2008-09: includes upto 8th std
- Initially only for primary students</td>
<td>- World's largest school feeding program
- 11 crore children in Schools, EGS Edu Guarantee Centres
- 1995
- Critical appraisal</td>
</tr>
<tr>
<td>National Nutrition Mission (Poshan)

Nodal: Min of Women & Child Dvp
Also others MoHFW, Min of Drinking Water & Sanitation</td>
<td>- 3 phased programmed
- Reduce stunting, undernutrition, low birth weight by 2% p.a.
- Anaemia among children, women/ adolescent girls by 3% p.a.
- Mission 25 by 2022: reduce stunting from 38.4% to 25% by 2022</td>
<td>- Women, adolescent girls, children</td>
<td>- Salient features:
- NNM as apex body -- monitor, supervise, fix targets, guide nutrition related interventions
- Mapping of various schemes
- ICT based real time monitoring
- Incentivise - states/ UTs, Anganwadi Workers
- Height measurement at AWCs
- Social audits
- Nutrition Resource Centres (NRCs)</td>
</tr>
<tr>
<td>Pilot scheme on rice fortification

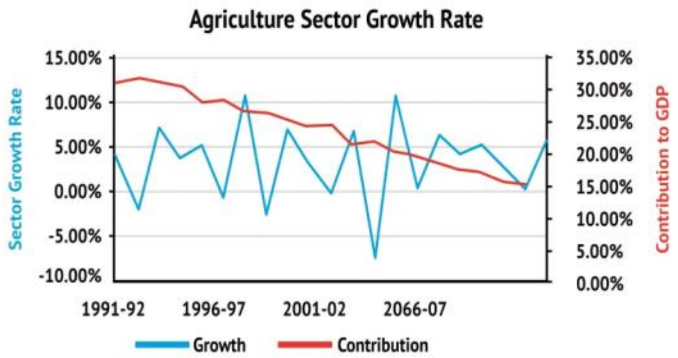
Dept of Food and PDS
Min of Consumer Affairs</td>
<td>- Centrally sponsored pilot scheme on rice fortification and dispersal through PDS
- Financial assistance upto 90% in NE, Hilly, Island states; upto 75% to other states
- Also recommended fortified wheat through PDS</td>
<td></td>
<td>- Aided by World Food Programme</td>
</tr>
</table>

Critical Appraisal of ICDS, MDM

- Meagre allocation of resources, faulty policy design
- Nutrient deficient meal, poor quality

- ICDS limited to only one fn to SNP Supplementary Nutrition Program; no attention to other fn
- Hidden hunger - nutrient deficiency iodine, calcium, iron, Vitamin A
- Neglects child immunisation, pre-school education, except TN (FOCUS report)
- Poor implementation; vacant supervisory posts in many states
- Corruption - 'panjiri' (ready to eat energy mix) for children used to feed cattle
- Private contractors, political leaders, influential business -- SHGs to gain these contracts

Challenges

- Changing climate, growing global popn, rising food prices, poor agricultural growth rate, environmental stress factors
- Economically backward popn -> can't afford adequately for dietary requirements
- 

National Food Security Act, 2013

- Paradigm shift from welfare approach to rights based approach
- Food and nutritional security in human life cycle approach
- Brings Right to Food

Key Features

- Legal entitlement for 75% rural, 50% urban popn under TPDS
  - Covers ~67% of total popn
- 'Individual entitlement' -- hh under prev schemes
- AAY households 35kg food grain per household per month
- Special focus on pregnant women, lactating mothers, children upto 14yo
  - Cash maternity benefit of ₹6000 for pregnant women
- Women empowerment: eldest woman is head of hh
- State govts for beneficiary id
- Exclusive breast feeding for children <6mo
- Age-appropriate free meals for 6mo - 6yo at AWC
- MDM for 6-14 yo
- State Food Commission - chperson, 5 members, 1 secy
- Equivalent food security allowance if state govt unable to provide food grain
- 3 schedules
  - Schedule 1: issue prices for PDS
  - Sch 2: nutritional stds for MDM, take home rations, related entitlements
  - Sch 3: various provisions to advance food security
    - Revitalise agri (land reform, R&D)
    - Procurement, storage, movement of food grains
    - Other provisions (safe drinking water, sanitation, healthcare, adequate pensions for vulnerable)
- Merges 4 programs
  - TPDS + MDM + Matritva Sahyog Yojana + Wheat Based Nutrition Program (under ICDS, for

<6yo)

Provision	Current TPDS	National Food Security Act 2013
Implication for 'right to food'	Set up under administrative order; no legal backing	Provides statutory backing for right to food
Coverage	90.2 crore beneficiaries = 18.04 crore families x 5 (average no. of members in a family)	Up to 75% of rural and up to 50% of urban population, about 81.34 crore beneficiaries[32]
Categories	AAY, BPL, and APL	AAY, priority, and excluded
Entitlements per category	BPL and AAY: 35 kg/family/month APL: 15 – 35 kg/family/month	Priority: 5 kg/person/month AAY: 35 kg/family/month
Prices of food- grains	AAY: Rs 3/kg for rice, Rs 2/kg for wheat, and Re 1/kg for coarse grains Other categories: differs across states	All categories: Rs 3/kg for rice, Rs 2/kg for wheat, and Re 1/kg for coarse grains
Identification of beneficiaries	Centre: ▪ releases state-wise estimates of population to be covered under TPDS ▪ creates criteria for identification States: Identify eligible households	Centre: releases state-wise estimates of population to be covered under Act States: Thus, states can NOT set prices ▪ create criteria for identification ▪ identify eligible households
Centre-state responsibility	Centre: procurement; state-wise allocation; transport of grains up to state depots; storage States: delivery of grains from state depots to ration shop to beneficiary	Same as current system with some additions Centre: provides food security allowance to states to pass on to beneficiaries Centre and states: not responsible for failure to supply food grains during force majeure conditions, e.g., war, flood, drought
Grievance redressal mechanism	State governments responsible for ensuring monitoring; vigilance committees to be set up at state, district, block and ration shop levels	Appoints district grievance redressal officers; establishes State Food Commissions; and vigilance committees at state, district, block and ration shop levels

National Food Security Mission

- Focus on districts w/ lower than national avg productivity of wheat, rice, pulse, millets, fodder to increase production
- National Targets to increase productions by total 20MT by 2012
    - Rice 10 MT - achieved
    - Wheat 8 MT - achieved 13 MT
    - Pulses 2 MT - achieved 3 MT
    - Thus **overall successful**
- Stresses on farm mechanisation, better inputs, seed development, technology demonstration and deployment, marketing access
- Dedicated Project Mgmt Teams (PMTs) - at district, state, national levels
- Publicity campaigns at national, state, district level thru ads in print media, video clips on mass media
- Pulses: majority of 171 districts showed consistent yield growth despite drought conditions

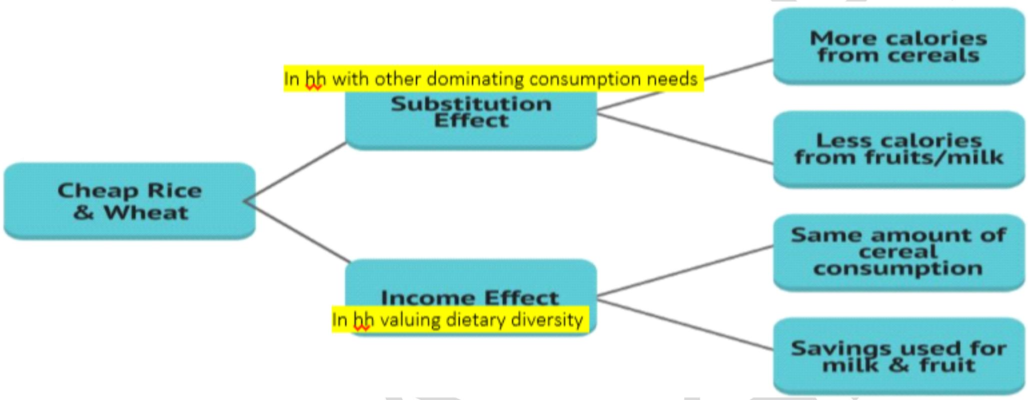
NFSM 2.0 in 12th FYP

- Also cover coarse crops
- National targets to increase production by 25MT by __
    - Rice 10MT
    - Wheat 8 MT
    - Pulses 4MT
    - Coarse cereals 3MT
- 2 equally important areas
    - Increasing production in low productivity areas
    - Stabilising productivity gains in high production areas
- Thus, location specific, target oriented strategies

- Promote <u>cropping systems</u> instead of promoting individual crop
    - Rice-wheat; rice-pulses; maize/ millets - pulses
    - Crop rotation, inter-cropping
- Attention to post harvest management, R&D

<u>Food Security & Nutritional Security</u>

- Dietary diversity
    - Deserves attention due to <u>epidemiological transition</u>
    - Though communicable diseases still prevalent, increasing incidence of NCDs
    - 4 leading NCDs - cardiovascular diseases, strokes, diabetes, cancer
    - 'diabetic capital' of the world
- Why?
    - Rising consumption of <u>processed</u> foods, <u>refined</u> foodgrains
    - Abandoning small <u>millets</u>, unprocessed food -- considered inferior
    - Increasing incomes have not led to improving diets



<u>Role of TPDS, BPL/AAY subsidies in Food Security</u>

Coverage	Access, use	Shaping food expenditure
- Only 29% BPL cardholders poor - Only 13% APL cardholders poor - Failed in efficient targeting	- Striking rise in PDS use b/w 2004 and 2011 - Share of PDS grain to total grain consumed -- ~stable - PDS use also increased for kerosene • Used in conjunction w/ biomass, LPG (28% hh)	- At any income level, hh w/ BPL/AAY cards more likely to buy PDS grains than APL - BPL/AAY hh obtain calorific needs from cheaper cereals instead of expensive fruits, dairy, nuts, meats - Rising incomes -> greater dietary diversification in non-BPL/AAY hh - Food expenditure among hh suffering economic distress does NOT change substantially -- economise in other areas - Income growth -> higher increase in food expenditure by non-BPL/AAY hh - Lower cereal consumption growth in non-BPL/AAY card hh than those w/

<u>Pilot Scheme for Food fortification</u>

Food fortification

- <u>**deliberate**</u> addn of one or more <u>**micronutrients**</u> to correct/ prevent deficiency and provide a health benefit
- Nutrient(s) may or may not have been originally present
- '<u>complementary</u> strategy'
- Benefits
    - Improves health of a large section of the population

- Safe
- Socio-culturally acceptable
- Cost effective, delivers quick results

- Copenhagen consensus: each rupee spent on fortification results in ₹9 benefits to economy
- Need
  - **70%** people in India consume less than half of recommended dietary allowance (RDA) of micronutrients
  - 'hidden hunger' causes night blindness, goitre, anaemia, birth defects
- NFHS results

	NFHS 4	NFHS 5
Anaemic children (0-5yo)	58.4%	
Anaemic women (15-49 yo)	53.1%	
Underweight children (<5)	35.7%	

  - 50-70% of preventable birth defects caused due to deficiency of folic acid
- Challenges
  - Voluntary nature
  - Poor imple mentation by states
  - Weaknesses of FSSAI - lacks resources, manpower
  - Lack of awareness
- Way forward
  - Govt must reform institutional structure and overall implementation to mainstream this
  - key initiative

** start Abhijeet's notes**

Pulse (Pulses) production

- **Now opposite problem**
  - **Nearly 20% increase in domestic production and a big rise in imports has led to a glut and prices have crashed**
    - ES - Largest increase in area under Pulses of all the crops
  - Issue more because of low awareness of MSP

- **India largest producer**
  - **22% of production**
  - Maharashtra, MP, Rajasthan, UP, Karnataka, Andhra
  - But, **also the largest consumer**
- Price escalation
  - What?
    - **Per capita availability** has reduced from **61 gram in 1950 to 42 grams now**
  - Why?
    - **Supply**
      - **Share of cultivation**
        - Cereals has increased from 84% in 1950 to 94% now
        - Pulses down from 16% in 1950 to 6%
          - Shift Particularly seen in **Punjab, Haryana** who were imp pulse producer before Green revolution
        - Area under production remains same as during the 1960s
      - MSP

            - Awareness about MSP is very low for pulses
                - Eco Survey
                - Even in states like Punjab where awareness about MSP for paddy, wheat is high
            - Open ended Procurement policy is not followed for pulses
                - Need for rationalisation of MSP
                    - Based on **Social costs** like health impact, soil, water table
                    - **Pulses should have a high MSP** because protein, nitrogen fixation, less water consumption
        - Rain fed crop
            - Seasonal disturbances in rain
            - Taken up by the smaller farmers
            - Focus on self consumption

        - Green revolution not directed to pulses
            - Need for **Rainbow revolution**
        - Chances of **Pest Attack** is more **because of Protein content** in Pulses

    - Demand
        - Elasticity to income is around 2.
            - Thus as economy progresses, demand increases even more
            - ? **Paradox of Plenty**- Dreze, Sen

- State measures
    - **MSP increased** to incentivise production
        - But not helping a lot
    - National Food Security Mission
        - Increase food production by 4 MT
        - Can be successful - In phase 1, target of rise by 2, actual rise by 3
        - Although, this year production lowest in 6 years
    - **Buffer stock** for pulses
        - On lines of Subramaniam committee recommendations
    - **Price Stabilisation Fund**
        - On lines of Subramaniam committee recommendations
    - **Accelerated Pulses Production Program** in 2007
    - Ministry of commerce decision to **sell pulses through mobile vans**
    - **More imports**
        - Difficulty because production in world is less
        - Entering into long term contract with other countries
            - Eg **Mozambique recently**
    - **PUSA ARHAR - 16** has been designed
    - Urged States to reform APMC
    - Other steps taken by new policy
        - Chana to be delisted from future market (to reduce speculation)
        - Direct States to rationalise VAT on pulses
        - Private agencies to monitor pulses price

- Subramaniam panel report
    - More focus on domestic supply than imports for long term welfare

        - Higher MSP
        - Should act as floor price
        - GM
    - Create a buffer stock of 2 MT of pulse
        - Use it for price stabilisation
        - ? Budgetary support would have to increase from 500 crore currently under PSF to 10k crore (Gulati) *[20x!?]*
    - Create a public private **PPP** agency **to procure** pulses
    - Production subsidy via **DBT**
    - Revoke pulses from **APMC**
    - **Export ban an**d limits on hoarding (Repeal ECA) work counter to market principles and should be annulled
- Steps required
    - R&D for pulses
    - **GM pulses**
        - Develop short maturity cycle pulses to reduce the risk
    - Linking pulses to better procurement and marketing facilities like done for paddy and wheat
    - Assure minimum returns to farmers
    - Sign long term procurment contract with other nations
    - **Dryland farming** research - Shome Committee
    - General improvements in agriculture- irrigation, power, college, awareness

Why has cropping pattern not responded to inflation in proteins?

1. Pulses are fundamentally different from cereals and require different set of techniques altogether. They re**quire more irrigation, more fertilizers etc. As such they are more vulnerable to vagaries of climate and hence riskier.**
2. While the price support in cereals has been backed by procurement operations by the government, **pulses see no such large scale procurement.** Hence government MSPs remain ineffective.
3. As a result of above to factors farmers continue to grow them on marginal lands only and refrain from investing in high yielding (but expensive) varieties and techniques. So the yields have remained stagnant from 590 kg/ha in 90s to 600 kg/ha in 2000s and 700 kg/ha in 2011-12.
4. **Post harvest waste in pulses as well as fruits and vegetables rema**ins high. Food processing industry covers only 2-3% of fruit and vegetable production in India

Hidden Hunger

- The current practise of providing "free" cereals is only replenishing the carbohydrate deficiency
    - Hunger, d**ue to a lack of nutrients and micronutrients** still prevails
- Nearly a **third of the world's population** suffer as a result
- Solution -
    - **Iodised Salt, Food Fortification, bio-fortification of crops (nutritional quality of crops is increased by plant breeding or biotech) ,** , PDS reform, education
- Steps
    - **Iodised salt** programme very effective, more needs to be done for others on similar lines
    - FSSAI has come up with Draft Regulations of Food Fortification
    - **States like Rajasthan have started Fortified food in MDM**
    - ? Can use **Ready to Use Therapeutic Food (** RUTF)
- **Issues** with Fortification

- Not mandatory
- No Fortification standards
- General points - 3 Fs - FSSAI , Awareness

Data

- NFHS report
  - 40% children stunted
  - India 100th rank in World Hunger Index (2017)

Food and agriculture organization (FAO) says **Food security is made up of four pillars viz.**

- Availability,
- Affordability,
- Nutrition,
- Stability.

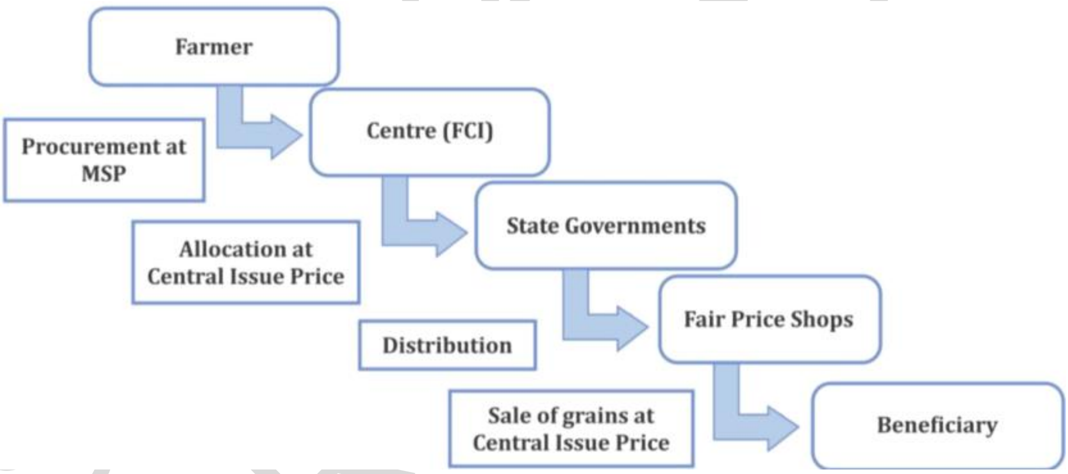
UN report said India could lose 50 billion dollars in GDP due to food price volatility

Food Adulteration

- Step - FSSAI Act, 2006
- Law Commission suggestion for Life imprisonment to those indulging
- Need for testing facilities at local level, simple tests to people, Active surveillance

** end **

Public Distribution System



- Under *Ministry of Consumer Affairs*, Food and Public Distribution
- Jointly shared responsibility
  - Central Govt: FCI - procurement, storage, transportation, bulk allocation
  - State Govt: operational responsibilities -- allocation w/in state, beneficiary id, issue ration cards, supervise FPS
- Centre allocates wheat, rice, sugar, kerosene
- Addl items may be distributed by States - pulses, edible oil, iodised salt, spices

Objectives

- Scarcity mgmt system
- Provide essential consumer goods @subsidised prices
- Insulate consumers from rising prices
- Maintain min nutritional status of population

- Indirect check on open market prices of various items
- Merely supplemental in nature -- safety net
- 3 segments of PDS supply chain
  - Procurement of food grains
  - Storage and transportation
  - Distribution of food grains

Context & Evolution of PDS

- Largest distribution network in the world

Scheme	Timeline	Description
PDS	1940s	- General entitlement scheme - Wartime rationing measure
	1960s	- Import dependent hitherto - Set up of CACP, FCI
	1970s	- Universalisation of PDS
RPDS	1992	- Revamped PDS - covered DPAP, ITDP, DDP, DHA areas
TPDS	1997	- Targeting poor hh - Periodical 'addl allocation' to states for APL popn
AAY	2000	- Aim to reach 1 crore 'poorest of the poor' hh
NFSA	2013	- Poor have legal right to food - Individual entitlement of 5kg/person/month

- PUCL vs Union of India - 2001 - case in SC - 'right to food' is FR

Limitations of PDS

- Limited benefits to poor -- higher dependence of poor on open market than PDS
- Urban bias
- Burden of food subsidy, esp since NFSA 2013
- Increasing stock w/ FCI as APL have no incentive to buy from PDS
- Loss of food grain
- Inefficient FCI operations
- PDS -> price rise as net quantities avbl in open market reduce
- Challenges in delivery mechanism -- card issue, quantity & quality issues, measurement issues, timeliness of supply, record maintenance, seasonality

TPDS Targeted Public Distribution System

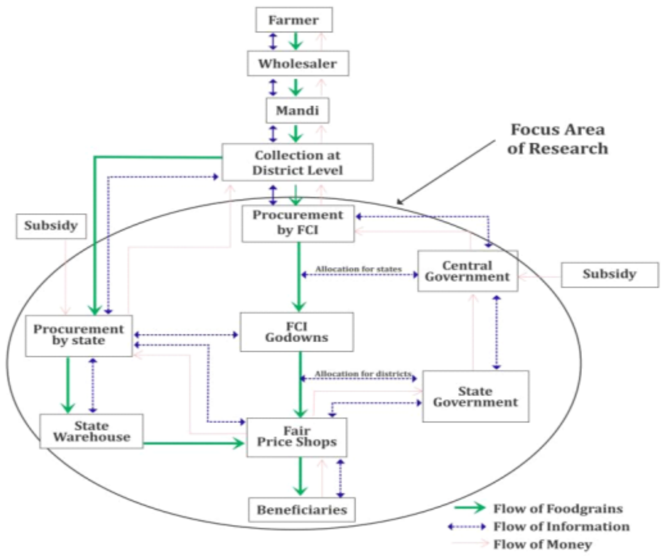
- Legal backing provided by NFSA now;
- Administered under PDS (Control) Order notified under ECA, 1955

Key features

- Maintains universal character of PDS ++ special focus on BPL
- Targeting
- Dual prices
  - 50% economic cost for BPL, 100% for APL
  - ₹2/kg wheat, ₹3/kg rice - per family under AAY
- Central-state control
  - Design, mgmt by state
  - Allocation by Centre

Management of food grains

- FCI: nodal agency at centre
    - Procurement at MSP
    - Maintains operational, buffer stocks
    - Allocation to states
    - Distribution, transportation to state depots
    - Selling to states at CIP



Benefits

- PDS & Poverty
    - Dreze & Khera
        - India's PDS has significant impact on rural poverty, especially in states w/ well functioning PDS
        - Bad news: very little impact in large states like Bihar, Jharkhand, UP, WB w/ overdue PDS reforms
    - Himanshu 2012 on Poverty reduction during 2005 -10
        - Contribution of growth was less -- 2009-10 drought year; period of global fin crisis
        - Increase in transfers of PDS, MDM
        - Period saw PDS revival driven by state govts, esp in poorest states
        - Both producers (MSP, more procurement) and consumers (PDS) gained
        - States expanding coverage beyond officially mandated poverty estimates saw greater improvements in consumption; w/ lower leakages
        - Addl incomes to hhs through MGNREGA
        - Similar to 1983-88 -- drought, gr in agri o/p, wage rise, increase public inv, improvement in agri ToT
- Positive impact on food security
- Inclusive and progressive
- Exigencies
- Positive out of complementary MSP

Issues

- Targeting
    - Definition of BPL acc to income poverty line doesn't cover many vulnerable popn
    - High exclusion errors - 63% of poor hh not covered (**NSS-2007**)
    - Inclusion errors - 'ghost' card holders (**NCAER**)
    - Also, **fixed share** of beneficiaries -> no. Of beneficiaries increases w/ rise in popn
- Identification
    - **CAG** (2016) - only 51% of eligible beneficiaries are identified
    - State govts have NOT undertaken fresh identification; only re-stamped old ration cards
- No variation in purchase across expenditure groups
    - Successful targeting = steady fall in qty purchased w/ income increase
- Import burden in case of shortfall -> price rise

- Geographical imbalance in storage capacity availability (**CAG** Audit)
    - Concentrated in Punjab, Haryana, Andhra, UP, CG
    - Shortage in consuming states - Rajasthan, Maha
- Leakages and diversion to open markets
- Late, irregular arrival of grains at FPS - issue of physical and economic access
- Failed in transferring cereals from surplus to deficit regions
    - Focus on poverty line targeting runs counter to price stabilisation through grain movements
    - Weakened ability to undertake stabilisation as APL priced out, BPL quotas low and fixed
- Increased subsidy burden - ~1.5% of GDP
- Ensures high calorie intake but NOT a balanced diet
- WTO's De Minimis & NFSA
    - Estimated govt procurement - 30% of o/p
    - MSP> market price → AMS present (Aggregate Measure of Support)
    - AMS exceeds 10% de minimis support
    - ERP fixed at 1986-87 prices @₹3500/ MT for both rice and wheat
        - Base year had exceptionally low prices
        - Fails to account for high inflation in developing ctries
            - AoA has provision for consideration of inflation
            - US: members can't get away easily; committee will decide what is 'due consideration'
        - Prices fixed in ₹ - fails to account for depreciation, real exchange rate changes
            - Narayan (2014) - w/ $ based exch rate, even NFSA, AMS would be within de minimis limit

Reforms for PDS

- [ ] (finexpress report - 12 dec 2020)

Recent initiatives

- Digitisation of ration cards - online entry, verification
- Aadhaar linking - >90% digitised cards seeded (2020)
- Computerisation of FPS allocations - e-POS devices, txn tracking
- Use of **GPS** in Chhattisgarh, TN to track trucks -- reduced leakage
- DBT on pilot basis in Chandigarh, Puducherry, D&N Haveli
- Get rid of private dealers
    - **Chhattisgarh** - Cooperatives, SHG, Panchayat
    - Dreze: reduction in corruption and leakage
- Awareness about entitlements
    - Dreze: WB - when people not clear about entitlements, easy to cheat them
- **Village Grain Banks** to deal w/ drought like condition
- Social Monitoring of FPS to improve the system

Aadhaar Based Biometric Authentication

Benefits	Challenges	Measures
- Reduce leakages - Clear identification of beneficiaries - Portability in identification - BAPU - Aadhaar based authentication	- Dependence on multiple fragile tech - PoS, biometrics, internet, remote servers, local mobile network - Requires at least some hh members to have correctly seeded Aadhaar in PDS database - Internet fails -> alternate mech of	- SC: don't make Aadhaar mandatory until satisfactory system evolved - End-to-end tech solns (Bosh) - Flexible system, customisable at state level - Option of offline mode for

at delivery point - Tracking food grain movement	registers -> confusion, no transparency - Prone to non-correctable errors (finger prints of manual labours)	capture and verification of beneficiary data locally; uploading when internet connectivity is restored

ONORC One Nation One Ration Card

- Part of COVID-19 economic relief package
- Beneficiaries can buy subsidised grains from any FPS using existing Aadhaar linked ration card
- Partha Mukhopadhyay Working Group on Migration (2017): reco PDS portability
- IM-PDS Integrated Mgmt of PDS in 2018
- Biometric authentication on ePOS; migrant can buy 50% of family quota
- Presently in 17 states & Uts
- **15th FC** recos: 1/4 focus areas for addl 1.5% borrowing by states

Benefits	Challenges

- Inter-state portability
  • IMPDS portal
- Intra-state portability
  • Annavitran portal
  • Shows all India picture of Aadhaar authentication of beneficiaries + allocation & distn at district level
- Remove bogus ration cards thru integrated online system
- Prevent leakages -> control on rising food subsidy bill
	- Technological glitches
	  • Only 85% Aadhaar linked
	  • Only 49% FPS had e-POS in Jan 2020; even lower in Bihar, WB
	  • Low internet penetration, reliability in rural India
	- Poor quality of rural electrification
	- Huge gap in data on patterns of domestic migration; could be worsened by unplanned distress migration
	- Encroachment on state subjects
	- Disincentive for provision for local food habits, needs

Decentralised Procurement Scheme

Decentralised procurement scheme

5.59 The decentralised procurement scheme of the Government of India is in operation since 1997. Under this scheme, the designated States procure, store and also issue foodgrains as per allotments indicated by the Central Government under TPDS. The difference between the economic cost of the State Governments and the Central Issue Price is passed on to the State Governments as subsidy. The decentralised system of procurement, apart from helping to cover more farmers under the MSP of the Central Government, has the merit of economising the transport and administrative costs involved in procurement and distribution operations. Further, it helps in minimising the dependence of State Governments on the FCI for PDS requirements and reducing the complaints about quality, as consuming States themselves are the custodians of the procured foodgrains.

5.60 However, the scheme has evoked limited response from the State Governments. Out of the State Agencies' share of nearly 58 percent of total rice and 80 percent of total wheat procured by the FCI, only 33 percent rice and 13 percent wheat are contributed by the States with decentralised procurement. At present, the State Governments of West Bengal, Madhya Pradesh, Uttar Pradesh, Chhattisgarh, Uttaranchal and Tamilnadu are implementing this scheme in a limited way. The States of Assam and Nagaland and the Union Territory of Andaman & Nicobar Islands have also evinced interest in the scheme.

5.61 The concerns of the State Governments broadly relate to financing of operations (RBI valuation norms for stocks of foodgrains) and reimbursement of expenses and release of subsidy by the Central Government (fixation of economic cost of foodgrains of State Governments and delays in the release of the subsidy). The concerns relating to the reimbursement of expenses and release of subsidy have been largely addressed through a process of consultation of the stakeholders concerned. On the request of the States, the issues relating to valuation norms have been taken up with the RBI.

Way forward

Procurement side	Supply side	Consumer side
- Direct procurement by states w/ experience - FCI focus on states suffering from distress sales at p<<MSP - Encourage private sector - Prioritised, upscaled NWRs Negotiable Warehouse Receipt system - Wider procurement basket for adequate nutrient mix - Transparent liquidation policy -- auto triggered when surplus stocks at FCI	- End-to-end computerisation - Monthly declaration of sales by FPS to prevent piling of excess inventories - SMS to registered users • Truck dispatch info • Stock avbl at FPS - Operate FPS thru Gram Panchayats, Cooperatives, SHGs, etc	- Proper beneficiary identification - Web database w/ allocated qty - Computerised entry via Aadhaar at POS - Pilot testing of cash transfers - Toll free no for complaint registration

Alternatives to TPDS

Cash Transfers

- Shanta Kumar High Level Committee (2015): gradual introduction of cash transfers in PDS
- DBT in the name of the lady of the house
- Routed thru PM JDY
- Dovetailing it with UIDAI
- Evaluation of DBT

Benefits	Challenges
- Reduce leakages (~30-40% now) - Promote equity; (can design subsidy package on per-ha basis; higher rate for smaller holdings) - Freedom to choose right mix of inputs at market prices - Freeing of input markets -> low distortion - Can cover post-harvest losses as well - Time bound payment -> prevent worsening farmers' distress	- Issue of upfront payment; not all can pay for inputs then wait for subsidy in acc - Exclusion of sharecroppers -- don't 'own' land - Inadequate penetration of banking services (region, beneficiary both) - Not inflation linked -> unaffordable - MSP inseparable part of TPDS, denied in case of DBT - May be used to buy non-food items

Food Coupons

- Coupons instead of money to buy food grains from any grocery store (incl FPS)
- Retailers reimbursed w/ money at local bank
- EcoSur: reduce administrative costs in this system
- Eliminate issues of procurement, diversion, black marketing of food grains
- CASE: **Bihar** reduced leakage from 97% (2004) to 20% (2017) within the current system; via coupon system

Benefits	Challenges
- Hh has freedom to choose where it buys food - Incentivises competitive pricing, assured quality food grains among PDS stores - Ration shops get full price for food grains	- Not inflation indexed - Difficult to administer; known to be delays in issuing coupons, reimbursement to shops

from poor; no incentive to turn them away	

Universal Basic Income UBI

- Sense of agency on beneficiaries
- Save admin costs

Universal Crop Insurance

- Limited penetration; high premium rate; low coverage

Benefits	Challenges
- Increased penetration - Financial security - Formalise agriculture	- Need huge financial resources - UCI w/o matching extension services might encourage unsustainable risks -> unviable insurance

Universal PDS v Targeted PDS

TN retained Universal PDS even after 1997

Benefits of U-PDS	Limitations
- Justice Wadhwa Committee Report: • Non-classification prevents exclusion errors - Reduces corruption, leakages, diversion - Includes migrants, non-citizens as well • Counter: limited budget, grains both	- Unnecessary burden on exchequer • Huge inclusion errors • Counter: more inclusion errors w/ less or ~0 exclusion errors better • Can persuade rich to give up subsidy (eg LPG GiveItUp) - High procurement -> increase prices in open markets - Lacks element of 'affirmative action' - Case: North Africa - universal schemes have unnecessary high costs, no significant benefits to poor

FCI

- FCI Act, 1964 -- statutory -- since 1965
- 3 basic objectives
    - Effective price support to farmers, ensure remunerative prices obtained; uniform fixed prices for consumers
    - Procure, supply grains to PDS
    - Keep strategic reserve to stabilise market (for basic food grains)

Shanta Kumar High Level Committee on Restructuring of FCI, 2015

- Procurement related issues
    - Handover procurement to states w/ experience
    - Focus on states suffering from distress sales at p<< MSP
    - Prioritise, upscale NWRs
    - Revisit MSP policy -- currently cereal centred, neglects crop diversification
- PDS & NFSA related issues
    - Defer implementation in states not having end-to-end computerisation
    - Reduce to **40%** of popn (now @ 67%) (--- gives rise to uncertainties)
    - Gradual introduction of cash transfers in PDS
- Outsource FCI stocking operations to private sector

- Buffer stocking operations and liquidation policy
    - Need transparent liquidation policy; auto-trigger when FCI has surplus stocks
- Labour related issues
    - Increase mechanisation
    - Hire executives from private sector at top level
    - Daily wage contractual labour
- Direct subsidy to farmers
    - Direct cash subsidy of ₹7000/ha
    - Deregulation of fertiliser sector
        - Plug diversion into non-agri uses, neighbouring ctries
        - Raise efficiency of fertiliser use
        - Relieve financial distress

WTO and Food Security

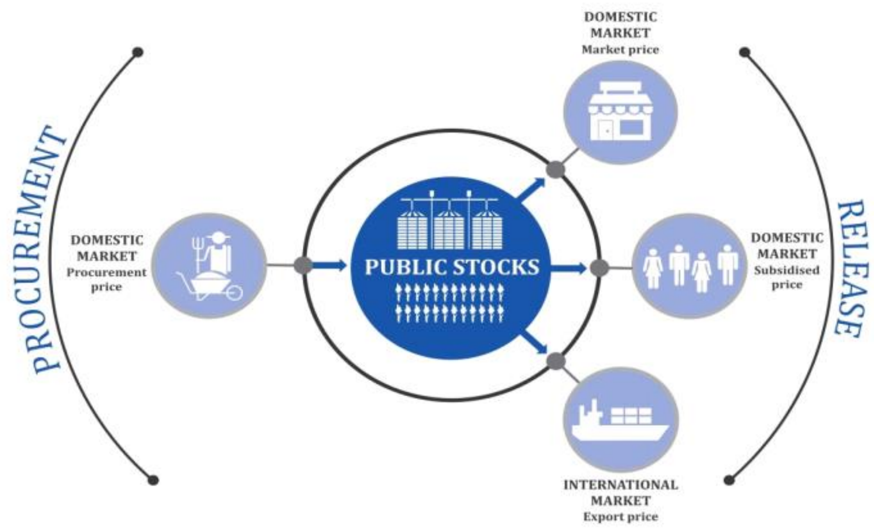
- Access to sufficient, safe, nutritious food to maintain healthy and active life
- Stockpiling, food distribution -- considered legit policy obj - permitted under WTO
- 'administered' prices higher than market = subsidies
    - Counted against country's overall ceiling on trade-distorting support under WTO
- Presently cap of 10% for procurement of food from farmers to feed needy, poor
    - Can constrain procurement, implementation of food aid programs
- AoA Green Box - some policies excluded from reduction commitments
    - Eg subsidy to maintain local market
- PDS included in Amber Box - trade distorting -> need to be reduced
- DD: Food subsidy measures should be exempted from subsidy reduction commitment of WTO
- 2013 Bali Ministerial Conference
    - Peace clause: Interim -- public stockholding won't be legally challenged even if breaches agreed limits for trade-distorting domestic support
    - Reaffirmed at 2015 Nairobi Ministerial Conference
- India's position
    - Demand for permanent legal solution
    - Agreed to WTO's Trade Facilitation Agreement on promise that public stockholding issue will be resolved
    - India & China -- asked dvped countries to eliminate their 'amber box' support
        - Argu: would remove one of the biggest imbalances in farm trade rules
    - India's NFSA - more than just a welfare program; procurement prices not always higher than market prices
    - Demands
        - Permanent soln for public stockholding programmes for food security
        - SSM Special Safeguard Mechanisms for farmers from unforeseen surges in agri imports
        - Agreement for removing bottlenecks for facilitating trade in services
- G33 Coalition - led by Indonesia in 2014-15 - options for a permanent solution
    - Include food security 'support programs' in Green Box
    - Modify rules to address historical inequities in existing WTO's AoA
    - Replace 'traditional staple food crop' term in Bali decision w/ 'foodstuffs' to cover all food crops
- 1st, 2nd proposals opposed by US, EU, Canada, Australia, Brazil, Thailand, Pakistan, etc b'cos:
    - Will amount in carte blanche
    - Unsustainable production
    - Permanent soln must be based on Bali agreement which affirms that such programs lead to distortion

Buffer Stocks

- To neutralise fluctuation in crop production -> stabilise price levels
- Govt procures in surplus years, through MSP (protect interest of farmers)
- Releases in phased manner in deficit years (protect interest of consumers)

Buffer Stock Policy in India

- Introduced in 4th FYP (1969-74)
- Objectives
  - Supply through PDS/ TPDS/ OWS Other Welfare Schemes
  - Deal with emergency due to calamities - crop failure, natural disaster
  - For market intervention -- moderate open market prices
- Food grain stocking norms
  - Level of stock in the central pool sufficient to meet operational requirements of food grains (max 41 mn tonnes of Rice + Wheat in January, 30 mn in Oct; reality 60 tonnes)
  - Previously called 'Buffer Norms and Strategic Reserves'
  - Fixed by CCEA (Cabinet Committee on Economic Affairs, Chair: PM) on quarterly basis
- Operational stock = stocks earmarked for TPDS, OWS + Food security reserves
- **Strategic Reserve**
  - In addn to buffer norms
  - 30 lakh tonnes of wheat, 20 lakh tonnes of rice
  - 'Food Grain Stocking Norms'
- 2015:
  - revision of buffer norms; CCEA approved offloading of excess stock in domestic market thru open sale/ thru exports
  - Buffer stock of 1.5 lakh tonnes of pulses
    - Procurement by NAFED, SFAC, FCI
- Buffer stock coming down from peak of 80 million tons in 2012
- Excess stock: food stock above min buffer norms
- Benefits: price support to farmers; social objective (foodgrains for vulnerable); stabilisation of food grains market (thru reserves); crucial for nutritional security + NFSA implementation

- 

Critical Evaluation

- Mainly handled by govt from procurement to distn -> inefficiencies
  - Recently, some logistics to private contractors through tender-auctions

- Open-ended procurement
    - FCI has become the buyer of last resort
- Procurement prices have become support prices
    - Distorts price signals for farmers, demand and supply do not get balanced
- One tool serving many objectives
    - Conflicting uses for (a) remunerative price to farmers and (b) subsidised food for poor
    - Law in economics: optimal results when no. Of objectives <= no of tools avbl
- Counter cyclical inventory mgmt by FCI -- even in bad crop years, govt withholds stocks (expecting higher offtake) and steps up procurement -- constrains both dd and ss
    - Reasons by Shanta Kumar Committee - export bans, open ended procurement, absence of pro-active liquidation policy for excess stock
- Inefficient inventory mgmt
    - No pro-active, pre-defined, sustainable policy for residual grain
    - 2 potential channels for this good quality residual grain
        - OMSS - Open Market Sale Scheme release in domestic market
            - Fails due to high issue prices, poor quality of released grains
        - Exports into global market
            - So far, ad hoc policy
    - For inferior quality grain -- dispose off as feed, at pre-determined reserve price
- Rising cost of operation
    - FCI's cost headers: acquisition costs, distribution costs
    - Higher acquisition cost -- MSP, mandi charges, milling charges, admin charges
        - Economic costs of FCI ~40% higher than procurement price (huge!)
    - Higher storage costs and losses due to inadequate capacity
        - 4.5% p.a. Increase in storage capacity
        - 18% growth rate of rice, wheat stocks in central pool
        - 147% rise in storage and transit losses b/w 2006 - 2012
- De-facto nationalisation of grain market + crowding out of private trade
    - Govt procures >75% of marketable surplus
    - => price rise in open market -- neutralises consumer benefits of subsidy
    - ECA, APMC adversely affects price competitiveness in int'l market
- Increasing gap b/w per capita production and per capita availability
    - -> counters objective of buffer stocking
- Inefficiencies in TPDS
    - High amount of pilferage, inclusion and exclusion errors, more than 100% rise in economic cost of operation BUT constant issue price
    - 25x food subsidy bill in last 2 decades
    - >1% of GDP, >5% agri GDP
    - ~1/3rd of total govt subsidy

Post lib

10 November 2020 11:06

New Economic Reform and Agriculture

Political economy of agri
- Situation in factor markets (land, labour, capital)
- Role of rural commercial capital
- Globalisation

Hindrances to reforms from these factors
- Agri factor markets - most frozen parts of economy
  - Informal tenancies w/o legal protection despite abolition of zamindari
  - Hampers access to subsidised formal crop credit, insurance, power and other inputs; restricts ability to absorb new productivity enhancing tech
- Primitive labour markets
  - Govt shied away from full power of farm mechanisation
  - Fear of displacing labour not supported by ground evidence -- growing scarcity and non-availability during peak agri season
  - SMF unable to own; can't hire due to absence of custom hiring centres
- Situational Survey of Agri (2013)
  - Only 60% of farmers could avail of credit from formal financial institutions
  - 85% of SMF dependent on village moneylender, informal credit markets
  - 52% of all agri hhs in India - indebted
  - Rural commercial capital = large landowner, moneylender, mandi commission agent/ trader - dominates farm credit sector
    - Inherently risk averse; political patronage to avoid reforms, new competitors
- Integration of few commodities (cotton, soyabean, rice, high-value horticulture) into global value chains exposed large no of farmers to price volatility and risks -- out of control
  - Lack of access to safeguards like futures, hedging, risk insurance - avbl in developed mkts
- China - reforms in primary sector must begin w/ basic factor markets to build support for larger, longer term reform agenda for agri, incl rationalisation of subsidies

Source: (Roy, 2017)
- Planning Commission (2006) - doubling rate of agri growth from 2% to 4% w/ 9% overall GDP growth will reduce income disparities b/w agri & non-agri sectors
- Steady decline in share of agri in overall GDP; declined by half b/w 1989-90 and 2013-14; sharper since 2000
- Production and yield of most of the major crops have declined in years following the initiation of economic reforms vis-a-vis 1980s
  - Exceptions: pulses, cotton
  - Food grain production growth due to increase in area under cultivation
  - Coarse cereals area declined but output constant due to new seed tech
  - Sharp rise in oilseeds production due to quantitative restrictions on imports + technological modernisation programme
  - Growth of yield rate & production of cotton increase sharply in 2000's, decline thereafter due to high costs, risks, impact of non-traditional pests due to excessive pesticide use

- Non-price factors affecting agri growth
    - Capital formation
        - Necessary for improving long term growth potential in agri
        - Lagged impact
        - Declining share since 1990s - lesser investment in agri vis-a-vis non agri sector
        - Chand and Kumar (2004)
            - public capital formation has long term impact on agri vs subsidies have short term impact
            - 1 rupee spent on public sector capital formation contributes to GDP growth in agri by ₹35.21 over a period of 58 years
            - Diverting 1% of resources from subsidies to public investment raises output by more than 2%
        - Aggregate capital formation remained stagnant in 1980s
        - Private investment increasing at a faster rate than public investment in the 1990s -- instrumental in raising total investment during this decade
        - Balakrishna et al (2008) - decline in public capital formation till 2004-05 is not adequately compensated by an increase in private investment in agri due to different in nature and contribution of the two
        - Irrigation accounts for 90% of gross capital formation in agri
            - Yet decline in productivity of irrigation in 1990s due to loss of momentum in development of yield increasing technologies (viz drought resistance crops)
            - Loss in momentum directly related to decline in public expenditure on research
            - Decline in share of outlays on irrigation in GDP over time from already low levels of 1980s
            - Since accompanied by growth in GDP -> lesser proportion of income generated in economy ploughed back to enhance crucial input facilities for agriculture
    - Credit
        - Social & development banking through nationalisation - rolled back for liberalisation
        - Reduced emphasis on PSL -> reduction in availability of credit to small and marginal cultivation
        - Reduction in bank branches in rural areas & decline in credit-deposit ratios -> increased dependence on informal sources
        - 2014 - share of rural branches declined to levels of 1975
        - Credit deposit ratio, share of priority sector & agri in total outstanding credit declined
        - Increase in rural credit since 2001 due to
            - Increase in indirect finance in agri
            - Definitional changes - incorporated export oriented and capital intensive agriculture under PSL
        - Main beneficiaries of this increase - large agribusiness companies, big cultivators
        - Revival of rural credit since 2001 didn't improve agri performance vis-a-vis 1980s, nor benefitted SMF
    - Research & extension services
        - Public goods
        - Mohan (1974): agri research primarily responsible for success of green revolution in India

        - Share of public spending on agri research & extension services in agri GDP (less than 0.6%, consistently b/w 1960s and 2011-12) - lower than in 1990s in developed nations (2% - 4%) and avg share in developing nations (0.75%)
        - Public spending on agricultural research and extension services didn't increase after reforms
- Price factors
    - Expectations: liberalisation -> major agri exporter -> forex inflows -> improvement in agri ToT
    - Though improved until 1994-95; overall no marked improvement in ToT for agri; worsened in certain phases
    - International prices -- fluctuations
    - Changes in regulations of spot & futures commodity trading -> boost to speculative activities -> int'l prices fluctuate even more -> detrimental to agri populations in developing economies
    - Swaminathan & Rawal 2011 - income generating capacity in agri under serious threat; negative incomes of agri hh due to losses in cultivation
    - ICRISAT (1978) vs Roy & Charyulu (2007)
        - Increase in net annual hh income b/w 1975-78 and 2001-04
        - Importance of agri as income generating activity declined
        - Losses to agri dependent hhs in most villages under study in the latter period
        - Absolute incomes from crop production at const 2001-04 prices, higher in 1975-78

Table 1: Growth Rates of GDP of Agriculture Sector and GDP of the Economy, 1981–82 to 2013–14 (%)

Periods	Growth Rate of Agriculture	GDP Growth Rate
1981–82 to 1989–90	2.9	4.7
1990–91 to 1999–00	2.8	5.3
2000–01 to 2009–10	2.4	6.8
2010–11 to 2013–14	2.1	3.7

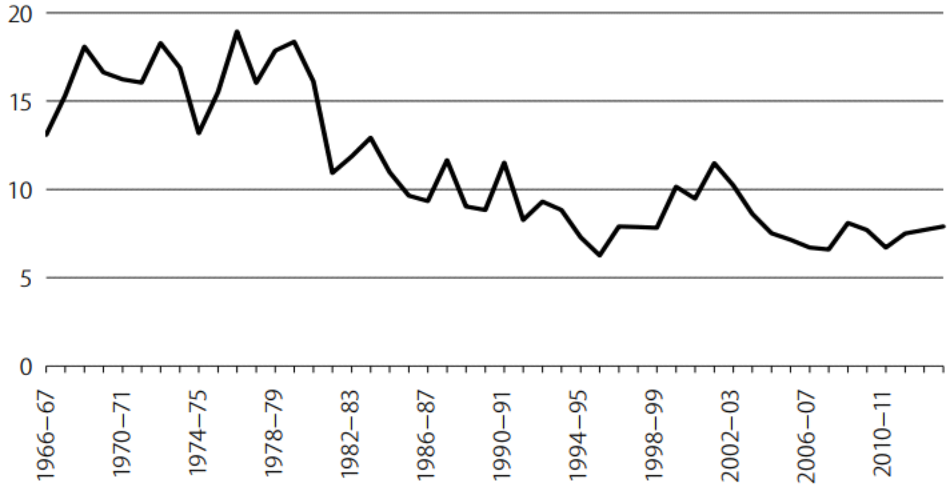
Source: *Handbook of Statistics*, Reserve Bank of India, various years.

Table 2: Share of Output from Agriculture in GDP, 1981–82 to 2013–14 (%)

Year	Share
1981–82	29.6
1989–90	25.2
1994–95	23.5
1999–2000	19.6
2004–05	16
2009–10	12.3
2013–14	11.8

Source: Same as Table 1.

Figure 1: Share of Agriculture and Allied Sectors in Gross Capital Formation, 1966–67 to 2013–14 (%)



Source: Planning Commission of India and *Agricultural Statistics at a Glance* (2015).

Table 5: Productivity of Irrigation for Foodgrains in Indian Agriculture
(growth rates in %)

Year	1981–82 to 1989–90	1990–91 to 1999–2000	2000–01 to 2009–10	2010–11 to 2012–13
Growth rate of gross irrigated area	2.07	2.28	1.11	1.36
Growth rate of output of foodgrains	2.8	1.75	1.03	0.66
Productivity of irrigation	0.73	-0.53	-0.08	-0.7

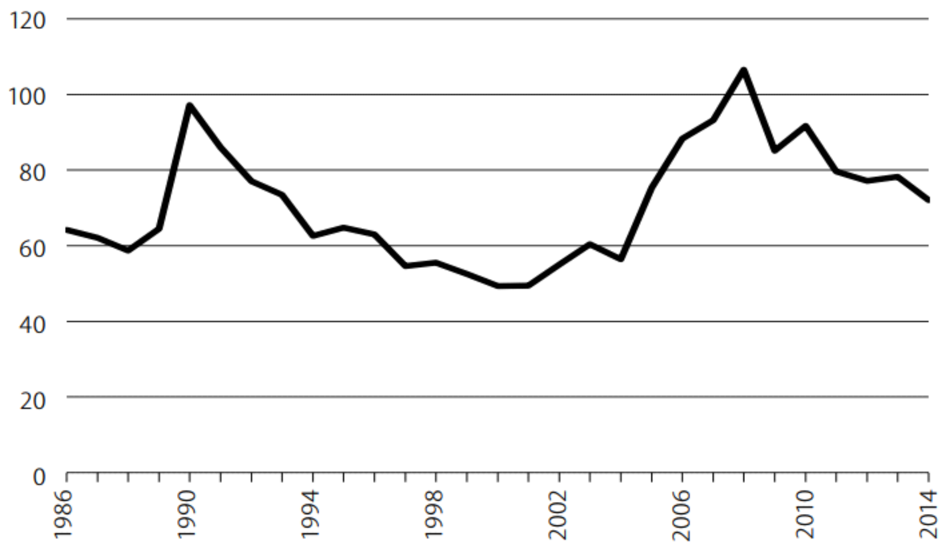
Source: Same as Table 3.

Table 6: Share of Outlays on Irrigation and Flood Control in GDP (%)

Year	1981–82	1990–91	1995–96	2000–01	2005–06	2011–12	2013–14
Share	1.4	0.7	0.7	0.7	0.8	0.6	0.6

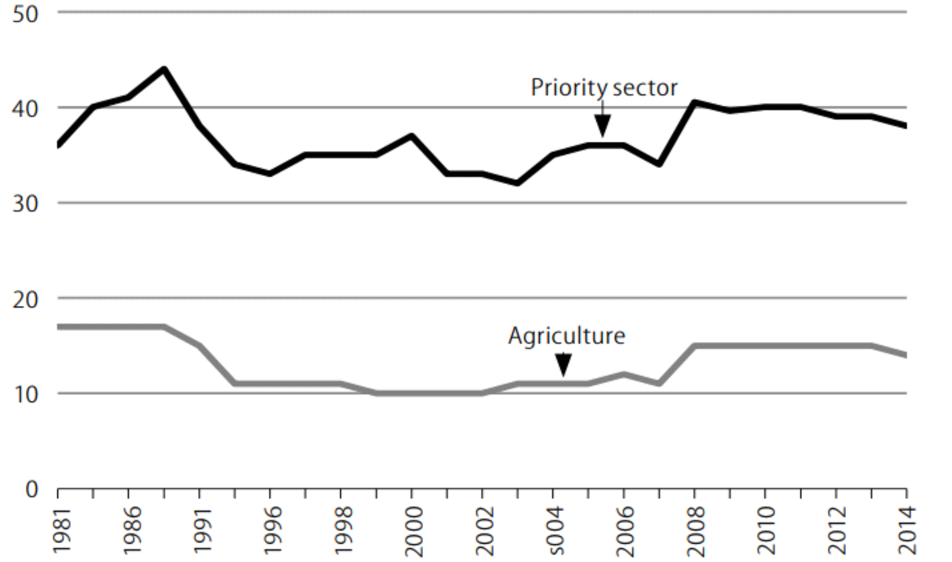
Source: Computed from the *Economic Survey of India*, various years.

Figure 3: Credit–Deposit Ratio of Commercial Bank in Rural Areas, 1986–2014
(%)



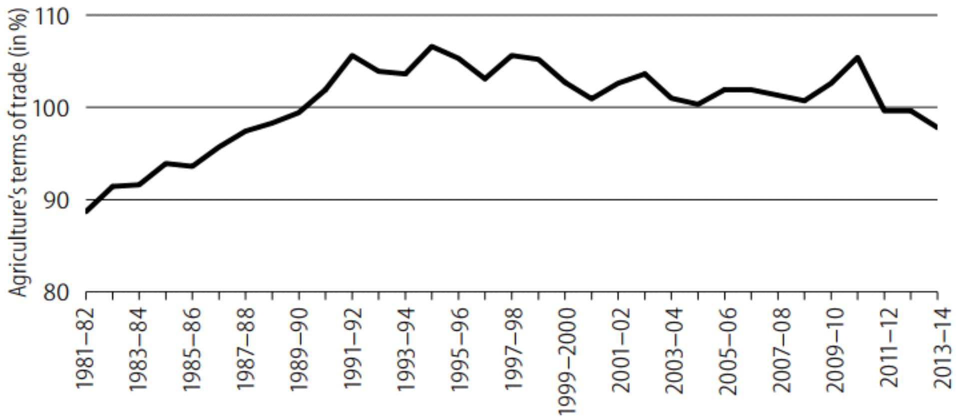
Source: Computed from the *Handbook of Statistics*, Reserve Bank of India, various years.

Figure 4: Shares of Priority Sector and Agriculture in Total Outstanding Credit of Commercial Banks



Source: Computed from the *Handbook of Statistics*, Reserve Bank of India, various years.

Figure 5: Movements of Terms of Trade in Indian Agriculture, 1981–82 to 2013–14



Index numbers are based on triennium ending 1990–91=100.
Source: Price Policy Reports, Commission of Agricultural Costs and Prices.

Food processing

In gs 3

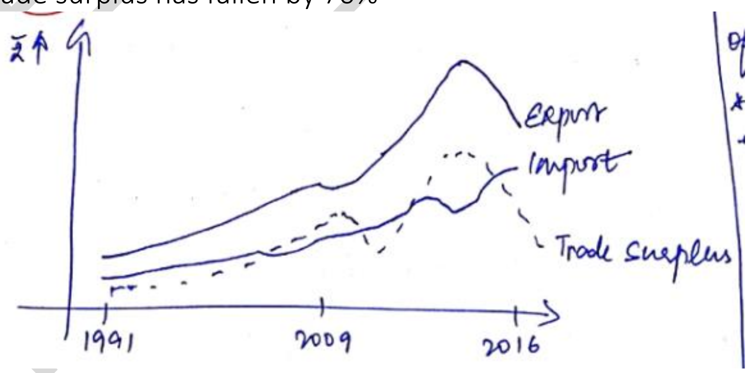
Impact of public expenditure on agricultural growth

-- value chains? (paper saved)

Agricultural Exports

- Grew by 17% in 2020-21 to $41 billion
- Commodities - cereals, spices, organic products

- First time exports from several clusters (Varanasi mangoes, Chandauli black rice)
- Major destinations: US, China, Bangladesh, UAE, Vietnam, Saudi Arabia, Indonesia, Nepal, Iran, Malaysia
- Growth attributed to
    - COVID 19 opportunities - steep surge in global commodity prices, increased dd for staples
    - Programmes under Agri export Policy 2018
        - 46 unique product-district clusters id'ed for export promotion
        - Country specific agri export strategy reports
        - Agri cells at different embassies of India
    - Improved market access - pomegranate in Australia, mango & Basmati in Argentina, carrot seeds in Iran
    - Capturing of new markets - Timor Leste, PNG, Brazil, Chile, Puerto Rico
    - Adherence to EU norms for export of Basmati rice
    - GI Tag to domestic products for recognition in int'l market

<u>Agri exports</u>
- Status:
    - Green revolution, blue revolution, doubling production levels of cotton, corn, rice -- boosted agri exports
        - Largest exporter of rice $7.7 bn
        - 2nd largest exporter of meat $4.5 bn
        - Cotton $3.6 bn
    - Net exports worth $42 bn vis a vis $20 bn imports
    - Net trade surplus $25 bn
    - India's agri exports increased at brisk pace for more than 2 decades after 1991 reforms
    - Imports rose, but exports rose faster
    - Agri trade surplus recorded 10x rise b/w 1991-92 and 2013-14
    - b/w 2013-14 and 2016-17 -- fell by 22%, while imports increased by 62%
        - Trade surplus has fallen by 70%
        - 

    - Why declined?
        - Fall in int'l commodity prices
        - Loss in competitiveness due to currency movements
            - Particularly dismal for cotton, sugar, rice -- major components of export basket
        - Ashok Gulati - govt is unfair in imposition of export restrictions on important food items to prevent inflationary pressures in domestic economy
            - Policy deprives farmers of higher prices in int'l market
            - Adds element of income uncertainty
            - Export restrictions when int'l prices peak -- farmers lose incentive to cultivate for export
        - EcoSur - Pro-consumer bias in India's farm policy (also, Gulati)

- Biswajit Dhar: need for effective cold chains
    - India's warehousing capacity for perishables is disproportionately concentrated in few regions
        - ~50% in UP, Punjab
    - NIPFP (2015) - post harvest losses of agri commodities ~₹44,000 crore annually
    - NITI - ₹90,000 crore annually
- WTO, SPM (Sanitary, Phytosanitary Measures), TBT (Technological Barriers to Trade) -- negotiations
- Cobweb effect -- dissuades cultivation of pulses, etc on constant basis
- Boost organic farming

Agriculture contributes to about 15% of GDP and is a primary livelihood source for more than 50% of Indian population. Indian agriculture has several credits to it such as the following.

World's largest producer of spices, pulses, milk, tea, cashew, jute, bananas, jackfruits, etc.
Second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds
Fourth largest producer of agrochemicals
Largest livestock population of around 535.8 million (31%) of world's livestock
Largest land area under irrigation
Top five net exporters in the world
There is immense potential for export of commodities of Agriculture and its allied activities. Institutions like The Agricultural and Processed Food Products Export Development Authority (APEDA), The Marine Products Export Development Authority (MPEDA), Commodity boards like Coffee Board, Rubber Board, Spices Board, etc are mandated to promote the export of various Agriculture related commodities.

India ranks amongst the top 10 exporters of agricultural products in the world. According to the WTO's World Trade Statistical Review 2020, the country's share in global agricultural exports increased from 1.1% in 2000 to 2.2% in 2017, valued at $39 billion, but fell to 2.1% in 2019, valued at $37 billion. While the US witnessed a decline in its share of global agricultural exports from 13% in 2000 to 9.3% ($165 billion) in 2019, Brazil's share increased from 2.8% to 5% ($89 billion), and that of China increased from 3% to 4.6% ($82 billion). In order to catch up with Brazil and China, India needs to bring about structural reforms in the agricultural sector, including a stable trade policy regime.

https://www.financialexpress.com/opinion/doubling-farmers-income-increasing-agricultural-exports-is-key/2169011/ -- measures to double agri exports

Doubling farmers' income: Increasing agricultural exports is key
Economic diplomacy and promotion of Brand India can play an effective role in increasing agri-exports.
India ranks amongst the top 10 exporters of agricultural products in the world. According to the WTO's World Trade Statistical Review 2020, the country's share in global agricultural exports increased from 1.1% in 2000 to 2.2% in 2017, valued at $39 billion, but fell to 2.1% in 2019, valued at $37 billion. While the US witnessed a decline in its share of global agricultural exports from 13% in 2000 to 9.3% ($165 billion) in 2019, Brazil's share increased from 2.8% to 5% ($89 billion), and that of China increased from 3% to 4.6% ($82 billion). In order to catch up with Brazil and China, India needs to bring about structural reforms in the agricultural sector, including a stable trade policy regime.

India's agricultural exports experienced huge fluctuations during the 10-year period 2010-11 to 2019-20. The 10-year CAGR was 1.7%. During the first five years, 2010-11 to 2014-15, agri-exports increased significantly from $24.4 billion (2010-11) to an all-time high of $43.1 billion (2013-14), before declining to $39.4 billion (2014-15), at a CAGR of 11.5%. The second five-year period (2015-16 to 2019-20) witnessed a slump in agri-exports to $33 billion (2015-16), before a steady increase to $38.8 billion (2018-19), followed by a slide to $37 billion (2019-20). The CAGR during this period slowed down considerably to 3.7%, from the previous period (see graphics).

According to the Agricultural and Processed Food Products Export Development Authority (APEDA), during April-October 2020, India's exports of top three agri-commodities, viz. basmati rice, non-basmati rice and buffalo meat, in terms of value (in dollars) grew by 9%, 104.4% and 10.5%, respectively, compared to the corresponding period of the previous year. The sharp rise in exports of non-basmati rice can be attributed to lower prices compared to that of major rice exporters, Thailand and Vietnam, and also because these countries stopped exports due to the lockdown. Taking advantage of this, Indian non-basmati rice exporters have been able to meet the increasing import demands from China, Bangladesh and African countries.

However, what is worrisome is the absence of a stable trade policy regime in India. In order to control prices in the domestic market, the government has, at different times, resorted to banning of exports of major agri-commodities, viz. rice, wheat, sugar and onion. Imposition of minimum export price (MEP) is another tool often used to tame inflation. These measures create uncertainty amongst importing countries, and deprive farmers of higher returns from their produce.

The Agriculture Export Policy (AEP), 2018, aims at achieving export target of $60 billion by 2022 and $100 billion within a few years, thereafter. This is indeed a humongous task, even under normal circumstances, and more so in the aftermath of Covid-19. Therefore, there needs to be a realistic resetting of the timeline to achieve the target. This would involve a paradigm shift from a business-as-usual approach to a well-calibrated, comprehensive, strategic and result-oriented agri-export policy and action plan. This would lead to tech-driven agricultural productivity gains across sub-sectors, resulting in higher output and marketable surplus for domestic and foreign markets.

The following strategies are suggested by this author, for India to achieve the target of $100 billion of agri-exports within a reasonable time-frame, while also resulting in doubling farmers' income:

—Majority of India's agri-exports are low value, raw or semi-processed products. Therefore, the agri-export strategy should include integration of value-added agri-produce with global value chains (GVC), by adopting best agricultural practices involving productivity gains and cost competitiveness. It's also imperative for India to reconsider joining the RCEP at an opportune time, and to enter into FTAs with the EU, the US and the UK.

—In order to boost exports of dairy products and make the dairy sector globally competitive, the central government needs to consider development of dairy export zones (DEZs) in collaboration with state governments (see 'RCEP: A White Revolution for Exports', FE, December 7, 2019; https://bit.ly/39fHMEo). This could immensely benefit small dairy farmers, organised as farmer producer organisations (FPOs)/farmer producer companies

(FPCs)/cooperatives, for supplying milk, and also for contract production of dairy products on behalf of major dairy producing companies, leading to cost efficiency and higher export revenue to dairy companies as well as significantly higher income to farmers.

—Linking of FPOs through contract farming arrangements with export-oriented food processing units of food parks created under the Pradhan Mantri Kisan Sampada Yojana, for producing processed cereals, fruits, vegetables, fish and marine products, would boost exports of processed food and raise income of small and marginal landholders and small fish farmers.

—With global trade in organic products estimated to be around $90 billion, there is a huge opportunity for exports of value-added organic products from India, which exported $689 million worth of organic food in 2019-20. Madhya Pradesh, Rajasthan, Maharashtra, the North Eastern Region (NER), Uttarakhand and Goa are major producers of organic products. It’s desirable to create Organic Product Export Zones (OPEZs) in these states and the NER, with common infrastructure for processing, standardisation, storage, logistics, and connectivity to ports and airports. Branding of products and registration as GI could further facilitate exports of value-added organic products. FPOs of organic farmers could be formed and linked to the OPEZs, to ensure higher income for farmers.

—Economic diplomacy and promotion of Brand India can play an effective role in increasing agri-exports.

—The AEP has recommended the establishment of Agriculture Export Zones (AEZs), to facilitate value addition of agri-commodities for increasing exports in a WTO-compatible manner. In order to ensure higher income for farmers, FPOs need to be linked to AEZs to supply SPS-compliant agri-products.

—Higher investments in R&D and technology, viz. the Internet of Things, artificial intelligence and blockchain, for improving agricultural productivity, resource-use efficiency and export competitiveness.

—Linking farmers/FPOs to the export market and skilling of surplus farmers for their absorption in agri-export value chains could be an important strategy to sustainably raise farmers’ income.

Concerted efforts by the central and state governments, Indian embassies, APEDA, EXIM Bank, NABARD, and all other stakeholders in the agri-export value chains are needed to address a whole range of issues pertaining to promotion of agri-exports, which could potentially propel India into the top bracket of agricultural exporters, and in the process facilitate doubling of farmers’ income within a reasonable time-frame.

--> haven't read the following yet, from forumias
Agricultural Exports- India's potential, initiatives, challenges and solutions
Agricultural Exports- India’s potential, initiatives, challenges and solutions
Posted on January 14th, 2021 Last modified on March 26th, 2021 0 CommentsViews : 4k
What is the News?

US Department of Agriculture(USDA) has forecasted 1.8 million tonnes of wheat and 14.4 million tonnes of rice to be imported from India. This will be the highest ever wheat export from India to the US in the last six years. Despite the Indian government’s various steps to improve agricultural exports, there are few challenges associated with the exports.

Status of India's agricultural exports:

The 2019-20 Economic survey mentions a few important figures of India's agricultural exports. Indian agricultural/horticultural and processed foods are exported to more than 100 countries/regions in the world.

India is one of the 15 leading exporters of agricultural products in the world.

India's major export destination for agricultural products are the USA, Saudi Arabia, Iran, Nepal, and Bangladesh.

India's major agricultural export basket includes rice (both Basmati and non-basmati), spices, cotton, and wheat apart from this India also exports marine products and buffalo meat.

As per APEDA (Agricultural and Processed Food Products Export Development Authority), India exported pulses worth US$ 163.90 million and dairy products worth US$ 89.50 million from April–September 2020.

Initiatives to encourage Agricultural exports in India:

Firstly, India encourages agricultural exports by creating a dedicated body named the Agricultural and Processed Food Products Export Development Authority(APEDA). The government created APEDA under the APEDA Act 1985.

Under the Export Promotion Scheme of APEDA, the government is providing assistance to the exporters of agricultural products.
Secondly, The Government has introduced a comprehensive Agriculture Export Policy in 2018. The policy aims to double farmers' income by 2022 by doubling agricultural exports from the country. The policy also aims to integrate Indian farmers and agricultural products into the global value chain.

Thirdly, The Government has also brought out a Central Sector Scheme – 'Transport and Marketing Assistance for Specified Agriculture Products'. The scheme aims for assisting the international component of freight handling and marketing of agricultural products.

Fourthly, As per the present FDI Policy, 100% FDI is allowed in the following activities of agriculture through the automatic route.

However, the total agricultural export basket accounts for only a little over 2.15 percent of the world agricultural trade. This is because of various challenges associated with the exporting of agricultural commodities.

What are the challenges associated with Agricultural exports?

Firstly, The yield levels of the majority of crops in India remains much lower than the world average. This is compounded by fragmented landholdings. The average farm size in India is only 1.15 hectares.

Majority of the Indian farmers belongs to small and marginal category. The agricultural products produced were used majorly for own consumption.

Secondly, In India, no study has been conducted to assess the long term impact of exports on the agricultural and horticultural sector by the Department of Commerce.

Thirdly, exporters of agro-commodities are not successful in due to uncertainty in the foreign trading regime

Fourthly, The government's pro-consumer bias in India's farm policy is unfair. Indian government putting export restrictions on imported food items to prevent inflationary pressures in the domestic economy. This hurts Agricultural exports.

The policy deprives farmers of higher prices in the international market and also adds an element of income uncertainty.
For example, If the government is going to impose export restrictions when international prices are at a peak. Farmers would lose part of the incentive to cultivate exportable crops.
Lastly, there is an International demand & supply situation, international prices and quality concerns also restrict India's agricultural exports.

How to improve agricultural exports?

Firstly, the Government can provide Infrastructure status to agricultural value chains, such as warehousing, pack-houses, ripening chambers, and cold storage, etc.

Secondly, As per NITI Aayog recommendation, the Government can create village level procurement centres. This will benefit small and marginal farmers to improve agricultural exports.

Thirdly, Government can Re-invigorating agricultural research and education, this will increase lab to land connectivity.

Fourthly, APEDA has suggested augmenting cargo handling facilities at airports, ports, etc. This will reduce the waiting time.

Along with this government can create a Green channel clearance for perishable agro products in toll, air, and freight cargo stations.

Fifthly, the Government can establish regional production belts. This can be achieved by linking the Mission for Integrated Development of Horticulture and Self Help Groups.

Way forward:

India occupies a leading position in the global trade of agricultural products. But the share can be improved to a greater level if certain bottlenecks are resolved. The key to doubling farmer's income is not only focusing on internal agricultural productivity but also encouraging India's global share in the agriculture export basket.

-- case studies on agri exports
https://www.tradeforum.org/Challenges-in-Agro-Food-Exports-Building-the-Quality-Infrastructure/

Challenges in agri-food exports: Building the quality infrastructure

International Trade Forum - Issue 3/2010
Many developing countries are ill equipped to take advantage of the opportunities provided by trade. Weak infrastructure, lack of capacity and the inability to meet technical product specifications and stringent requirements in terms of quality, safety, health and the environment impede their integration into global markets.

They need to enhance compliance with technical standards to heighten consumer confidence and gain access to regional and global value chains, especially those of transnational corporations. In the rules-based trading system, the agro-food sector provides immediate opportunities as many developing countries have good climatic conditions, available arable land and a sufficient pool of labour to expand agricultural production. Given the low level of initial investment required in small-scale operations, small and medium-sized enterprises (SMEs) in agro-processing can readily move up the value chain, thereby generating poverty reduction and development in rural communities.

Role of national quality infrastructure

With the globalization of production, and supply and retailer chains, ensuring the safety and quality of products is vital. Recent health concerns arising from bovine diseases, bird flu and various toxins entering the food chain have led to stringent standards and conformity procedures, particularly in the area of agro-food exports. Exporting countries must acquire the capability to conform to requirements in terms of quality, safety, health and the environment if they are to participate fully in global markets.

Two WTO agreements - Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS) - define the rules under which standards and technical regulations can be formulated and how disputes are resolved. In formulating the agreements, it was recognized that developing countries have significant gaps in national standards infrastructure, and specific clauses in the agreements refer to the need for technical assistance to be provided to them.

The technical regulations and standards applied in developing countries, including packaging, marking and labelling requirements, are often incompatible with international standards. Laboratory capacity to test and certify goods for developed markets is also patchy. Steps taken to nurture a quality culture will build client and consumer confidence, not only in international markets, but also in domestic markets.

Building blocks of compliance capacity

Developing countries must be able to prove the reliability of their test data, maintain high-quality certification and inspection procedures and establish conformity to international standards and/or those applied in importing countries. Local metrological (measurement and calibration) and testing capabilities reduce testing costs which would be incurred if products could only be tested abroad or through locally based international services.

Demonstrating a capacity to conform to standards requires the establishment of efficient testing, certification and accreditation mechanisms to meet the requirements of the SPS and TBT agreements. Compliance infrastructure will broadly include the following: national standards institute; microbiology and chemical testing laboratories; national metrology institute; and national accreditation cert-ification capacity to certify enterprises for ISO 9001, ISO 14001 and ISO 22000 and to train internal auditors.

Compliance services are costly but should be considered a public good. Least developed countries in particular may require international assistance to establish costly new standards infrastructure.

UNIDO was established in 1966 and became a specialized agency of the United Nations in 1985. It has 173 member States and is responsible for promoting sustainable industrial development in developing countries and economies in transition. Its headquarters is in Vienna, Austria, and it is represented in more than 50 countries. UNIDO has three thematic priorities:

Poverty reduction through productive activities
Trade capacity building
Environment and energy.

CASE STUDY

Supporting 'farm to fork' traceability

Egypt

In 2002, following a series of food scares in the 1990s, the European Union (EU) created the European Food Safety Authority which focuses on tracing the production of food and feed through all phases of production, processing and distribution.

Egypt needed to create the institutions and procedures to meet these new safety standards for exports to the EU, one of its main trading partners. UNIDO established the Egyptian Traceability Centre for Agro-Industrial Exports (ETRACE), developed product-specific traceability manuals and trained more than 600 national experts. Initial assistance focused on 11 horticultural products involving 47,000 growers and about 5 million workers and some 100 processing and packing houses in the Nile delta, which received technical and financial assistance. There were more than 250 field visits by experts and some 40 technical assessments that traced the progress of farm products through its value chain, 'farm to fork'. Assistance was given to the plant quarantine department and to the national pesticides database. ETRACE also assists food manufacturers. Mock traceability alerts in association with a European supermarket showed that rejected produce could be identified within 24 hours of enabling a product recall. ETRACE also helps minimize the spread of contagious plant and animal diseases through early detection while tracking the food chain and improves supply-chain management and efficiency.

CASE STUDY

Assisting fisheries to achieve EU compliance standards

Pakistan

The EU Food and Veterinary Office inspected the fisheries industry in Pakistan in 2005 and found several areas of non-compliance with EU regulations on consumer health and safety. Efforts to gain access to the lucrative EU market were hampered by outdated production methods and by lack of compliance with EU SPS standards.

The marine fisheries department of Pakistan's Ministry of Food, Agriculture and Livestock worked with UNIDO to overcome the problem. UNIDO provided expert advice to redesign and re-equip laboratories and train staff. The laboratories participated successfully in the required International Proficiency Testing, and 18 laboratories gained international accreditation for product testing. UNIDO assisted in improving standards in the supply chain based on a detailed study of fish production. More than 1,100 people, including fishermen, boat owners, fish auctioneers and government staff, were trained. Standard Operating Procedures were developed: upgrading the EU-mandated competent authorities; improving landing sites; renovating auction halls; and introducing Hazard Analysis and Critical Control Point practices and information technology-based traceability methods in 11 fish processing plants.

CASE STUDY

UEMOA/ECOWAS members improve and harmonize SPS service providers

West Africa

UNIDO is working with eight countries members of the Economic and Monetary Union of West Africa (UEMOA) and the Economic Community of West African States (ECOWAS) to strengthen export competitiveness. All these countries, with the exception of Côte d'Ivoire, are least developed countries with limited export performance and infrastructure.

Key export products are cotton, fish, fruits, vegetables, cashew nuts, oil seeds and edible oils. Internationally accredited microbiological and chemical testing and SPS compliance systems were not availble to local exporters. UNIDO assisted in:

Establishing a subregional institutional structure for coordinating standardization, certification and quality promotion
Establishing modern national standardization institutes in each country
Creating a subregional accreditation body
Training 500 executives and scientists, 200 private consultants, 53 auditor evaluators and 50 auditors for standards implementation
Adopting standards for 500 key products and giving easy access to international standards
Developing a database for the standards and technical regulations of the eight countries
Establishing a quality awards system for the best performing enterprises.
The countries agreed that regulations dealing with accreditation, certification, standardization and metrology should be harmonized and unified in view of the paucity of resources available in the region. Regional structures will be established.

CONFORMITY ASSESSMENT

Defined

Conformity assessment, according to the definition of ISO/IEC 17000, is the 'demonstration that specified requirements relating to a product, process, system, body are fulfilled'. It involves sampling, inspection, testing and certification as a means of giving assurance to the parties of a transaction that the product, process, system, body or person does in fact conform to the requirements of a standard.

CHALLENGES & OPPORTUNITIES

For developing countries in building conformity infrastructure

Challenges

High cost of compliance - the costs of establishing the technical infrastructure for complying with standards and technical regulations constitute a major obstacle to building productive capacity in developing countries.
Lack of institutions, infrastructure and human resources for providing conformity assessment - the certification and testing capacities are non-existent or weak, or have difficulty demonstrating that the national certification and testing schemes meet international best practice standards.
The multitude of often contradictory standards - ranging from national, international, private, product and process-related standards, leading to the question of which standards developing countries have the capacity to comply with?
Opportunities

Competitive advantage - if developing country exporters are able to demonstrate and prove that they comply with the standards, they can enter the global value chain, gain consumer confidence and trust and benefit from access to a larger market which will ultimately lead to growth, wealth creation and poverty reduction.

<u>Significance</u>

<u>Current Status</u>

<u>Challenges</u>

<u>Measures</u>

<u>Way forward</u>

GS3

10 November 2020 16:23

Major Crops & Cropping Patterns

Organic
The average response ratios (grain:nutrient) were 8.1, 10.1, 12.8 and 15.2, respectively under N, NP, NPK and NPK+ Farm Yard Manure, thus pointing to the importance of organic manures and fertilisers.

From <https://www.downtoearth.org.in/news/agriculture/union-budget-2020-2021-suggests-balanced-use-of-all-kinds-of-fertilisers-69125>

farming
https://www.drishtiias.com/daily-updates/daily-news-analysis/organic-farming-in-india
https://iasscore.in/ias-prelims/organic-farming

Irrigation

Storage, Transport and Marketing of Agricultural Produce

Buffer Stock policy of GoI

- Concept introduced in 4th FYP (1969-74)
- Objectives
  - Meet prescribed min buffer stock norms for food security
  - Monthly release thru TPDS, other welfare schemes
  - Meet emergency due to unexpected crop failure, natural disasters, etc
  - Price stability/ market intervention to augment supply

Robust Storage

Need	Benefits
- Improper storage and handling results in high losses - Food security + round the year quality food supply - **WB** report - wastage due to improper storage sufficient to feed 1/3rd of world's poor	- Continuous flow of goods in market - Prevent deterioration of perishable, semi perishable goods - Price stabilisation - Employment + income thru price advantages - Enables State to meet catastrophe/ emergency situations

Types of storage

Underground	Surface Storage Structure	Bulk/loose storage
- Dugout structures - ~well with sides plastered w/	- Bag storage - Easy to load/ unload	- Exposed peripheral surface area per unit

cowdung - Pros • Safe from external threats - theft, rain, wind • Can be temporarily utilised for other purposes w/ minor adjustments • Gravity -> Easy to fill	- Definite quantity in each bag -- easy to sell, buy, dispatch - Infestation can be identified and respective bags removed/ treated easily - No sweating of grains -- surface of bag exposed to atmosphere	weight of grain lesser - Reduced danger of damage from external sources - Low pest infestation - almost airtight in deeper layers

Improved grain storage structures

Small scale	Large Scale
- PAU bin - galvanised iron - 1.5 to 15 quintals - Pusa bin - mud or bricks wall with embedded polythene film - Hapur Tekka - cylindrical rubberised cloth structure; supported by bamboo poles on metal tube base; hole in bottom to remove grains	- CAP storage (Cover and Plinth) ▪ Fabricated in <3 weeks ▪ Economical - Silos ▪ ~25,000 tonnes ▪ Use of conveyor belts and mechanical operations

Warehousing

- Warehouses - scientific storage structures

Role	Functioning
- Scientific storage - Financing -- credit on security of warehouse receipt upto 75-80% of value - Price stabilisation - Market intelligence	- Acts - by central, state govts - All eligible who pay resp charges - Warehouse receipt/ warrant - - Use of chemicals - to preserve stored goods; at cost of warehouse - Financing - receipt as collateral security - Delivery of produce

- Types

Acc to Ownership	Acc to commodity stored
- Private - Public - Bonded - at seaport/ airport - storage until payment of customs; licensed by govt • Importer need not pay customs all at once -- can take delivery in parts • Maintenance operations done regularly • Enables entrepot trade (re-export of imported goods)	- General -- food grains, fertilisers etc - Special -- specific commodities - cotton, tobacco, wool, petroleum - Refrigerated -- for perishables like vegetables, fruits, fish, eggs, meat

- Golden Principles for preservation without deterioration/ loss
  - Proper dunnage in bags for cross ventilation/ inspection/ QC
  - Hygienic conditions, avoid loose spillage
  - Personal supervision of spraying treatments with correct dosage
  - Provision of adequate tarpaulins

- Adequate aeration of stacks
- Avoid dumping of spillages on stacks

Warehousing in India

- CWC Central Warehousing Corporation
  - Mini Ratna CPSE; 1962 act
- SWCs State Warehousing Corporations
  - Equal share capital contribution by State govt + CWC
- WDRA Warehousing Development and Regulatory Authority
  - 2010
  - To implement NWR Negotiable Warehouse Receipt System
  - Scientific storage + loans against NWR for farmers
- FCI
  - Single largest agency; Capacity 26.62 mn tonnes
  - 1964 Act
  - Procurement thru purchase centres to implement MSP - wheat, paddy, coarse grains; located st farmers have to cover ≲ 10 km
  - Issues

Open ended procurement	Excess stock
Non adherence to FIFO	Inadequate storage facility -- open silos
Imbalances in storage facilities	64% procurement states; shortage in consumption states

  - Shanta Kumar Committee Recommendations (2014)
    - Hand over procurement of wheat, paddy, rice to states w/ sufficient experience + reasonable infra
    - Move on to help states w/ distress sales below MSP
    - Outsource stocking operations to CWC, SWCs, pvt sector under PEG Scheme (Private Entrepreneur Guarantee)
    - Liquidate stocks in OMSS/ export markets when breach buffer stock norms
    - Act as 'agency for innovations in Food Mgmt System' -- primary focus: competition in each segment of food grain supply chain

Cold Storage

- Post harvest losses upto **25-30%** of horticulture output
- Horticulture accounts for **~18%** agri output at 314 mn tonnes (2018-19)
- Perishability leads to high marketing costs, market gluts, price fluctuations
- Considerable reduction in perishability at low temp
- Cold Storage Order, 1964 under ECA, 1955
- Consultancy & technical services by Directorate of Marketing and Inspection, Dept of Agri & Cooperatives
- Need
  - For preserving perishable commodities
  - Longer shelf life
- Status - mostly single commodity cold stores available => poor capacity utilisation
- 3 types of foods

Live	No longer alive	Benefitting for storage at controlled temp
- Eg fruits and vegetables - Have natural protection against micro organism	- Eg meat, fish - Susceptible to spoilage - Preserve dead tissues	- Dairy products, beer, tobacco, khandsari - Suffer oxidation,

- Method: keep them alive + retard enzymatic activity causing ripening	from decay, putrefaction - Freeze, store below -15 C	rancidity - Packaging to exclude oxygen

- Govt assistance for cold storage construction
    - **APEDA** - scheme of infra development for integrated pack houses w/ cold store facilities
    - **MoFPI** scheme Cold Chain, Value Addition and Preservation Infrastructure
    - **National Horticulture Board** -- capital investment subsidy for construction, expansion, modernisation
    - **Technology Mission** for Integrated Development of Horticulture in NE States -- creation/ modernisation/ expansion
    - **National Horticulture Mission**

National Policy on Handling, Storage and Transportation of Food Grains

- 2000; To minimise storage and transit losses
- Thru pvt sector BOO Build-Own-Operate basis
- Integrated bulk handling, storage, transportation facilities
- Thrust areas
    - Declaration of food grains storage as 'infrastructure'
    - Encourage mechanical harvesting, cleaning, drying at farm & mkt level
    - Special trucks for transport of grains from farm to silos
    - Chain silos at receipt & distn points
    - Pvt sector participation in building -- govt would pay storage charges for use
    - Pvt sector participation for integrated bulk handling, storage, transportation of food grains

Integrated Cold Chain Availability Platform

- National database
- Joint effort of National Horticulture Board + APEDA + MoFPI + National Centre for Cold chain development
- Intended users: cold chain asset owners, farm producers, processors, retailers, govt agencies
- Intended benefits:
    - Direct access to nationwide cold storage capacity, info flow to users, regulators
    - Allow FPOs to plan movement of perishables
    - Govt empowered to plan viable public procurement mechanisms on the basis of avbl cold chain infra
    - Cold storages considered as txn platforms -> aligned w/ marketing
    - Transparency in cold chain dvpment, regional avblity, trade lanes for perishables
    - Better dd-ss gap analysis

Agricultural Productivity

- Quantitative term, estimate of farm o/p per unit of input

Agricultural efficiency

- Related to overall viability of agri operations

Transport

- FCI undertakes movement of food grains for:
    - Stock evacuation from surplus regions
    - NFSA/ TPDS requirements of deficit regions
    - Buffer stocks in deficit regions

- By rails (>85%), roads, waterways, ocean vessels (Lakshadweep, A&N)
- Procurement policy - read under food security
- Aids productivity & efficiency both
- Issues:

insufficient provision, esp during harvest	Low competition
Inefficient vehicle operations	High operating costs
Physical avblity of transport infra	Frequency, rate, growth
Linkage to important mkt destinations	Price of fuel, fare

Agricultural Marketing

3 components fns according to ICAR

Assembling	Preparation for consumption (Processing)	Distribution

Significance

- Monetizing the produce
- Promote competitive trade, better price realisation for farmers
- Source of market info and price signal
- Helps supply chains become efficient by indicating logistical and infrastructural weaknesses (eg post harvest and storage losses)
- Reducing role of intermediaries
- Capital formation and investment in technology
- Value addition in agriculture

Types of Agricultural Marketing in India

Traditional	Cooperative	Emerging models
- ~50% sold thru this channel - Farmer gets only ~ 15-20% of price paid by consumers - No of intermediaries involved	- Middlemen eliminated - Direct purchase of agri products from farmers	- eNAM - FPO -- legal entity in the form of cooperative society/ producer company/ etc. ▪ Sharing of profits/ benefits among members - Contract Farming - Commodity and Future Markets <u>3 tier structure</u> • Top: Dept of Consumer Affairs • Mid: SEBI • Bot: recognised/ regd commodity exchanges

Regulation of Agricultural Marketing

- Objectives
  - Prevent exploitation of farmers -- remunerative prices
  - Effective and efficient marketing system -- affordable/ reasonable for consumers
  - Elimination of unhealthy, unscrupulous practices,
  - Reduce marketing costs
  - Incentivised pricing for quality, quantity improvements
  - Orderly marketing -- better infra

APMC Agricultural Produce Marketing Committee

Intended Objectives	Issues
- Transparency in pricing system, transactions occurring in market place - Provide market led extension services to farmers - Same day payment to farmers for produce sold - Promote agricultural processing - Publicise data on arrivals, rates of agri produce brought into market for sale - Setup, promote PPP in Agri market management	- No exporter/ processor can buy directly from farmers -- discourages processing, export of agri products - Monopsony -- manipulative price discovery - Overly regulated markets -- corruption and exploitation - Only state govt can set up markets -> private sector discouraged from investing - APMC - dual role of regulator and market -- vested interest

Model APMC Act 2003

- By Ministry of Agriculture; requested state govt to suitable amend resp APMC acts
- Salient features:
    - Efficient marketing system, promote agri-processing & agri exports
    - Lay down procedures & systems for effective infra for agri marketing
    - Legal persons, growers, local authorities permitted to apply for setting up new markets
    - No compulsion on cultivators to sell thru markets under APMC
    - Provision for notification of 'Special Markets'/ 'Special Commodities Mkts'
    - Chapter on 'Contract farming' w/ provision of direct sale of farm produce to sponsor
    - Single point levy of market fee on sale of notified agri commodities
    - No need for licensing of mkt fnaries; time bound procedure for regn
    - Consumers'/ farmers' mkts for direct sale of agri produce to farmers
    - Provision for dispute resolution
    - State govt empowered to exempt any agri produce brought for sale in mkt area from payment of market fee
    - Mkt committees permitted to use funds to create facilities -- grading, standardisation, quality certification, infrastructure (own, PPP)
    - State Agri Mkting Board
- Critique:
    - Doesn't create national or state level common mkt for agri products
    - Retains mandatory high APMC charges on directly selling to APMC
    - Inadequate provisions for competition, even within state

Model Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017

- To replace APMC Act 2003

Objectives	Major provisions
- Single agri-market to trade both agri-produce and livestock with single license - Better price realisation - Doubling farmers' income by 2022 - Significance	- Single fee for intra-state trade - Perishables allowed to be sold outside existing mandis - Cap on mkt fees, commissions - Warehouses, cold storages to act as

• Barrier free unified agricultural market with one trader license (interstate) • Allow private players to setup wholesale markets -- break monopsony • Better farm gate prices due to competition among buyers • Reduce wastage of farm produce • Promote electronic trading	regulated mkts - All regulatory powers will lie w/ Dir of Agri Mkting in the state - Farmers can directly sell to bulk buyers

Issues relating to agriculture markets in India

Institutional	Infrastructural	Market info	Others
- Licensing barriers -- leads to cartelisation; inhibits competition - High incidence of market charges -- total around 15% - Absence of standardised grading mechanism of agri produce	- Poor infra in agri markets - Poor economic viability of projects	- Lag in demand signal - Limited info channels, content - Poor awareness about new channels of info	- Absence of national integrated market - Limited public investment

- Collective result -> Low price realisation for farmers, Food and nutritional insecurity, High wastages in supply chain

Recent govt measures

- **Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020**
    - Intra-state and inter-state trade outside APMC markets & notified markets
    - Electronic trading of scheduled farmers' produce in specified trade area
    - Abolition of market fee
- **Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020**
    - Farming agreement between farmer and buyer prior to production
    - Pricing mentioned in agreement; if subject to variation, guaranteed price + additional amts must be clearly mentioned in agreement
    - For dispute settlement -- must specify conciliation board + conciliation process
- **Essential Commodities (Amendment) Act, 2020**
    - Regulated food items only under extraordinary circumstances -- war, famine, extraordinary price rise, grave natural calamity
    - Foods: cereals, pulses, potatoes, onions, edible oilseeds, oils
    - Imposition of stock limit must be based on price rise
- **Agri Produce and Livestock (Promoting and Facilitating) Act, 2017**
- **Model APMC Act 2003**
- **AGMARKNET**
    - G2C e-governance portal
    - Caters to farmers, industry, policy makers and academic institutions
    - Single window info
- **GrAMs Gramin Agricultural Markets** - upgrading existing rural haats (Rural Primary Markets) into GrAMs -- linked to e-NAM; outside APMC
- **Scheme for Formation, Promotion of FPOs** -- 10,000 FPOs in 5 yrs from 2019 to 2024 + handholding

Way Forward

- **NITI Aayog Recos for state APMCs**
    - E-trading, unified trading license
    - Single point levy of market fee private mandis
    - Direct marketing to reduce intermediaries
    - Relax felling, transit rules for trees grown on farmers' own lands -- promote agroforestry for supplementary income
    - Liberalise land lease market (model land leasing law)
    - Exclude fruits, vegetables from APMC
    - Delink provisions of compulsory requirement of space for registration of traders (easing licensing barrier)
- **Integration with Int'l Markets**
    - Time bound tariff reduction
    - Dismantle restrictions on pricing, trading, distribution, movement of agri products
- **Strengthening cooperative marketing societies**
    - Multipurpose societies looking after all aspects of agri marketing
    -

Sale of produce	Construction of own storage capacity	Gradation
Own transport	Processing of produce	Exports

- **Strengthening regulated market structure**
    - Viable and managerially competent
    - Market committees to be headed by marketing professionals
    - Phased development of rural periodic markets
    - Increase no of APMCs
- **Re-framing price stabilisation policy**
- **Developing efficient commodity futures markets**
    - More commodity exchanges; improve Regulatory and supervisory systems; Modernise clearing house opn; Enabling legal fw
- **Promoting Direct Marketing** outside purview of APMC
    - Eg. Rythu Bazar in Andhra, Apni Mandi (Punjab & Haryana), Uzavar Santhaigal (TN)
- Improving Transport Infra
- Better Storage
- Processing, Packaging and Grading Facilities
- Credit provision for marketing
- Promote Agri marketing research

Farm laws 2020

The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020	- Opens up agri sale & marketing outside notified APMC Mandis - Removes barriers to inter-state trade - Fw for electronic trading of agri produce - Prohibits State govts from collecting market fee, cess or levy outside APMC markets
The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020	- Fw on trade agreements for sale and purchase of farm produce - Mutually agreed remunerative price fw to protect, empower farmers - Written farming agreement - prior to production, rearing -- T&C for supply, quality, grade, standards, price of farm produce & services
The Essential Commodities (Amendment) Act, 2020	- Removal of cereals, pulses, oilseeds, edible oils, onion, potatoes from list of essential commodities - Deregulate production, storage, movement, distribution - Regulation by Centre ONLY during war, famine, extraordinary price rise, natural calamity; provide exemptions from exporters &

	processors even at such times - Imposition of stock limit must be based on price rise

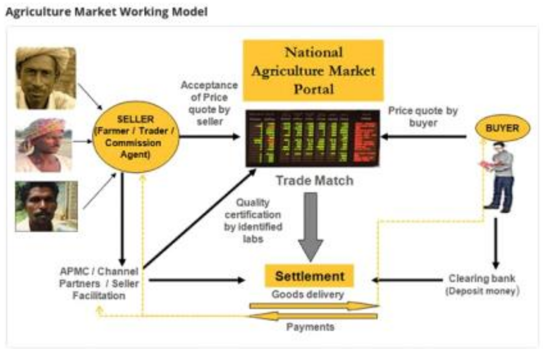
Benefits	Major concerns
- Checking monopolies ▪ Freedom of choice of sale and purchase of agri produce - 'One nation, one agri market' ▪ Abolition of market fee ▪ Electronic trading of agri produce ▪ Increased flow of agri produce across areas ▪ Seamless movement of farm surplus to deficit regions - Encouraging private sector participation ▪ Legislative framework needed to boost contract farming ▪ Direct link between farms and FPI - Better inventory mgmt of agri produce ▪ Restriction on hoarding -> harassment of traders + rent seeking behaviour ▪ Now limited to extraordinary circumstances under ECA - ECA - objective criteria for stock limit imposition => improve economies of scale, limit administrative discretion of regulating authorities - Improve price discovery and realisation for farmers - Reduce cost of marketing for farmers - Exemption from ECA => improve marketability of crops - Catalyst for investment in supply chains - Increased farmer access to high quality seeds, better tech, fertilisers and pesticides - Impetus to research in agri	- Sudden changes difficult to implement - Artificial distinction between 'market areas' (under state govt, mandi system) and 'trade areas' (under central acts) - Newly created trade areas have clear regulatory advantage => potential collapse of APMC system + initiatives like e-NAM - Loss of revenue for state govts - Lack of methodology for price determination - Companies not reqd to have a written contract w/ farmer => difficult to prove legally - Legalised hoarding

Common Agricultural Market

- Seamless movement of agri goods across districts, state borders; requires only one license to trade; does away w/ intermediate txn costs

Causes of fragmented agri market in India	Harms
- APMC Act - mandis & middlemen - Remoteness, poor connectivity - Local market power of intermediaries - Disinterest of states in diluting mandis' clout as source of revenue - Exposure of supply chain to shocks - Poor storage and supply chain - Multiple taxes across trade	- Inadequate competition - Inefficient resource allocation - Large no of intermediaries - Low cost for producers, high cost for consumers - Greater exposure to natural shocks, crop failures

NAM National Agricultural Market

- Budget 2014-15 - Pan-India electronic trading portal - 'virtual' market; has physical mandi at backend - Financing through Agri Tech Infra Fund - Implemented by Dept of Agri & Cooperatives - Implementing agency: SFAC Small Farmers Agribusiness Consortium	

Need for unification	Expected benefits
- Better price realisation - Improve supply chain - Reduce wastage - Create unified national mkt	- Increase opnal efficiency, transparency in mandi - Market access + more options -- warehouse based sales - Larger national mkt for secondary trading - Reduction in intermediary costs - Eliminate info asymmetry - Common procedures for issue of licenses, fee levy, movement of produce - Emergence of value chains

Contract Farming

- Pre-harvest agreement b/w buyers (food processing units, exporters) & producers (farmer, FPOs)

Significance in FPI	Issues in regulatory structure	Challenges
- Harness various agro-climatic conditions by linking farms & FPIs - regular, phased manner - Farming becomes organised activity - better quality, qty - Fixed source of income for small, marginalised farmers - Minimise market risk for producer -- pre-determined price & qty - Buyer benefits - desired quality, qty of raw material ensured	- Discredited role of APMCs as regn, dispute settlement authorities in most states - ECA stockholding limits restrict buyers from entering into contracts - Lack of uniformity across states - Complicated enforcement as 'agri' in state list; 'contracts' in concurrent list - Inadequate mechanism for quick disposal of contract-related disputes	- State reluctance (fear revenue loss) - Exacerbate regional inequality (presently practiced in prosperous states) - Exclusion of small & marginal farmers - Capital intensive; less sustainable - Encourages monoculture - Increased dependency on corporate for inputs -> vulnerable - Predetermined prices -> farmers denied benefits of higher mkt prices

Way forward

➢ Draft Model Contract Farming Act, 2018 provisions:

- Contract farming to be outside APMC's supervision
- Dedicated dispute settlement mechanism for quick disposal of disputes
- Price protection to farmers, penalising provisions for breach of contract by either
- Bar on transfer of ownership of farmer's land to contracting companies
- Non-application of stockholding limits on agri produce purchased under contract farming

Cooperative farming

- Pooling of land + practicing joint agriculture
- Helps achieve economies of scale, solves problem of fragmentation; enables resource pooling; increases productivity
- Issues: mainly govt driven rather than people driven in post-indep era; fear of unemp; attachment to land; lack of proper propaganda; renunciation of membership by farmers; existence of fake societies; poor targeting of subsidies; loopholes in policy leading to 'bogus farms' benefiting large farm owners

Farm Income Insurance Scheme

- Gujarat; originally in 2003 (withdrawn); revived now
- Insures difference b/w farmer's predicted income & actual income
- Predicted income = price x unit area yield x area (at district level)
- Insures yield losses due to natural perils, market fluctuations
- Incentivises greater production
- Earlier concerns over reliable yield, price data addressed using present tech:
    - Satellite based yield monitoring
    - Integrating agri markets in India
    - Efficient commodity exchanges
    - Leveraging mobile phone penetration levels & mobile-enabled tech
- Present National Crop Insurance Programme - covers prevented/ failed sowing, post-harvest losses, natural calamities losses on individual basis; doesn't cover price fluctuations due to int'l mkt

Access to Formal Credit

- Stats :
    - Inequity in credit disbursed - share of loans >₹10 lakh increasing; 25% from urban & metropolitan branches -- to input dealers, agri-businesses, agro-processing industries, warehousing companies
    - Steady share of informal sector at 40% b/w 2003-2013
    - Declining share of small loans <₹2 lakhs
    - March phenomenon: >46% agri credit lent b/w Jan & March to meet year-end targets; though most reqd around June, Nov (beginning of crop season)

Reasons	Steps
- Banks reluctance + inherent risks (seasonal, cost of cultivation, inflation) - Collateral requirement - Credit under PSL, Interest subvention diverted to agri-business, input dealers - High cost of disbursing loans in rural areas + low mandated interest rates - Decline in rural branches - 54% in 1994 to 37% now	- PSLCs - NWRs - Big-sized banks - Remove subvention restrictions on interest rates - Banks may channel credit thru non-bank intermediaries (MFIs) - Provisioning for delivering institutional credit to poor farmers w/o collateral - Banking Correspondents - Incentivise financial institutions

Access to non-foodgrains food products

Table 4: Per capita Availability and Deficit of other than food grains

Food Items	Per capita availability	ICMR recommendations for Indians	Per capita deficit
Milk	246 grams/day	250 grams/day	06 grams/day
Egg	42 eggs/annum	180 eggs/annum	138 eggs/annum
Vegetables	179 grams per day	300 grams per day	121 grams per day
Fruits	58 grams per day	92 grams per day	34 grams per day

- Reasons: poverty, exports, govt stocks, PDS leakages, post-harvest losses, absence of unified agricultural market
- Multi-pronged strategy to improve food avblity
  - Increase production -- RKVY, ISOPOM
  - Increase purchasing power -- MGNREGA, NSAP
  - Reducing leakages -- Aadhaar seeding in PDS, DBT
  - Rationalising buffer stocks
  - e-NAM
  - Model APMC Act
  - Exclusion of fruits, vegetables from purview of State APMC Act

Post Harvest Losses

Reasons	Steps
- Inefficient supply chain - Improper bagging w/o crating - Lack of temp controlled vehicles, cold chain facilities - Inadequate processing facilities - Poor vertical integration	- FPI Infra Dvpment Scheme - Mega Food Parks, Integrated Cold Chain, Value Addition, Preservation Infra, Modern Abattoirs - Scheme for Quality Assurance, Codex Stds, R&D - CSS - Cold Chain, Value Addition & Preservation Scheme - Assistance for setting up cold storage under different schemes

From Abhijeet
-- needs to be compiled properly

APMC act

- DRAFT MODEL LAW on AGRI MRAKETING - APLM ACT, 2017 - Would replace the Model APMC Act,2003
  - Traders can sell Perishables outside the APMC markets
  - Cap on
    - Commission paid by a Farmer
      - 4% for perishables, 2% for non-perishables
    - Market Fees
      - 2% for fruits and vegetables
      - 1% for food grains
  - Single license for agriculture trade
    - Covers both Agriculture as well as Livestock trade
  - Farmers can directly sell to bulk markets
  - All regulatory power will lie with the office of Director of Agriculture Marketing
    - Currently the APMC board decides
  - Promotion of

        - Inter state Trade
        - E - Market

- e-National Agriculture Market
    - Online Market to integrate **600 wholesale markets** on the online platform
    - **Why needed ? - general Points**
        - Intermediaries
            - Studies show on an average 5-6 intermediaries between farmer and consumer
            - Famer only gets about 25- 30%
        - Food Wastage
        - Price assymetry
        - Greater demand

    - Review

        - 400 Mandis linked
        - But **only 30% active**
        - Only **1% of trade** took place through it
        - States like Rajasthan - Limited NAM to 1 crop per Mandi
        - **Bihar, Kerala have been amongst the worst performers - NITI**
        - Haryana alone does 50% of the trade through e-NAM
    - Way forward
        - **Can be made more effective by routing purchase through MSP mechanism via NAM**
            - Benefits
                - Buy directly from farmers
                    - Chattisgarh successful PDS - base - direct purchase from farmers that heped to keep prices low and minimise leakage and rent racheting
                - Presence of Arhatiyas (middlemen) in punjab, haryana
                    - No trials are maintained of the actual payment to farmers

- **NITI Aayog - 4 reforms - Not Imp - Instead focus on that of the Model Act, 2003**
    -

Single Point payment of market fees	Proposed via the Model Agri Marketing Act
E - trade	Done via e- NAM
Uniform Trade Licensing	Needs to be taken up
Land Leasing	Some states like Rajasthan have taken up

- **NITI aayog started Index for that to leverage the benefits out of Competitive Federalism**
    - **Bihar, Kerala - 2 major states yet to implement Model APMC act**
    - For the rest
        - Maharashtra ranked top
        - Delhi at bottom

- **Grant** by govt to the states implementing Model Act
- **Model APMC Act, 2003**

APMC Act Reforms

Erstwhile APMC Act Framework

- 1. Each state created controlled market and trade in **notified** agriculture commodities could happen only in the market. The ***market was managed by APMC.***
- 2. Commodity coverage: The manner of notifying the commodities for regulation v***aries from State to State***. Some States like AP and HP have included all the commodities while others regulate only a few.
- Agricultural marketing boards were established for expeditious execution of the market development work. In some States like AP, Odisha and TN they are advisory in nature while in Punjab, Haryana, Rajasthan, W.B., Karnataka and Maharashtra are statutory in nature and have powerful role.

Performance Review of Existing APMC Acts

1. Functioning of APMCs: The marketing committees **do not allow the traders to buy from the farmers outside** the specified market yards which adds to the costs. In most states regular elections to APMCs don't take place and they are superseded by the government. In many others the **bureaucrats** manage them. Their role has increasingly come about to be limited to collection of market dues.
2. Lack of geographical coverage: Despite expansion in the number of regulated markets, the area served per market yard is quite high. The national average is 500sq. km. The **farmers are, therefore, required to travel long distance**s to reach a market place.
3. Lack of amenities in the market: Though the Acts stipulate for the provision of some prescribed facilities and amenities in each market yard, in several markets, the facilities/ amenities actually created are far from the prescribed norms. **Cold storage is available only for 9% of fruits and vegetables.**
4. Role of **rent seeking traders**, commission agents etc.: They have organized themselves into strong associations and **don't let new traders enter the market** thus limiting competition.
5. High **taxes**: Market fee was initially envisaged to be reinvested in the development of the market. But nothing was reinvested and total **charges became close to 15% in many states and a source of revenue for the government**. The taxes are levied @ multiple points adding to the transaction costs.
6. Exploitation of the peasant and high wastage: All the above factors mean that **farmer gets only 20 -25% of the end price** and the **wastage rate is high (40%)**

Review of Implementation of Market Reforms

- Market
  - Adoption of provision related to Private markets: ***The Model Act suggests allows private markets by persons other than APMCs***. **Only 17 states** (AP, NE, Gujarat, Goa, HP, Karnataka, MP (only direct purchase), Maharashtra, Odisha (excluding paddy), Rajasthan, Jharkhand and Uttarakhand have enabled it but **rules have not been notified by all.**
  - Establishment of ***Farmers markets*** (***Direct Sale by the Farmers***): However, long before the circulation of Model Act, several States had promoted Farmers' Market. These include Punjab and Haryana These markets have benefitted both farmers and consumers; but it has been noted that with lapse of time, small traders have taken over the place of farmers in many of these markets. 17 states have made provisions in their Act.

- Provision for **Direct marketing**: The Model Act prov*ides for granting licenses to processors, exporters etc. for purchase of agricultural produce directly from farmer*s. Only 15 states
- Provisions for Contract Farming: The Model Act ***provides for permitting contract farming by registration of contracts with APMCs*** and exemption of market fee on such purchases. 20 states ave allowed it without exempting from market fee. One of the biggest concerns is that APMC, who is the major market player, is also a registering authority for contract farming and the arbitration process is not time bound.
- Commission Agents: The Model Act ***stipulates prohibition of commission agents*** . MP, Chattisgarh, Mizoram, Nagaland and Sikkhim have amended the Act and made the provision, it is doubtful whether this provision will be implemented in letter and spirit.
- Market fees
  - ***Single Point levy of Market Fee***: Only 13 States
  - ***Mandatory utilization of market committee fund for market developmen***t: The Model Act provides for application of market committee fund for promotion and modernization of market only.

Alternative Marketing Models

- Successful example of **ReMS - Rashtriya Electronic Market Scheme** to unite markets in e-platform
  - Karnataka
  - **NAMS** should be modelled on this
  - Experience also shows
    - Middlemen can't be outrightly rejected - source for loans to the farmers- Hence, should only be progressively phased out aand formal banking channels be deepened
    - Outright reliance on technology is unhealthy
- **Maharastra**
  - Allow **Legislative premises** directly for farmer's market
  - Use schools, colleges during holiday
- SHGs:
  - SHG based collective marketing. -
  - **Kudumbashree**
- Contract farming: T
  - he Model Act allowed the **contract farmin**g sponsor to also provide input and technology support to the farmer.
  - It mandated the registration of sponsoring companies, recording of the contract farming agreement, indemnity for securing farmers' land and laid down a time bound dispute resolution mechanism. Contract farming has been prevalent in various parts of the country for commercial crops like sugarcane, cotton, tea and coffee, etc.
- 4. **ITC e-Choupa**l:
  - . ITC has set up s**mall internet kiosks at the village level to provide farmers real time market information** related to prices, availability of inputs, weather data and other matters related the farmers. Local level farmers, called 'Sanchalak' run these kiosks.
- Virtual Markets:
  - **e- NAM**
  - *Spot exchanges and negotiable warehouse receipt system* effect physical delivery of the goods and may therefore be recognized as more effective marketing

instruments for the primary producers. facilities to enable farmers to sell their products directly to consumers.

Essential Commodities Act, 1955

- Some goods like certain foodstuffs designated essential for the public
- Aim- to check adequate production, check inflation and ensure equitable distribution
- To do so steps taken like,
    - Licensing of products
    - Checking hoarding, by introducing cap on the total storage
    - Govt. Can fix the price

Onion price rise

- Mostly grown as ***Rabi*** and partly as Kharif
    - Hence, inflation's most effect in the June - September season
- Reasons for Price rise
    - Erratic monsoon
    - Hoarding
- Steps
    - Onion now in ECA
    - Price stabilisation fund
        - 10k tonnes bought, but total production 10 lakh tonnes
    - States asked to annul APMC
    - Provision for national market
- Other steps required
    - Steps to identify hoarding
    - Incentivise onion farming
        - Entire Indian geography suitable to sow onion
    - Cold storage
        - Requires back end investment, FDI in retail could have been 1 medium

--- end Abhijeet's portion

e-Technology in the Aid of Farmers

- **e-technology** -- all modes of transmission - electronic devices, satellite communication, mobile, services, applications
- **e-agriculture** - study of role of ICT in agricultural development

Uses of e-tech	Drivers of e-tech	Challenges
- Improved decision making using relevant and timely information - Improving skills and productive capacities - Facilitate linkages w/ academia, industry, govt agencies	- Low cost and pervasive connectivity - Adaptability + affordability -- mobile, wireless, internet booming - Advances in data storage and exchange - Innovative business models - Democratisation of	- Lack of awareness - Lack of digital infrastructure -- connectivity, bandwidth - Digital divide/ local lgs - Reluctance - Duplication of efforts -- multiple schemes around limited subjects

	information	- Unstable power ss - Map restriction policies -> stifle optimal utilisation

Govt Initiatives

NeGP-A National e-Governance Plan in Agriculture

- Centrally Sponsored Scheme
- ICT enabled multiple delivery channels
    - Internet, Touch Screen Kiosks, KVKs, KCC, Agri Clinics, CSCs, Mobile Phones
- Integrated ICT based services to farmers

Information Technology Vision 2020

- By DAC Department of Agriculture and Cooperation
- On use of IT for achieving rapid development
- Information availability to end users
- Round the clock advisory and extension services
- Global networking for agri sector

mKisan/ Kisan SMS Portal 2013

Features	Benefits
- Topical and seasonal advisories in local languages - Allows registration of queries - Messages sent out based on territorial jurisdiction - Integrate existing farmer databases	- Timely crop advisory - Adoption of relevant and appropriate technologies - Adverse weather conditions - better prepared - Outbreaks of diseases/ pests better controlled - Timely market information

Kisan Sabha App

- Economical and timely logistics support
- Minimise interference of middlemen
- Directly connecting with institutional buyers
- Single stop for every entity related to agri
- Also platform for individuals wanting to buy directly from farmers

Crop Insurance Mobile App

- Calculate insurance premium for notified crops based on area, coverage amount, loan amount

e-NAM National Agriculture Market

- Pan India electronic trading portal to connect existing APMCs
- Promote uniformity in agri marketing

Features	Benefits
- Integration of e-NWR Negotiable Warehouse Receipt System Module w/ e-NAM - FPO module - can upload picture of produce, quality parameters • Helpful for distant bidders - Logistics module - link large logistic aggregator platforms providing choice to users	- Increased operational efficiency - Enhanced market access - Larger national market for secondary trading by local trader - Reduction in intermediation costs - Eliminate information asymmetry - Common procedures for licenses, fee levy, movement of produce --> lower txn costs, higher returns, stable prices - Emergence of value chains

Seednet

- National Initiative for information on quality seeds
- by Union Ministry of Agri & Farmers Welfare

DACNET

- By Dept of Agri & Cooperation under Min of Agri
- Governance improvement
- Reduced processing time for certain services by 75%
- Key criteria: ease of use, speed of info delivery, low incidence of errors, reduction in corruption, affordable services

AGMARKNET Agri Market Info Network

- Joint venture of NIC + DMI Directorate of Marketing and Inspection
- Nation-wide information network -- efficiency in marketing activities
- Connected to 670 agri produce markets + 40 state Agri Marketing Boards

KCC Kisan Call Centres 2004

- Answering farmer queries on phone in their own dialect
- Toll free; Countrywide common 11 digit number
- 22 local languages

AGRISNET

- Component of Central Sector scheme 'Strengthening Agri Informatics & Communication'; implemented by DAC, Min of Agri
- Obj: provide improved services to farming community through use of ICT

Krishi Vigyan Kendras

- Training, edu -- farmers, entrepreneurs, farm women, rural youth

Agriclinics

- Expert services, advice on cropping practices, tech dissemination, crop protection, market trends, crop prices, veterinary services

Free software + ₹30 lakh infra subsidy/ mandi

- By Centre (Dept of Agri & Cooperation) to states & UT

DD KISAN TV channel, **Soil Health Card**

Pvt Sector Initiatives

Green SIM	**e-Choupal**
- By IFFCO Kisan Sanchar Limited IKSL - Delivers 4 free voice messages on areas of interest - 22 languages + 16 categories in agri - Helpline services - Online portal for better access	- By ITC - Enables buyers to come to farmers; eliminates trader middlemen - Access to storage services & agri equipment - 6500 centres covering 40,000 villages
Facebook for Farmers & Extension Workers	**eSagu**
- Kerala govt - All farmers + officials need to have official fb account - Activities of state agri dept extended thru social media	- By IIIT Hyderabad - To improve farm productivity - High quality, timely, personalised agro expert advice
SasyaSree	**mKrishi**
- One stop Telugu portal for Information dissemination - 8 districts of Andhra	- By TCS - Personalised advisory services in voice, visual formats using phones

Weather based information initiatives

NeGP-A -

- Disaggregated Distt level weather forecast
- Though multiple service delivery channels, incl SMS

GKMS Gramin Krishi Mausam Sewa

- Maharashtra govt + IMD/MoES

CCKN-IA Climate Change Knowledge Network - Indian Agriculture

- Need based content on weather info, advisories
- IMD + Govt of Maha + GIZ, New Delhi (German Dvpment Corporation

MNCFC Mahalanobis National Crop Forecast Centre

- Monthly drought assessments at district/ subdistrict level w/ satellite remote sensing data
- Under NADAMS National Agricultural Drought Assessment and Monitoring System

Drought & Calamity Monitoring

- IMD + SAUs (State Agri Uni)
- Based on rainfall, Aridity Index, Standardised Precipitation Index, NDVI Normalised Difference Vegetation Index

Apps - Mausam, Meghdoot by MoES

Digital India & Agri Sector

- 2015
- 3 components of Digital India

Digital infra	Digital services	Digital literacy

- Mobile phone: preferred delivery medium w/ focus on mGovernance & mServices (mAgriculture, mGramBazar)
- **Benefits to farmers**

Tool for direct contribution to agri productivity	- Digitally empowered knowledge economy in rural areas • Info on weather and climate, soil conditions, market prices, govt policies, new scientific techniques, newer crop varieties, pest control methods - Universal phone connectivity + broadband access in 250,000 villages • Crowdsourcing of ideas & ways - Timely services to farmers - Better efficiency in agriculture governance thru digital literacy + electronic delivery of services - Access to national & global markets (AGMARKNET, spot exchanges)
Indirect tool for farmer empowerment	- Unexploited in Indian context

Way Forward

Rural Access	Education & Sensitisation
- Smart villages in policy making + admin -- tech savvy + envi sustainability - Investment in communication infra -- financial viability + social acceptability - PPP + cost sharing for rural information	- Agri part of school curriculum - Computer education integral part of Agri Edu - Digital libraries in rural areas for Learning envi, literacy, transfer of agri tech - **BCC** Behaviour Change Comm to remove hesitation

centres - Awareness, capacity building of rural community - Adapt info in relevant formats and languages for rural areas - Invest in repackaging technical info - - Integrate conventional methods (extension, radio) w/ new tech	
Market Chains	**Research & Innovation**
- Chain: farmers, transporters, buyers, traders - <u>Equitable, timely & collaborative</u> market access for small holders - Policies to systematically capture local knowledge - Identify, <u>vertically integrate</u> diverse ICT tools for agri	- Continued training -- effective interaction & knowledge sharing - <u>Digitalise</u> academic & research data to facilitate cross-flow - <u>Institutional mechanism</u> to link rural communities w/ uni, research agencies thru <u>intermediary orgs</u> - Appropriate research agenda setting - Support intermediary org functioning

<u>Big Data in Agriculture</u>

- Big Data definition
  - Large, diverse sets of information that grow at ever-increasing rates
  - 3 V's of Big Data
    - <u>Volume</u> of information
    - <u>Velocity</u> at which it is created & collected
    - <u>Variety</u> or scope of the data points being covered
  - Often comes from data mining, arrives in multiple formats
    - Structured: databases, spreadsheets; mostly numeric
    - Unstructured: doesn't fall in predetermined model/ format
  - Can be applicable in nearly every dept; handling clutter + noise -- challenging
  - Potential sources
    - Public shared comments on social media, websites
    - Voluntarily gathered from personal electronics & apps
    - Questionnaires
    - Product purchases
    - Electronic check-ins
- Applications in agriculture
  - Meeting food demand by increasing efficiency and yields
    - Info on weather, rainfall, soil moisture, other factors affecting crop yield
  - Pesticide use optimisation
    - Smart & precise application
    - Help farmer decide - what, when, where - for pesticides
    - Avoid overuse, cost saving
  - Farm equipment management
    - Remote mgmt of agri machinery - save fuel
  - Supply chain mgmt
    - Tracking, optimisation of delivery truck routes
    - Minimise food wastage by shortening food delivery cycles
  - Yield prediction
    - Based on analysis of weather, chemicals, vegetation, etc
    - Where and when to plant seeds, spacing, watering schedules, chemicals, harvesting schedule

- Food safety
  - Instant detection of microbes, signs of contamination thru data on temperature, humidity, chemicals
- Access to plant genome information
  - Aid development of useful agronomic traits
- Prevent labour migration
  - More attractive to specialists, prevent them from searching alternative occupations
- Discovering gender dynamics in digital loans for agri
  - CGIAR working in Odisha
- ? Synergies with animal husbandry!?

- Challenges
  - Generation of good quality data - critical concern in farm mgmt info systems
  - Strict application of data-ownership, privacy, security issues impeded innovation
  - Large volume of unstructured, heterogeneous data == requires domain experts, skilled data scientists
  - Successful biz model requires sustainable integration of data from all sources -- very difficult

Way forward

- Rural Access
  - 'smart villages' in policy making + administration
  - Investment in communication infra -- financially viable + socially acceptable
  - Public private collaborative efforts + cost sharing arrangements to ensure sustainability
  - Awareness + capacity building
  - Focus on adoption into formats relevant for rural areas
  - Repackaging of technical info for farmers
  - Integrate conventional info sharing methods w/ new communication tech
- Education and sensitisation
  - Subject in school curriculum
  - Computer education must be imp part of Agri Education System
  - Digital libraries in rural areas
  - BCC Behaviour Change Communication - attitude, mindset needs to be changed to adopt modern methods and move away from traditional methods
- Market chains
  - Equitable, timely, collaborative access for small stakeholders
  - Govt policies to systematically capture local knowledge + set appropriate research agenda + support functioning of intermediary organisations
  - Identification and vertical integration of diverse ICT tools
- Research and innovation
  - continued training
  - Digital availability of academic and research data
  - Institutional mechanism to link rural communities with universities, research agencies thru intermediary orgs

Technology missions

Vam 2018

Agri Credit

21 June 2021 13:57

Farm loan waivers

RBI Report - 2019 on Agri Credit
https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=942#CII3

- Unprecedented increase since 2014-15; driven by state govt
- Rationale: alleviate debt overhang of beneficiaries; enable productive investment; boost real economic activity
- Reality: undermines credit culture, impacts state finances adversely, harms famers' interest in medium to long run

History

- 1990: ARDRS Agriculture and Rural Debt Relief Scheme 1990 - first major program on farm loan waiver
- 2008 - ADWDRS Agri Debt Waiver and Debt Relief Scheme - for short term loans, overdue instalments on terms loans from PSBs & RRBs; higher relief for small & marginal farmers
- 2014-2019: 10 states announced loan waivers worth ₹2.4 trillion
    - Significantly larger than 1990, 2008 programs
    - Higher focus on cooperative credit institutions in state-level debt waiver programs; mostly cover short-term crop loans; prescribe an upper limit on amt of relief granted

Justifications

- alleviating the debt overhang of beneficiaries thus enabling them to undertake productive investment and boost real economic activity
    - Economic benefit of loan waiver can only be realised if credit allocation to beneficiary household is not impacted
    - But -- moral hazard impacts both beneficiaries, non-beneficiaries -- strategic default by borrowers anticipating future bailouts
    - Banks reallocate lending to lower risk borrower segments
- Social welfare grounds
    - Rural-urban divide in growth, social interest & farmers' suicides as justification for national ADWDRS program (Reddy, 2019)
    - Climate risk, market risk -- agri distress
- Linkage b/w agri distress & adverse rainfall due to underdeveloped irrigation infra (Cole et al (2013), Burgess et al (2011))
- Inflation -- high inflation preceding 2008 waivers
- Higher increase in input costs vis-a-vis agri produce, eroded agri margins (Ramakumar, 2018)
    - Although margins improved after 2008, moderation in margins since 2014-15; could be part of business cycle as higher prices often followed by low prices and shrinking margins
- Political expediency -- mostly announced during election cycles
    - 1990, 2008 - before 1991, 2009 elections
    - 8/10 loan waivers since 2014 within 90 days of respective states' election results
- >85% SMF - lack basic inputs of farmin

Impact

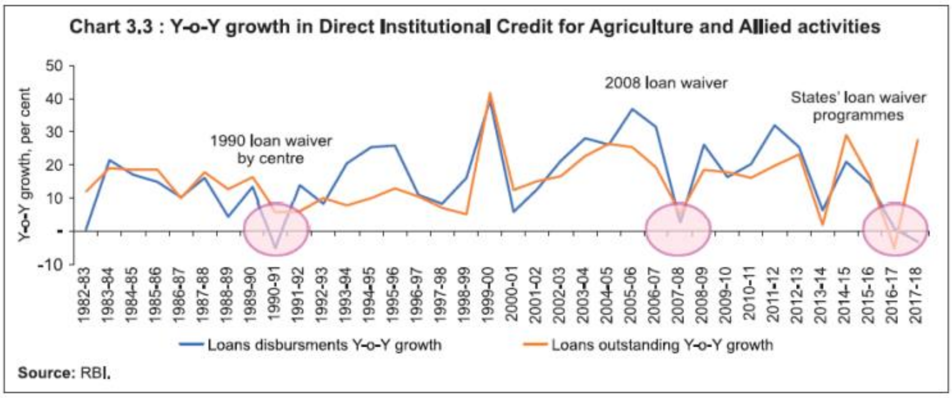
- Covers only tiny fraction of farmers
- Only partial relief to indebted farmers
- Multiple loan waiving for single hh - when it has loans from different sources/ in name of different family members
- Excludes agri labourers -- economically weaker than cultivators
- Erosion of credit culture
- Prone to serious inclusion-exclusion errors (CAG)
- Implications for other developmental expenditure
- Deceleration in agri credit outstanding, decline in agri credit disbursements in years of loan waiver programs; transitory though
    - 

Chart 3.3 : Y-o-Y growth in Direct Institutional Credit for Agriculture and Allied activities
Source: RBI.
- Sharp increase in agri NPA since 2017-18 -- possibly indicating strategic default (Free Riders)
    - NPA level increased for all states that have announced loan waivers
    - All other states const/ declining NPA levels
    - Indicates -> moral hazard
- Kanz (2012) - 2008 loan waivers reduced household debt level but no impact on investment
    - Debt relief beneficiaries believe it will be more difficult to access credit in future, both from formal and informal lenders
- Shylendra (1995) - both program relief and fresh credit post 1990 flowed primarily to large landholding farmers
- Kanz & Gine (2017) - reallocation of bank credit towards less risky customers (Moral Hazard, reputational consequences), increase in loan defaults post debt waiver w/ no positive effect on agri productivity, rural wages, consumption
    - Rise in dependence on informal lenders
- Raj & Prabhu (2018) - TN loan waiver 2016 - beneficiary farmers have a lower probability of obtaining credit vis-a-vis non-beneficiaries in SR; differentiation comes down over time
- ICRIER - 2008 farm loan waiver led to 3x increase in NPA of commercial banks b/w 2009-10, 2012-13
    - Causes downgrading of banks; destabilises functioning of credit market in general
    - Higher cost of credit
- Impacts state finances over multiple years -- either phase wise rollout clearing the bank dues over several years
    - NPA rises in the intervening time
    - Falls on banks to extend fresh loans
- Could potentially depress state govt's capital expenditure in agri
- Fiscal risk - ~one-third of fiscal slippage during 2017-18 may be attributed to loan waivers (RBI Report on State Finances, 2018)

Policy alternatives
- __
- RBI: holistic review of agri policies + implementation by states & centre; evaluate effectiveness of current subsidy policies
- Addressing long term challenges through crop insurance, income support scheme, ECA, APMC reforms, e-NAM etc
- Improved tech, expansion of irrigation coverage, crop diversification

<u>Interest Subvention Scheme</u>

- To provide short term credit to farmers at subsidised interest rate
- Wef Kharif 2006-07
- Given to PSBs, PVBs, Cooperative Banks, RRBs, NABARD
- Implemented by RBI, NABARD

Salient features
- For short term crop loans
  - Concessional crop loans upto ₹3 lakh at 7%; 3% addl subvention for prompt repayment within a year
  - If do not repay on time, eligible for 2% interest subvention only rather than 5% above
- For post harvest loans
  - For storage in accredited warehouses against NWRs - avbl for 6 months
  - 2% interest subvention here; no addl incentive for prompt repayment
- For natural calamities
  - 2% subvention for 1st year on restructured amount; normal rates thereafter
  - For sever calamities -- subvention for 3 years
  - Prompt repayment benefit in all cases
  - Severity of calamity -- by High Level Committee based on Inter Ministerial Central Team
- Interest subvention scheme under NRLM
  - For women SHGs, upto a maximum of ₹3lakh -- 2% subvention; 3% addl on prompt repayment
- For dairy sector
  - For working capital loans -- dairy cooperatives, FPOs
  - 2% + 2% addl on prompt repayment

Impact on agri sector
- Significant increase in credit flow for crop loan after intro of ISS
  - Effect more significant with addl incentive for prompt repayment
- Noticeable improvement in recovery w/ prompt repayment incentive
- Sizeable loss to DCCBs due to ISS - hampers lending ability
- Repayment of money disbursed through KCC has been poor; use of funds for consumption related activities has grown in size; guaranteed avblity of cheap money -> wrong practice among beneficiaries

Alternatives
- DBT
- Advance transfer of quarterly interest subvention amount to banks by GoI (w. 3yr moving averages)
- Online claims portal to cut down duplicate claims, reduce time wastage

Animal Husbandry

25 June 2021 20:19

Dairy Sector

- Highlights
    - Value(milk)>value (rice + wheat)
    - India's biggest agri produce
    - Supply 20% of global production
    - 70% dairy farmers - women
    - Part of farming system; not separate enterprise
    - Supports 33% rural income
    - Livestock as security asset for crisis
- Challenges
    - Lowest productivity of cattle
    - Shortage of organised dairy farms
    - Need high degree of investment to reach global stds
    - Improving farm productivity
    - Escalation of feed prices
        - Major sources: crop residue, fodder from common property resources (not managed)
        - Concentrates: coarse grains, cereal by-products
    - Limited success in crossbreeding of indigenous species w/ exotic stocks
    - Vaccination/ medicines
    - Access to markets
        - Lack of access -> disincentive to tech/ quality inputs
    - Formal/ informal credit
    - Globalisation
- Initiatives
    - National programme for bovine breeding
    - Rashtriya gokul mission
    - National bovine genetic centre
    - Quality mark
    - National kamadhenu breeding centres
    - e-pashuhaat portal
    - NPDD National Program for Dairy Dvpment
    - DEDS Dairy Entrepreneurship Development Scheme
    - National Dairy Plan - I
    - DIDF Dairy Processing and Infra Development Fund
    - SDCFPO Supporting Dairy Cooperatives and FPOs engaged in dairy activities

Milk cooperatives

- 97th CAA
- Beginning
    - Kaira distt farmers approached Sardar Patel to check against exploitation by middlemen
    - Kaira Distt Union - cooperative setup w/ assistance by Tribhuvandas Patel
    - V Kurien - CEO
    - 24 hrs vet, machinery to make butter, milk powder, computer tech for better logistics

        - Elections in democratic spirit
- Operation flood
    - Shastri - all India level - pattern of Anand
    - World's biggest dairy development programme
    - Launched in 1970 by NDDB under V Kurien
    - 22% of all marketed milk fm Opn flood
    - Large room for improvement
    - 3 phase
        - Metro target
        - Focus on vaccination
        - Focus on AI, R&D
    - Pros
        - Milk growth
            - 0.7% to 4% p.a.
            - India largest producer (21% of global)
            - Doubled per capita milk availability in 30 years
        - Dairy farming became India's one of largest self sustainable rural employment generator
        - Dairy equipment capital industry
            - Indigenous dvpment
            - 93% indi
        - 60% - landless, small, medium farmers
        - SC, ST, Muslim
        - Women cooperatives
            - SEWA (Self Employed Women's asso)
            - 6000 milk cooperatives setup
        - Inspiration for other industries
            - Dhara vegetable oil
            - Lijjat papad
        - National Milk Grid links producers & consumers across India
            - reduced seasonal, regional price variations
            - Ensure fair market price for producers
- Need
    - Supporting private investments
        - Animal Husbandry Infrastructure Development Fund
        - National Dairy Development Board NDDB
    - Extension of Kisan Credit Card scheme to dairy farmers
    - Holistic approach
        - Policy convergence
        - Ensure dairy farmers get reasonable share of earnings fm value addn by pvt players
    - Protection from foreign players
        - RCEP FTA
- 2nd White Revolution
    - Why?
        - Growing population + urbanisation
        - Need 600mn metric tonnes milk pa (2050-51) from current 176 mn metric tonnes currently
        - Need 3.2% CAGR for next 40 yrs
    - Suggested Features
        - Large scale dairy farms
            - Automation, in house breed improvement, integrated feed production

- Hub and spoke model
    - Socially inclusive model
    - Anchor owns integrated facilities (hub)
    - Satellite farms (spokes) have basic infra
    - Hub provides technical support to satellite farms
- Progressive dairy farmer
    - Investment in farm infra by anchor
    - Cow stall leased out to farmers -- responsible for housing, managing cows
    - Automation level depends on farm size
- Community model
    - Community ownership and mgmt of common infra -- housing, breeding, feeding, milking
    - Pooling basis technical support within restricted geographical periphery
    - Farmers not restricted to sell milk to specific entity

Economics of Animal Rearing

- Evolution of livestock over 12000 years
- Animal husbandry = livestock raising + selective breeding
- Livestock management = animal husbandry + standard business practices
- Needs met - food, clothing, labour, security

Significance

- Mixed farming
    - Crop + livestock
    - resource efficiency as output of one enterprise becomes input of another enterprise
- Subsidiary income generation + insurance against income shocks
- Employment, esp during lean agri season
- Food - source of animal protein
- Social security
    - Landless livestock owners better off than landless without animals
    - Gifting of animals during marriage
- Draught - esp marginal and small farmers
- Animal waste - fuel, fertiliser, plastering material
- More equitably distributed than land wealth
- Rural poverty lesser in states where livestock accounts for sizeable share of agri income, employment (Punjab, Haryana, J&K, Himachal, Kerala, Gujarat, Rajasthan)
- Gender equity -- >75% labour dd in livestock production met by women; 90% in Punjab & Haryana

Status in India

-

Percentage of usually working persons (ps+ss) engaged in Animal Production, Mixed farming, Fishing and Aquaculture during 2011-12$ and 2017-18#			
Industry (Group as per NIC-2008)		2011-12	2017-18
Code	Description		
014	Animal Production	2.75	2.10
015	Mixed farming	0.83	1.41
031	Fishing	0.28	0.23
032	Aquaculture	0.05	0.08

-

S. No.	Species	19th Livestock Census 2012 (no. in millions)	20th Livestock Census 2019(no. in millions)	Growth Rate (%) 2012-19
1	Cattle	190.90	193.46	1.34
2	Buffalo	108.70	109.85	1.06
3	Yaks	0.08	0.06	-25.00
4	Mithuns	0.30	0.39	30.00
	Total Bovines	299.98	303.76	1.26
5	Sheep	65.07	74.26	14.12
6	Goat	135.17	148.88	10.14
7	Pigs	10.29	9.06	-11.95
8	Other animals	1.54	0.80	-48.05
	Total Livestock	512.06	536.76	4.82
9	Poultry	729.21	851.81	16.81

- Production
  - Largest milk producer globally
    - Total production - 187.7 mn tonnes (2018-19) - 6.47% gr
    - Per capita avblity - 394g/day
    - Max milk production by indigenous buffalo (35%), then crossbred cows (26%)
  - Eggs - Quantum leap due to shift from unscientific farming to commercial production system
    - Per capita - 79 eggs/ annum
    - Poultry popn - 851.81 mn, egg production - 103.3 bn (2018-19)
  - Wool production -- increased
  - Meat production -- increased

Challenges

Low farm productivity	- Annual milk yield of Indian cattle ~50% of global average - Frequent outbreaks of diseases
Lack of access to credit	- Share of total public expenditure on agri disproportionately less than contribution of sector to agri GDP - Also neglected by financial institutions
Lack of access to organised markets	- Low profits - Exploitation by intermediaries - Absence of livestock extension services
Loss of pastures; Fodder & Feed issues	- Shrinking and degrading while growing livestock - Limited area under fodder cultivation -> cultivate indigenous fodder grasses, legumes, trees on degraded forest lands under JFMCs Joint Forest Mgmt Committees - Diversified use of agri residues - paper, packaging -- widening dd/ss

	gap - Lack of authentic data on avblity -> need reliable data base - Burning of crop residues - Need - condensed fodder blocks -- assured mkt + transport subsidy - HYV fodder variety seeds
Insufficient veterinary services and diseases control	- Frequent outbreaks - Inadequate hospitals, dispensaries, technical manpower - Need timely diagnosis, reporting, epidemiology, surveillance, forecasting - Quality control for veterinary drugs, vaccines
Poor quality control	- At collection centres for dairy products - Lack of international processing standards hindrance to global demand for Indian ethnic meat products
Non preference for indigenous species	- These are adaptable to harsh climate, limited nutrition, resistance to diseases, stress - Large influx of foreign breeds

Govt initiatives

National Animal Disease Control Programme for FMD and Brucellosis	- Control by 2025; Eradication by 2030 - Intensive programme - effectively manage disease in both animals & humans - Central Sector Scheme - 100% by Centre - Mission mode - Biggest step by any country for human or animal vaccination
Nationwide Artificial Insemination Programme	- Genetic upgradation programme - Tagging, tracking of every cow and buffalo through **INAPH** Database - Information Network on Animal Productivity and Health - 100% central assistance

National livestock mission	- Designed to cover all activities for quantitative and qualitative improvement
	- Four sub missions
	  • Fodder and feed development
	  • Livestock development
	    ○ Productivity enhancement, entrepreneurship, employment, infra strengthen
	    ○ Modernisation, automation, biosecurity, conservation of threatened breeds, etc
	  • Pig development in NE Region
	  • Skill development, tech transfer and extension

National mission on Bovine productivity	- Part of <u>Rashtriya Gokul Mission</u>
	- Umbrella scheme - White Revolution: Rashtriya Pashudhan Vikas Yojana
	- 4 components
	  • Pashu sanjivani - animal wellness program w/ health card, unique ID
	  • Advanced breeding technology
	    ○ IVF/ MOET Multiple-ovulation embryo transplant
	    ○ Sex sorted semen technique

	• E-pashuhaat ○ Web portal to connect breeders, farmers for germplasm ○ 2016 • NBGC-IB National Bovine Genomic Centre for Indigenous Breeds
National Programme for Bovine Breeding and Dairy Development (NPBB) 2014	- Merged 4 ongoing schemes ▪ NPCBB National Project for Cattle and Buffalo Breeding ▪ IDDP Intensive Dairy Development Program ▪ SIQ & CMP Strengthening Infra for Quality & Clean Milk Production ▪ A to C Assistance to Cooperatives - 2 components ▪ NPBB National Program for Bovine Breeding ▪ NPDD National Program for Dairy Development - Also, provision for rehabilitation assistance to improve condition of sick milk cooperatives
Rashtriya Gokul Mission	- Under NPBB - Includes establishment of • Gokul Gram; Gopalan Sangh; National Kamdhenu Breeding Centres - Objectives • Development, conservation of indigenous breeds - genetic makeup, stock increase • Milk production, productivity • Distribution of disease free high genetic merit bulls • Upgradation of nondescript cattle
Dairy Entrepreneurship Development Scheme	- To generate self employment in dairy sector - Implemented through NABARD - Financial assistance to commercially bankable projects
Livestock Insurance Scheme	- Protection mechanism to bring qualitative improvement in livestock, products
National Project for Cattle and Buffalo Breeding NPCBB	- Genetic upgradation of cattle, buffaloes by artificial insemination + acquisition of proven indigenous animals
Database & Info Networking	- For effective targeting

Pink Revolution

- Refers to modernisation of meat & poultry processing sector (specialisation, mechanisation, standardisation)
- 2014: India became largest bovine meat export country
- Exported to Middle East, South East Asia
- Broiler sector among fastest growing sectors (8%)
- Top egg producer states: Andhra, Tamil Nadu, Maharashtra
- Poultry sector valued at ₹80,000 crores (2015-16)
- 10% of rural labour force involved in livestock rearing occupation
- Constitutes 26% of total agri value added
- Challenges faced by Indian Meat Sector

Poultry	Meat
- Lack of poultry feed (maize largest components, not cost affordable) - Diseases - Lack of trained human resources - Low productivity -- low biomass - Poor hygiene and upkeep	- 90% unorganised -- inhibits govt regulation - Lack of adequate infrastructure for meat production, processing (abattoirs, cold storage) - High risk of meat borne diseases & occupational hazard -- unregulated meat market, tropical climate, inadequate slaughterhouse hygiene - Poor quality meat - animals not specifically bred but spent animals used mostly - Low domestic demand - Cultural issues - Low level of processing, value addn in animal products

- Measures
    - Long-term sustainable production measures to increase production, quality of maize
    - Surveillance, monitoring, rapid control of outbreaks
    - Realistic national, global poultry database, marketing intelligence
    - Conserve genetic resource of Indian livestock thru Gokul Mission, etc
    - Trained manpower
    - Utilise by-products from mechanised abattoirs for value-added products (Meat-cum-bone meal, tallow, bone chips, pet foods, methane)
    - Support pig rearing to improve sow productivity, gr rate of piglets, feed conversion efficiency
    - Utilisation of by-products of livestock slaughter
    - Prevent envi pollution, spread of livestock diseases
- Govt initiatives
    - 100% FDI through automatic route in FPI
    - Concessional rate of customs duty on imported equipment
    - NABARD Fund of ₹20 bn for affordable credit
    - IT deductions and exemptions

Fisheries

- Food, nutrition, employment, income
- Livelihood to **16 mn** fishers at primary level; **~30 mn** along value chain
- Affordable and rich source of animal protein
- **6.58%** share of agri GDP; **1%** of total GDP
- State subject
- Funding through Centrally Sponsored Schemes CSS, Central Sector Schemes CS & other flagship programs - RKVY Rashtriya Krishi Vikas Yojana, NMPS National Mission for Protein Supplements, Marine Fisheries Development Scheme, Inland Fishery Development Scheme, Fishermen Welfare Scheme
- Constraints
    - Limited scope for expansion - overcapacity in territorial waters
    - Yet unutilised potential
        - Only use 40% of avbl freshwater water bodies
        - Only use 15% of brackish water resources
    - Weak regulation, inefficient mgmt
    - Inadequate infrastructure - fishing harbours, landing centres, cold chain & distribution systems, poor processing and value addition
    - Seasonal nature of fishing operations in inland capture fisheries
    - Inadequate access to institutional credit, high cost of credit

- Low adoption of technology
- Shortage of skilled manpower
- Shortage of quality and healthy fish seeds and other critical inputs
- Lack of resource specific fishing vessels and reliable resource and updated data
- Inadequate awareness about nutritional & economic benefits of fish
- Inadequate extension staff, training for fisheries personnel
- Absence of standardisation, branding of fish products

- Challenges
  - FAO: 90% of global marine fish stocks have been fully exploited/ overfished/ depleted to an extent where biological recovery might not be possible
  - Discharge of harmful substances (plastics, waste) into water bodies -- devastating consequences for aquatic life
  - Climate change
- Way Forward
  - Integrated schemes to enhance productivity, w/ forward & backward linkages
  - Revamp FFDAs Fish Farmers Development Authority; involve cooperatives, SHGs, youth
  - Large scale adoption of culture based capture fisheries, cage culture in reservoirs
  - Sustainable exploitation, esp deep sea resources
  - Enhance marine fish production through sea farming, mari-culture, resource replenishment
- National Fisheries Policy 2020
  - Ecologically healthy, economically viable, socially inclusive fisheries sector
  - Objective:
    - Robust mgmt, regulatory fw
    - Modernise, rationalised (infuse SnT)
    - Manage native fish genetic stocks
    - Strengthen, modernise value chain
    - Generate gainful employment and entrepreneurship opportunities
    - Ensure food and nutritional security
- Pradhan Mantri Matsya Sampada Yojana
  - 2020
  - To enhance fish production by 2024-25 (220 lakh metric tons) from 137.6 in 2018-19
  - Objectives
    - Enhance fish production
    - Increase fisheries export earnings
    - Doubling of income
    - Reduce post harvest losses
    - Generate addl 55 lakh direct, indirect gainful employment
- Blue Revolution 2.0 - Neel Kranti Mission
  - Central Sector Scheme; since 2006
  - 1.0 launched under 7th FYP (1985-90)
  - Integrated Development and Mgmt of Fisheries
  - ? Evaluation in 2020
  - National Fisheries Action Plan 2020 to move ahead
  - Objectives
    - **Triple production** of inland and marine sector by 2020
    - **Triple export** earnings by 2020
    - **Modernise** fisheries sector
    - **Double income** of fishers and fish farmers -- increase productivity, better marketing postharvest infra

- **Inclusive** participation
- Enhance **food, nutritional security** of India
- Components
    - National Fisheries Development Board
    - Development of Inland Fisheries and Aqua Culture
    - Development of marine fisheries, infra and post harvest operations
    - Institutional arrangements for fisheries sector
    - Strengthening of data base and GIS of fisheries
    - MCS Monitoring, Control and Surveillance, other need based interventions
        - Biometric ID for marine fishers
        - Registration of vessels
        - Upgradation of regn centres into FMCS Fisheries Monitoring Control and Surveillance Centres
    - National scheme for Welfare of fisheries
        - FISHCOPFED National Federation of Fishers Cooperative Ltd
- Outcomes of 1.0
    - Average annual growth - 14.8% in fisheries sector in India; vs global average of 7.5% in the same period
        - Vs growth of farm sector ~2.5%
    - World's second largest fish producer, with ₹47,000 cr in export earnings
    - Largest market: US - 26.5% exports

- **Related: Draft Blue Economy Policy**
    - In line with GoI's **Vision of New India by 2030**
    - Opened for suggestions by MoES in 2021
    - Highlights blue economy as one of ten core dimensions of national growth
    - Emphasises holistic growth
    - 7 thematic areas addressed
        - National accounting framework for blue economy & ocean governance
        - Coastal marine spatial planning and tourism
        - Marine fisheries, aquaculture, fish processing
        - Mfg, emerging industries, trade, tech, services, skill development
        - Logistics, infra & shipping, incl transshipments
        - Coastal & deepsea mining and offshore energy
        - Security, strategic dimensions and int'l engagement
    - Aims
        - Enhance contribution of blue economy to India's GDP
            - Currently at 4.1$
        - Improve lives of coastal communities
        - Preserve marine biodiversity
        - Maintain national security of marine areas and resources
    - Significance
        - Vast coastline
        - Utilisation of non-living resources
            - ~2 mn sq km of EEZ - crude oil, natural gas
        - Sustenance of coastal communities
    - Other related initiatives
        - India Norway Task Force on Blue Economy for Sustainable Development
            - Since 2020
        - Sagarmala project
            - Port led development using ITeS for port modernisation
            - Developing inland waterways and coastal shipping
            - Development of coastal communities

- O-SMART
  - Umbrella scheme to regulate use of oceans marine resources for sustainable development
- Integrated Coastal Zone Management
  - Conservation of coastal and marine resources, improving livelihood opportunities for coastal communities
  - National Fisheries Policy
- Global
  - SDG 14

Operation Flood

- Major achievements
  - World's biggest dairy dvpment programme
  - 1970 by National Dairy Development Board, V Kurien
  - From milk-deficient to world's largest milk producer (17% of global prodn in 2010-11)
  - Doubled per capita milk avblity
  - Largest self-sustainable rural employment generator
  - National Milk Grid - to link producers, consumers in 700 cities
  - Bedrock: village milk producers' cooperatives
  - 1975 - all import of milk, milk products stopped
- Challenges of Dairy Sector

Small herd size, poor productivity	Inadequate budgetary allocation
Lack of equity w/ crop production	Inadequate credit
Deficiency of vaccines, vaccination set-up	Disease outbreaks
Insufficient milk price realisation due to poor access to organised markets	Induction of crossbred animals in areas w/ poor feed resources
Diversion of feed & fodder ingredients for industrial use	Degraded/ encroached grazing lands

- Need for a second White Revolution
  - Urbanisation, popn growth -> need ~600mn MT of milk p.a. -> 65 crore l/ day
  - Current - 48 crore l/ day
  - India's milk production needs to grow at ~3.2% CAGR for next 40 yrs
- Measures
  - Large scale integrated dairy farms w/ automation
  - Hub and spoke model
    - Hub: main farm - all integrated facilities for milking, feed production, milk processing >500 cows
    - Spoke: connected farms - 50-200 cattle each w/ basic infra
    - Hub would provide technical support to spokes
    - Socially inclusive model
  - Progressive dairy farmer - cow stalls leased out on nominal charges to farmers, responsible for housing of cows, managing them
    - 'hostels for cows'
  - Community ownership, mgmt of commong infra

[Operation Flood]

- [x] Read on Draft Blue Economy Policy https://www.google.com/search?

q=draft+blue+economy+policy+india&oq=draft+blue+economy+policy&aqs=chrome.1.69i57j0i20i263j0.9595j0j9&sourceid=chrome&ie=UTF-8

Food Processing, Horticulture, diversification

25 June 2021 20:18

Sunrise Industry

- Emerging industry considered favourable investment venture by investors
- Engines of future eco gr due to steadily rising employment generation, profit prospects
- Aid product diversification, cost rationalisation thru backward & forward linkages

Food Processing and Related Industries in India

2 types of processes

Manufacturing	Other value added process
- Original physical properties changed - Transformed product is edible - Has commercial value	- increased shelf life, shelled, ready for consumption

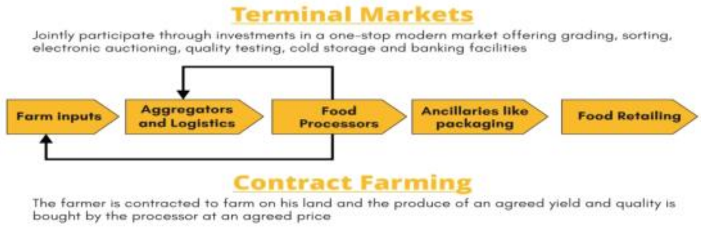
Stages

Before 1960s	1960-90	1991 onwards
- Import substitution strategy - Cereals import = 28% of exports earnings	- Focus on agriculture to attain self sufficiency, reasonable prices for farmers, affordability - Green revolution - Land ceiling act - 1972 - Restriction on exports - prevailing exchange rates didn't favour exports	- Agri ignored in economic reforms - Focus on food processing post 2000 - 100% FDI, w/ auto approval - Export promotion - food parks, export zones

S.No	NIC Group	Description
1	151	Production, Processing and Preservation of Meat, Fish, Fruits, Vegetables, Oils and Fats
2	152	Manufacturing of Dairy Products
3	153	Manufacture of Grain Mill Products, Starches and Starch products and prepared animal feeds.
4	154	Manufacture of Other Food Products.
5	155	Manufacture of Beverages.

The above groups also include food products which are under the mandate of Ministries other than Ministry of Food Processing as well

Primary	Secondary	Tertiary
Cleaning, grading, powdering, refining	Basic value addition Eg. Tomato puree, ground coffee, processing of meat products	High value additions Eg. Jams, sauces, biscuits, other ready to eat bakery products



Upstream	Downstream	Logistics
- materials flow into the organisation - finding and extraction of raw material - Modern extraction techniques - Raw material storage facilities - Quality testing facilities - Transport	- Includes processing raw materials into finished product - (finished) products flow away from organisation, to the customers/ input to other industries - Also includes sales and marketing	- Inbound/ Outbound - Highly strained by low capacity, high traffic volumes - Rail freight issues: lack of last mile connectivity, inefficiency, limited wagon availability, low tech usage - Urgent need to develop DFCs, supplement w/ concrete dual carriageways for State, NH - Organised strategic logistics hubs - Incentivise operators in setting up end-to-end logistics and warehousing -

Importance of Supply Chain Mgmt

Farmers	Consumers	Industries
- Better price realisation - Facilitates inv in agri - Use of new tech to increase productivity - Creation of rural infra	- Healthy, nutritious food material - Avoid inflationary pressures - Access to variety of processed food	- Easy access to raw materials - Quality control, regulations - Healthy competition

Linkages

Backward	Forward	Sideways
- Connectivity of FPI with sources of raw material supply - Strengthen existing local bodies, cooperatives, SHGs + promote new contract farming, cooperative farming - Eg Pepsi foods - tomato processing plant in Hoshiarpur (Punjab)	- Connectivity with markets through distribution networks - Physical infra - warehouses, etc - Rail, roads - Expands activities in downstream areas - Eg Andhra's Rythu Bazaars - successful model of direct agri mkting	- Use of by products and waste products of main base industrial activity

Significance	Challenges
- Encourage quality production by farmers - Appropriate, remunerative return for farmers - Reduction of food wastage, esp perishable products - Timely delivery - Cost saving, enhanced efficiency - Level playing field for all stakeholders - Improved hygiene and food safety standards	- Small, dispersed marketable surplus - High seasonality of raw material production - Large number of intermediareis - Poor infra -- cold storage, transport, electricity - Highly fragmented - Dominance of unorganised sector - Substandard levels of processing industries - Inadequate information w/ farmers and small processors - Multiplicity of legislation - Anomalies in domestic food laws vis a vis int'l

	food safety standards - Under developed food testing network

Why? (Scope, significance)

- 32% of India's Food Market; 5th in terms of consumption, export, expected growth
- 14% of mfg GDP, 13% exports, 6% of total industrial investment
- Reduce food wastage
    - NITI Aayog: annual post harvest losses ~Rs. 90,000 crore
- Reduce malnutrition through fortification
- Preserve food quality, increase shelf life
- Employment generation
    - 25 lakh micro food processing enterprises -- unorganised, unregistered
        - 7% investment
        - 74.3% employment (one third women)
        - 10% output
        - 27% value addition
- Increase farmer income -- derived demand for raw farm materials
- Crop diversification
- Curbs food inflation thru increased shelf life
- Gender empowerment
    - 70% women workers in animal husbandry
    - 80% family based enterprises
- Increased exports
    - CA: Pakistan granted GI for Basmati (Jan 2021)
- Enhances consumer choices
- Curbing rural to urban migration
    - 66% micro food processing enterprises located in rural areas
- Annual Survey of Industries 2018-19:
    - 9% of total GVA thru manufacturing from FPI
- FP market
    - Valued ~US$350mn in FY 2018
    - Expected to double by FY 2024
    - CAGR ~12%
- Rising middle class - disposable income
- 100% FDI thru automatic route
    - Potential to attract US$33 bn of investment over next 10 years
    - Generate emp of 9 mn person days

Potential	India's Strengths

- Demand: food constitutes major part of consumer's budget
    ○ Engel's law !
- Resilience during 2008-09 also COVID
- Value chain
- Forward backward linkages
- Potential source for driving rural economy
- Increase farm gate prices, reduce wastage, ensure value addition, promote crop diversification, generate employment opportunities, export earnings
- Scope for development: Contribution of FPI to GDP growing faster than agri avg
- Sufficient supply of raw materials -- agrarian economy
- Export competitiveness -- cheap raw materials - comparative advantage
- Employment generation
- Areas identified by Min of FPI requiring investments
• Mega food parks
• Agri infra and supply chain integration
• Logistics, cold chain infra
• Fruit and vegetable products
• Animal products, meat, dairy
• Fisheries and sea food
• Cereals, consumer foods, ready to eat
	- Favourable factor conditions
	    ○ Access to natural resources
	    ○ Diverse agro-climatic conditions
	    ○ Very small percentage processed into value added products
	    ○ Cheaper workforce
	    ○ Cost of production ~40% lower in India vs EU
	    ○ Access to significant investments
	- Related and supporting industries
	    ○ Well developed R&D, technical capabilities of Indian firms
	    ○ Central Food Technological Research Institute, Central Institute of Fisheries Technology, National Dairy Research Institute, National Research and Development Centre etc.
	- Govt regulations and support
	    ○ Agri zones, mega food parks
	    ○ 100% FDI, auto route
	- Large no. Of players

foods • Wine and beer • Machinery and packaging	

How to start Playing on India's strengths?

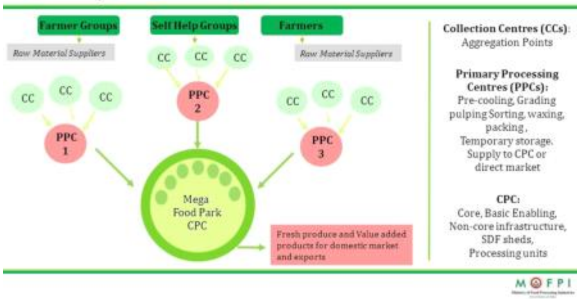
- Integrated supply chain and scale of operations
    - ~25% production lost in spoilage during harvesting
    - Poor quality of seeds, planting material, lack of tech, inability to exploit advantages of economies of scale
    - Need: investment in technology, ability to sustain a long gestation period for harvest
- Processing technology
    - Mostly manual processing
    - Limited use of pre-cooling facilities, controlled atmospheric storage, irradiation facilities
    - Need focus on process efficiencies + quality of end product
- Increasing penetration in domestic markets
    - 10% for processed fruits and vegetables
    - 2% share of branded milk products
    - 13.3% culinary products (concentrated in metros)
    - 0.48% packaged biscuits vs 4% in US
- Competitive pricing
    - extremely price sensitive consumers
    - Enable penetration in rural markets
- Product innovation
    - Impulse purchase products require novelty, new flavours -- no brand loyalty
    - Visibility -- attractive packaging

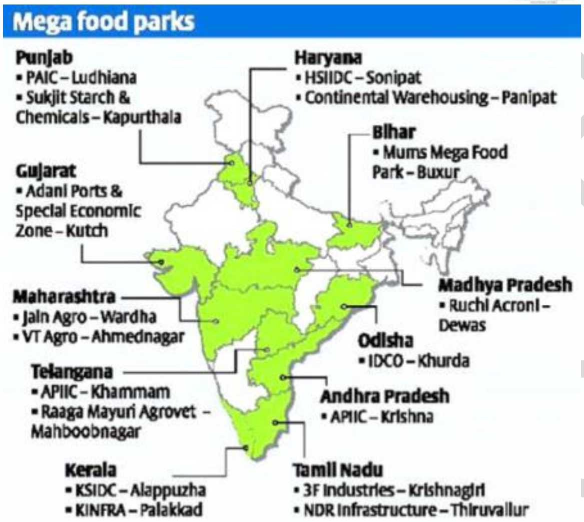
Challenges	Policy initiatives
- Informalisation of FPI ○ ~75% concentrated in unorganised segments - Lack of efficient supply chain infrastructure - Lower value addition - Significant gap in cold chain capacity -- causes high wastage - Inadequate linkage of processors, exporters and bulk purchasers with farmers - Poor credit facility - Bureaucratic hurdles - Labour laws - Absence of comprehensive national level policy on FPI - Inconsistent state & central policies - Marketing of processed food - Lack of awareness - Inadequate training - Seasonality of operations - Need for coordination in R&D -- product, process, technology improvement & development - Limited ability to control quality and safety ○ Large no of players, dominance of unorganised segments ○ Weak institutions for food testing, quality certification	- Consolidated 13 laws into 1 - Food Safety & Std Act, 2006 - Most processed food items exempted from licensing under 1951 Act, except those reserved for small scale sector, alcoholic beverages - 1999: FPI included in PSL (Priority Sector Lending) - 100% FDI - Automatic approval for FDI upto 100% - Budget 2017 - dairy processing infra fund worth ₹8000 cr - Budget 2020 - increased allocation to FPI - ₹1233 crore from ₹1043 crore - Food map of India - on website of MoFPI - Investors portal by MoFPI -- info on potential areas - APMC reforms -- promotion of contract farming - 16 Agriculture Export Zones -- estd since 2001 ○ Similar to SEZs but for agri products ○ More tax rebates in AEZs than Mega Food Parks - Vision 2015 document: goal of tripling the size of processed food sector (avg gr doubled from 7% (2004) to 14% (2010) - FSSAI - strengthening testing infrastructure in India ○ Under MoHFW ○ Regulations on additives, contaminants, toxins, residues ○ Rules for import, shelf life norms, relaxation of labelling guidelines

Schemes

National Mission on Food Processing	- 12th FYP - Address institutional, infrastructural gaps - Modernisation, mega food parks, integrated cold chains, abattoir modernisation, skill development, training, entrepreneurship - Flexibility to states to set own physical targets, identify focus areas
PM Kisan SAMPADA	- Modern infrastructure + Efficient supply chain management - Sub-schemes

<table>
<tr><td>Yojana</td><td>
▪ Integrated Cold Chain and Value addition infra
▪ Creation/ expansion of food processing & preservation capacities
▪ Infra for agro-processing clusters
▪ Creation of backward & forward linkages
▪ Food safety and quality assurance infrastructure
▪ Human resources and institutions
▪ Operation Greens -- TOP (Tomato, Onion, Potato)
▪ Mega Food Park Scheme 2008
□ Implemented as SPV
□ Financial assistance upto ₹50 crore to setup modern infra
□ 3 layers -- CC, PPC, CPC
□ 42 set up, w/ ₹98 bn allocation
A Hub and Spoke Model





</td></tr>
<tr><td>Scheme for Formalisation of Micro Food Processing Enterprises</td><td>
- Centrally sponsored scheme
- 60:40 centre, states
- Credit linked subsidy for 2 lakh micro enterprises
- Cluster approach
- Special focus on perishables
- National level portal -- individual enterprise can apply here
</td></tr>
<tr><td>Gram Samriddhi Yojana</td><td>
- Bolster unorganised processing sector concentrated in rural areas
- World Bank + GoI
- For cottage industry, FPOs, individual food processors
- Increase capacity, upgrade tech, skilling, entreprenuership devp, strengthening supply chain
</td></tr>
<tr><td>Scheme for Cold Chain, Value Addition and Preservation Infrastructure</td><td>
- Minimal processing centres at farm gate
- Mobile pre-cooling, reefer trucks
- Distribution hubs -- multipurpose cold stores, variable humidity stores, quick freezing, blast freezing
</td></tr>
<tr><td>Modernisation of Abattoirs</td><td>
- Scientific, hygienic
- Modern tech for waste mgmt
- PPP mode
- Involvement of local bodies
- Models -- BOT build-operate transfer; JV joint venture; build-own-operate
</td></tr>
<tr><td>TRIFOOD Project</td><td>
- Min of Tribal Affairs + MoFPI + TRIFED
- Income enhancement of tribals
- Minor forest produce
</td></tr>
<tr><td>Make in India</td><td>- 1/ 31 Sector Skill Council for FPIs</td></tr>
<tr><td>Food</td><td>- By NABARD in 2014-15</td></tr>
</table>

<table>
<tr><td>Processing Fund</td><td>- Affordable credit to food processing units in Mega & Designated Food Parks</td></tr>
<tr><td>ODOP One District One Product</td><td>- By UP govt
- Encourage, revive aboriginals' art & craft products
- More visibility, sale of indigenous and specialised products/ crafts of UP
- Employment generation at district level
- District must be traditionally famous for production and manufacturing of selected product; many of these GI tagged
- Use of dying community traditions in manufacturing processes -- revival thru modernisation, publicization</td></tr>
<tr><td>R&D institutions</td><td><table>
<tr><td>NIFTEM</td><td>National Institute of Food Technology Entrepreneurship and Management (NIFTEM) was conceptualized by Government of India on persistent demand of the food industry to have an apex body as a "One Stop Solution Provider" for the various problems of the sector. Ministry of Food Processing Industries, Government of India has set up this institute with an initial investment of Rs. 500 crore (US $100 million).</td></tr>
<tr><td>CIPHET</td><td>The ICAR-Central Institute of Post-Harvest Engineering and Technology (CIPHET) was established on 3rd October 1989 at the PAU Campus, Ludhiana, Punjab, India as a nodal institute to undertake lead researches in the area of the Post-Harvest Engineering and Technology appropriate to agricultural production catchment and agro-industries.</td></tr>
<tr><td>IIFPT</td><td>The Indian Institute of Food Processing Technology (IIFPT) is a pioneer Research and Educational Institution under the Ministry of Food Processing Industries, Government of India</td></tr>
<tr><td>ICAR</td><td>Runs different All India Co-Ordinated Research for developing varieties which can be used for processing</td></tr>
</table></td></tr>
</table>

Way forward

- Policy initiatives to plug supply side, infra bottlenecks
  - Conducive regulatory fw for contract, corporate farming - backward & forward linkages
  - Special consideration for NE, hilly states, islands -- naturaly conducive for FPI
    - Zoram Mega Food Park -- Mizoram's 1st, setup by MoFPI
  - Encourage commodity clusters, intensive livestock rearing
  - Promote private sector participation
    - Well defined roles; Risk sharing mechanisms; Fiscal incentives; Partnership models; Infra for logistics, storage, processing
  - Technology upgradation of existing facilities
  - Fiscal incentives for investment in ancillary industries - R&D, packaging, food processing equipment mfg, food safety certifying agencies
  - Enable better access to credit by augmenting current cap of ₹10 crore to qualify as priority sector credit -- high cost of technology adoption and scale enhancement
  - Expand NABARD mandate to serve FPIs
- Streamlining regulatory structure
  - Single window approvals
  - Ensure uniform implementation of APMC act -- encourage pvt sector investment in infra dvpment
- Implementation of food safety laws
  - Defined tasks w/ specified objective of rule-making for food authorities, scientific panels and scientific committees
  - Also reqd for export
- Change in mindset
  - Orient stakeholders towards demand and profit driven production
  - 'producing processable varieties, marketable products' rather than 'marketing what is produced'
  - Adoption of need based viable technologies and quality controls
- Human resource development to meet increased dd for skilled manpower
  - Combined efforts from industry, academia, govt
  - Encourage state agri universities to commence relevant courses
- Technology indigenisation
  - Issues: segregation of academics from applied research, inadequate industry interface, low commercial orientation, lack of collaborative efforts w/ global peers

SWOT analysis

Strengths	Weaknesses	Opportunities	Threats
- Round the year availability of raw materials - Social acceptability of FPI as important area - Govt support - central, state - Vast network	- High requirement of working capital - Low availability of improved instruments, equipments - Inadequate automation wrt info mgmt - Remuneration less	- Agro-ecological variability => large crop and material base - Scope for rapid progress by integration of developments in contemporary tech - Opening of global markets • export of developed technologies	- Competition from global players - Loss of trained manpower to other industries due to better working conditions - Fast obsolescence due to rapid developments

of manufacturing facilities - Vast domestic market	attractive vis a vis contemporary disciplines - Inadequately developed linkages b/w R&D labs, industry	• Facilitate income generation, employment opportunities	

Food Safety

- FSSAI twin objectives - single statutory body for food + scientific dvpment of FPI

Limitations	Way forward
- Slack implementation - Understaffed, ill-trained personnel - Un-accredited labs, few equipped to cater domestic & regulatory testing needs - Very wide jurisdiction -- all Food Business Operators - Onus of contamination lies w/ manufacturer; doesn't have control over raw material - Checks not done/ done with delay - Arbitrary rulings -> discourage investors - Lack of uniform, accurate food safety apparatus -> opens FPI to litigations	- Manpower development - Lab upgradation - infra, sophisticated equipments - SOTA advanced centres of excellence for analytical research work - Residue monitoring plans (toxic contaminants) - Collab b/w Centre, states, pvt sector - Effective consumer awareness - Contract farming -- can ensure raw material quality; no blame-game

Horticulture

Within the agriculture sector, the horticulture sector is widely recognised as the most rapidly growing sector. It has been rightly called as the silent revolution because of its varied achievements. The Indian agricultural land covers area of 140 million hectares out of which, 17% of area is dedicated to horticultural crops that contributes to 30% of total agricultural GDP.

Body:

Horticulture crops and increase in farm income:

- The NHM, a centrally-sponsored scheme, was launched in 2005-06 with one of its major objectives being to increase horticulture production and doubling farmers' income.
- Horticulture production in India has more than doubled approximately from 146 million tonnes in 2001-02 to 314 million tonnes in 2018-19 whereas the production of foodgrain increased from 213 million tonnes to 285 million tonnes during the same period.
- India is now self-sufficient in foodgrain production and is the largest global producer of farm products like pulses, jute, buffalo meat, milk, and poultry. It is also is the second-largest producer of several horticulture products, especially fruit and vegetables.
- Just before the launch of the NHM, the production of horticulture crop was approximately 167 million tonnes, using only 9.7% of the cropped area (18.5 million hectare); the total foodgrain production was 198 million tones, covering 63%(120 million hectare) of total crop area of the country.
- In 2012-13, total horticulture production at 269 million tonnes, surpassed total foodgrain production at 257 million tonnes.
- The area under horticulture crops increased to 25.5 million hectare in 2018-19, which is 20% of the total area under foodgrain, and produced 314 million tonnes. However, the area under total foodgrain declined from 129 million hectare in 2016-17 to 124 million hectare in 2018-19.
- The most notable factor behind this is that the productivity of horticulture has increased from 8.8 tonnes per hectare in 2001-02 to 12.3 tonnes per hectare in 2018-19. The productivity of total foodgrain increased from 1.7 tonnes per hectare to 2.3 tonnes during the same period.
- Horticulture crops are characterised by high-value crops, higher productivity per unit of area and lower requirement of irrigation and input cost.
- According to National Accounts Statistics 2019, the value of horticulture crops was Rs 4.7 lakh crore in 2011-12 at constant prices, which increased to Rs 5.5 lakh crore in 2017-18. The total value of all crops was Rs 11.9 lakh crore in 2011-12 and increased to Rs 13.2 lakh crore in 2017-18.
- The share of horticulture crops in relation to the value of all agricultural crops increased from 39% in 2011-12 to 42% during the same period.
- Another important point of note is that share of value of export earnings from horticultural crops has been higher than the export value of total foodgrain. The total

export value of horticultural crops includes crops such as spices, cashew, cashew nut shell liquid, fruits-vegetable seeds, fresh fruits, vegetable oil, fresh vegetable, processed vegetable, processed fruits and juice, floriculture products, tea, coffee, Ayush and herbal products, and cocoa products.

- The export of foodgrain crops consists of Basmati rice, non-basmati rice, other cereals, pulses and wheat. The total value of agricultural export was approximately Rs 29,700 crore in 2001-02, which increased to Rs 2.75 lakh crore in 2018-19.
- Similarly, the value of horticultural export too increased from approximately Rs 8,000 crore to Rs 63,700 crore, and the value of foodgrain export increased from Rs 5,000 crore to Rs 58,600 crore during the same period. The value of export of horticultural products is much higher than the value of exports of foodgrain in the total agricultural export value, except for the year 2007-08.
- Horticultural production is relatively easy for unskilled people and it can play an important role in poverty alleviation programs and food security initiatives by providing work and income
- In a nutshell, horticulture production contributes more to crop production despite much lower land use and lower input cost.

Horticulture crops and increase in nutritional security:

- Horticultural crops are some of the main components of a healthy The constituents obtained by the human body from fruits and vegetables include water, carbohydrates, fats, proteins, fiber, minerals organic acids, pigments, vitamins and antioxidants, among others.
- Fruits and vegetables improve nutrient absorption in a diet high in phytate (whole grains, seeds, pulses) .
- From human nutrition point of view horticulture is most important to our daily living. Many of the horticulture crops and their products find place in our meals and diet. Fruits and vegetables are recognized as protective foods as they are necessary for the maintenance of human health.
- Regular eating of a vegetable rich diet has positive effects on health since phytonutriceuticals of vegetables can provide safety to the human body from several types of chronic ”
- Horticultural interventions to enhance food safety at farm level combined with extensive nutrition and food safety education can offer a long term food based strategy to control and eliminate micronutrient malnutrition in the resource poor
- Fruits and vegetables also contain certain specialized chemicals called enzymes. These are important in fruits because of the chemical changes that they initiate

Way forward:

- Revisiting zones for different crops keeping into account the hanging climate particularly in the hills.
- Ensuring availability of quality seed including hybrid of vegetables, flowers and planting material of ruit trees for better quality and produce.
- Diversification of Horticultural crops along with other activities like bee keeping mushroom cultivation, backyard poultry, sericulture, fish culture etc.,
- Post-harvest management of horticultural crops through grading, packaging, and on farm primary processing for value addition and product development.
- Introduction of potential new varieties, and replacing the old and low productive varieties. Rejuvenation of old and unproductive orchards.
- Promotion of organic farming practices in vegetables and fruits production and suitable marketing must be done for the organic produce.
- Popularisation of local / indigenous or underutilized horticultural crops and promoting cultivation of flowers and medicinal plants.
- Promoting intercropping with vegetables, flowers, medicinal and aromatic plants and short duration fruit crops.
- Promotion of contract farming and buy back arrangement for encouraging farmers to adopt horti based farming.
- Promotion of horti tourism in states like J&K, HP, Uttarakhand, and North eastern states.

Conclusion:

The growth of horticultural crops is economically rewarding. This sector is expected to grow and contribute to food and nutritional security, provided, the sector is nurtured with focused infrastructure development and has a conducive policy environment.

Farm Diversification Issues and analysis @ abhipedia Powered by ABHIMANU IAS

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Introduction:

Diversification of farms is often suggested as a means for rapid rural development in India. Small and marginal holdings account for about three-fourth of the total operational holdings in the country, operating over one-fourth of the total area. Majority of small and marginal farmers cultivate mainly low value, subsistence crops. In the absence of adequate farm and non-farm employment opportunities, they are also forced to live below poverty line.

Body:

Crop diversification is intended to give a wider choice in the production of a variety of crops in a given area so as to expand production related activities on various crops and also to lessen risk. Crop diversification in India is generally viewed as a shift from traditionally grown less remunerative crops to more remunerative crops. Often low volume high-value crops like spices also aid in crop diversification. Higher profitability and also the resilience/stability in production also induce crop diversification, for example sugar cane replacing rice and wheat. Crop substitution and shift are also taking place in the areas with distinct soil problems. For example, the growing of rice in high water table areas replacing oilseeds, pulses and cotton; promotion of soybean in place of sorghum in vertisols (medium and deep black soils) etc

The major problems and constraints in crop diversification are primarily due to the following reasons with varied degrees of influence:

Over 117 m/ha (63 percent) of the cropped area in the country is completely dependent on rainfall.
Sub-optimal and over-use of resources like land and water resources, causing a negative impact on the environment and sustainability of agriculture.
Inadequate supply of seeds and plants of improved cultivars.
Fragmentation of land holding less favouring modernization and mechanization of agriculture.
Lack of access to farm and non-farm credit.
Poor basic infrastructure like rural roads, power, transport, communications etc.
Inadequate post-harvest technologies and inadequate infrastructure for post-harvest handling of perishable horticultural produce.
Agricultural pricing policies have barely looked beyond the populism of the minimum support prices (MSP) in the grain sector
The non-grain sector, on the other hand, is plagued by market inefficiencies and associated price risks. The most recent example being the plight of the dairy farmers, particularly in Maharashtra, who had to suffer price crashes due to supply bottlenecks
The price competition among these large-scale players for domestic market share has pushed many small farmers out of business.
85% of the Indian farmers are bereft of any risk-hedging apparatus
Very weak agro-based industry and a Weak research – extension – farmer linkages.
Inadequately trained human resources together with persistent and large scale illiteracy amongst farmers.
Host of diseases and pests affecting most crop plants.
Poor database for horticultural crops.
With the livestock and the ?sheries sectors contributing almost 25% and 6% of the agricultural gross domestic product (GDP) respectively, there is a need for improving their outputs.
Considering the importance of crop diversification in the overall developmental strategy in Indian agriculture, the Government of India has taken several initiatives for agricultural development in general and crop diversification in particular. These initiatives are as follows:

Launching technology missions for the Integrated Development of Horticulture in the Northeastern Region: The programme will establish effective linkages between research, production, extension, post-harvest management, processing, marketing and exports and bring about a rapid development of agriculture in the region.
Implementing PMFBY: The scheme will cover food crops and oilseeds and annual commercial and horticulture crops.

Construction of Mega Food parks in hub and spoke model to strengthen the supply chain from farm to fork.
Creation of Watershed Development Fund: At the National level for the development of Rainfed lands.
Infrastructure Support for Horticultural Development with emphasis on Post-harvest Management.
Strengthening Agricultural Marketing: in the form e-NAM,GRAMs etc.
declarations of increased outlays for the Rashtriya Gokul Mission and setting up of a Rashtriya Kamdhenu Aayog for cow welfare.
Way forward:

Innovative institutional mechanisms & structures:
Diversification should be augmented through institutional innovations like contract farming, producers' companies, cooperatives and modern retail formats that engage a larger gamut of stakeholders.
In India, farmer producer organisations (FPOs) are witnessing impressive success stories and many small holder farmers have benefited from the model.
It is the FPO structure that has united small producers and given them the capacity to enhance their livelihoods through aggregation, development of market linkages and value-addition, thus helping them reap benefits of diversification.
The state of Karnataka has also initiated several programs that directly and indirectly support crop diversification in the state. Some of them include: (i) Launching of a program for promoting Farm Producers Organizations in horticulture sector (ii) Weather-based crop insurance for horticulture crops (iii) Promotion of protected cultivation of high value vegetables (iv) Establishment of IFAB (International Flower Auction Bangalore) for promotion of production of flower crops (v) Promotion of green house cultivation of vegetables etc have lead to diversification of farming.
SHGs can play a key role in introducing and implementing various activities such as: Livestock farming, Vermicomposting, Flour mill/stores, Introducing new crops.
Policy interventions:
This is the core requirement for building upon the strengths of diversified agriculture, which India has already attained to quite an extent.
Government support in identifying commodity-specific clusters, developing basic infrastructure and processing infrastructure, and encouraging entrepreneurial skills, shall go a long way in providing sustainable livelihood.
Goods and services tax (GST) application needs to be uniform, easy to administer and incentivise processing over fresh produce. Also, farmers may be nudged to shift to a less water-intensive crop so as to reduce dependence on rain.
Technology and innovations:
The scope of diversification should expand to the wider dimension of value addition – collaborative researches in technology are required to produce process-able grades of commodities.
Specific clusters need to be identified to produce such grades at a large scale. This shall not only have a far-reaching effect but also help the nation to curb imports of processed food.
Localisation is the key to achieving prolific results of diversification.
Product innovations that use local resources are best suited to adapt to any kind of agri practice and its value addition.
Innovative use of ICT in the Indian context, to communicate weather-based information, new technologies available, extension services and market price alerts, is key to determining risk mitigation.
Infrastructure development:
Inadequate and skewed distribution of infrastructure such as road, power, market, pre- & post-harvest handling, and irrigation, are all major impediments for diversification.
Access to basic infrastructure shall boost entrepreneurial capacities of farmers to take up non-conventional activities and enhance their income.
Skill development:
India has witnessed several initiatives in the past focusing on the agriculture domain. However, with nearly stagnant agriculture growth, there is a clear need for a shift in the perspective of skill development, with a focus on sustainable rural livelihoods.
We need to look beyond the farm cycle and engage manpower in value-added activities like processing, trade dynamics and building efficient marketing channels.
This shall generate 'on farm' as well as 'off farm' livelihood options.
Sustainable risk management:
The inefficient subsidy structures on the input and output sides of the value chain have been curtailing growth, ineffectively reaching beneficiaries and promoting unsustainable farm practices, thus disincentivising diversification and adding to the twin deficits challenge.
These challenges need to be overcome through a prudent policy intervention. Further, the entire paradigm of risk management for farmers through warehouse receipt financing, crop and weather insurance as well as efficient price discovery/marketing infrastructure, needs to be brought into the mainstream, and the entire policy of price support needs to be done

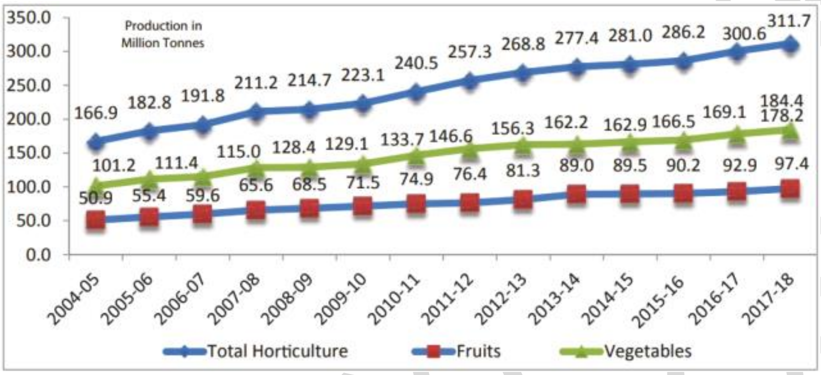
away with.
Conclusion:

Diversification has surely made its mark in select States, though value addition is still in its infancy. Further, many States are still outside the purview of mainstream diversification. The way forward to develop sustainable livelihood for the Indian farmer needs to be addressed through a collaborative approach between the Government and industry, for establishing a much larger and significantly more efficient supply chain for value-added produce, which in turn shall generate sustainable livelihood opportunities.

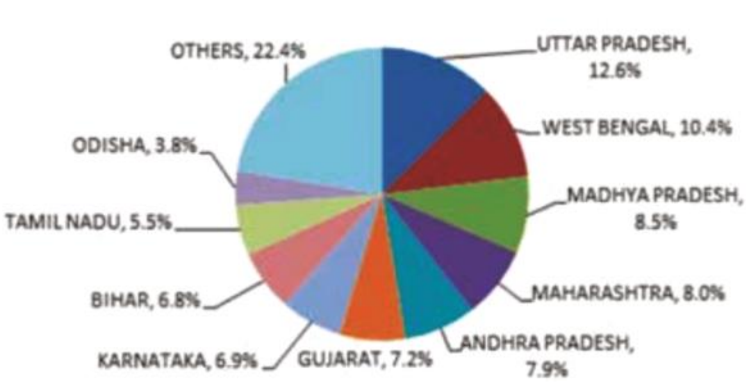
Why in News?

- Recently, **Department of Agriculture, Cooperation and Farmers Welfare** released the **Third Advanced Estimate (2018-19)** of **Area and Production of various Horticulture Crops.**
- As per the report, the total horticulture **production** in the country is **estimated** to be **313.85 million tonnes which is 0.69% higher than** the horticulture production of **311.71 million tonnes in 2017-18.**
- The area under horticulture crops has **increased to 25.49 million hectares in 2018-19 from 25.43 million hectares in 2017-18.**

The Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW) is one of the three constituent departments of the Ministry of Agriculture & Farmers Welfare, the other two being Department of Animal Husbandry, Dairying & Fisheries (DAHD & F) and Department of Agricultural Research and Education (DARE).



Major Horticulture Producing States



What is Horticulture?

- Horticulture is the **branch of agriculture** concerned with **intensively cultured plants directly used by man for food, medicinal purposes and aesthetic gratification.**
- In simpler words, **it is cultivation, production and sale of vegetables, fruits, flowers, herbs, ornamental or exotic plants.**
- The term Horticulture is derived from the Latin words **hortus (garden)** and **cultūra (cultivation).**
- **L.H. Bailey** is considered the **Father of American Horticulture** and **M.H. Marigowda** is considered the **Father of Indian Horticulture.**

Classification

- **Pomology:** Planting, harvesting, storing, processing, and marketing of **fruit and nut** crops.
- **Olericulture:** Producing and marketing **vegetables.**

- **Arboriculture:** Study, selection and care of individual **trees, shrubs or other perennial woody plants.**
- **Ornamental Horticulture:** It has two subparts-
- **Floriculture:** Production, use and marketing of **floral crops.**
- **Landscape Horticulture:** Production and marketing of **plants used to beautify** the outdoor environment.

Features of Horticulture in India

- Horticulture sector has become one of the major drivers of growth as it is **more remunerative than the agricultural sector (food grains mainly).**
- This sector provides **employment possibilities** across primary, secondary and tertiary sectors.
- Horticulture crops, fruits are **more resilient to change in weather conditions** and the **vegetables augment the income** of small and marginal farmers.
- **Water utilisation** is very **low, minimising the risk of crop failure** and it can be done on smaller farms.
- **Multiple crops are planted simultaneously** to get **more yield** and to **use the maximum of the fertilisers.**
- This sector enables the population to eat a **diverse and balanced diet** for a healthy lifestyle.
- It became a **key driver for economic development** in many of the states in the country where **Division of Horticulture of Indian Council of Agricultural Research is playing a pivotal role.**

Indian Council of Agricultural Resource (ICAR)

- An **autonomous organisation** under the **Department of Agricultural Research and Education (DARE).**
- Formerly known as **Imperial Council of Agricultural Research,** it was established on **16 July 1929.**
- Headquartered at **New Delhi.**
- It is the **apex body** for **coordinating, guiding and managing research and education** in agriculture including horticulture, fisheries and animal sciences in the entire country.

Achievements

- In the last few decades, this sector has gained prominence over **contributing a growing share in Gross Value Addition of the Agriculture and allied sectors.**
- **Mission for Integrated Development of Horticulture (MIDH)** is being implemented by adopting an end to end approach for increasing production of horticulture crops and reducing post-harvest losses.

Mission for Integrated Development of Horticulture (MIDH)

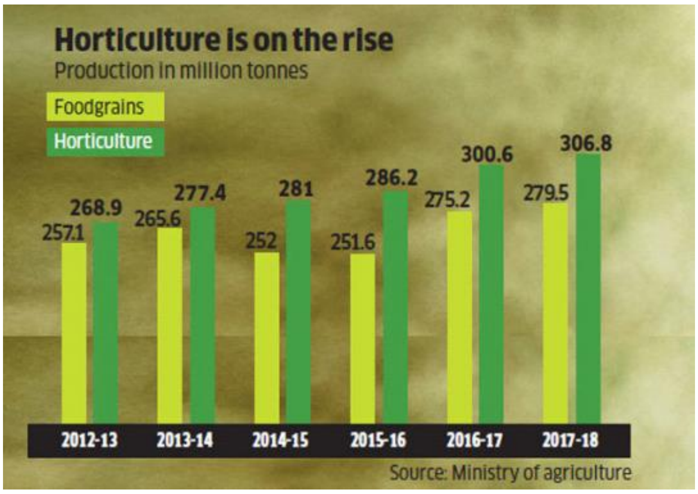
- **Centrally Sponsored Scheme** for the holistic growth of the horticulture sector covering fruits, vegetables and other areas.
- Under MIDH, Government of India contributes **60% of the total outlay** for developmental programmes in all the states (except **North Eastern and Himalayan states where GOI contributes 90%)** & **40% is contributed by State governments.**
- It has **five major schemes** on horticulture-
- National Horticulture Mission (NHM)
- Horticulture Mission for North East and Himalayan States (HMNEH)
- National Horticulture Board (NHB)
- Coconut Development Board (CDB) &
- Central Institute of Horticulture (CIH), Nagaland

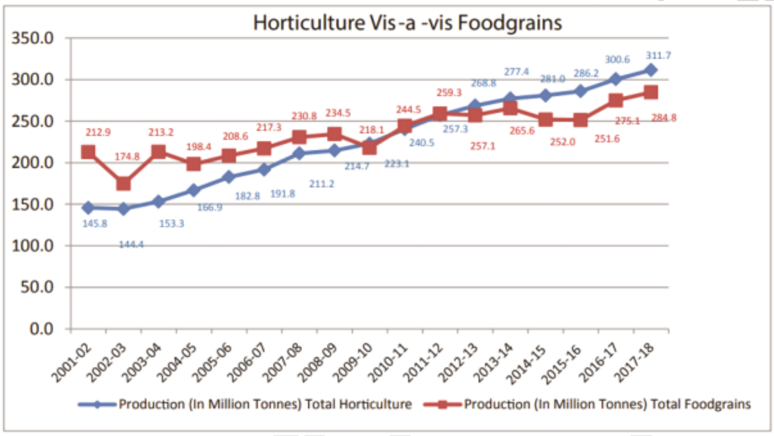
National Horticulture Board (NHB)

- It was set up **in 1984** on the basis of recommendations of the **"Group on Perishable Agricultural Commodities",** headed by **Dr M. S. Swaminathan.**
- Headquartered at **Gurugram.**
- Objective is to improve integrated development of Horticulture industry and to help in

coordinating, sustaining the production and processing of fruits and vegetables.

- The **production of fruits and vegetables has overcome the production of food grains** in the country.
- The total horticulture production has increased from 211.2 million tonnes in 2007-08 to 311.71 million tonnes in 2018-19.
- India is the **second largest producer of fruits and vegetables** in the world with **first rank** in the production of **Banana, Mango, Lime & Lemon, Papaya and Okra.**





Horticulture Statistics at a Glance- 2018

- Important publication of **the Ministry of Agriculture and Farmers Welfare.**
- **The Horticulture Statistics Division in the Department of Agriculture, Cooperation and Farmers' Welfare** has taken various initiatives to improve the database of horticulture crops.
- **Horticulture Area Production Information System (HAPIS)** is a web enabled information system by which data from the states/districts is reported, minimising the time-lag and maximising the coverage area.
- **Coordinated programme on Horticulture Assessment and MANagement using geoinformatics (CHAMAN)** with the objective to develop & firm up scientific methodology for estimation of area & production under horticulture crops through **Remote Sensing** and **Sample Survey Techniques.**
- The **varieties tolerant/resistant to various biotic and abiotic stresses have been developed** in different fruits, vegetables, medicinal and aromatic plants.
- Improved techniques for production of **disease free quality planting materials** have been developed. **Micro propagation techniques have been standardized** for various fruits, spices and other vegetatively propagated plants.
- Technology for **enhancing the water and nutrient efficiency** through **micro irrigation and fertigation** has been developed for a number of horticultural crops.
- **Good Agricultural Practices (GAP)** are developed for various plants, especially medicinal.
- **Farm mechanization to increase harvesting and processing efficiency and to reduce crop loss** has been implemented by developing horticulturalists.
- **Low cost environment friendly cool chamber** was developed for on-farm storage of fruits and vegetables.

loss has been implemented by developing horticulturalists.

- **Low cost environment friendly cool chamber** was developed for on-farm storage of fruits and vegetables.
- For **dissemination of technologies, region and crop specific training and demonstration programmes** are being taken up.

Challenges

- Horticulture **does not enjoy a safety net like the Minimum Support Price (MSP)** for foodgrains.
- **Lack of good cold chain storage and transport networks** to extend the life of perishable products.
- **Very less or limited input by machinery and equipment** so it is tough to minimise the time restraints.
- **Higher input costs** than foodgrains **make it a difficult set up,** especially when there is no support from the local governments to the smaller farmers.
- It gets challenging for marginal farmers to cope with the **high price fluctuations.**
- **Limited availability of market intelligence,** mainly for exports makes it a tougher option to choose.

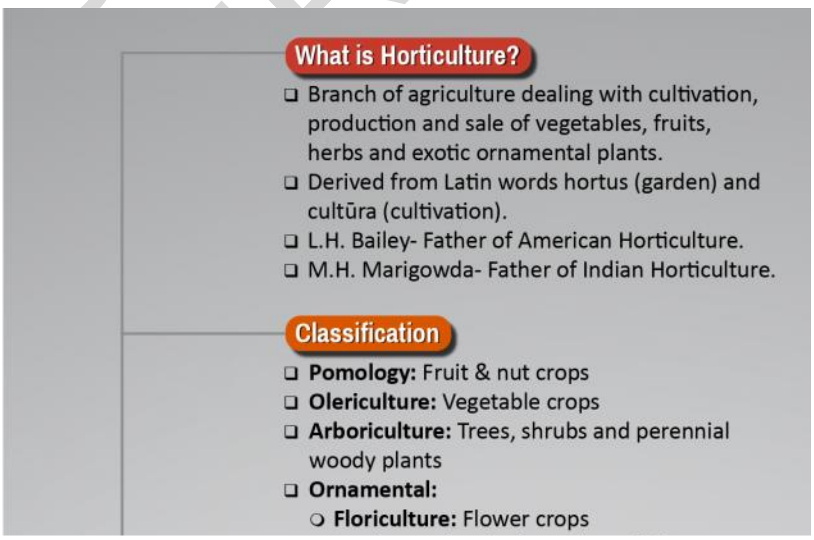
Suggestions

- **Achieve technology led development** in Horticulture.
- **Post harvest & value addition** in horticulture crops.
- **Modified atmosphere packaging for long storability & transportation** of fruits & vegetables.
- **Insect pollinators for improving productivity and quality** of the crops.
- **Development of varieties for cultivation in non-traditional areas.**
- **Nutrient dynamics and interaction.**
- **Bioenergy and solid waste utilisation** to make horticulture more efficient and eco-friendly.
- **Plan, coordinate and monitor R&D programmes** at national level as well as to serve as knowledge repository in Horticulture sector.

Way Forward

- The diversification in the agricultural sector mainly of the horticulture sector has become a **major source of positive growth** for the sector itself and for the nation.
- It has emerged as a promising source of **income acceleration, employment generation, poverty alleviation and export promotion.**
- India can emerge as a far bigger producer and exporter if **sufficient emphasis is given to resource allocation, infrastructure development, more R&D, technological upgradation and better policy framework** for horticulture sector.
- Horticulture sector with **strong forward and backward linkages** as an organised industry can stimulate and sustain growth.

From <https://www.drishtiias.com/to-the-points/paper3/horticulture-sector-in-india>



woody plants

- **Ornamental:**
  - **Floriculture:** Flower crops
  - **Landscape horticulture:** beautifying outdoor plants

Horticulture Sector in India

Features of Horticulture in India

- More remunerative than food grains
- Provides employment in all three sectors
- More resilient to weather changes
- Minimal risk of crop failure due to low water utility
- Multiple crops planted simultaneously maximising fertilisers usage
- Provides for a diverse and balanced diet
- Becoming a key driver in economic growth with ICAR's efforts

Achievements

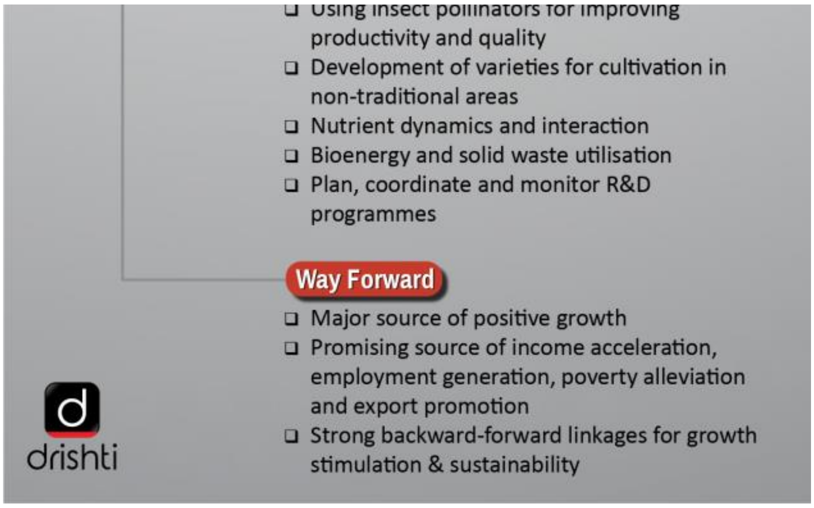
- Gained prominence by contributing a growing share in GVAs
- MIDH is implemented to increase production & reduce post-harvest losses
- Fruits & vegetables production has overcome food grains production
- Total production has increased from 211.2 million tonnes (2007-08) to 311.71 million tonnes (2018-19)
- India 2nd largest producer of fruits & vegetables
- Largest producer of- Banana, Mango, Lime/Lemon, Okra & Papaya
- Biotic & abiotic stress resistant varieties have been developed
- Development of disease free planting material
- Standardisation of micropropagation techniques
- Development of micro irrigation & fertigation
- Good Agricultural Practices have been developed
- Farms have been mechanized to increase harvesting & processing efficiency and to reduce crop loss
- Development of low cost environment friendly cool chambers
- Region & crop specific training & demonstration programmes have been taken up

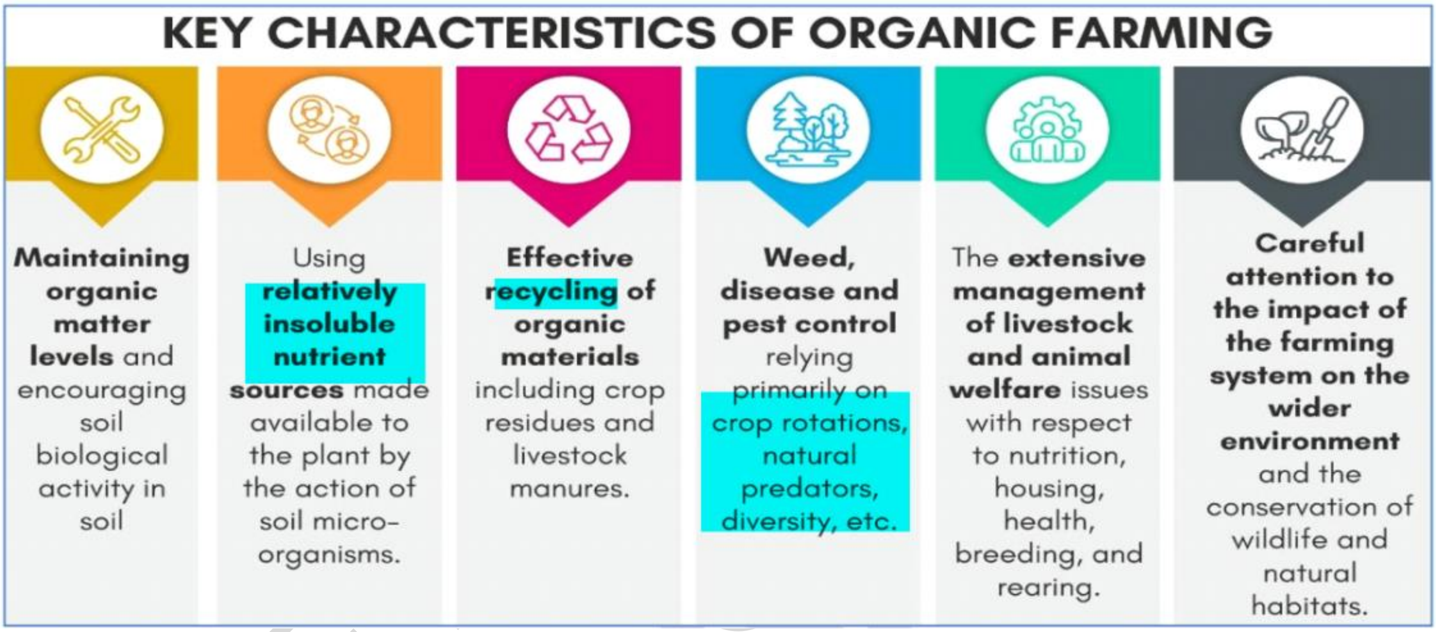
Challenges

- No safety net like MSP on food grains
- Lack of good cold chain storage & transport networks
- Very less or limited input by machinery & equipments
- Higher input costs making it tough to set up
- High price fluctuations
- Limited market availability intelligence

Suggestions

- Achieve technology led developments
- Post harvest & value addition is needed
- Modified atmosphere packaging for long storability & transportation
- Using insect pollinators for improving productivity and quality
- Development of varieties for cultivation in non-traditional areas


Using insect pollinators for improving productivity and quality
Development of varieties for cultivation in non-traditional areas
Nutrient dynamics and interaction
Bioenergy and solid waste utilisation
Plan, coordinate and monitor R&D programmes
Way Forward
Major source of positive growth
Promising source of income acceleration, employment generation, poverty alleviation and export promotion
Strong backward-forward linkages for growth stimulation & sustainability
drishti


KEY CHARACTERISTICS OF ORGANIC FARMING
Maintaining organic matter levels and encouraging soil biological activity in soil
Using relatively insoluble nutrient sources made available to the plant by the action of soil micro-organisms.
Effective recycling of organic materials including crop residues and livestock manures.
Weed, disease and pest control relying primarily on crop rotations, natural predators, diversity, etc.
The extensive management of livestock and animal welfare issues with respect to nutrition, housing, health, breeding, and rearing.
Careful attention to the impact of the farming system on the wider environment and the conservation of wildlife and natural habitats.

Income, poverty, employment

10 November 2020 16:23

Pre- liberalisation

- [ ] national, per capita income
  - [ ] patterns
  - [ ] Trends
  - [ ] Sectoral composition
- [ ] broad factors determining national income and distribution

- [ ] poverty,
  - [ ] Measures
  - [ ] trends in poverty
  - [ ] inequality

- [ ] New Economic Policy and Employment :
  - [ ] Employment
  - [ ] poverty,
  - [ ] Rural wages,
  - [ ] Employment Generation
  - [ ] Poverty alleviation schemes
  - [ ] New Rural, Employment Guarantee Scheme

See abhijeet's handwritten notes

Income (check all recent numbers)

11 November 2020 13:31

- Sector wise distribution of income

	1951	1981	1991	2015-16 (NSO)	2019-20
Agriculture	53	36	30	15.5	
Industry	17	26	28	31.5 (agri*2 + .5 = 0.5)	
Services	30	38	42	53	

- Manufacturing
  - 14.5% in 1991 to 18% now
  - Share of construction declining - 8% now

Poverty

10 November 2020 16:29

file:///C:/Users/shrey/OneDrive/Desktop/inequality_adjusted_human_development_index_for_indias_state1.pdf check this out!

-
- Deaton & Kozel, 2005
    - 20% of world's <$1 per person per day live in India
    - India: reflection of worldwide trends + major determinant

Selection of Poverty Lines
- Elements:
    - Nutrition norm (translated into monetary terms) in base year
    - Price deflator used to update poverty line
    - Pro rata adjustment of no. of households in different expenditure classes
- 1970s - 1990s
    - Poverty lines held constant in real terms
    - Converted to current ₹ using implicit price deflator of consumption in National Accounts
    - Disadvantages
        - Ignored interstate differences in price levels
        - Didn't account for state wise variations in urban to rural price differential
        - Questionable: use of national accounts consumption deflator as ideal measure of inflation for households near poverty line
- ?(1993) onwards -
    - Poverty line defined at state level; urban, rural separately
    - Updating using state specific price index
        - State specific CPI-AL for rural lines
        - State specific CPI-IW for urban lines
    - No country wide poverty line as such
        - Implicitly defined, at level which would give all-India poverty rates when applied to all households
- Methodology
    - Lakdawala
    - Tendulkar (2005)
        - (More)
        - Validated poverty lines by checking adequacy of actual per capita expenditure per capita near poverty lines on food, education, health + comparison w/ normative expenditures
        - For 2 point comparison - re-estimated poverty for 1993-94
            - Higher estimates of headcount ratios than Lakdawala
            - Estimate of decline comparable
    - Rangarajan (2012)
        - (more)
        - Tendulkar's critique
            - No explicit normative context of poverty lines
            - Based on level of urban poverty as obtained from earlier Lakdawala methodology
        - Extension of normative concerns -- food + non-food essentials (clothing, education, home rent, conveyance)
        - Poverty estimates comparison w/ Tendulkar
            - Modestly more in rural areas
            - Almost double for urban poverty

Economic Growth and Poverty
- 2 channels
    - Poor can directly share in increased wealth, income generated by eco gr
    - Overall increase in national prosperity -> financing of public services
- Not necessarily principal means
    - Poverty not necessarily manifested as low income
        - Unfreedoms: prevalence/ curable illness, social exclusion, denial of political liberty
    - Enabling role

- Education, good health, microcredit facilities, land reforms, social security, envi sustainability, legal provisions
  - Eco gr fruits may not be automatically utilised to expand basic social services

Growth and Poverty Nexus

- Measured using poverty elasticity wrt per capita GDP
- Radhakrishna, 2008: -0.86 to -0.77
- => weak trickle down effect of growth
- Further weakening of relationship in post-reform period
- Lack of assets, human capital, skills constrain the poor
- Poverty reduction strategy must also rely on direct measures

poverty elasticity
-0.86 to -0.77

India vs China

- 1981-2001: 45% decline in China vs 17% in India (incidence of poverty)
- India's poor performance also on non-income dimensions of poverty
- China: rapid reduction but uneven regional progress
- India better than China in achieving in lower inequality
  - Income share of bottom groups
  - 20% poor - 8.1% income in India vs 5.9% in China
- Considerable variation across states in India's poverty reduction

45% v/s 17%

Poverty and Inclusive Growth

- ? NCEUS - National Commission on Enterprises in the Unorganised Sector
- Direct relationship b/w aggregate poverty and average consumption
- Growth of aggregate income/ consumption -- sufficient condition for reduction of overall or aggregate poverty

? Non-income Poverty Dimensions

- Malnutrition
  - Report 2020 -- also coming soon: full report
  - Risk of malnutrition decreases with an improvement in hh income, mother's nutritional status, education and access to health care during child delivery
  - Mother's present nutritional status depends on her childhood nutrition status
  - Enormous economic cost of malnutrition

Welfare system, improved social service provision

- India vs Brazil
  - 1990-2010: avg pace of poverty reduction similar as India, despite considerably slower eco gr. (Ravallion, 2011)
  - OECD, 2005: reflects falling inequality in Brazil underpinned by comprehensive social security system with sizeable direct cash transfers to the poor
  - Underperformance of India
    - Questions effectiveness of existing welfare safety nets, provision of essential social services
- High spending on social welfare
  - Fragmented system, poor coverage
    - vulnerable to economic shocks
    - Reliant on family, other networks
    - ? Limited effectiveness of govt interventions during severe economic downturns (add COVID perspectives)
  - Spending skewed towards food + subsidies, employment in public works schemes
    - PDS largest scheme - poor targeting, delivery inefficiencies

- ? NREGA - no urban equivalent (any new announced?)
- Workfare schemes ineffective instrument for aiding elderly, incapacitated
- CCTs Conditional Cash Transfers: limited in India despite growing support
- Old-age pension -- unconditional cash transfer
  - Effective in supporting intended recipients

Nobel

- Progress: incidence of Multidimensional Poverty - halved b/w 2005/6 - 2015/16
  - 271 million people in 10 years
  - UNDP report: global MPI cut by half due to deeper progress among the poorest in India

- Conditional Cash Transfers
  - Welfare payments made directly to households subject to them undertaking specific activities

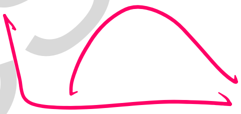
- Conditional Cash Transfers
    - Welfare payments made directly to households subject to them undertaking specific activities
    - Aim to reduce long term poverty by addressing under investment in health and education (pvt vs social costs/ benefits)
    - Empirical findings
        - Effective in raising incomes of poor households
        - Reducing incidence of immediate poverty
        - Positive impact on school enrolment
        - Lower incidence of child labour
        - Rise in visits to health clinics
        - => long term impacts
    - But - inconclusive wrt improvement in outcomes (health, learning status)
        - Probably: quality of services too poor to be reflected in material improvements in outcomes

Poverty Alleviation Programs
- Poverty alleviation + social justice + equity
- Eg IRDP, PDS, Land Reforms
- Public investment in human capital, public goods
    - ? Total social sector expenditures by states + centre ~10%
    - Edu: 2.5%, health 2.1%

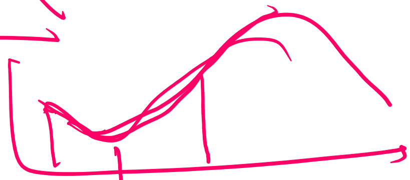
Inequality

Key theme in research agenda b'cos
- Intrinsic ethical attractiveness of equality
- Significant implications of inequality on many macro variables (growth, poverty)

2018 Forbes List - India has 3rd largest no. of billionaires Kuznet



HDR uses 2 measures of inequality
- Gini
    - India 36.8 in 2010-11
    - 35 in 1950; declined to 31 by 1970
        - Slower growth, socialist policies
    - Less than for other dvping ctries (China 41.5, SA 57.8, Brazil (54), Sri Lanka 40.3)
    - Less than dvped ctries (USA 40.8, HK 43.4, Israel 39.2) -- do well on HDR otherwise

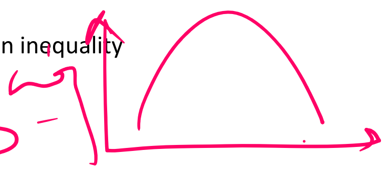


80 70 2010

- Quintile income ratio = $\frac{avg\ income\ of\ richest\ 20\%}{avg\ income\ of\ poorest\ 20\%}$
    - India 5.6 in 2010-11
    - Income share of top earners rising since mid 1980s
    - Inequality among rich also increasing
    - Growth process increasingly pro-rich orientation
    - USA 8.5, UK 7.8, Malaysia 11.4

Rural urban gap
- MPCE used
- Rate of increase in MPCE of rural areas higher than that of urban areas
    - => gap is being bridged

Deaton & Dreze 2002 -
- Evidence of regional inequality
- Increasing inequality across states
    - States w/ higher per capita expenditures in 1993-94 also the ones that recorded higher growth in these per capita expenditures
- Reduction in poverty over 1990s significantly moderated by rise in inequality



Widening of wage gap across occupations

Kuznet hypothesis

Widening of wage gap across occupations

Kuznet hypothesis
- Inverse U shaped inequality w/ income growth
- Comforting b'cos rising inequality need not be a matter of concern
- Time scale still a matter of concern
- Not much empirical support
- Doesn't account for rising inequality due to sectoral shift in mid 1980s

Lessons
- Traditional view: high inequality incentivizes savings, investment -> high growth
    - Under fire!!
- Social conflict + demands for redistribution
    - Outweigh the positive incentive effects of inequality
    - End result possibly lower growth
- Imperfect (credit) markets + limited financial development + high inequality
    - => under investment in physical, human capital
    - => lower growth
- Observed: positive link b/w growth and inequality
    - J&K: increase in urban ineq despite low growth
    - Andhra modest increase in ineq despite moderate growth
    - Kerala: high growth, high increase in ineq
- Since 1991 reforms
    - Steadily rising interpersonal inequality in urban areas
        - Applies to most states
    - Uneven growth across states
        - Rise in interstate inequality does NOT reflect poorer states remaining poor/ getting further impoverished
        - Represents richer states growing faster in an environment where all states are growing faster than in the past
        - Eg. Bihar, Odisha - among fastest growing states
    - Faster growth of some states opens scope for larger scale redistribution programs in favour of poorer states
    - Labour mobile across states -> faster growth attracts migrants
        - Diffusion of prosperity to slower growth areas thru remittance, etc
    - Socially disadvantaged groups
        - Wage convergence of SC+ST w/ non-scheduled since 1983
        - Able to take advantage of rapid gr + structural change

Employment

10 November 2020 16:25

Growth rate of labour force determined by
- Age structure of population → demographic dividend
- Age, sex specific LFPR

Measurement through surveys measuring 'activity' status
- NSSO; every 5 years since 1972-73
- Concepts:
  - UPS Usual Principal Status
    - Worked at least 6 mo in last 1 year
  - UPSS Usual Principal and Subsidiary Status
    - To widen UPS
    - Worked at least 30 days in last 1 year
    - Hybrid - incl major time criterion + priority to work status
  - CWS Current Weekly Status
    - Used by ILO for int'l comparison
    - Atleast one hr in past week
  - CDS Current Daily Status
    - To study intensity of work
    - +ve: based on more complete info
    - -ve: related to person-days, not persons
    - Most inclusive

Indian Labour Market
- Low female LFPR
  - Poor labour sex ratio
  - Low worker-total population ratio

		LFPR			WFPR	
	M	F	P	M	F	P
1983	55.1	30.0	42.9	53.9	29.6	42.0
1993-94	55.6	29.0	42.8	54.5	28.6	42.0
2004-05	55.9	29.4	43.0	54.7	28.7	42.0
2011-12	55.6	22.5	39.5	54.4	21.9	38.6

(WFPR: Work Force Participation Rate = labour force/ total popn)
- In 2011-12: 83.6% employed in unorganised sector
- Employment vis-a-vis growth -- distorted, exclusionary growth
- Highly dualistic labour market in India
- Dualism sharpened over time
- **Dualism** - labour market segmentation - shows discrimination

Trends, Patterns of Employment Growth
- Employment growth has decelerated
- Employment content of growth has shown a decline
- Sectors with higher emp potential have registered relatively slower growth
- Agri continues to be largest employer, despite decline in GDP share
  - Non-agri sectors haven't generated enough employment to effect shift in workforce
- Most emp growth in unorganised sector
  - Low income, poor conditions of work
- Emp growth in organised sector led by casual, contract labour increase
- Emp growth rate -- *decadal decrease*

Long term	2%
1972-73/ 83	2.4%
83/93-94	2.02%
93-94/04-05	1.84%
04-05/11-12	0.45%

- Employment elasticity (gr in emp/ gr in value added)
  - Measures employment component of growth

1972-73/ 83	0.52

1972-73/ 83	0.52
83/93-94	0.41
93-94/04-05	0.29
04-05/11-12	0.04

Sector wise pattern
- Primary
  - Slow, declining emp gr
  - Slow, declining GDP gr
  - Decline in employment elasticity (turned -ve in 2012)
  - Unable to absorb existing workers -- moving to other sectors
  - Output per worker in agri 1/6th of non-agri
- Secondary
  - Relatively high, increasing rate of emp gr in construction sector
    - ~double digit emp gr in 2004-05, when total emp virtually stagnated
    - Low quality, casual, irregular, poor wages
  - Mfg: moderately high emp growth
    - Relatively high emp elasticity
  - High emp gr, emp elasticity of export oriented subsectors of mfg
- Tertiary
  - Reasonably high potential for emp generation
  - Best emp gr in trade, transport
  - Some emerging sectors with relatively low share of total emp but very high gr rate (17-54% pa) (computer hardware consultancy, software publishing, data processing, maintenance & repair of office accounting and computing machinery'
  - Most sub-sectors - GDP high, increasing growth; emp gr declining
- Overall pattern
  - Low agri emp gr not worrisome - as home to bulk of surplus labour
  - Tertiary subsectors linked to globalisation seen fastest emp gr (eg financial services)
  - Mfg. - significant multiplier effects - low output gr - low emp gr
  - Jobless growth
- Gender differentials
  - Female emp grew less than male emp in last 3 decades
  - Absolute decline in emp for rural females 2005-12
  - India has lowest women LFPR in S Asia, except Pakistan
    - Marginalisation in labour market
    - Healthy dvpment
      - Rising enrolment of women in schools, colleges
    - Income effect - withdrawal of women from work due to rising income

Long Term Perspectives
- If high growth path sustained
  - -> eventually large share of organised, non-agri, wage/ salaried jobs
- Differentials in productivity, quality of work
  - Organised vs unorganised
  - Urban vs rural
  - Source of macro imbalance + income ineq
- Although gr in private organised emp - from a low base
  - Even high gr rate translates in small no. of additional jobs
- Decline in public emp
- IMP: identify patterns of gr of organised sector/ specific sectors of industry w/ strong links w/ unorganised sector
  - + whose gr likely to have positive impact on gr of unorganized sector
  - -> labour productivity, earnings in sector increase
- Organised sector gr imp
  - Productivity, wage, quality of work improves
  - Indirectly filtered to whole economy thru linkages
- Unorganised will continue to be main source of emp for many years
- Even in organised sector, informal emp increasing till recently
- Main issue - not more work but better paid work
- ? Lewis turning point

Labour market reforms
- OECD, 2007: more restrictive state level emp regulations shown to reduce labour market dynamism; reforms to ease regulations tend to increase creation of regular jobs
- Restrictive labour mkt policies encourage informal employment

↗ new labour codes
4 — wage, social security, industrial rel.

Labour market reforms

- OECD, 2007: more restrictive state level emp regulations shown to reduce labour market dynamism; reforms to ease regulations tend to increase creation of regular jobs
- Restrictive labour mkt policies encourage informal employment
  - Significant cost on firms, workers
  - Perry, et al. 2007: informal firms less productive, small, less likely to benefit from economies of scale, limited access to credit
  - OECD, 2008: workers paid less, less likely to be trained, more likely to lose jobs during recession
- IDA, new codes

Public Employment Programme for Unorganised Workers

- Supplementary employment opportunities
- Durable assets for community
  - Enhance further economic activities
  - Positive macro impact
- Upward pressure on market wage rates by increasing labour demand
- Thrust on 'employment first, w/ growth as an outcome' rather than vice versa
- Path to full employment (IHD, 2009)
  - Strengthening sectors where poor are located
  - Stabilise their incomes
  - Improve asset base
  - Construct local socio-economic infrastructure
  - Enable access to paid work
  - Exert upward pressure on market wages

NREGA (pg 251)

Performance

- Good in states w/ existing community mobilisation, grass roots organisations + political will
- Andhra
- Rajasthan - NGOs, 'mate' supporting worksite mgmt
- Kerala - Kutumbashree

Issue:

- Low awareness levels of workers
- Demand based nature -- not fully operationalised yet

Policy Agenda

- Medium-to-long term emp strategy
- Ensure organised sector, esp mfg, grows rapidly
  - Don't let informal emp grow at cost of formal jobs even in organised sector
  - Economy wide productivity growth
- Regulatory interventions
  - Minimum quality of employment
  - Basic rights of workers
- New jobs must come from non-agri sector
  - In 25-30 years, emp 30-35% agri, 70-75% non-agri to be targeted
- Skilling
  - Youth bulge
  - Skill acquistion, mismatches
  - Demographic window of opportunity
    - Wide variation in northern and southern states
  - Skill capital of world!
  - BCG, 2007: by 2020 India will have surplus of 56 mn working people, RoW shortage of 47mn

Industry

10 November 2020 11:05

Pre Liberalisation:

- [ ] trends in composition and gr
- [ ] role of public & pvt sector
- [ ] small scale & Cottage industries

Post Liberalisation

- [ ] Strategy of industrialization
- [ ] Privatization
- [ ] Disinvestments
- [ ] Role of foreign direct investment and multinationals.

GS3

- [ ] 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

Industries

28 January 2021 15:50

Composition of industrial growth rate

Gr rate per annum	1950-65	1965-80	1980s
Capital goods	16%	6.5%	8%
Basic goods	11%	5%	6%
Consumer goods	4%	4%	8%

Pre - Independence

- Very limited growth of modern industries
  - Employed <2% of labour force
  - Contributed <7% GDP
  - Only 20% increase in per capita income between 1900 to 1947
- Composition of manufacturing
  - Consumer goods dominated industrial production
  - 90% imported
- Dominated by textile industry
  - 60% of mfg output
- Technology
  - Non existent research institutions, R&D in companies
- Gradual Indianisation
  - ~60% industries owned by Indians by independence
  - 1913 - 60% by British
- Regional concentration
- Domination of few sectors - sugar, textiles, etc
- Deindustrialisation of traditional industries
- Export orientation against country's interests
- Male dominated
- Domination of SSIs

Uma Kapila Notes

06 January 2021 17:57

(cut paste in relevant topic headers when you make them)

Industrial Policy

Industrial scene at eve of planning (1950)
- Preponderance of consumer goods industries vis-à-vis producer goods industries
    - => lopsided industrial dvpment
- Extremely underdeveloped sector
    - Cause: lack of favourable govt intervention
- Very weak infra
- export orientation against country's interests
- Highly concentrated structure of ownership
- Scarcity of technical, managerial skills

Objective of planning
- Bridge deficiencies in production of key industrial items
- Initiate development
- => enable cumulative expansion of basic production
- Public sector
    - Initially use of public sector investment in industries where private sector would find difficult to invest in
    - By 1956, explicit preference for state ownership

2nd FYP.
↳ Mahalanobis

1950s - 70s
- Variety of instruments
    - Industrial licensing
    - FYP docs
    - Import, export controls
    - Control of capital issues
    - Control of forex
    - Transport controls, incl allocation of raw materials
    - Price controls
    - Allocations of credit
- Mismatch b/w intentions expressed and instruments avbl for realisation
    - Eg. Originally licensing selectively for promotion of selected industries; later used to control almost all industries
- Regulation became more important feature than development

- Performance of industrial licensing
    - Requirement of approvals at every step
    - Unsuited for directing investments
    - ? Critique by Bhagwati & Desai (1970)
    - Numerous committees reported on inefficiency - govt unable to bring substantive changes until recently
    - Vested interests in promotion of sheltered market
        - Politicians
        - Bureaucrats
        - Multinationals (supplied tech, capital)
        - State (obj to pursue revenue max thru tariffs)

1980s
- Heavily felt need for domestic regulation
- Steps
    - Industrial delicensing
    - Weakening MRTP provisions

- Weakening MRTP provisions
- Incentives for modernization of capital stock
- Policies for major industries (textile, sugar, etc)
- Gradual price decontrol (cement, aluminum, etc)

- System of financial incentives and disincentives rather than physical controls
- More market oriented regulation
- Exception: reservation of production for small sector still continued
  - Hurdle in developing export capability

-- China: doubled GDP b/w 1978 and 1991
Full force towards market orientation
-- India: hesitant experimentation during 1980s
Retention of highly protectionist trade policy
Loss making public sector intact

NEP New Economic Policy 1991

- BoP crisis
- Fundamental changes aimed at
  - Stabilization - correct fiscal, BoP weaknesses
  - Structural reform - remove rigidities
    - Industrial licensing
    - Foreign trade
    - Foreign investment
    - Exchange rate management
    - Financial sector
- Thrust: improve efficiency of system
- More competitive envi -> improve productivity, efficiency
- Means employed
  - Remove barriers to entry
  - Restriction on growth of firms - removed?
  - Larger space for operation of private sector
- Foreign investment
  - Better access to tech
  - Build strategic alliances
  - Penetrate world markets
  - -- setup of FIPB Foreign Investment Promotion Board
- Privatisation & Public Sector Reforms
  - Better performing PSUs given freedom to access capital markets on strength of their own performance
    - More autonomy
  - Poor performing PSUs - languished - no budgetary support or reforms
  - Privatisation not pursued in early phase
    - Emphasis on disinvestment to finance fiscal deficits
  - Need for reform
    - Pricing policy - doesn't cover cost of producing infra services
    - Erodes economic viability of public sector infra
    - Inhibits private investment into infra
    - Infra services can't be imported
      - Need adequate investments + efficient use

Industrial Growth and Structure since 1951

Krishna (2013)

- 5 phases since 1951

1951-52 to 66-67	Evolution of industrial development strategy
1967-68 to 80-81	Inward orientation and industrial stagnation
1981-82 to 90-91	Deregulation, acceleration of growth

1991-92 to 00-01	Economic reforms and service led growth
2002-03 to 08-09	Recovery in industrial growth since 2002-03; Recent industrial growth 2008-09 to 2013-14 & 2014-15 to 2015-16

MSMEs

Economic Survey figures (2015-16)
- ~~3.6 crore units~~
- ~~8.05 crore people~~
- ~~37.5% GDP~~

2020-21
29% GDP
45% exports
125 mn people - 2nd highest
56 mn units

SSI - Small Scale Industries

Significance
- Instruments of inclusive growth
- 2nd largest employer (1st agri)
- ~~4x employment intensity than large firms~~
- Potential for addressing structural problems
  - Unemployment
  - Regional imbalances
  - Unequal distribution of income, wealth
  - Low capital costs
  - Forward-backward linkages
- Generation of large scale employment
  - Chris Hall: SMEs contribute ~70% of net new jobs globally; larger firms tend to be job destroyers
  - Highest employment per capita investment
  - India: food products sector SMEs generate max employment (13.7%)
  - Per unit employment max in beverages, tobacco, tobacco products (20)
- Sustain economic growth and increase exports
  - Non-traditional products = 95% of SSI exports
  - Major export destinations: US, Europe, West Asia
  - Handcrafted -> eco-friendly + exclusive -
  - Ancillary industries for LSIs
    - Provide raw materials, vital components, backward linkages
- Inclusive growth
  - Microcosm of all vulnerabilities
  - Different segments dominated by different groups
    - Women: mostly unregistered - food processing, manufacturing, weaving; part time in family enterprises
    - Muslims: unorganised weaving, powerlooms
- Empower people to break cycle of poverty and deprivation
- Focus on people's skill and agency
- Check rural-urban migration

mitigate push factors of rural areas

Globally significant
- Overall contribution of small firms - formal, informal - almost same across low-, middle-, high-income group countries
- Income increases -> share of informal sector decreases; formal SME increases
- Brazil- 20% of GDP, 59% of labour employed; 96.4% industries are SMEs
- South Africa - 27% GDP,
- Bangladesh - 85% employment; 90% industrial units
- Japan - 70% employments; 55% GVA
- China - 68% exports from SMEs
  - 1 mn pvt sector SMEs (1990s) -> 40 mn in 2004

Definition

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises Rendering Services	Investment <₹1 Crore and Annual Turnover <₹5 Crore	Investment <₹10 Crore and Annual Turnover <₹50 Crore	Investment <₹50 Crore and Annual Turnover <₹250 Crore

Objectives in 12th plan
- Promoting competitiveness and productivity in MSME space
- Make sector innovative, improve technology & depth
- Enabling environment for promotion, development of MSMEs
- Strong presence in exports
- Improved managerial processes in MSMEs

Challenges
- Availability of credit, institutional finance
- Outdated technology, innovation
- Need for skill development and training
- Inadequate industrial infrastructure
- Marketing and procurement
- Heterogenous sets of regulations in various states
- Red-tapes
- Poor EoDB

3rd ~ 2020

Indian SSIs
- 2 subsectors
    - Registered, unregistered
- Registered: more developed
- Primarily includes factories + regd w/ DIC District Industries Centre
- Parameters
    - Growth of units, exporting units, employment, value of output, export
    - Relative contribution of registered SSIs to national income, organised sector employment, total exports
    - Degree of internationalisation
    - Growth of ancillarisation
    - Growth of sickness

Liberalisation + Globalisation
- Shift in policy stance since 1991
    - 836 items in reserved list in 1991 (exclusive manufacturing in SSI sector)
    - Only 20 items in 2014
- Intense competition, competitiveness enhanced
- Policy measures backed by institutions - (examples)
- SSI growth (pre liberalisation vs post liberalisation)
    - suffered in terms of units, employment
    - Improved in terms of output
    - Steady wrt exports
- Why?
    - New SSI units might not have come up due to threat of competition
    - New SSI units capital intensive + modernisation of existing ones
    - Lack of access to basic infra facilities
    - Exit of uncompetitive SSI units
    - Significant proportion of existing SSI units improved competitiveness through technology upgradation, modernisation
- Contribution to national GDP (of registered SSIs)

Year	GDP	Employment	Total exports
1987/88	3.35	20.00	15.94

2001/02	NA	22.65	5.90
2006/07	6.73	34.13	11.88

- Industrial sickness
  - halved b/w 1987 (13.98%) and 2006 (6.49%)
    - sickness cured
    - New hasn't emerged
  - Causal factors
    - Management deficiencies
    - insufficient capital control
    - Inadequate attention to R&D
    - Obsolete tech
    - Inadequate demand
    - Shortage of raw materials
    - Inadequate working capital
    - Infra bottlenecks
- Ancillarisation
  - Considerable increase b/w 1987 (0.52%) and 2001 (5.08%)
  - Promotion of inter-firm linkages by SIDO Small Industries Development Organisation
  - Merits of subcontracting
    - Assured marketing
    - Technical assistance
    - Finance
    - Supply of raw materials
    - Training
- Internationalisation
  - Export strategy: primary mode for entry in foreign markets by SMEs
    - Fits capabilities of SMEs
    - More flexibility
    - Minimum resource commitments
    - Minimum risk exposure
  - Increase in both no. of exporting SSI units, value of SSI exports (absolutely, relatively both)
  - Structural shift in composition of SSI exports
    - Traditional to non-traditional items
    - MNCs, e-Commerce modes of entry
- Unregistered SSI
  - Comprised predominantly of micro-enterprises
  - Confined to rural India
  - Obsolete technology
  - Limited access to institutional finance
  - Limited marketing/ management expertise
  - Challenges
    - Transformation into registered SSIs
    - Enhance competitiveness

Major policy initiatives since 2005/06
- MSMED Act, 2006: common legal framework -> integrated dvpment
- NMCP National Mfg Competitiveness Programme - 10 initiatives for MSME
- LLP Limited Liability Partnership Act, 2008
  - enable early corporatisation of MSME
  - tap capital markets for fundraising
  - SME platforms in NSE, BSE
- Taskforce to develop roadmap
- 12th FYP recos on 6 themes
  - Finance, credit
  - Infra
  - Tech
  - Marketing, procurement
  - Skill development, training

- Institutional structure

Public Sector

Declared social objective
- Growth with social justice
- Within democratic political framework
- Mixed economy
- --public ⏰ sector considered major instrument

Rationale
- Mahalanobis plan:
  - Import substitution
  - Domestic capacity creation biased in favour of capital goods production
- Why? (Tendulkar, 2000)
  - Prevent concentration of economic power
  - Private investors may demand higher risk premium than socially justified
  - Scale of investment maybe beyond capital raising capacity of private sector
  - Public sector to generate investible surpluses for further investment in economy
  - State controls composition of private economic activity by production, distribution of some universal intermediate inputs (coal, steel, electricity, etc.)
  - Model employer -- moderating influence through its employment and wage policies
  - => varied, conflicting objectives
- India's comparative advantages stems from public sector
  - Large pool of well trained workforce
  - Technical skills in mfg, chemical industries

CPSE
- Performance
  - Contribution to total Centre Exchequer decreased in recent years
  - Comparative analysis vis-a-vis private sector (using 5 year net profit margin) => great scope of improvement for CPSEs
- Profitability
  - Increased from mid 1970s (8%) to 2003-04 (21%)
    - Conceals effect of high mark-up, cost-based administered pricing
    - Unmistakable rising trend; even if petroleum is removed from consideration

Correct measure of profitability?
- Private individual
  - Ratio of net profits to equity capital
- PSEs
  - Gross profit to total capital employed
  - Why?
    - High depreciation cost (invest on social overhead capital aside from plant & machinery)
    - Capital structure not aimed to max return on shareholders' investment
    - 'missing markets' - aim to supply goods, services that market is unable to
    - PSEs often start with high debt-equity ratio
    - For economy, return on total capital employed matters more than capital structure

Nagraj (2008)-
- Real culprit of poor public sector saving
  - Inadequate pricing of utilities, infrastructure services
  - Lack of recovery of user charges for services rendered
  - Not CPSEs (on whom most reform has been focused)
- Evidence:
  - Public sector price deflator vs GDP price deflator - 17% fall in the former since 1960
  - Public sector prices have risen since 1951 at a slower rate than overall prices in

economy, over LR
        - Expected, since decreasing cost industries
    - But, also capital intensive industries
        - => social considerations raise cost of provision
- Public sector = policy instrument => shoulders many social responsibilities
- Findings
    - Distinct improvement in efficiency of resource use in public sector (falling capital output ratio)
    - Improvement in physical efficiency => fall in public sector employment growth
    - Thermal power plants - uninterrupted rise in efficiency
        - Account for bulk of electricity generation
    - Inadequate representation of above trends in public sector financial performance
    - Source of financial distress - utilities, infrastructure services
- Factors
    - Hardening of budget constraint
    - Greater management autonomy
    - Growing competition in product market
    - => greater accountability, cost consciousness
    - Pricing, recovery of user charges still matter of public policy
    - => improvements couldn't get translated into improved financial results

1991 Industrial Policy
- Review portfolio of public sector investments; focus on strategic, hi-tech, essential infrastructure
- BIFR Board for Industrial and Financial Reconstruction
    - To formulate revival/ rehab schemes for chronically sick PSEs
    - Social security mechanism for affected workers
- Govt's share holding in public sector to be offered to mutual funds, financial institutions, general public, workers
- Boards of PSEs - more professional, greater powers
- Greater thrust on performance improvement through MoUs
    - Growth oriented, technically dynamic
- Priority areas
    - Essential infra goods and services
    - Exploration, exploitation of oil and mineral resources
    - Technology development, manufacturing capacity development in areas crucial for LR development + where private sector inv is inadequate
    - Mfg of products w/ strategic considerations (defence)

Policy and implementation
- NCMP National Common Minimum Programme
    - 2 main elements
    - Devolution of full managerial, commercial autonomy to profit making CPSEs
    - Modernisation, restructuring of sick PSUs
        - Includes sell-off/ closure of chronically sick PSUs
- Maharatna and Navratnas
- BRPSE Board for Reconstruction of Public Sector Enterprises
    - ? To be replaced by new panel

Privatisation
- Nayak, 2012:
    - Transfer of activities from public to private sphere
    - Sale by govt or state owned enterprises to private eco agents
        - Full/ partial sale
    - Partnership b/w public and private sectors through transfer of responsibilities
    - Shrinkage of welfare state (in terms of broad political economy)
- India since 1991
    - Rangarajan Committee recos (1993)
        - Substantial disinvestment needed
        - Target public ownership level: 24% (strategic)

mostly accepted now

- Rangarajan Committee recos (1993)
    - Substantial disinvestment needed
    - Target public ownership level: 24% (strategic)
    - Exceptional cases: 49% (for those especially reserved for public sector)
    - All other cases: 100% disinvestment
    - 51% or more equity in 6 scheduled industries only
        - Coal & lignite
        - Mineral oils
        - Arms, ammo, defence equipment
        - Atomic energy
        - Radioactive minerals
        - Railway transport
    - Essence of long term strategy must be to minimise budgetary support to unprofitable units while ensuring long term viability NOT enhance budgetary receipts
- National Investment Fund (outside CFI)
    - Receipts from disinvestment channeled through this
- Kelkar (2010)
    - Multiple objectives of disinvestment
        - Increase efficiency of L, K (most imp)
        - Enhancing investment in country
        - Create new traditions of corporate governance
        - Maximise competition, catering to consumer interests
        - Reduce stock of public debt
    - Policies must be mindful of ramifications to political economy
    - Dispersed share ownership => middle class constituency w/ stake in PSU profits
    - NIF is restrictive; liberalise fully
        - Govt must use this as budgetary resources
        - Share w/ state govt acc to Finance Commission formula
    - Key binding constraints:
        - Water, environment, urban infrastructure
    - Govt must reorganise itself -- shift to role of umpire rather than player
    - =/= retreat of state but re-engineering of portfolio of public capital assets
- Minhas, 2007:
    - Promoting public sector production good under certain circumstances
    - No basis for doctrine of 'commanding heights'
    - Causes inefficiency
    - Need
        - Exposure to global competition
        - Substantial rollback of arbitrary bureaucratic controls

Service Sector

- Engine of growth
- Necessary concomitant of economic growth
- Service sector dominance associated w/ 3rd stage of economic development
- Categories
    - Producer services - trade, transport & communication, financing, insurance, real estate, business services
    - Consumer services - hotels, restaurants
- Rapid growth of service sector not unique to India

India

- Service sector growth less cyclical, more stable than industry, agri growth
    - Smallest coefficient of variation
- Growth of skill intensive, high value added sectors
- Associated w/ advent of IT, knowledge economy
- Phenomenal growth of low skilled service activities

  - Reduced opportunities in the manufacturing sector, esp unorganised
- Some multidimensional activities as well, both industry, services
- Enabled improved economic performance during post-reform
- Fastest growing sector
- Helped improve productivity in other sectors
- Contrasting pattern vis-a-vis other developing economies
  - Others: decline in agri share of GDP -> corresponding rise in industry (esp mfg), later services
  - India: marginal increase in industry, agri decline mostly absorbed by service sector (GDP) => leapfrogging of economy
- Service sector contribution to employment not commensurate with growth in service sector output = *low employment elasticity*
  - ILO estimates
    - ? Employment: 21.6% (1991) to 23.8% (2001) to (2021)
  - Economic Survey
    - ? Employment share:
    - GDP share:
  - Very rapidly growing service segments have relatively lower employment elasticity -- growth mainly based on productivity gains, technological improvements
- ? Comparison with RoW
  - Lowest employment share at 28.7%
  - GDP share: 66%
  - Growth rate: 2.5% (2013)
  - Ranked 9th - overall GDP (2014)
  - 10th in terms of services GVA (2014)
  - Fastest service sector growth despite slowdown
    - CAGR 8.6% (India)
    - CAGR 8.4% (China)
  - Ranked 2nd wrt services share in exports (1st UK)
  - 2nd lowest after China wrt services share in GVA
- ? Experimental price index by DIPP

Kuznets-Chenery (1950s, 60s)
- Development would be associated w/ sharp decline in GDP share of primary sector, counterbalanced by significant increase industry; modest increase in service sector;
- Similar trends expected for employment as well

Recent literature
- Emphasises growing importance of service sector activity
- GDP share given up by primary sector goes more to services and less to industry as economy grows than suggested by Kuznets-Chenery
- Supported by cross-country data
- Suggests 2 stages of development
  - I: industry sharp increase
  - II: industry stabilised; services absorb further growth
- Though: India's GDP share of services is higher than average for other low-income countries

World services trade:
- Mild see-saw movement -- alternating rise and fall
  - In tandem with overall growth
- Unlike world service growth, India's service growth has been consistently above its overall growth

India's trade and FDI flows also been growing; facilitating integration into world economy
- Slight services trade surplus
- Helped partially offset otherwise persistent and growing trade deficits in goods
- Export-oriented nature of services growth in Indian economy
- India's growing competitiveness in world services market
- Liberalisation of services imports, especially since 2000
  - 1990: 0.7% share in global service imports
  - 2017: 3%

- Share in world services exports
    - 1980s & 1990s: <1%
    - 2005: 1.9%
    - 2010: 2.9%
    - 2017: 3.44%
- 8th largest exporter of commercial services (WTO, 2016)
- Growing role of software and business services in exports
    - Comparative advantage in skill and knowledge intensive labour based services
- Presence in global BPO services (more on Pg 418)
    - Huge labour endowment
    - Varied skill sets
    - Low cost, high quality manpower
    - Rapidly growing domestic IT industry
- Emerging export opportunities in -- health, education, tourism
- Education services export
    - Offshore campus
    - Twining & partnership arrangements

Underlying factors for services growth

- Supply side
    - More service input intensive method of organising production
    - Increasing specialisation
    - Technical and structural changes make it more efficient to contract our services = 'splintering'
        - Kravis (1982): splintering leads to growth of services GDP share even when GDP itself is not growing
    - Development process -> sectoral shifts in distribution of GDP and employment
        - Due to hierarchy of needs - basic vs other (Maslow, 1970)
    - TFPG Total Factor Productivity Growth since 1995
        - Indirect evidence: declining ICOR, rising labour productivity in service sector
    - Technological advances
    - Economic reforms
        - Domestic industrial reforms - rising manufacturing - increased dd for producer services
        - Liberalisation of financial sector - faster growth of financial services
        - Reforms in infrastructure services
- Demand side
    - Domestic + foreign demand
        - Initially higher prices + shift of resources into production of services
    - Income elasticity of demand for services > 1
        - Also increases with rising incomes
        - Enables fulfilment of more sophisticated desires
    - Price elasticity negative for services demand
    - High income elasticity => forward linkages
        - Corroborated by emergence of producer services -- can be major source of economic growth
    - Actual behaviour of services in real GDP depends on relative strength of coefficients of income & price elasticity
- 2 types of demand
    - Final demand from consumers
        - Private household consumption expenditure
        - Rapid growth
    - Intermediate demand
        - Intensity of services use in industry, agri hasn't changed much over time
        - Growth in intermediate demand for services driven by increased output rather than outsourcing by mfg firms

Income elasticity >1 for services dd

Gordon & Gupta (2003)

- Service sector in India stimulated by high income elasticity of demand and splintering
- Factors

income

Gordon & Gupta (2003)

- Service sector in India stimulated by high income elasticity of demand and splintering
- Factors
  - Economic reforms
  - Advent of IT era
  - Growing external demand for services exports
- However industrial sector hasn't responded similarly to reforms
  - Bottleneck: lack of infrastructure

2 main income splitting

State wise

- Wide variations
- Delhi and Chandigarh - over 80% service share in GDP
- Sikkim - 30.2% share
- Overall, services sector dominant sector
  - Contributes >50% of GSVA in 14 states and Uts
- Major services - trade, hotels & restaurants, real estate, etc

FDI in services sector

- Significant growth in FDI inflows
- Ambiguity in classification of FDI in services
- Total FDI equity inflows grew by 27.3% (2014-15)
  - FDI inflows into services grew by 70.4%

Liberalisation

- Opening up of key services attracted foreign capital, tech
  - Telecom, banking, insurance
- Many services put on automatic approval route for FDI
- Elimination of govt monopoly in many critical services
- Evidence:
  - Services that have been liberalised most have typically experienced higher growth rates
    - Wider efficiency, growth benefits to rest of economy
    - IT, ITeS- banking services, communication, banking
  - Services w/ limited opening grown slowly
    - Likely adverse effects on economy-wide competitiveness
    - Air-transport, legal, real-estate services
- McKinsey estimates
  - Productivity estimates corroborate role played by competition, integration w/ global markets in improving efficiency in services sector

Trade negotiation in services

- Proactive position under GATS
  - mode 4 (temporary cross border movement of service providers) current focus
  - Mode 1 (cross border supply of services)
- Joint submission for a Service Provider Visa under GATS
- Doha round
  - Pressure on India for binding liberal commitments on Mode 3 (foreign commercial presence)
  - Talks stalled though
- India's approach largely quid pro quo --
  - Commitments on Mode 3 in return for market access under Modes 1 and 4
- TISA Trade in Services Agreement
  - Plurilateral; 23 countries
  - India NOT a participant
- TFS Trade Facilitation in Services
  - To address behind-the-border administrative and procedural barriers
  - Outcome unclear given recent protectionist measures on mobility and data flows in key markets
- India supporter of multilateralism
  - Recent slowdown in multilateral negotiations
  - Turning towards bilateral and regional trade agreements

- Prevalent view
    - India's main interest, comparative advantage lies in services
    - Concessions it makes on goods can be traded off against concessions it can secure from partners in services, for key modes 4, 1
    - Counterpoint:
        - Difficulties in obtaining effective market access in services from our FTA partners
    - Sectoral coverage of commitments - bound the status quo/ taken GATS plus commitments
        - Haven't translated into effective market access
        - Limitations:
            - behind-the-border regulatory barriers
            - Discriminatory national policies
            - Mobility of professionals undermined by recognition and qualification barriers
            - ? Absence of MRAs

Sustainability
- Growing debate on sustainability of services led growth process
- Usually, manufacturing always part of growth story
- India needs broad based growth as our service sector is largely driven by external demand
- Internal demand creation through vibrant manufacturing sector
- Also addresses employment concerns
- Need rapid growth of service subsectors with high employment intensities and large backward & forward linkages -- tourism, trade & distribution, construction

Policy initiatives
- SEIS Service Exports from India Scheme
- GES Global Exhibitions on Services
- Services conclaves
- Sector specific initiatives in tourism, shipping, etc.

Trends, role of public, private sector

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Trends in Industrial Production

Industrial development during planning period can be divided into phases

Phase 0 - pre indep

- 1900-47
- Very limited growth of modern industries;
- At independence
    - Modern factory sector employed <2% of labour force
    - Modern industries comprised only 7% of GDP
    - Per capita income increased only 20% b/w 1900-47
- Composition
    - Dominance of consumer goods in industrial production
    - 90% of core goods imported
    - Dominance of textile industry -- 60% of mfg o/p
- Tech:
    - Almost non-existent research insti, research in firms
    - Indians not appointed to high skilled jobs
- Gradual Indianisation

	1913	1947
Owned by Indians		60%
Owned by Brits	60%	

- Regional concentration
    - Only a few states; few products dominant - sugar, textiles etc
- De-industrialisation of traditional industries
- Male dominance

Phase 1

- First 3 plans (1951-1965)
- Laid the basis for industrial development in the future by building a strong industrial structure
- Mahalanobis model in 2nd FYP
- Emphasised development of capital goods and basic industries
- Growth rates of industrial production

1st FYP	5.7%
2nd FYP	7.2%
3rd FYP	9%

- Overall industrial growth rate - 6.3%
- Mfg gr rate - 8%
- Rising share of capital and basic goods; falling share of intermediate and consumer durables
- Organised sector growth - 8% -- fast
- Dominance of public sector in overall growth
- Why?
    - Mfg - increasing share in successive plans; accelerating rate of gr in each plan
    - Resource focus on industry

1st FYP	3%
2nd FYP	20%
3rd FYP	20%

Phase 2

- 1965-80
- Marked by '**industrial deceleration**' and '**structural retrogression**'
- Inward orientation, industrial stagnation
- Overall growth rate - 4.1% (6.3% in previous phase)
- Sharp deceleration during 1965-76

3rd FYP	9%

1965-76	4.1%

- Structural retrogression
    - Decline in capital goods industries
        - 16% p.a. In phase I, down to 6.5% p.a.
    - Overall, moderate decline in consumer goods
    - Increase in elite oriented consumption goods sector
- Decline in overall organised sector from 8% to 6%
- Causes for deceleration and retrogression
    - Wars 1965, 1971
    - Consecutive drought years - 1965, 66, 67
    - Infrastructural constraints and bottlenecks
    - Oil crisis of 1973 (Yom Kippur) and 1979 (Iranian revolution)
    - KN Raj: low growth in agri sector accounted for slowdown of industrial growth
    - TN Srinivasan & NSS Narayana: considerable slackening of real investment in phase II, particularly in public sector
    - P Patnaik: slackening of real investment -- decrease in public investment followed by decline in private investment -
        - Loss of stimulus for investment
        - High ICOR
    - Restricted demand due to extreme inequalities -- market for industrial goods limited to top 10% of population
- Restrictive policy regime
    - MRTP Act, 1969 -- to check expansion of industrial houses w/ assets > ₹20 cr; also led to 'missing middle'
    - FERA - import, export control
    - Industrial Disputes Act, 1976 - firms with >300 workers mandated to seek govt permission before laying off workers
    - Contract Labour Act, 1970 - firms can't hire contract labour in industries where labour is essential for main activity
    - Urban land ceiling Act, 1976 - can't own vacant land beyond the ceiling but gave discretionary powers to state govts to exempt from ceiling
    - 800+ items reserved for SSIs
    - Geographical restrictions -- NO industry in municipal areas
    - Increase in taxes
- Decline in public investment followed by decline in private investment
    - There was a decline in GCF public sector to GDP from 9% in 1967, to ~5% in 1971 (GR period)
    - Sharp decline in public investment; borne by infra sector
    - Share of infra in public investment fell from 36% in first half of 60s to 30% in 70s
        - Why? -- GR, suspension of Mahalanobis, aid suspension
    - Infra growth - merely 4% p.a.
    - High fiscal deficit -- 7.3% of GDP -- due to wars + austerity measures (by IMF) + Green Rev focus

Phase 3

- 1980-90
- Industrial recovery
- Deregulation and acceleration of growth
- IIP Growth rate

1981-85	6.4%
7th FYP	8.5%
1990-91	8.3%

- Moderate rise in capital goods but sharp rise in consumer goods
- Industry stats in 1990-91
    - GDP share - 26% (up from 15%)
    - Employment 15% (prev 12%)
    - Share in capital stock 39% (from 24%)
    - Growth rate - from 4.3% to 7%
    - Overall mfg gr rate - 8% p.a. From 4.5% p.a.
- Causes of industrial recovery
    - IAS - infra, agri, services + fiscal boost
    - Ahluwalia: based on better productivity performance
        - TFP numbers (improved)

1966-67	0.2%
1979-80	0.3%
1980-85	3.4%

        - ICOR declined
    - New Industrial Policy - reducing domestic barriers to entry, expansion for competition in domestic industry
    - Liberal fiscal regime
        - High budgetary deficit
        - Massive borrowing a
        - Encouragement to dissaving
    - Mature phase of Green Revolution -> increase in rural demand for non-agri consumer products
    - Growth in service sectors
        - Both demand and supply side
        - Consumption pattern - less food intensive, more oriented towards durable consumer goods
    - Marked resurgence in infrastructure investment in 1980s

1979-80 to 84-85	9.7%
1985-86	16%
1986-87	18.3%

- Early liberalisation efforts => gradual steps towards liberalisation
    - Licensing ease
        - Exemption from licensing - progressive increase in limit
            - 1973 - ₹3 cr
            - 1983 - ₹5 cr
            - 1988 - ₹15 cr
    - Delicensing in 2 rounds
        - 1st - 32 industries;
        - 2nd round - shifted to a negative list of 26 industries
    - MRTP relaxations
        - Limit raised from ₹20 cr to ₹100 cr in 1985
        - 1983 - industries of 'high national importance', import substitution potential -- allowed to setup new capacity w/o approval
        - Minimum economies of scale - defined for some industries; units encouraged to expand until this scale
        - Undertakings with 80% utilisation allowed fresh capacity expansion of 25% in 5 years
        - Backward area promotion - MRTP, FERA companies -- allowed to setup units in backward areas
    - FERA
        - 1985 - unrestricted entry of FERA companies into 21 high tech sectors; helped set up IT industry
        - Backward area promotion - to MRTP, FERA
        - Export promotion incentives - 100% export oriented units given further exemptions. Allowed to buy import content at int'l prices
    - Broad banding of industry
        - Broad sectors instead of minor classifications -- enabled manufacturers to cater to demand better; w/o requiring additional approvals
    - SSI investment limits enhanced
- Expansionary fiscal regime
    - Infra growth
        - Marked increase in infra investment
        - Infra investment grew by 10% in first half of 80s; to 18% by 1987-88
        - v/s only 4% in 70s
    - Agri growth
        - GR spread -> agri gr picked up at >3%
        - Complementarities generated
    - Services growth
        - From 4.8% p.a. To 6.8% p.a.
        - Led to increased dd for consumer durables
- Panagariya - 1986 onwards - most important shift in the Indian economy; even more so than LPG
- Who led whom? Industrial gr vs total gr

- Opposite claims
- Balakrishnan et al - mfg boom led to higher total gr (5.7%)
- Virmani - higher total gr pulled up industrial gr (greater dd generated due to gr in agri and services)

Phase 4

- Post reform; 2 sub-phases
- 1990-2002 phase
  - Marked by considerable fluctuation, lack of consistency in industrial growth performance
  - IIP growth rate

8th FYP	1992-97	7.4%
9th FYP	1997-02	5.0%
10th FYP	2002-07	8.2%
11th FYP	2007-12	6.9%
12th FYP	2012-17	
	2012-13	1.1%
	2013-14	-0.1%

  - IIP growth rate varied widely yoy

1992-93	2.3%
1993-94	6%
1995-96	13%
1996-97	6.1%
2001-02	2.1%

  - Causes for unsatisfactory performance
    - Exposure to external competition
    - Slowdown in investment
      - Govt forced to drastically cut down public expenditure under IMF program
    - Infrastructural constraints
      - Real cost of mfg increased; affected competitiveness of domestic industry
    - Credit and fund constraints for expansion
      - Stock market scams eroded investor confidence
        - Harshad Mehta, Ketan Parekh
      - Rise of NPA
      - Dotcom bubble, East Asian Crisis
    - Sluggish growth in exports
      - Increasing competition in international markets
      - Declining quality of products
    - Anomalies in tariff structure
      - Inverted duty structure in fertilisers, refineries
      - 0 import duty for finished capital goods
      - Domestic manufacturers -- subj to taxes and duties, import duties on intermediates and components
    - Contraction in consumer demand
      - Low agri growth - rural purchasing power eroded
      - Fall in equities, real estate markets- urban purchasing power eroded
      - Growing inequalities
- Post 2002 phase
  - 10th FYP - revival of industrial growth
  - Marked by acceleration of capital goods sector
    - 14% avg growth rate during 10th, 11th FYP
  - Economic survey 2011-12
    - All broad sectors of IIP witnessed volatility; esp capital goods sector, intermediate goods sector
  - Stats

	Capital goods	Consumer goods	IIP
10th FYP	14.4%	9.6%	8.2%
11th FYP	14.3	7.8	6.9%
2012-13	-6.0	2.4	1.1

- evidence: price deflator of PSU v/s aggregate price deflator 6/7%.

10th FYP	14.4%	9.6%	8.2%
11th FYP	14.3	7.8	6.9%
2012-13	-6.0	2.4	1.1
2013-14	-3.6	-2.8	-0.1
2014-15	6.4	-3.4	2.8
2015-16			3.4
2016-17			5.0

- Volatility in capital goods sector
  - Sharp decline in investment activity
  - Rising cost and falling demand
  - Slow pace of mega projects implementation
  - Twin balance sheet problem - poor investment decisions
- Volatility in consumer goods sector
  - Limited domestic market -- low per capita income
  - Supply bottlenecks faced by core industries
  - Core industries provided crucial inputs to industrial sector
  - RBI Annual Report 2014-15
    - Setback to consumer durable goods sector in 2014-15
    - Due to decline in production of telecom instruments, incl mobile phones

- Liberalisation measures
  - Wide reduction in scope of industrial licensing
  - Simplification of rules and regulations
  - De-reservation of sectors for public production
  - Disinvestment of equity in selected PSUs
  - Enhancing limits of foreign equity participation in domestic industrial undertakings
  - Liberalisation of trade and exchange rate policies
  - Rationalisation, reduction of customs and excise duties, personal and corporate income tax
- Industrial sickness
  - Financial crisis 2008
  - Exchange rate crisis 2013
  - ? Chakravyuh problem (abhimanyu could enter, couldn't exit though)
  - Twin balance sheet
  - NPA
  - Consumer goods sector
  - Competition from China
- Status of industrial sickness
  - Economic survey 2017
    - More than 40% debt ridden companies are IC1 (interest coverage ratio <1)
    - 20% of NGNE Non-govt, non-financial enterprises are now categorised as leveraged (debt-equity ratio >=2) -- bad
- Causes
  - Internal
    - Financial planning -
    - Too much leverage
    - Entrepreneurial incompetence, management problems
  - External
    - 2008 financial crisis
    - Policy paralysis -- land and environment clearances
    - RBI increased interest rates to quell double digit inflation
    - Rupee depreciation -- ₹40/$ (2005) to ₹70/$(2013)
    - Sharp increase in financing costs
- Policy implications
  - SICA Sick Industrial Companies Act, 1985
    - BIFR Board for Industrial and Financial Reconstruction in 1987
  - SARFAESI Act, 2002 - ARCs
  - Companies Act - 2002, 2013 amendments
  - IBC 2015
  - ---
  - Domestically manufactured steel product policy
  - National capital goods policy, 2016
  - Shakti policy for coal sector

<u>1991 reforms summary - Vision Weekly Focus</u>

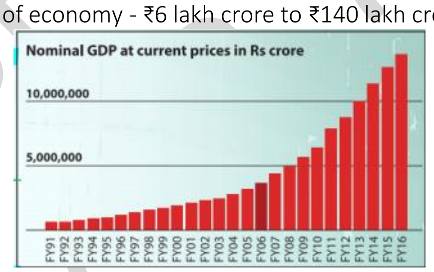
Backdrop
- License raj - MRTP 1969 controlled qualitative and quantitative aspects of business
- Import substitution policy - a crty should attempt to reduce foreign dependence through local production of industrial products; promote self reliance
- Closed economy - inconvertible rupee, high tariffs, import licensing

Immediate factors
- Complacency due to Bombay High oil discovery
- Soviet Union collapse - Rupee-Rouble trade collapsed
- Gulf War - crude oil price hike

BoP struggles
- 1985: persistent deficit b/w income and expenditure
- 1990: Govt close to default; RBI refused more credit
- 1991: forex reserves insufficient even for fortnight + rising prices of essential goods -> govt sought aid from IBRD & IMF

Opposition to reforms
- Communist vs capitalist debate
- Neo-imperialist perception of int'l fin instis -- Bretton Woods twins seen as proxies of Western powers
- Feared -- western interventions, threat to economic sovereignty & strategic autonomy

Govt response
- Liberalisation
  - Deregulation of industrial sectors; de-reservation of many SSI product lines
  - Market determined pricing
  - MRTP Act replaced by Competition Law 2002
- Financial sector reforms
  - RBI - regulator to facilitator
  - Reduction in corporate tax rate
  - Simplified tax procedures; reduction in no. Of tax slabs
- Privatisation
  - Expansion of 'dereserved' list - all except railways, defence equipment, atomic power generation
  - Disinvestment
- Globalisation
  - Trade and investment policy reforms
  - Dismantling of quantitative restrictions
  - Removal of licensing procedures
  - Progressive reduction in export duties
- Forex reforms
  - Devaluation of rupee
  - Market determination of forex rate
  - FERA 1973 replaced by FEMA 1999

Economic Impact
- Size of economy - ₹6 lakh crore to ₹140 lakh crore
  - 

- Foreign investment
- Forex reserves
- Growing trade
- Services sector
- Capital and financial market
- Price stability
- Consumption and rise of middle class

Impact beyond economy
-

Role of public sector

- Capital formation during planning era
  - SBI, IDBI, IFCI, LIC, UTI, etc -- important role in collecting savings and mobilisation of resources
- Infrastructure
  - Pvt sector lacked inclination and resources
  - Long gestation, low profit
  - Govt - large scale mobilisation of capital
  - Railways, road
- Strong industrial base
  - Heavy industries such as iron and steel, coal, etc
  - Positive linkages to consumer goods, private sector
- Economies of scale
  - Free market not optimal in such cases
  - Natural monopoly
- Removal of regional disparities
  - Industries and infra neglected by private sector
  - Eg. All 4 major steel plants - Bhilai, Rourkela, Bokaro, Durgapur in backward areas
- Check concentration of power, inequalities
  - PSU profits ploughed into social welfare
  - Discriminatory policy of PSUs - low prices to small industries
  - Better social security to staffs
  - Can orient production machinery towards production of mass consumption goods

Status

- __ Central PSUs at present
- List of industries reserved for public sector
  - Atomic energy
  - Minerals
  - Railway passenger transport
- 7 Maharatnas, 14 Navratnas, 72 Miniratnas
- Maharatna
  - Coal India
  - NTPC
  - ONGC
  - IOCL
  - GAIL
  - BHEL
  - SAIL

Problems of PSEs

- **Pricing** policy - public utility approach
  - **Bhagwati & Desai --** consequences of deliberate under-pricing
    - Distortion of choice of technique by user industries
    - Excessive use of steel, urea
    - Profits foregone by PSUs windup with private sectors
  - **R Nagraj (2006)**
    - Revenue cost ratio for SEBs (State Electricity Boards), Railways, Road transport -- deteriorated over time
  - **Evidence**: price deflator of PSU vs aggregate price deflator -- 17x
- **Underutilisation** of capacity
  - **Vijay Kelkar** - various other pressures cropped up on PSUs
    - Ad hoc demands (wage goods acc to Vakil Brahmananda Model)
    - Growth stimulation in backward areas
    - Using local raw materials -- generally low quality
- Industrial **sickness** under private sector management
  - Taken over by govt for maintaining production and protecting employment
  - SICA 1985 (Sickness of Industrial Companies Act -- to detect sick companies with potential systemic financial risk), BIFR (Board for Industrial and Financial Reconstruction)
- Problems related to planning and construction of projects
  - Corruption -- IPS Manjunath case, IES Satyendra Dubey, etc

    - Cost escalation and overruns
    - Establishment in backward areas
- Administrative problems
    - Political interference -- lack of autonomy with demoralising effect
    - Top management -- non-specialised bureaucrats
    - Bhagwati & Desai - bureaucratic caution in decision making due to 4Cs
    - Political considerations - overstaffing w/ unskilled labourers

Policy towards PSUs since 1991
- De-reservation
    - IP 1956 - 17 sectors
    - IP 1991 - 8 sectors
    - Present - only 2 - atomic energy, railway operation
- System of MoU
    - IP 1991 - all PSUs brought under MoU system
    - Arm's length relationship b/w PSU and administrative ministry
    - Clear targets, operational autonomy
- Classification
    - Navratnas - since 1997
        - Enhanced autonomy, financial freedom
            - Incurring capital expenditure
            - Entering into joint ventures
            - Organisational restructuring
            - Raise capital from domestic and int'l markets
    - Miniratnas -- also financial and operational autonomy
    - Maharatna category - since 2011
- Disinvestment of shares
    - Bring down equity in all non strategy PSU to 26% or lower
    - Shut down PSUs that can not be revived; eg. HMT Hindustan Machine Tools
- Setting up of BRPSE in 2004
    - Board for Reconstruction of Public Sector enterprises
    - To recommend measures for restructuring/ revival
    - Cases where disinvestment/ closure/ sale is justified
- Setting up NIF National Investment Fund
    - Proceeds from disinvestment of CPSEs to be channelised into NIF
    - 75% of annual income of NIF - social sector schemes
    - 25% to meet capital investment requirements of profitable and revivable PSUs

Role of private sector

SSE - Social Stock Exchange
https://www.theindiaforum.in/article/social-stock-exchanges-india-sebi-s-promise
https://www.drishtiias.com/daily-updates/daily-news-analysis/social-stock-exchange
https://idronline.org/social-stock-exchange-what-india-can-learn-from-global-examples/
https://www.livemint.com/market/stock-market-news/how-india-can-boost-social-impact-investing-11597327728761.html
https://indianexpress.com/article/opinion/columns/importing-a-failed-experiment-6608192/
https://www.financialexpress.com/market/social-stock-exchange-4-key-things-to-make-india-a-prominent-actor-in-impact-revolution/2109009/
https://indiacorplaw.in/2021/01/social-stock-exchange-in-india-scrutinizing-the-vision.html

Strategy of Industrialisation

11 February 2021 10:35

Industrialisation

- Narrow sense - establishment and development of heavy, basic industries
- Broader sense - signifies completion of industrial revolution through adoption of industrial methods of production for all sectors of the economy
- Types
    - Manufacturing
        - Factory sector (organised/ registered)
            - Employ 10 or more workers working with aid of power
            - Or 20 or more without aid of power
            - Reqd to registered under Indian Factories Act, 1948
            - **Annual Survey of Industries** - data collection by NSO
                - Major groups -- food products, cotton textiles, paper products, leather products, basic metals
        - Non-factory sector
    - Electricity, gas and water supply
    - Mining and quarrying
- Use based classification of manufacturing
    - **Basic goods** - salt, fertiliser, heavy chemicals, cement, basic metals, electricity and mining
    - **Intermediate goods** - textile spinning, wood, leather, rubber products, petroleum products
    - **Capital goods** - all types of machinery
    - **Consumer goods**
        - Consumer durables - furniture & fixtures, office and household equipment, electrical and telecom equipment
        - Non-durables - food products, textile, footwear, paper products, drugs and pharma

Industrial Policy Resolution, 1956

Policy resolution under Mahalanobis strategy

Objectives
- To accelerate rate of growth, speed up industrialisation
- Develop heavy industries
- Expand public sector
- Reduce income, wealth inequality
- Prevent monopolies and concentration of wealth and income

Features
- Classification of industries into 3 categories
    - Monopoly of state - 17 industries (schedule A)
        - 4 - exclusive monopoly of state with no private participation
            - Arms & ammo, railways, air transport, atomic energy
        - 13 - existing private units allowed to subsist, expand
    - Mixed sector - 12 industries (schedule B)
        - State would increasingly establish new units, increase participation

        - 13 - existing private units allowed to subsist, expand
    - Mixed sector - 12 industries (schedule B)
        - State would increasingly establish new units, increase participation
        - So will the private sector
        - Eg. Road transport, basic and intermediate products, etc.
    - Industries left for private sector
- Dominant role of state - predominant, direct responsibility
- Small scale industries
    - Restricting volume of production in large scale industries
    - Differential taxation
    - Direct subsidies
    - Reservation of certain products for small scale sector
    - Financial assistance
    - 'Peter Pan syndrome' to remain small
- Regional disparities to be rectified thru strategic investment and planning in backward areas

Monopolies and Restrictive Trade Practices Act, 1969

India's anti-trust law

Background
- Mahalanobis committee 1964, Monopolies Enquiry Commission - revealed tendencies of increasing concentration in industrial sector

Objective
- Check concentration
- Control monopolies
- Prohibition of monopolistic and restrictive trade practices

Features
- RTP Restrictive Trade Practices
    - Preventing, distorting, restricting competition in any manner
- MTP Monopolistic practices
    - Maintaining prices at unreasonable level
    - Lessening competition
    - Limiting technical development
- UTP Unfair Trade Practices - 1984
    - Misrepresentation about nature of goods, services
    - Misleading prizes, promotions
- Covers 2 types of undertakings
    - National monopolies -- assets > ₹20 crore
    - Product monopolies -- >25% market share
- MRTP commission and registrar of RTP
    - Control over expansion, mergers, new undertakings

Comparison

MRTP	Companies Act, 2002
- Focus: controlling concentration of economic power - Size of the undertaking - major issue - Issue with dominance itself	- Focus: ensure free and fair competition in the market - Size of undertaking doesn't matter unless consumer interest is compromised

- Prohibition	- Addresses issue - abuse of dominance - Regulation - COMPAT - Competition Tribunal - to hear appeal against CCI

Criticism by **Kaushik Basu**
- Monopoly of production need not mean monopoly of income so long as shares in each company are widely held

New Industrial Policy, 1991

Objectives
- Build on gains already made (during gradual liberalisation of the late '80s)
- Correct the ~~distortions and weaknesses~~
- Sustained growth in ~~productivity & employment~~
- International competitiveness

Target Areas
- Industrial licensing
- Public sector policy
- MRTP Act
- Foreign investment & tech

Features
- Substantial deregulation of industrial economy
- Abolition of industrial licensing
  - Governed by Industries (Development and Registration) Act, 1951
  - Abolished for all but 18 industries
  - Present status: only **5** industries have compulsory licensing
    - Alcohol
    - Cigarettes
    - Specified hazardous chemicals
    - Electronics aerospace and defence equipment
    - Industrial explosives
- Role of public sector diluted
  - 1956 resolution had reserved 17 industries for public sector
  - 1991 policy reduced this to 8
    - Arms and ammo, Atomic energy, Coal and lignite, Mineral oils, Iron ore, mining, etc
  - Presently only 2 -- atomic energy, railway (w/ exclusions)
  - MoU system for PSUs to provide further autonomy
- MRTP limits done away with
- Free entry to foreign investment and technology
  - ? Annex III - specified list of high tech and high investment priority industries where automatic permission for FDI upto 51%

National Manufacturing Policy 2011

- To remedy 'missing middle'
- India - service led growth while mfg sector continues to stagnate - 15-16% of GDP

- v/s China - mfg contributes 42% of GDP
- Historically, all successful developing nations focused on manufacturing sector -- China, Asian Tigers (S Korea, Hong Kong, Singapore, Taiwan)

Objectives
- Increase mfg sector growth to 12-14% over medium term
- Increase share of mfg in GDP to 25% by 2022 (16% in 2011)
  - ? Present?
- Create 100 mn additional jobs in mfg sector by 2022
- Create appropriate skill sets for absorption in mfg
- Increase domestic value addition
- Enhance global competitiveness of Indian mfg - eg NIMZ

Policy interventions
- Simplification of business rules, easing FDI norms
- Recognising importance of SMEs
- Skill development (MoSD)E Min of Skill Dvp & Entrepreneurship
- NIMZ National Investment Mfg Zone
  - Integrated industrial township
  - SOTA infra, tech, skill development facilities
  - Provide productive envi to persons transiting from primary sector to secondary and tertiary sector
  - Features
    - State govt responsible for land - 5000 hectare
    - Min 30% area to be utilised for mfg units
    - SOVs to discharge affairs of NIMZ
    - Andhra - 1st state to setup NIMZ
- TADF Technology Acquisition and Development Fund (2015)
  - To facilitate acquistion of clean, green and energy efficient tech by MSMEs
  - Implemented thru GITA Global Innovation and Technology Alliance
  - Features
    - Direct support for Tech acquisition
    - Indirect support for tech acquisition through patent pool
    - Tech/ equipment mfg subsidies
    - Green manufacturing - incentive scheme

National Capital Goods Policy 2016

- Capital goods sector - mother of all mfg industry
- Contributed 12% of total mfg activity

Objectives
- Improvement in tech
- Increased availability of skilled labour
- MSME - growth, capacity building
- Increase contribution of capital goods sector from 12% to 20%
- Dept of heavy industries and public enterprise -- achieve increase in production from $36 bn (2014-15) to $115 bn (2025)
- Increase exports from current 27% to 40% of production

? Policy initiatives
- GST

- FAME India
- HIEMDA Heavy Industries Export and Market Development Assistance Scheme
- National mfg policy 2011
- National steel policy 2017

? Funds
- ATUF - textile
- TADF - MSME mfg
- FoF, CGF - startup

Why mfg?
- Global trade based on goods, not services
- WTO: 80% merchandise trade, 20% services
- Services dependent on manufactured goods
- Job creation in mfg; especially low skill
- Kaldor Growth law - share of profits in income is directly proportional to investments; desirable because capitalist portion of economy has higher savings propensities
- ? Rodrik growth laws

Insolvency and Bankruptcy Code - 2016

ES 2017-18: socialism with limited entry to market without exit

From crony socialism to stigmatised capitalism

"My hypothesis is that India is affected by stigmatized capitalism, where there is not enough trust in the private sector or in the ability of the state to regulate the private sector. It is making it much more difficult to give the private sector a bigger role. It is easier to give a public or a quasi-public entity a bigger role rather than getting more private sector participation," (arvind subramaniam)

Solving capitalism without free exit (Chakravyuh problem)

Features
- Unified bankruptcy code
- Timeline 180 days, can be extended by another 90 days
- New regulator: IBBI - Insolvency and Bankruptcy Board of India
  - to regulate professionals/ agencies dealing w/ insolvency and informational utilities
- Specialised bench of NCLT & DRT
- Code allows both debtor, creditor to initiate insolvency proceedings

? Performance
- Over 525 cases of corporate insolvency have been admitted across NCLT
- ES 2017-18: in first 10 cases, creditors able to recover 33.53% of total outstanding from defaulting borrowers
- ? Bhushan steel status - (was likely to get 73 p on every rupee exposure)
  - Vs EoDB data - avg Indian insolvency case used to get creditors only 26p on every rupee
- Other important cases under resolution?

Startup India 2016

Build strong ecosystem to nurture innovation, startups in the country

Features

- Funding support and incentives
    - Fund of Funds with corpus ₹10,000 cr
        - Dec 2018 - only 10% funds release
    - CGF
    - Tax exemption on capital gains invested in Fund of Funds
    - Tax exemption to startups for 3 years
- Industry academia partnership and incubation
    - Atal Innovation Mission
    - SETU Self Employment and Talent Utilisation (by NITI)
    - 7 new research parks modelled on IITM
    - Annual Incubator Grand Challenge
- CGF Credit Guarantee Fund
    - Corpus ₹500 cr/ yr until 2020
    - Thru NCGTC National Guarantee Trust Company/ SIDBI

? DIPP recognised __ startups
- Maha __
- K'taka __
- NCR __

Challenges
- Tax breaks not of much help as startups take time to even breakeven
- Angel Tax, MAT, etc still exists -- to avoid laundering, tax evasion
- High rates of application rejection by DIPP
- Cut off date post 2016

Make in India

Aim
- Transform India into global design and mfg hub by
    - Investment facilitation
    - Skill enhancement
    - Protecting intellectual property
    - Building best in class mfg infra

4 pillars
- New processes
    - Recognises EoDB as single most imp factor to promote entrepreneurship
- New infra
    - Industrial corridors, smart cities
    - World class infra w/ SOTA tech
    - High speed communication
- New sectors
    - ? Min of __ has identified 25 sectors in mfg, infra, services
    - FDI opened up for defence production, railways, etc
- New mindset
    - Govt shall act as <u>facilitator</u>, not regulator

Steps taken by govt
- Startup India
- Stand up India
- Atal Innovation Mission

- SETU
- Indian Aspiration Fund under SIDBI for MSME sector
- SMILE SIDBI Make in India Loan for Small Enterprises
- MUDRA Micro Units Development Refinance Agency Bank

Tangible results (need updates)
- Among world's fastest growing economies
- Improved EoDB
- Improved Global Competitiveness Index by WEF
- 35% growth in FDI equity inflows
- Among top 10 in World Investment Report by UNCTAD

Evaluation in terms of sectors, achievements, ...

Look up new important schemes on Min of Commerce website

Aatmanirbhar Bharat

Major structural reforms undertaken as part of package (Source: Eco Sur 2020-21)

Sector	Structural reform undertaken
	Deregulation and liberalisation of sectors
Agriculture	- Farmers' Produce Trade & Commerce (Promotion and Facilitation) Act, 2020 - Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 - Essential Commodities (Amendment) Act, 2020
MSMEs	- New definition - No more distinction b/w mfg, service MSMEs
Labour	- 4 labour codes enactment • Wage Code • Industrial Relations Code • Code on Occupational Safety, Health & Working Conditions • Social Security Code - 'One labour return, one license, one registration'
BPO	- Simplification of OSP Other Service Provider guidelines of Dept of Telecom - Removed requirements preventing WFH, WFAnywhere policies
Power	- Tariff Policy reform • DISCOM inefficiencies not to burden consumers • Progressive reduction in cross subsidies • Time bound grant of open access - Privatisation of distribution in UTs
PSUs	- In only strategic sectors - Privatisation of PSUs in non-strategic sectors
Mineral Sector	- Commercialisation of coal mining - Removal of captive mines vs merchant mines distinction - Transparent auction of mining blocks - Uniformity in stamp duty across States - Amendment to Stamp Act, 1899 - Seamless composite exploration-cum-mining-cum-production regime
	Strengthening Productive Capacity

Industry	- PLI Production Linked Incentive Scheme for 10 identified sectors Sectors | A - National GIS enabled Land Bank system launched
Space	- Level playing field to private companies in satellites, launches, space based services - Liberal geo-spatial data policy for remote sensing data to tech-entrepreneurs
Defence	- Corporatisation of OFB Ordnance Factory Board - 74% FDI limit in Defence Mfg under auto route (prev: 49%) - Time bound Defence Procurement Process
	Social sector
Education	- PM eVidya - multimodal, equitable access to edu - Manodarpan initiative for psychosocial support
Social infra	- Scheme for financial support to PPPs in Infra VGF scheme extended till 2024-25
	EoDB
Financial markets	- Direct listing of securities by Indian public companies in permissible foreign jurisdictions - Reduction of time line for completion of rights issues by companies - Private companies listing NCDs on stock exchanges not to be regarded as listed companies
Corporates	- Decriminalisation of companies Act (minor technical, procedural faults) - Power to create additional/ specialised benches for NCLAT - Lower penalties for all defaults for Small Companies, One person Companies, Producer Companies & Start Ups - Simplified Proforma for Incorporating Company Electronically Plus (SPICe+) introduced
Administration	- National Platform for recruitment: National Recruitment Agency to conduct Common Eligibility Test - Revised guidelines on Compulsory retirement to remove ineffective or corrupt officials - Faceless tax assessment, 12 point taxpayers charter - Fast track Investment Clearance thru Empowered Group of Secys

<u>Investment Paralysis of Indian Industry</u>

- Low capacity utilisation, high levels of leverage, clogged pipeline of stalled projects -- fettered the animal spirits of Indian industry
- Status -- new project announcements - touched a 13 year low of ₹77000 cr in Dec quarter
- Overall stalling rate - hovering near a record high at 13.2%
- <u>Stalling rate</u> - calculated as value of projects stalled as a proportion of the overall value of capex projects under implementation

Public sector	improved
Private sector	- Deteriorated - Record high of 24% recently
Manufacturing	- Accounts for 28.4% of all stalled projects
Power	- Accounts for 40.6% of all stalled projects

- Key reasons for sluggish investment
  - Declining capacity utilisation
    - Peak of 83% in 2010; 70% pre-pandemic; 60% in June 2021 (RBI's OBICUS Survey)

- Pile up of bad loans - twin balance sheet, NPAs
- Rise in stalled projects - overall 13.2%; improvement in public sector; deterioration in private sector

- Reasons for stalling
  - Land acquisition issues - environmental, non-environmental
  - Supply problem w/ fuel & raw material eg coal for TPP
  - Unfavourable market conditions
  - Lack of funds and credit (twin balance sheet problem)
  - Lack of promoter interest
- Solutions
  - Quick resolution of bad debts -- can help revive the capex cycle
  - Effective clearance mechanisms

Small Scale and Cottage Industries

11 February 2021 10:36

Contributions (Eco Sur 2021)
- GDP share - 29%
- Export share - 45%
- 56mn units; 125 mn employees
- Social objectives -

Definition of SSI - not legally different but subpart of MSME
Legally MSMEs defined under MSMED Act, 2006, amended in 2020.
SSI not defined as such in statute books. But includes micro, small enterprises
Cottage industries - very small, run from dwellings

MSME

- Share in country's GVA

2020	
2015	30.7% of GDP

- 2015-16: ~633.8 lakh unincorporated non-agri MSMEs in the country
- 5.1 crore operational MSMEs
- Employment: 11 crore workers
- Share in export earnings

Definition
- Enactment of MSMED Act, 2006
- Amended now

	Income	Turnover
Small	1 cr	5 cr
Medium	10 cr	50 cr
Large	50 cr	250 cr

Significance
- Employment generation
- Efficiency of small scale industries

Pros	Cons
- Annual Survey of Industries (1960-65), **RK Akser** - SSIs more efficient - SIDBI + NCAER research (1980-84): In SSI, investment of only 7-15% of the total mfg capital contributed • ~20% of total industrial output; • ~40% employment in industry sector - All India Census of Small Scale Industries (2001-02) • Employment generated by SSI	- **Dhar and Lydall**: modern MSMEs are fairly capital intensive, but do not generate more employment per unit of capital than large scale industry - **Biswanath, Goldar**: SSIs generally have low labour productivity, high capital productivity, low capital intensity and low total factor productivity

Industries (2001-02) • Employment generated by SSI per ₹1lakh invested was 1.39 against 0.20 in large mfg - Employment intensity = 17x	

- Equitable distribution of rational income
  - Widespread ownership of SSI
  - Much larger employment potential
- Mobilisation of capital and entrepreneurial skill
  - Mobilises savings done in far flung areas
  - Entrepreneurs spread over small town and villaes
- Regional dispersal of industries
  - SSIs mostly setup to satisfy local demand and can be dispersed over all the states easily
  - v/s massive concentration of large scale industries in select states (Maha, Guj, TN, etc.)
- Less industrial disputes
- Exports
  - 40% export earnings
  - Bulk of SSI exports ~93% - non-traditional items like readymade garments, sports goods, leather products, etc
  - Total SSI exports by value

1971-72	₹155 crore	9.6%
2012-13	₹6,77,318 crore	41.4%
2019-20		45%

  - Thus ~45% export share from SSI presently

Problems of MSMEs
- Finance & credit: '**triple bind**' problem **(Sebastian & Morris)**
  - Normal effect of credit squeeze (banks don't lend)
  - Significant & large bias against lending to small firms - high chances of default
  - Large firms facing credit squeeze pass on to small firms by delaying payments, insisting on advance payments, etc
- Infrastructural constraints
  - Power, transport, machinery
  - CASE: township & village enterprise of China
- Inverted Tariff Structure
  - Sebastian & Morris - despite liberalisation, higher tariffs on many raw materials than manufactured goods
- Obsolete machinery & equipment
- Problems of marketing
- Delayed payments, little bargaining power
- Sickness
  - Inter-ministerial committee for accelerating manufacturing in MSME sector
    - ~2,50,000 sick MSE units at end of March 2013, with outstanding bank credit of ₹12,800 crore
    - MSMEs lack the abilities of large enterprises to advocate on economic and functional issues, come adversely on the receiving end of unexpected actions of stakeholders including state machineries
- P**oor database - inadequate database for SSI**
  - SIDO Small Industries Development Organisation
  - & CSO

- Only 2 major sources of info
- Adverse effects of economic reforms and globalisation
  - Cheaper and better quality of imported goods
  - Cheap Chinese imports "CHINA PRICE" i.e. Rock bottom price
    - Economies of scale in China
    - Strategic dumping
- Other problems
  - Inefficient mgmt
  - Burdens of local taxes
  - Competition from large scale industries

Recent Policy Initiatives on MSME
- Redefinition of MSMEs
- Corporate tax rate cut from 30% to 25%
- RBI raised the repayment period before MSME loans are classified as bad loans
- TReDS Trade Receivables Discounting System
- PMEGP PM Employment Generation Programme
- MUDRA Yojana and MUDRA Bank
- CGS Credit Guarantee Scheme

Mittelstand

MITTELSTAND
- German concept
- Refers to MSME enterprises in German speaking countries
- Features
  - Family ownership or family like corporate culture
  - Long term focus, and no profit chasing
  - Independence
  - Strong regional ties - social responsibility - customer focus
- Benefits
  - Vocational studies -> skilling -> employability to growth
  - Germany has highest employment in Europe
  - Shock absorber from dot com boot etc -> focused on manufacturing
  - Social responsibility
    - Better standard of living
    - healthy work culture
  - Export orientation -> making Germany one of world's largest exporter
- Application to India
  - Skilling and vocational programmes
  - Youth employment
  - Changing work ethics
  - MSME improvements

KHADI, VILLAGE & COIR Industries
- KVIC Khadi & Village Industries Commission
  - Objectives:
    - Social - providing employment
    - Economic - producing saleable articles
    - Creating self reliance amongst the poor and building up of a strong rural community spirit
- SFURTI Scheme of Fund for Regeneration of Traditional Industries
  - Cluster based: Organise traditional industries and Artisans into clusters
  - Long term sustainability, sustained employment, enhanced marketability of products

- Provide financial support

- ASPIRE A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship
  - To accelerate Entrepreneurship and to promote startups for innovation and entrepreneurship in agro-industry
- MPDA
  - Aim: to ensure increase earnings for artisans
  - Through financial assistance to producing institutions, selling institutions, artisans
  - Infra: Khadi Plaza
- Coir Vikas Yojana & Coir Udyam Yojana
  - Coir Board (statutory body, like KVIC)
  - REMOT (Rejuvenation, Modernisation and Technology Upgradation) of Coir Industry
- TREAD Scheme (Trade Related **Entrepreneurship Assistance** and Development)
  - To promote women entrepreneurs
  - Loan assistance to women for undertaking non farm activities
- PMEGP
  - Flagship program - offering credit linked subsidy (interest subsidy) to establish new enterprises for generating continuous and sustainable employment
- ZED - Zero Defect - Zero Effect
  - Aims to rate and handhold all MSMEs to deliver top quality products using CLEAN technology
- TADF under National Manufacturing Policy
  - Technology Acquisition and Development Fund
  - For clean, green and energy efficient technology
- MUDRA Microunits Development and Refinance Limited
  - Started with an initial corpus of 20,000 crore rupees to extend benefits to around 10 lakh MSMEs

Privatisation, Disinvestments

11 February 2021 10:36

Privatisation

Process by which govt transfers productive activity, ownership, asset of business from public sector to private sector

Rationale

- Efficiency and performance
  - Profit oriented decisions
  - **Margaret Thatcher**- 'The govt has no business to be in business' - led privatisation of 670 PSUs in UK in 1980s
- Fixing responsibility & accountability is easier
- Market discipline
  - Subject to capital market discipline
  - Scrutiny by financial experts
- No political interference
  - **Bimal Jalan** - political interference major cause of operational inefficiency in PSUs
  - No bureaucratic caution due to 4Cs
- Succession planning
  - PSEs often remain 'headless' for prolonged periods of time
- Faster response time in private sector
- Rent seeking and corruption in PSUs
- Administration: no more generalist bureaucrats

Methods

- **IPO** Initial Public Offering
  - Shares of PSU sold to retail investors and institutions

Pros	Cons
- Wide participation of retail investors - Likely to face less resistance from PSU employee -- continuity of mgmt - Can be used to offer shares to employees - Govt raises resources w/o losing control	- Problem of valuation -- appropriate price of share? - Cannot be adopted in small countries with weak capital markets and institutions

- **Strategic Sale**
  - Govt sells shares in PSU to a strategic partners
  - Mgmt passes on to the buyer

Pros	Cons
- Performance and efficiency expected to improve - Govt may realise better price from the strategic buyer - Strategic partner would be willing to inject more capital into the PSU - Important method in small countries with	- Ordinary citizens cannot participate - Bureaucratic procedure • Selecting strategic partner, setting terms of sale • Determining actual value of enterprise • Non transparency

weak capital markets	• Arbitrariness - Serious risk of employees losing their jobs

- **Sale to foreigners**
  - Variant of strategic sale, where buyer is foreign company
  - In small countries where amount of domestic private capital is limited
- **Equal Access Voucher** Programmes
  - Distribution of vouchers across the population
  - Attempt to allocate assets approximately evenly among voucher holders

Pros	Cons
- Speed and fairness - Eg. Czech Republic's EAV: most successful till date	- Raises no revenues - Unclear implications for corporate governance

- **Management-employee buyouts**
  - Managements and employees themselves buy major stakes in the firm

Critical Analysis

- Efficiency vs inclusive governance
  - **Jayati Ghosh** - PSEs are not pure profit making machines but instruments used by govt to achieve a range of objectives
  - Privatisation is bound to result in unemployment, informalisation of labour, etc
- Undervaluation of assets
  - **CAG** reports
    - Undervaluation of PSUs; eg. Loss of 123% on HPCL shares
    - Insufficient competition - to secure optimal price realisation at final stage
    - Shareholders' agreement - terms adverse to the govt
- Utilisation of money from disinvestment
  - **Jayati Ghosh** - fiscal convenience prime mover of disinvestments
  - Resources generated used to meet current consumption
    - NIF - 75% for social sector; 25% for revival of PSUs
- Substitution of public monopoly with private monopoly
  - CASE: Bolivia - 3rd largest water ss privatised - sold to foreign consortium - resorted to huge increase in tariffs and restrictions - provoked widespread resentment, ending of contract
- Corruption
  - **Joseph Stiglitz** - privatisation -> briberisation
    - "rhetoric of market fundamentalism asserts privatisation will reduce 'rent seeking' activity of govt officials. However, in contrast, privatisation has made matters worse in many countries."
  - CASE: SC restrained govt from selling 29% stake in Hindustan Zinc limited -- strategic mineral
- Privatisation is NOT Reform
  - **Pranab Bardhan** - competitive markers are necessary; full scale private ownership not so much
  - Competitive environment rather than ownership promotes allocative efficiency
  - CASE: **China** - remarkable growth achieved not due to privatisation but by marketisation, opening up new areas for competition
    - 1978-92: GDP Growth @8.8%, industries @10% p.a. => GDP tripled over 15 yr period

Evolution of Privatisation Policy in India

Marked change in perception towards role of public sector in economy since 1991

- New Industrial Policy 1991
    - Many PSUs burden rather than assets
    - Advocated privatisation
- Bundle system
    - Initially shares of different PSUs bundled and sold to domestic financial institutions
    - 1992-93: separate auction of individual shares for better price realisation
- Rangarajan Committee on Disinvestment of Shares in PSEs, 1993
    - ? Recommendations on equity share to be divested

49%	Strategic sectors
74%	Reserved sectors
100%	Rest all

- 1996-97
    - sales open to **NRIs** and **foreigners**
    - In int'l markets through GDR Global Depository Receipts
- Strategic and non-strategic classification, 1999
    - Govt stakes to be dropped upto 26% in non-strategic PSUs, on a case by case basis
- National Common Minimum Programme, 2004
    - Setup guidelines for strong and effective public sector
    - All privatisation - transparent and cumulative
    - Generally profit making PSUs won't be privatised
- 2000-04
    - Focus shifted to strategic sale method
    - Eg. VSNL, IPCL
- BRPSE in 2004 - Board for Reconstruction of PSEs
- NIF 2005
    - Proceeds of disinvestment to be channelised here
    - 75% - to selected social sectors
    - 25% - capital investment requirements of profitable and revivable CPSEs
- ? Action Plan for Disinvestment, 2009
    - For disinvestment in profit making companies
    - Listed profitable CPSEs
    - Unlisted CPSEs w/ accumulated profits -- to be listed
    - Govt to retain min 51% stake, control in all cases
- DIPAM Dept of Investment and Public Asset Management
    - Renamed Disinvestment Department
    - Done away with govt approval to raise foreign investment limit upto 49%
    - NITI Aayog - to identify CPSEs for strategic sale

? ETF Bharat 22, Buyback shares

CASE: Privatisation in Russia

- After dissolution of Soviet Union
- Facilitated transfer of significant wealth to relatively small group of 'Business Oligarchs' and 'New Russians', particularly natural gas and oil executives
- Transition described as 'katastroika'
- Significant rise in inequality, decrease in GDP

Disinvestments

FDI in India

08 February 2021 16:26

Role & Significance

- Non debt capital flow
- Brings in capital, technical know-how
- Increases competitiveness
- Supplements domestic investment (i.e. Augments investible capital)
- Export promotion
- Export led strategy requires dynamic shifts in comparative advantage
- Superior technology, greater competition -> growth impulses
    - TNCs Transnational Corporations generally R&D intensive
    - ~1% of total investment of R&D by TNCs in foreign affiliates though
    - Local firms don't invest enough either
- Usual concern - inappropriate technology transfer
- Empirics: complementary, inter-firm collaboration augments growth
- FDI augments growth when
    - High technology gap
    - Significant openness to FDI
- FDI can
    - Promote competition - if crowds in domestic investment
    - Facilitate oligopolies - if crowds out domestic investment
        - Could potentially be offset by productivity gains from advanced tech

Historical Perspective on FDI policy

- Phases reflects undercurrent of prevalent BoP crisis in respective periods

Phase 1	Phase 2	Phase 3	Phase 4
1950-67	1967-80	1980-90	1991-
receptive attitude/ cautious welcome	restrictive, selective policies	gradual liberalisation	paradigm shift to open door policy
• Non-discriminatory treatment to FDI • No restrictions on remittance of profits, dividends • Ownership and control with Indians	• Restriction on FDI without technology • Above 40% stake not allowed • Allowed only in priority area • FDI controlled by FERA • Discretionary power in sanctioning projects	• Higher foreign equity in export-oriented units allowed • Procedure for remittance of royalty and technical fees liberalised • Fast channel for FDI clearance	• Liberal policies relating to technology collaboration, foreign trade and forex • Encouraging FDI in core, infra industries • FERA replaced w/ FEMA • Procedures transparent • Liberal approach for NRI investments • FDI need not be accompanied by technology • FDI through mergers and acquisitions

			• FDI in services and financial sector banks, NBFCs, insurance

- NIP New Industrial Policy (1991)
  - abolition of industrial licensing system
  - Automatic clearance of FDI proposals fulfilling laid down conditions
  - Opening of new sectors to foreign owned companies, subject to sectoral caps
  - Also liberalised policy on outward FDI
- FIIs now welcome to invest in all types of securities traded on primary, secondary market w/ full repatriation benefits
  - Reclassified as FPI in 2013 - subj to max 10% equity holding in a firm; >10% = FDI
- 65 DTAAs & 58 BIPAs Bilateral Investment Promotion and Protection and Agreement
- Current FDI policy
  - characterised by negative listing
  - 3 broad entry options
    - Negative list - not permitted
    - Permitted only till specified level of foreign equity participation
    - Upto 100% foreign equity participation allowed
      - Automatic approval
      - Prior approval of FIPB (Foreign Investment Promotion Board) required
- EoDB
  - Simplified rules
  - Use of IT for efficient, effective governance
  - Large improvements in WB, WEF rankings
  - WB EoDB
  - WEF Global Competitiveness Index

Determinants of FDI
- Market size, urbanisation, infrastructure, proximity to major sources of capital, policy factors (tax rates, investment incentives, performance requirements, etc)

Impact of FDI Inflows
- Significant increase in FDI inflows
  - Wide variation of geographical origins
  - Max inflows from Singapore, followed by Mauritius
  - Max inflow sector wise into (i) services (ii) computer software and hardware (iii) trading (iv) telecom (v) drugs & pharma
- Rapid rise in inflows of portfolio investments since 2003-04
  - Instrument: short term equity investments
  - Highly volatile annual net inflows
- Impact of FII inflows
  - Stock market boom
- Net outflow due to financial crisis
  - brought down Sensex
  - Rupee depreciated sharply (RBI intervened too)
- Recovery
  - Inflow of FII
  - Stock market soared again
  - Rupee appreciated (RBI intervened)
- => **FII inflows** have become primary determinants of movements in the
  - stock exchange indices

- Exchange rates
    - => **channels of transmission of instability to domestic financial system**
- Very high servicing burden of FIIs
    - Chase primarily good returns at stock markets, exchange rate speculations
    - Stock price makers rather than takers
    - Exit safely before major market crashes -> precipitate declines
- Very volatile
    - Exposure to FII inflows enhances the need to have large forex reserves
- => developing countries should rely more on FDI; raise ADRs/ GDRs wherever possible & deposits from NRIs
- Eg. Brazil, South Korea, Indonesia
    - Imposed capital controls to moderate volatility
    - Growing consensus on their relevance
    - Ambiguous benefits of maintaining open capital accounts

FDI outflows from India
- Since 2006 - <u>quadrupled in one year</u>
- Indian enterprises using their outward investments to acquire larger companies in advanced economies
    - To augment bundles of strategic assets
        - Brand names
        - Proprietary knowledge
        - Global marketing networks
    - Eg. Tata Steel - Corrus, Tata Motors - Jaguar/ Land Rover, Handalco-Novelis, etc

Impact of FDI on growth, domestic investment
- Augment capital stock
- Infusion of new technology
- Enhancing the investment climate
- Effect depends on host govt policies
    - selective policies & performance requirements to deepen commitment of MNCs to host economy
        - Eg LCR Local Content Requirements
        - Phased manufacturing programmes to promote vertical inter-firm linkages in
          India
            - Encouraged auto-component industry - 'crowding in' investment

? Quality of FDI inflows
- Sectoral composition
- Effect on domestic economy

FDI and Export-Platform Production
- China: considerable success in exploiting FDI potential for export-oriented production
    - 23 mn jobs created by 2003 - China is 'global factory'
    - Brought in world's best practice technology (since competing with world market right from the start)
    - Enhances chances of FDI inflows crowding in domestic investments
    - v/s FDI serving domestic market => more chances of crowding out domestic investments
    - Fresh possibility of market information spillovers
- India

- Unable to exploit fully
- Bulk of FDI is market seeking rather than export oriented
- Though recent years, MNCs are beginning to use India as a base of export-oriented production
- Mixed quality FDI inflows
- Uneven development impact
- Use variety of policy instruments, performance requirements to harness FDI potential
  - Learn from China, SE Asian countries

Policy lessons

- FDI liberalisation necessary but not sufficient for expanding FDI inflows
- Overall macro performance - major influence on FDI inflows
  - Signalling device about growth prospects
- Policies that facilitate domestic investments also pull in FDI inflows
- Need to focus on
  - Growth rate of industries
  - Socioeconomic infrastructure and other supportive policies
  - Stable and enabling envi to crowd in FDI inflows
- Govt interference required in
  - Facilitating exploitation of potential benefits - performance requirements, etc
  - Diffusion of knowledge brought in by foreign enterprises
    - Vertical inter-firm linkages w/ domestic enterprises
    - Local content requirements
    - Proactive measures, etc
- Gahlaut:

  Even though India has been able to attract significant FDI, we are *yet to harness their development potential fully.* India has received FDI of *mixed quality* and the *development impact has been uneven*. It is known that government policies play an important role in determining the quality or development impact of FDI and in facilitating the exploitation of its potential benefits by host country's development.

  Policy should focus on *promoting export-oriented FDI*, which minimizes the possibilities of crowding-out of domestic investments and generates favourable spillovers for domestic investments by creating demand for intermediate goods. Government intervention may also be required to promote diffusion of knowledge brought in by foreign enterprises. An important channel for this is vertical inter-firm linkage with domestic enterprises.

Infra + imp sectors

11 February 2021 10:37

Relation b/w Infra & economic development

Investment	Reduces logistic cost	Employment	EoDB	Trade & commerce

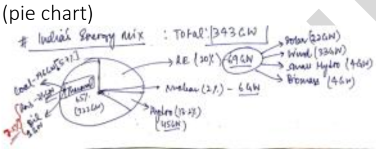
Margaret Thatcher - 'you and I come by Roads & Rail, but economists travel by infrastructure.'

Urban Infrastructure
- McKinsey Global Institute Report - India's per capita spending on urban infra is just $17, v/s $116 by China
- Judge Ahluwalia Committee (2011) -- urban development requires ₹40 trillion at constant prices over next 20 years

Power/ Energy

Status
- Considerable expansion
Year	1950	2015
Total installed generation capacity	2.3 GW	318 GW
- Energy mix
Thermal/ coal	39%	188 GW
Large hydro	13.9%	43 GW
Wind	9.1	33
Gas	8.2	25
Solar	4%	17
Small hydro	2%	4
Nuclear	1.9%	4
Biomass	1.6%	3.7 GW

    (pie chart)

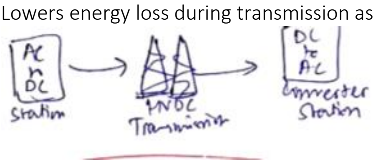
- India targets 175 GW of RE by 2022
  - Solar - 100 GW
  - Wind - 60 GW
  - Bioenergy (biomass + WTE) - 10 GW
  - Small hydro - 5 GW

Challenges faced by electricity sector

Generation
- Inordinate delay in installing and commissioning of projects (eg land acquisition, inter state water disputes)
  - ES 2017: cost overruns at new private power plants >50% in nearly all cases
  - -> twin balance sheet issue
- Plant load factors (PLF) = actual electricity production as a share of capacity -> exceptionally low -> 59.6% in 2016 (ES 2017)
- Lack of fuel supply -> lo coal linkage on time

Distribution/ Discoms
- T&D losses -> among the highest in the world; estimated to be in the range of 35-45%
- Cost recovery in distribution is very poor
  - Merchant tariffs for electricity purchase in spot markets -- slid to ~₹2.5/ kWh
  - Breakeven rate is ₹4-8/ kWh
- Cross subsidisation
  - Defn - practice of charging higher prices to one type of customers to artificially lower prices for another group; in case of universal price ceiling for service this benefits sectors where cost of provision are high
  - Industrial sector is charged tariffs that are much above the cost of supply
  - Industrial tariffs ~10x of agri tariffs
- AT&C losses
  - Refers to the difference b/w units input into the system and the units for which the payment is collected
  - Reasons
Power theft	Non-billing	Incorrect billing	Inefficiency in collection
Leakages in T&D			
    - Insufficient & non-revision of tariffs due to political pressures in states
- Open access policy -- creates dd uncertainty

Govt measures for power sector

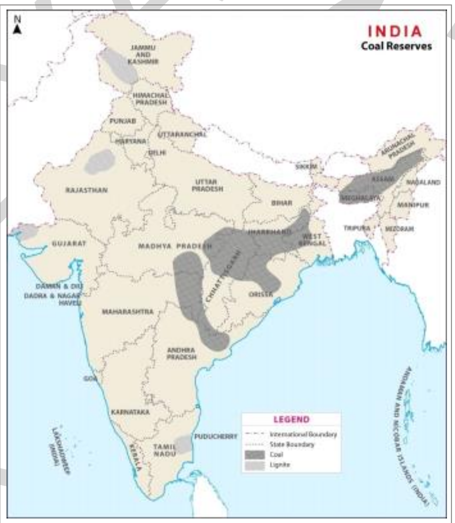
(A) Policy Support
- Electrical machinery de-licensed for electrical & power sector; 100% FDI
- SEZ approvals for electrical machinery sector
  - ↑ in M-SIPS Modified Special Incentive Package Scheme
  - ↑ in EDF Electronic Development Fund
- UDAY Ujwal Discom Assurance Yojana
  - Financial turn-around and revival of power discoms
  - Promote investment + service quality improvement
- DDUGJY 0 24x7 power ss in rural areas
- Garv App - real time data about rural electrification
- Power transmission planning : Mala Prasad Committee (by CERC)
  - Transmission planning - aligned to customer aspirations rather than long term power purchase agreements
  - Renewable energy - transmission planning by CTU - Central Transmission Utility
  - Emphasised need for creation of Central Repository of generators in CEA Central Electricity Authority) -- registration of all new plants
- National Smart Grid Mission by MoPower
  - 2 way communication
  - Efficient transmission
  - Rerouting
  - Smart meters -- information about meter use, etc
- HVDC technology - High Voltage Direct Current Transmission
  - Lowers energy loss during transmission as DC does not oscillate
  - 

- Sahaj Bijli Har Ghar Yojana or SAUBHAGYA Yojana
  - To provide electricity connections to over 40 mn families in rural & urban areas by Dec 2018l scheme funds the cost of last mile connectivity
  - Complementary to DDU-GJY
  - w/ prepaid & smart meteres -- dd creation -> discoms forced to ss to these villages

<u>Coal</u>

EcoSur 2020-21:
- Accounts for 55% of country's energy needs
- FY20:
  - production = 729.1 MnT; growth 0.05% yoy
  - Import = 248.54 MnT growth of 5.7%
  - (of this, 135 MnT could be substituted by domestic coal, if production was avbl

Budget 2021 - strategic sector
4th largest producer; 2nd largest importer of coal
Aatmanirbhar - aims to become largest exporter of coal



Stats
- Coal based generation of power constitutes ~80% of thermal generation; ~66% of total power generation
-

185 GW	110 GW public sector	70 GW private sector

- Geological coal reserves of country - estimated at 301.6 bn tonnes - 5th largest globally

Challenges
- Low grade
  - High ash content and low calorific value
  - High transport cost of inert materials
  - Large ash dump
- Coal import
  - ? Increasing at CAGR of 25%
  - 22% of domestic dd is being met through imports
- Geographical concentration

    - Leads to higher cost of transportation
    - Eg mostly in Jharia, Raniganj mines alone
- INDCs and shift towards Renewables (Paris Climate Agreement)
    - Reduce GHG emissions intensity of GDP by 33-35% wrt 2005 levels by 2030
    - 40% of electricity from non-fossil resources
    - 2.5-3 bn tonnes CO2 equivalent carbon sink
- CoP 26
- Financial deterioration
    - Rising capital cost and time overruns - coal tax (₹400/ tonne), poor infra, lack of supply
    - CoalGate Scam - SC in 2014 cancelled 214/ 218 coal block allocations
    - Corruption, policy delays

Policy initiatives
- SHAKTI - Scheme to Harness and Allocate Koyla Transparently in India
- Coal-linkage policy - to auction long term coal linkages to power companies

Accountability	- Coal linkages to power stations - State/ central - via allocation - Private - via auction
Affordability	- IPPs Independent Power Producers - provision to bid for discounts - Competition - will help reduce power tariffs
Accessibility	- Ensuring coal to all power plants

    - Significance
        - Revive 30GW power plant capacity - awaiting fuel supply
        - Reduce import
        - Prevent TPP - turning into NPA
        - Reduction in power tariff
- Commercial mining permitted now
- Coal Mitra - web portal to facilitate coal swapping among govt & private firms
-

Reforms in Coal Sector
- Through Mineral Laws (Amendment) Act 2020 -> amends Coal Mines (Special Provisions) Act, CMSP 2015 and Mines and Minerals (Development and Regulation) Act, MMDR 1957
- Coal block allocation for composite prospecting license cum mining lease
- Commercial mining of coal allowed - 50 blocks for private sector
    - Commercial => no end use restrictions
- Central Govt has flexibility in deciding end use of Schedule II, III coal mines under CMSP
- Liberalised entry norms -> companies no longer need prior coal mining experience in India
- Also eases exit norms -> successful bidder can also relinquish partially explored coal mine
- Commercialisation on revenue sharing basis instead of fixed cost
- Power plants no longer mandated to use 'washed coal'
- Incentivisation of coal gasification/ liquefaction through rebate in revenue share
- CBM Coal Bed Methane extraction rights to be auctioned from Coal India's coal mines

Intended Benefits of Reforms
- Plugging Supply Gap
    - Due to nationalisation during 1971-72
    - Coal demand growing faster than Coal India's production expansion
    - Coal import growth at 23% during 2009-14
    - Commercial mining can increase domestic production
- Boost economy
    - Energy security -- 55% dependence on coal
- Removal of end-use restrictions would aid development of domestic market for coal
- Forward & Backward linkages
    - Forward: cement, fertilisers, steel, aluminium
    - Backward: transportation and physical infrastructure
- Employment generation
- Win-win situation: equitable revenue sharing model -> miner's obligation to pay govt adjusts with price changes -- both gain

Challenges
- Dominance of Coal India
    - Unlikely that Coal India monopoly will end in near future
    - [dd side] B'cos long term purchase agreements b/w CI and major consumers (thermal power plants, steel sector)
    - Bureaucratic & political hurdles for new commercial mining companies
- Issue with non-washing of coal
    - 'washed' coal -> reduces ash content thru segregation, blending and washing

techniques
    - Indian coal contains 30-50% ash
    - Washed coal also provides high grade 'coking' coal, essential for steel sector
- External challenges
    - Intense competition from renewables
    - Rising NPAs of Thermal Power Plants TPPs
    - Massive global withdrawal from fossil fuel for climate, environmental reasons --> challenge of viability for commercialising coal

Way forward
- Single-window clearance process for coal mines
- Govt support for early resolution in land acquisition related issues needed to ensure timely operationalisation of coal mines
- Technology upgradation measures to improve productivity of & recovery from coal mines
- Govt may consider creating funds to support overseas acquistion to supplement domestic resources
- Steps needed for promotion of research and exploration activities & modern underground mass production technologies

Measures
- Creating carbon sink - ~54500 ha land brought under green cover; carbon sink of 2.7 lakh tonnes of CO2 equivalent/year [ES 2020-21]
- Surface coal gasification projects (100 MnT coal by 2030) -- relatively lower carbon footprint [ES 2020-21]

<u>Crude Oil & Natural Gas</u>

Background
Oil
- Limited oil & gas reserves in the country
- ONGC, OIL estd in 1955, 159 resp - to serve need for exploration
- 4th FYP -- ONGC went for offshore drilling
- By 1977 - about 452 mn tonnes of recoverable reserves
- Current - 775 mn tonnes of crude oil reserve - 0.43% of world's proven oil reserves
- Heavy dependence on crude oil imports
    - 2014-15 - 84.9% of consumption of crude oil met through imports
- Refining
    - Effective refining capacity of 223.2 mn metric tonnes in 2015
    - 2nd largest refiner in Asia - private companies own about 38.21% of total refinery capacity

Gas
- Net recoverable reserves of Gas - 1119 bn cubic metres bcm
- Only 0.7% of global gas reserves
- Import dependence - ~25% of consumption
- India - 4th largest LNG importer - accounted fro 5.68% of global imports

Status
- India - 2nd largest refiner in Asia
- World's 4th largest energy consumer; oil and gas account for 37% of total consumption
- 4th largest consumer of oil and petroleum products
- Imports more than 80% of crude oil, 40% of natural gas

Reforms
- Private sector participation in exploration and production of oil and natural gas
    - NELP 1997 -> HELP 2016
- Dismantling APM Administrative Pricing Mechanism 1976 - abolished wef 2002
- Allowing domestic companies to acquire int'l oil and gas reserves
    - ONGC Videsh Ltd - OVL, GAIL India - acquired 1st shale gas asset in USA
- Coal bed methane CBM Policy - 1997
- Shale gas production - ONGC began exploration

HELP - Hydrocarbon Exploration and Licensing Policy
- Paradigm shift from Production Sharing Contract PSC regime to Revenue Sharing Contract RSC regime
    - RSC - contractor bears all exploration risks, production & dvpment cost in return for stipulated revenue share; bidding based on revenue share
    - Production sharing - ~ profit sharing regime
- Reduces regulatory burden; based on EoDB principle
- Single license for exploration and production
- Applicable for both conventional, non-conventional hydrocarbon resources
- Pricing and mkting freedom
    - Esp for new gas production from difficult terrains
- Reduced rate of royalty for offshore blocks
- Includes OALP Open Acreage Licensing Policy - potential investors/ companies can carve

out exploration acreages of their choice + submit 'Expressions of Interest' throughout the year

National Seismic Programme
- For crude oil exploration in the Mahanadi basin
- Since Oct 2016
- Aim: appraise the unapprised areas in all sedimentary basins of India; esp those w/ scant data

Fuel Administered Price Mechanism
- Created in late 1970s; after nationalisation of int'l oil majors by Govt -- Caltex, Burmah Shell
- Cost Plus Formula - for prices - of all petroleum products are fixed on the basis of cost of procuring and refining crude oil
- India lifted price control on diesel in 2014, petrol in 2010
    - Fortnightly review of prices by state companies
- Introduction of Dynamic Fuel Pricing

Dynamic Fuel Pricing
- Daily changes - linked to int'l prices of crude oil
- Significance
    - Gradual price changes; no sudden shocks to consumers
    - Companies can easily take price hikes w/o worrying about political backlash - profits for oil public sector
    - Reduce burden on exchequer; no more populism
    - Independent decisions; competitive market economy; efficient allocation of scarce resources
- Challenges
    - Sustainability of this mechanism would face challenges when the crude oil prices rise
    - Inequality of prices of fuel in different stages, eg cheaper in coastal states
    - Extensive retail presence, logistics and risk mgmt reqd to sustain the new competitive free market
    - <50% petrol pumps are automated (56k in India)
    - Automation system at most pumps does NOT support automatic price change in dispensing machine
    - Manual update - errors, expensive

Incentivise gas production from difficult areas (eg HP-HT High Pressure High Temperature reservoirs, deepwater & ultra-deepwater areas, etc)
Development of alternate sources of natural gas including CBM Coal Bed Methane + promote gas economy

Challenge to hydrocarbon sector
- Scarcity of land (for on-shore projects) - eg farmer protest in Nedurasal village of TN
- Hydrocarbon pricing
    - HELP - may discourage large investment due to higher risk in revenue sharing
    - Gas -- formula based rather than market linked; wgted avg of 4 int'l benchmarks every 6 months -- US Henry Hub + Canada Alberta gas + UK NBP + Russian gas
- Investments - sub-optimal by PSUs
- Poor evacuation infra - eg poor pipeline connectivity in gas sector
    - Need for Urja Ganga Projects etc

Rising crude oil prices
- Causes
    - Drawdown in inventories, especially in the US
    - Better compliance w/ the voluntary production cut by OPEC
    - Slower pickup in US Shale Oil
    - Continued geopolitical risk in West Asia
- Impact - growth, inflation, currency, current account deficit, fiscal deficit
- Nomura
    - Every $10 increase in oil prices --
        - Increases consumption price inflation by 0.6-0.7 % point
        - Worsens India's CAD by 0.4% of GDP
        - Reduction in excise duty on petrol & diesel by ₹1/ litre -> lowers collection to the tune of 0.08% of the GDP
        - Lower revenue -> lower public investment -> ↓ growth
    - Expectation of higher inflation will reduce the chances of a potential rate cut and could affect market sentiments
- +ve impact
    - ↑ in remittances from gulf due to ↑ in oil prices

<u>Solar</u>

Hydel

Wind

Nuclear

Mines & minerals (general)
- TAMRA portal - Transparency, Auction Monitoring and Resource Augmentation)
  - For mines & minerals, not coal
  - Web portal and mobile app
  - To streamline process of various statutory clearances reqd for mining operations
- Mining Surveillance System - satellite based mining monitoring system
  - Curb illegal mining activity

Ports

Roads

PM Gati Shakti Portal - National Master Plan
- Inter-ministerial cooperation - 16 ministries
  - Eg Roads & Highways, Railways, Shipping, Petroleum & Gas, Power, Telecom, Shipping, Aviation
- To ensure holistic planning and execution
- Bring down logistic costs (at 13-14% of GDP rn)
- Current approach -- issues resolved through regular meetings of infra-related ministries + through PM PRAGATI portal (Pro-Active Governance and Timely Implementation)

Airports

Railways

Overview
- Passenger - 13000

Railways' capex to be 'accelerated'...

Electrification, network expansion to account for major share of outlay

OUR BUREAU
New Delhi, January 31

In an indication of what the Budget may prescribe for the Railways, the Survey said the Indian Railways will see a very high level of capital expenditure in the next 10 years. The Budget, to be placed in Parliament on Tuesday, is likely to make major announcements on electrification, speed enhancement and elimination of level crossings.

The capacity growth of the Railways has to be accelerated, the Survey said and added that a conscious effort is being made for substantially increasing capital expenditure. "Up to 2014, capex on Railway was barely ₹45,980 crore per annum and consequently the Railway was characterised by high levels of inefficiency and highly congested routes unable to meet the growing demand. Post 2014, a conscious effort was made to improve the railway sector by substantially increasing the capex. The capex outlay for 2021-22 is ₹2,15,000 crore which is more than five times the 2014 level," the Survey said.


Railways system will be engine of national growth, the Survey said

More projects

The capex will increase further in the coming years as more projects are taken on hand and several sources of capital funding are developed. The Survey hoped that the railway system will emerge as an engine of national growth.

One of the key area that may witness investment will be the electrification process as the Railways targets 100 per cent electrification of its network by December 2023. The National Rail Plan, announced earlier, also lays down the road map for capacity expansion of the railway network by 2030 to cater to growth up to 2050. "It envisages the creation of a future ready railway system that is able to not only meet the passenger demand but also increase the modal share of railways in freight to 40-45 per cent from the present level of 26-27 per cent. The target of 40-45 per cent modal share for railways is necessary from the perspective of sustainability and also from the national commitments made globally for reducing emission levels," the Survey noted.

New tracks

The Survey said being the third largest network in the world under single management and with over 68,102 route km the Railways strives to provide safe, efficient, competitive and world class transport system. "An average of 1835 track km per year of new track length has been added through new-line and multi-tracking projects during 2014-2021 as compared to the average of 720 track km per day during 2009-14. Railways is also adopting indigenous new technology such as Kavach, Vande Bharat trains and redevelopment of stations to have safe and better journey experience. During 2020-21, Railways carried 1.23 billion tonnes of freight and 1.25 billion passengers," the Survey said.

... to increase share in freight to 40-45%

OUR BUREAU
Mumbai, January 31

The Indian Railways has drawn up a National Rail Plan seeking to create a "future ready" railway system capable of meeting the passenger demand and increase the modal share of railways in freight to 40-45 per cent from the current 26-27 per cent.

"The target of 40-45 per cent modal share for railways is necessary from the perspective of sustainability and also from the national commitments made globally for reducing emission levels," the Survey said.

During FY21, the Railways carried 1.23 billion tonnes of freight and 1.25 billion passengers. Despite the pandemic, revenue earning freight loading (excluding loading by Konkan Railway Corporation Ltd (KRCL) was 1,230.9 million tonnes in 2020-21 as compared to 1,208.4 million tonnes during 2019-20).

Since the Railways already has a large number of sanctioned projects that need to be completed before taking up new projects, it has been planned to increase railway capacity in two surges. The first surge is to be provided by the Vision 2024 plan to prioritise and complete sanctioned projects so that railway capacity does not fall far behind the targeted modal share such that by the time capacity is finally created, the traffic would have shifted to another mode.

To prevent further bleeding away of modal share, railway capacity enhancing projects have been categorised as Super Critical and Critical. As many as 58 projects have been identified as Super Critical and are targeted for completion by December 2022; 68 projects have been identified as Critical and have been targeted for completion by March 2024. These projects are focussed at increasing capacity on routes that serve major mineral, industrial hubs along with ports and major consumption centres.

Pharmaceutical

- India ranks 145/195 on HAQ Healthcare Access & Quality index
- Sunrise industry
- Pharmacy of the World (ES 2019-20)
- Strengths
  - 3rd largest in volume (after China, Italy)

- 14th largest in value
- Grown 10x in last 2 decades driven by strength in global generics space
  - 2000: USD 4.2bn to USD 41.7bn in 2019
  - Ambition to achieve USD 130bn by 2030 w/ CAGR of 12%
- Doubled share in world pharma exports between 2010 (1.4%) and 2019 (2.6%)
- 11th in terms of share in world pharma exports (2019)
- Significant raw material base
- Availability of skilled workforce
- Largest no. Of USFDA compliant manufacturing plants outside USA
- USFDA: Indian pharma companies have garnered ~45% of all new ANDAs (Abbreviated New Drug Applications) approvals in 2020 -- would aid exports growth in upcoming years

- Robustness
  - Growth of 51.5% in April 21 (10.3% in Mar 2021); based on
    - Correction to dip seen in Apr 20 (base effect)
    - Well prepared for production and distribution exigencies expected during lockdown
    - Second wave of COVID -> increased sales of drug with direct/ indirect use in treatment
- Significance
  - Contribution to GDP
    - 1.72% in 2019-20 (up from 1% in 2010)
  - FDI inflow
    - 100% FDI allowed in greenfield projects
    - ? stats
  - Exports
    - Drug formulations, biologicals consistent positive growth
    - 2nd largest export commodity; among top 10
  - Aatmanirbhar Bharat
    -
- Challenges
  - Excessive dependence on China for sourcing APIs Active Pharmaceutical Ingredients and KSMs Key Starting Materials
  - Disproportionate dependence of Pharma exporters on USA & Generics
  - Challenges in R&D
    - Complex regulatory approval process and IPR
    - Limited resources - clinicians overburdened w/ patient care; lack of sophisticated research infra; paucity of funds
    - Lack of motivation - time bound faculty promotions -> no incentive for research; monetary incentives better for clinicians than scientists; lack of training curriculum for systematic research, documenting observations
  - Silo operations of existing agencies - ICMR, DBT, CSIR etc
  - Large scale API facilities rely on abundant water supply and cause massive pollution
  - Pharma companies have costly input factors, underwhelming operational efficiency
  - Cost escalation in raw materials and logistics during COVID
  - Localisation, repatriation of supply base considerations in US, UK

- Govt schemes/ measures
  - ₹14,000 crore package to boost domestic production of APIs, various medical devices
  - Plan to setup mega bulk drug parks
  - DBT Dept of Biotech has set up 9 biotech parks and incubators for SMEs
  - BIRAC - Biotech Industry Research Assistance Council - supported 50 incubators since 2014 across the country
  - Technology Development Board -> 36 Technology Business Incubators TBIs & STEPs SnT Entrepreneur Parks under Seed Support System
- Way forward
  - Well defined strategy
  - Broaden base in terms of markets, product categories
    - New product classes: biosimilars, gene therapy, speciality drugs
    - Increase exports to large, traditionally unpenetrated markets - Japan, China, Africa, LatAm
  - Restructure regulatory mechanism
  - Strengthening manufacturing and supply base in domestic and global markets
  - Capacity building and upgradation at NIPERs National Insti of Pharma Education & Research
  - Greater R&D Expenditure to move up the value chain from generics to Novel Chemical Entities (NCEs)
  - Establishment of overarching regulatory body on lines of USFDA
  - Active harmonisation w/ global regulatory standards

National Pharma Pricing Authority NPPA

- Independent regulator for drug pricing
- Ensures availability, accessibility of medicines at affordable prices
- Active role in addressing exigencies arising during COVID pandemic
- Invoked extraordinary powers in public interest under Drug Price Control Order, 2013 & NDMA to cap drug prices

Inter-Ministerial Empowered Committee
- Constituted during COVID pandemic to make recommendations for export of drugs/ items requested by foreign govts; like HCQ Hydroxychloroquine and Paracetamol

? Footloose or not?

Electronics Sector

Status
- Of country's total demand, b/w 50-60% of the products and 70-80% of the components are imported
- India's imports of electronic goods -- ~40 bn
    - Imports could surpass those on oil imports by 2020
- India's share in global electronics market - just 1.6% - $1.75 trillion

Why?
- Growing middle class, rising disposable income
- Declining prices of electronics
- No of govt initiatives
- Major sector for trade deficit

Challenges
- Inverted tax structure for electronic goods - due to limited base of local component suppliers -> reliance on imports
- FDI in electronics is less than 1% of total FDI inflow
    - Because of onerous labour laws
    - Delayed land acquistion
    - Uncertain tax regimes - eg Vodafone & Nokia case; retrospective taxation
- Procedures for cross-border trade work against the competitiveness of Indian producers
- India ranks 146 under cross-border trade (ease of doing business rank)
    - High cost of compliance, numerous forms, fees, inspectors

CASE: SEZ like Dubai IFC
- Dubai's normal civil and commercial laws do not apply in this area and a British Chief Justice - ensures the practice of British Common Law

CASE: Shenzen

Policy Initiatives
- M-SIPS - to achieve net-zero imports by 2020 by MeITY
    - To ↑ investment in ESDM (Electronics System Design & Mfg)
- Electronics development fund
- National Knowledge Network
- NOFN - Optical Fibre Network

Services Sector

10 June 2021 12:11

Digital Tax on Global Technology Companies

https://techmonitor.ai/leadership/strategy/consensus-emerging-on-taxing-big-tech-companies

IMF

TAXING TECH

REBECCA CHRISTIE

Spring 2021

ART: SHUTTERSTOCK / GOODDESIGN10

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ENGLISH

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Digital services taxes take shape in the shadow of the pandemic

When European Union leaders took aim at the global pandemic last year, they knew they would need a bigger budget. To help pay for it, they will look toward bigger companies: the world's technology giants.

EU leaders agreed in principle to introduce a digital levy, with details to be put forward in mid-2021. While it won't be the largest source of revenue for the pandemic budget, it could be a big step forward in how European countries tax corporations. The plan adds to a long-standing push to reevaluate how the tech titans pay taxes and address how countries around the world can claim their fair share of revenue they help to generate.

If successful, new tax regimes could make it easier for countries to collect revenue generated within their borders and reduce public ire toward the outsize successes of American companies like Amazon, Facebook, Apple, and Google parent Alphabet. If botched, a patchwork of digital-specific taxes could spark trade wars and bog down innovation without generating enough money to matter.

National and regional momentum is building on top of a 137-nation push from the Organisation for Economic Co-operation and Development (OECD). But the global process, which goes beyond digital to address a wider range of corporate tax concerns, takes time and was set aside when COVID-19 became top priority. As a result, some countries have chosen to enact digital services taxes individually, taking a stand and drawing a backlash. The United States has opened trade investigations against countries from France to Indonesia, claiming such taxes unfairly single out American companies.

French President Emmanuel Macron has said that forcing tech companies to pay more tax is a matter of social justice, and France has been at the forefront of efforts to front-run as well as encourage the broader OECD process. The United States has pushed back, saying such one-off moves undermine the worldwide talks. The two countries stepped back from the brink of a trade war in January—but tensions remain high, even though the amount of money at stake is small. "With only a few billions of shifting revenue at stake, you could sort out one of the most disputed topics, which would be worth engaging on this," said Pascal Saint-Amans, director of the OECD's Center for Tax Policy and Administration. "Absent a multilateral solution, there is a serious risk of unilateral measures being taken, and these measures may trigger sanctions or trade tensions."

A question of fairness

The precedents that would be set by changing the global tax rules, particularly if there is not a worldwide playbook, have made corporations take notice. They argue that a stable and reliable system should be the priority, rather than piling on compliance costs and the political battles that would inevitably follow. "We accept that may mean we have to pay more tax and pay it in different places under a new framework," said Facebook CEO Mark Zuckerberg at last year's Munich Security Conference.

The OECD makes the case that changing how digital services are taxed is a question of fairness, not just revenue. Prior debates about taxing e-commerce have focused on how to apply sales taxes. But such models do not capture the full range of profits earned by companies that offer free services in exchange for information. There is "a growing frustration" with companies that make profits in countries where they don't have a physical presence, said Saint-Amans, who *Politico* last year called "the closest thing to a referee" on global tax issues. The challenge now will be to keep searching for global consensus without stalling the effort completely. "We have blueprints; we know where we're heading. We now need a political impetus, a reset of the negotiation."

As part of its base erosion and profit shifting work (a set of policies designed to make sure companies pay taxes in the same places where they profit), the OECD has laid out a two-part strategy. One element aims to change the way companies show presence in a country, which makes a particular difference for industries with new business models that are based on data instead of physical factories. The other element tackles the question of minimum taxation, to ensure corporate profits are taxed somewhere and not exempted out of all jurisdictions—similar to the US global intangible low-taxed income (GILTI) regime, enacted in 2017, which sets a floor on what companies have to pay.

The OECD estimates its proposed changes, combined with the US GILTI regime, would bring in new tax revenues totaling about $100 billion a year, about 4 percent of global corporate income tax revenues. Most of the increased revenue would come from the minimum taxation element. The proposals for new business models would yield only a "modest amount," according to the OECD, with revenues shifting from investment-hub countries to other economies.

President Joseph R. Biden, who took office in January, plans to reset America's approach to trade, technology, and transatlantic ties as part of a broad recommitment to multilateralism. That does not mean the United States will stop pushing back on digital taxes already in place. While details vary, such a tax

"frequently discriminates against nonresident businesses and imposes double taxation," said Treasury Secretary Janet Yellen in comments to the Senate. She said the administration wants to address those concerns while being mindful that retaliatory sanctions can hurt US households.
After decades of nothing much happening in international tax, everything is now up for grabs.

Techno-nationalism

Taxes on the digital economy can take a variety of forms. Some are as simple as consumption taxes on internet purchases or service subscriptions. Others that aim to assess profitability and separate out digital companies from other parts of the economy are more complicated. On top of that, there is a question of how digital taxation fits in with other transatlantic tech policy showdowns over privacy, competition, and government subsidies.
"I do believe there is a certain amount of techno-nationalism that is taking place. At the same time, that doesn't mean intervention is unwarranted," said Marshall Van Alstyne, professor of information economics at Boston University, whose work on the issue has included unpaid consulting services to the European Commission and to Facebook.
Economies of scale justify singling out the biggest tech firms, which can aggregate data from millions of users in ways that smaller companies can't match, Van Alstyne said. Whereas traditional companies tie their products together by, for example, selling inexpensive printer hardware to increase sales of paper and ink cartridges, the tech platforms offer free services to one part of the market in order to maximize revenue from other sectors, like trading free email accounts for aggregated advertising data or giving away social network news feeds in order to capture social network information. "Platforms are fundamentally different business models. They are inverted firms where users outside the organization create much of the value," he said.
Not everyone agrees. J. Scott Marcus, a former senior technology advisor to the US Federal Communications Commission, said the challenges raised by digital platforms are similar to those in some traditional industries, but on a bigger scale. In his view, tech's main advantage is how easy it is to move assets around. "For digital companies, the question of where they park the assets, especially where they park the intellectual property, they have more latitude than conventional companies," said Marcus, now a senior fellow at Bruegel, a Brussels-based think tank that includes Big Tech companies among its members.
To the general public, taxing the digital economy might seem to be a logical extension of seeking contributions from the sectors most able to bear up. Oxfam International, an anti-poverty group that studies taxation as part of its advocacy work, went as far as suggesting governments impose an "excess profit" tax on tech, pharmaceutical, and consumer goods companies that have boomed during the pandemic while other parts of the economy struggled. More broadly, the group holds that the tech sector is undertaxed relative to its economic strength.
"The need to tax the digital companies, and also more in general the digital economy, has received higher attention because of the coronavirus crisis," said Chiara Putaturo, Oxfam's EU inequality and tax policy advisor. "We have seen that digital companies have increased their profits during this year, in contrast to those

companies that lost lots of their profits because of the crisis."

Seeking consensus

The European Union has said it wants to start with a smaller number of big companies rather than thousands of consumer-facing businesses all at once as the OECD has mooted, which puts some US firms in the crosshairs. In a 2018 proposal that may form the basis for this year's digital levy plan, the European Commission set outsize thresholds so the plan would catch only companies of a certain magnitude, such as having more than 100,000 users in an EU member state or posting national revenues of more than €7 million. However, the European Union has tried to keep its tax proposals separate from other tech regulations. The digital tax proposals apply to all qualifying companies, not just those from across the Atlantic.

"We need to build a text that generates sufficient income, stable income, and we need to build a text that is not likely to fuel trade tensions," said Benjamin Angel, the European Commission's director for direct taxation, tax coordination, and economic analysis.

Leaders may have agreed to move ahead with a "digital levy" to become a dedicated revenue stream for the EU budget, but that is no guarantee that member states will want this new "own resource" to look like the prior plans. Furthermore, EU tax proposals need to be unanimously approved by all EU member states. Some tax measures have been able to move ahead, but the European Union's proposed common corporate consolidated tax base has been stuck behind this hurdle for years.

This means that the European Union will need to strike a balance between countries that want to move ahead and those that resist adding corporate taxes not part of the global consensus. For Ireland, which has made attracting US tech companies a priority, keeping the European Union from outpacing global standards is the priority. "Any outcome at international level must strike an appropriate balance and be acceptable to all countries, small and large, developed and developing," Irish Finance Minister Paschal Donohoe said in January. Shifting goalposts can make it harder for companies to keep up with requirements and for small countries to set policy in line with global standards.

The European Union's proposals, like many of the digital services taxes being introduced around the world, have been based on revenues and other assessments of a company's entire business, rather than on specific sales and corporate income. This poses a challenge because turnover taxes are generally inefficient and should be restricted to very limited circumstances, said Alexander Klemm, deputy chief of the IMF's tax policy division and coeditor of the new IMF book *Corporate Income Taxes under Pressure: Why Reform Is Needed and How It Could Be Designed* . Generally speaking, he said, it's best to create a tax system that establishes common concepts like profits and taxes them throughout the economy in roughly the same ways. Singling out individual sectors of the economy often runs counter to these principles, even if sometimes useful as a stopgap measure.

The European Union needs cash from many pots to follow through on the promises in its most recent seven-year budget. That means the bloc needs to introduce a digital tax proposal by mid-2021 to meet its current commitments,

even if it wants to structure its rules so that they fall in line with global guidelines if and when an agreement is reached.
“You don’t raise a tax because you need cash in a certain place,” Klemm said. “You think about it in search of the best way to raise money, by creating the smallest distortion and the lowest cost of collection. It leads to bad tax policy to say we need to slap on a tax on some sector because we need cash in one special pot.”
The global debate over why and how to tax digital companies shows the incredibly rapid shift in attitudes toward corporate levies in recent years, said Michael Keen, deputy director of the IMF’s Fiscal Affairs department: “After decades of nothing much happening in international tax, everything is now up for grabs.”

REBECCA CHRISTIE is an independent writer and policy researcher based in Brussels. She is also a visiting fellow at Bruegel, a Brussels-based think tank, specializing in financial services issues.

Reference:

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Investment Models

11 February 2021 10:37

ICOR Incremental capital output ratio

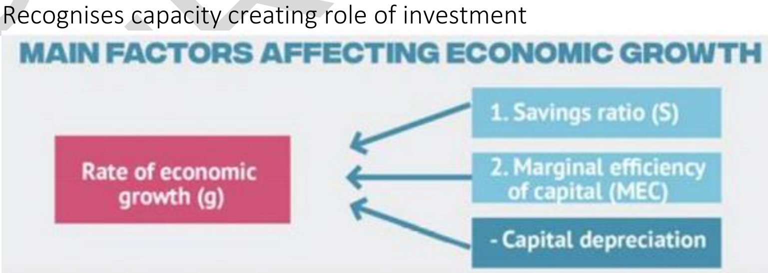
- Marginal amount of investment capital necessary to generate next unit of production
- High ICOR => poor efficiency = bad

Rostow's 5 Stage model of Economic Development

i. Traditional society
    - Subsistence economy + limited tech
ii. Preconditions to 'take off' - preparatory stage
    - Attitudinal change in society
    - Labour force adaptability
    - Political sovereignty, stability
    - Centralised systems & financial institutions
    - Socio-economic overheads - roads, edu
iii. The 'Take off' stage
    - Economic transformation leading to eco gr -- self-sustaining & self-generating
    - Investment-to-GDP outstrips likely population increase
    - Real output per capita rises
    - Radical change in techniques of production + disposition of income flows -> relatively short period <-> shows chars of an economic revolution
iv. Drive to maturity - period of self sustained growth
    - Suitable rate of saving & inv -> eco dvpment becomes automatic
    - Per capita L increases
    - Increasingly, change in structure of economy
    - DRS -> initial key industries decelerate; avg growth rate maintained by succession of rapidly growing sectors
v. Age of mass consumption
    - Dominant industrial base + mass consumption of high value goods

Harrod-Domar model (HD)

- $growth\ rate = \dfrac{investment}{capital - output\ ratio}$
- Formulated to protect developed countries from chronic unemployment
- Not meant to provide guidelines for developing economies
    - Disguised unemployment
    - Low propensity to save
- Based on high propensity to save
    - High savings -> high investment
- Capital output ratio fixed over time
    - Low capital output ratio -> more efficient investment -> high gr rate
- Recognises capacity creating role of investment



Basic elements of Mahalanobis model

- Raise rate of investment -- stepping up domestic and foreign savings
- Rapid growth of productive capacity
- Simultaneous promotion of labour intensive, small and cottage industries
- Import substitution for self reliance
- Industrial licensing -- system of controls

- Predominant public sector in capital goods industries

Financing Infrastructure

- Positive feedback - infrastructure development facilitates eco gr; eco gr increases dd for more infra

Issues

- Funding gap -- aggravated by economic slowdown
- Fiscal burden -- competing demands for govt funds
- Asset-liability mismatch of commercial banks
  - Leverage on short term liabilities
  - Assets are long term -- limited ability to extend long term loans
- Investment obligations of insurance and pension funds
  - Insurance, pension funds best suited to invest in infra (as long term)
  - Constrained -- obligation to invest substantial portion in G-secs
- Need for efficient and vibrant corporate bond market
  - To facilitate long term funding
- Developing municipal bond market for financing urban infra
  - Experiments to tap unconventional methods of financing -- doesn't cover financing needs well
    - PPP, productive utilisation of urban assets, accessing carbon credits
- Insufficient user charges (irrigation, water ss, urban sanitation, state road transport)- Affects ability to service infra loans
- Legal and procedural issues
  - Long gestation periods, etc

Measures taken by Govt

- **PPP** projects in infra
  - Provides built in credit enhancement for improving project viability
  - Buyback guarantee, escrow arrangement, substitution rights for lenders
- **VGF** Viability Gap Funding
  - 2006
  - Upto **20%** of total capital cost of PPP projects granted by Govt
  - Financing of commercially unviable projects
- **FDI** and Infra development
  - 100% under automatic route in mining, power, civil aviation, construction and development projects, industrial parks, petroleum and natural gas sector, telecom, SEZs
  - Thru govt approval in some other sectors
- **IIFCL** India Infrastructure Finance Company Limited
  - Direct lending to project + refinancing of banks
  - Upto 20% of total project cost as long term debt
- **IDF** Infra Debt Funds
  - SEBI notified for setting up IDFs as mutual fund (trusts) (**IDF-MF**) or NBFC (companies) (**IDF-NBFC**)
- Infra **Bonds** to tap retail investor base
  - Can be issued by IFCI, IDFC, LIC, infra finance firms
  - Long term infra bonds w/ tax benefit
- Use of **Forex** reserves for Infra Development
  - Doesn't meet criterion of reserve mgmt objectives
  - Special and limited window created
- **Credit Default Swaps**
  - Help banks manage exposures while increasing credit penetration
- Liberalisation, Rationalisation of **ECB** Policies
  - Maturity requirements reduced
- **NIIF** - National Investment and Infrastructure Fund
  - India's first sovereign wealth fund

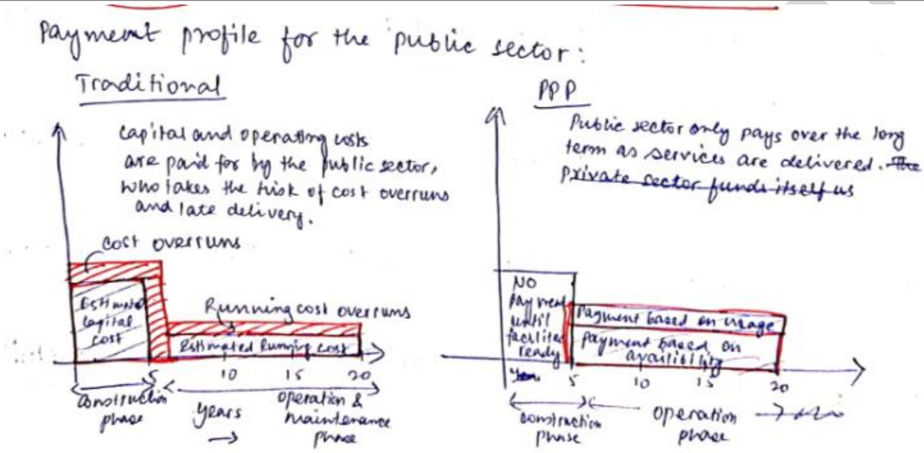
PPP in Infrastructure

- PPP - long-term contract b/w a private party & a govt entity for providing a public asset/ service, in which the pvt party shares risk & mgmt responsibility & remuneration is linked to performance
- Appropriate allocation of
Resources	Risks	Responsibilities	Rewards

Difference from conventional projects

- Different development, implementation and mgmt approaches
- Possibly different administrative and approval processes
- Viable when a robust business model can be developed
- Risk allocation b/w partners -- essential feature
- Much longer tenure than construction contracts, generally

Advantages of PP_	Limitations of PPP	Pre-reqs for PPP success
- Increased efficiency in project delivery, operation and mgmt - Availability of addl resources - Access to advanced tech, new & cost-effective - Managerial efficiency - Superior competency in service stds - Timely, high-quality infra services for end users	- Not all projects are feasible - Private sector may not be interested -- perceived high risks, lack of technical, financial or managerial capacity - May be more expensive unless additional costs are offset thru efficiency gains - Change in operation and mgmt control, especially BOT model - Improving economic performance may also require - sector and market reform, change in operational and mgmt practices - Success depends on regulatory efficiency	- Political commitment (continuity of policy) - Enabling legislation (Concession laws, tax anomalies) - Expertise (Capacity building in both sectors) - Project prioritisation (focus to improve success rates) - Stress on long term service delivery vs mere asset creation - Deal flow and standardisation (regularity of deals based on standard contracts)



Reasons for Inefficiency on the end of Private Players

- Delay in land acquisition, institutional clearances -- forest clearance, defence land handovers
- Partial/ complete capital to be raised thru pvt equity bonds/ bank borrowing
- Delayed implementation → affects debt servicing → Bank NPA → banks don't lend
- Delayed implementation → can't find investors for new ventures → private equity fund raising hampered
- Assessment of traffic on roads, subsequent designing

PPP initiatives in India

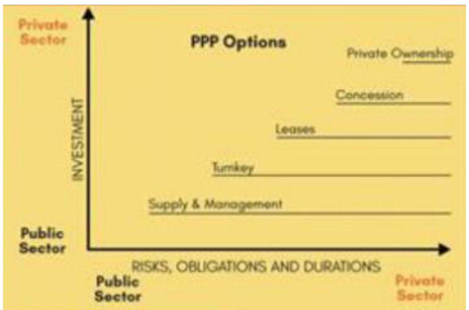
- Many models avbl
- Promoted by Govt as effective tool for bringing in pvt sector efficiencies in creation of economic & social infra assets for quality service delivery
- Emerged as leading PPP market in the world
- >900 projects at 2012 end, in different stages - bidding, construction, operational
- Needs reforms b'cos limited role in infra delivery mechanism
    - Due to disputes in existing contracts, capital unavailable, regulatory hurdles
- Need for PPP reforms: (Vijay Kelkar Committee)

Optimal risk allocation & mgmt	- Develop generic risk monitoring and evaluation framework - Adoption of HAM instead of EPC
Strengthening policy & governance	- Regular meetings, frequent reviews, constant monitoring
Strengthening institutional capacity	- Streamlined land acquisition, envi clearance
Strengthening legal framework	- Definitive, clear model PPP contract to reduce litigation at later stage - Revamp dispute resolution mechanism
Strengthen contracts	- Flexibility to factor in unforeseen circumstances
Financing	- Mandatorily explore bond market to finance long gestation infra projects

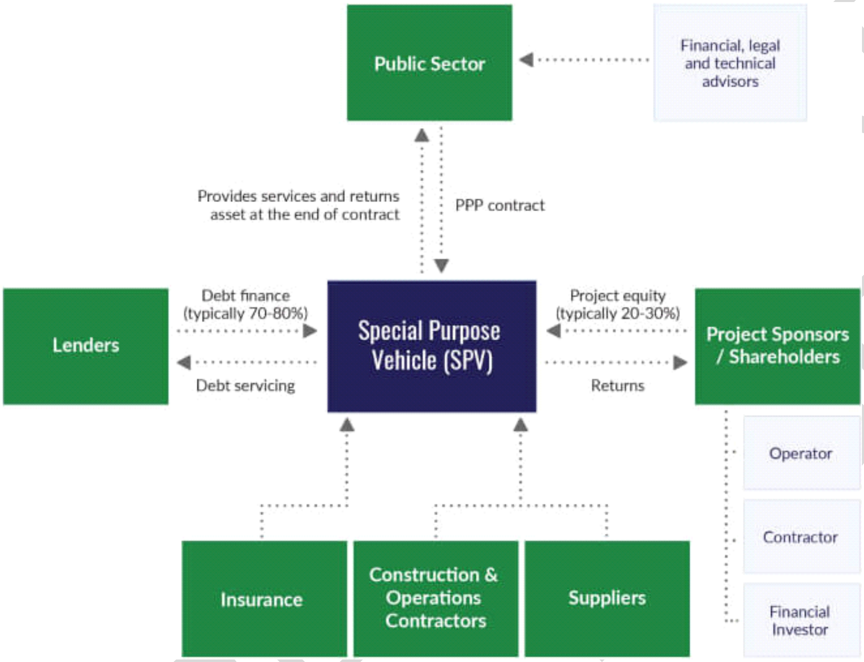
	- Enable pension, insurance funds to invest - Adopt Infrastructure Investment Trusts route for fresh capital - Monetisation of projects through Toll-Operate in transfer model - Securitisation of toll revenue

PPP Models

Mainly vary on
- Ownership of capital assets
- Responsibility for investment
- Assumption of risks
- Duration of contract



Structure of PPP arrangements



Special Purpose Vehicles

- Legal entity formed for a single, well-defined, lawful purpose
- Hybrid - govt control + pvt sector efficiency
- Limited company, set up under Companies Act, 2013
- Ownership - public/ private/ joint
- Generally, a sponsoring company provides initial capital and assets, helps in fund raising
- Purpose: fundraising, lending directly to eligible projects to supplement financial institution credit (mostly debt funds of longer maturity)

Benefits	Risk	Risk mgmt
- Professional mgmt - Minimal red-tape - Increased financial resilience by separating risk, freeing up capital - Greater operational independence - Streamlined infra projects benefitting from inter-linkages of academic instis - Asset securitisation w/o disturbing managerial relnship	- High profile failures due to poor risk mgmt, misunderstanding risks - Reputational risks for financing firm, investors due to lack of transparency - Poor performance of SPV can affect sponsoring firm's access to capital mkts - Dedication, substantial revenue stream generation - persistent challenge - Overlapping jurisdictional mandates w/ existing companies, institutions	- Regular oversight, monitoring to identify systemic weaknesses - Tightening reporting requirements - Consolidation of account requirements - Simplified governance structures by ending multi-layered securitisation - Assess, manage risk factors to increase txn capability

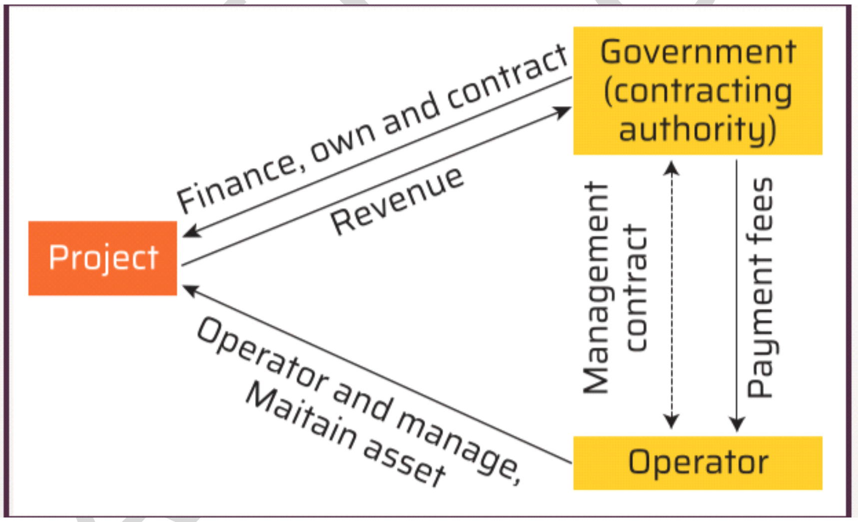
Category	*Variants*	*Ownership of Capital Assets*	*Investment Responsibility*	*Risk Burden*	*Contract Duration (yrs)*

	Outsourcing	Public	Public	Public	1-3
Ss & Mgmt Contract	Maintenance Mgmt	Public	Public/ Private	Private/ Public	3-5
	Operational Mgmt	Public	Public	Public	3-5
Turnkey		Public	Public	Private/ Public	1-3
Affermage/ Lease	Affermage	Public	Public	Private/ Public	5-20
	Lease	Public	Public	Private/ Public	5-20
Concessions	Franchise	Public/ Private	Private/ Public	Private/ Public	3-10
	BOT	Public/ Private	Private/ Public	Private/ Public	15-30
Private	BOO/ DBFO	Private	Private	Private	Indefinite
ownership of assets &	PFI	Private/ public	Private	Private/ Public	10-20
PFI Type	Divestiture	Private	Private	Private	Indefinite

Supply and Management Contracts

- Contractual arrangement for mgmt of part/ whole of a public enterprise
- Allows private sector skills in service design & delivery, operation controls, labour mgmt, equipment procurement -- specified responsibilities
- Ownership retained by public sector
- Private not asked to assume commercial risk; receives fee for mgmt, operation
- Short contract period

Pros	Cons
- Implementable in short time - Least complex - Politically and socially more acceptable for certain projects -- water, strategic infra (ports, airports))	- Limited efficiency gains - Little incentive for pvt sector to invest - Almost all risks borne by public sector - Applicable mainly to existing infra assets



Turnkey Contracts

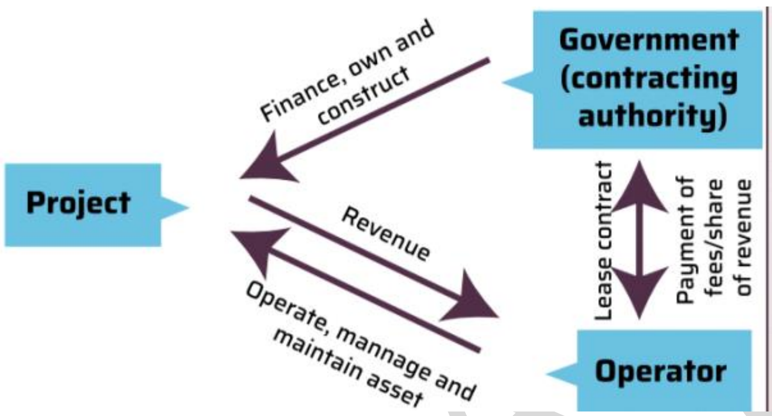
- Traditional procurement model aka Design Build
- Private contractor selected through bidding process
- Contractor assumes risks -- design, construction phases

Pros	Cons
- Well understood - Simple agreement - Enforcement not a major issue	- No strong incentive for early completion - Low private investment, for limited period - Limited scope for innovation - All risks except design, construction phases borne by public sector

Affermage/ Lease

- Operator responsible for operating pre-existing infra
- Leaseholder doesn't need to make any large investment
- Lease: operator retains revenue collected; pay specified lease fee to contracting authority
- Affermage: operator and contracting authority share revenue
- Govt undertakes responsibility for investment; bears inv risks
- Operational risks: operator
- Some assets may also be transferred for durations extending over their economic life

Pros	Cons
- Implementable in short time - Significant private investment possible under longer term agreements - Legally and politically more acceptable for strategic projects	- Little incentive for private sector to invest; esp if short lease period - Almost all risks borne by public sector - Generally for existing infra assets - May require considerable regulatory oversight



PFI Private Finance Initiative

- Private sector responsible for design, construction, operation of infra
- Public sector may relinquish ownership rights
- Long term agreement
- Bear direct financial obligations to govt in any event; may also have explicit/ implicit contingent liabilities due to loan guarantees
- Asset ownership - transferred to public sector at end of contract pd
- Setting up SPV not always necessary; could award contract to existing company
- No incentive to reduce quality/ quantity by private sector
- Reduced risk of cost overruns as operator's future earnings depend on controlling costs

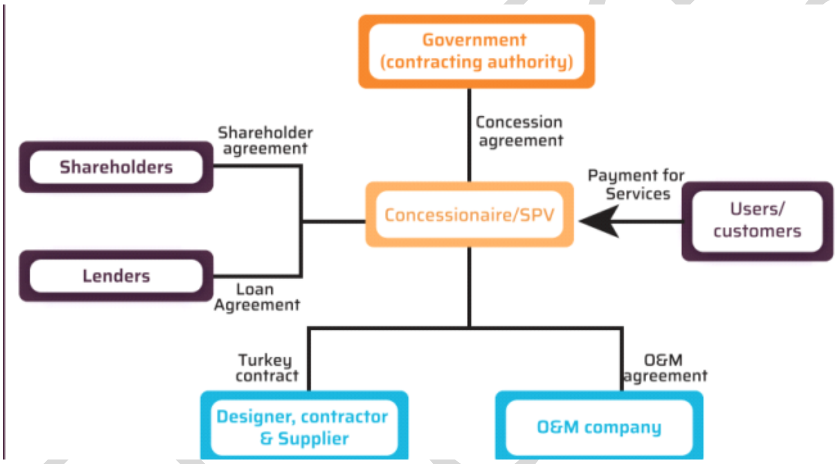
Pros	Cons
- Private sector may bear a significant share of risks - High level of private investment - High potential for efficiency gains and innovation - Attractive in untested/ developing PPP market - Most suitable for social sector infra projects (schools, hospitals, dorms, community facilities)	- Complex to implement - Govt has direct financial liability - Long negotiations - Regulatory efficiency very important - Contingent liabilities on govt in medium and long term

Concessions - BOT/ BTO/BROT/BLT

- Govts defines, grants specific rights to an entity
- Govt may retain ultimate ownership and/or right to ss the services
- Either party could pay the other
    - Concessionaire could pay govt for concession rights
    - Govt could pay for commercial viability/ reducing commercial risk levels
- Typically 5 to 50 yrs

Pros	Cons

- Private sector bears significant risk share - High level of private investment - High potential for efficiency gains in all phases of project development, implementation, tech innovation	- Highly complex to implement, administer - Difficult to implement in untested PPP market - Potentially underlying fiscal costs to govt - Lengthy negotiations - Close regulatory oversight - Contingent liabilities on govt in medium and long term

BOT Build-Operate-Transfer Variants: - BTO Build Transfer Operate - BROT Build Rehabilitate Operate Transfer - BLT Build Lease Transfer	- Operational and investment risks can be substantially transferred to the concessionaire - Govt has explicit and implicit contingent liabilities -- loan guarantees, subordinate loans, non-guaranteed loans - Ultimate ownership with govt - May require govt support to make commercially viable - Risks • Political - overnight changes in dvping ctries • Technical - unforeseen difficulties, equipment breakdown • Financing risk - forex, interest rate fluctuation, market risk (change in price of raw materials), income risk (over-optimistic cash-flow forecasts), cost overrun risk - 
BOT-Toll Model	- For road dvpment under PPP - Road developer constructs the road, recovers investment through toll collections - Private players bear financial risk of low traffic - Successful in roads connecting important cities - Preferred model for national highway projects
BOT-Annuity Model	- To address risk of lower dd on smaller roads - Govt provides 100% financial support by annuity payment over concession period - No responsibility of toll collection -> well received - Discontinued except in few cases as permanent burden of annuity payout
BOT-VGF Model	- For road segments w/ inadequate traffic, unviable BOT/ toll - VGF upto 20-40% of project cost - Bid criteria - minimum VGF Grant requirement
BOOT Build Own Operate Transfer	- Private entity owns the works during the concession period - Suitable for highways, roads mass transit, railway transport, power generation - Advantages • Encourage private investment • Inject new foreign capital • Transfer of technology and know how • Completing project w/in time frame, planned budget • Providing additional financial source for other priority projects • Release burden on public budget for infra development
BOO Build Own Operate	- Private company also gets benefits of any residual value of project - Used when physical life of project coincides with concession period

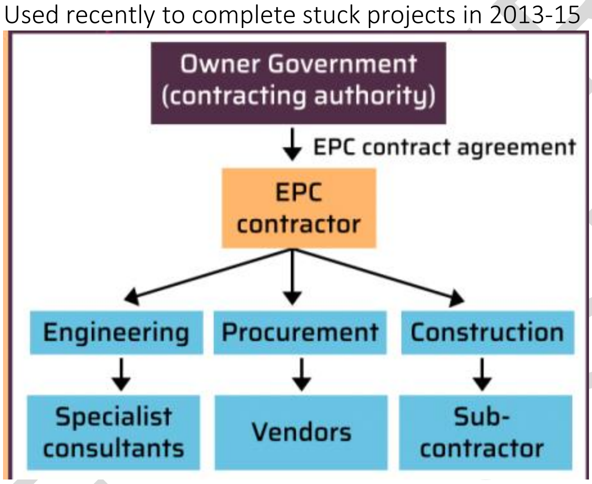
BLT Build Lease Transfer

- Private entity builds complete project, leases to govt
- Ownership remains with shareholders but operation purposes are leased
- Good for foreign investors as project company maintains property rights while avoiding operational risk

EPC Engineering Procurement and Contract

- For commercially unviable projects in remote areas
- Contractor legally responsible for completion w/in timeline ↔ scope for penalty in case of time overrun
- Cost completely borne by govt
- Govt does all clearances, land acquisition, regulatory norms
- 90% land must be transferred before start of project

EPC > PPP	Limitations
• Prevents NPA risk of banks as capital raised by bond issues/ road toll receivables • Relieves funds for offtake by other players • Reduces risk for pvt players -> induce participation • Very fast construction since no red-tapes • Easy to hold company accountable as only one responsible for everything (multiple in PPP)	• Financial burden on govt • Unsustainable in case of high fiscal deficit • No incentive for private players to reduce costs

- Used recently to complete stuck projects in 2013-15
- 

HAM Hybrid Annuity Model

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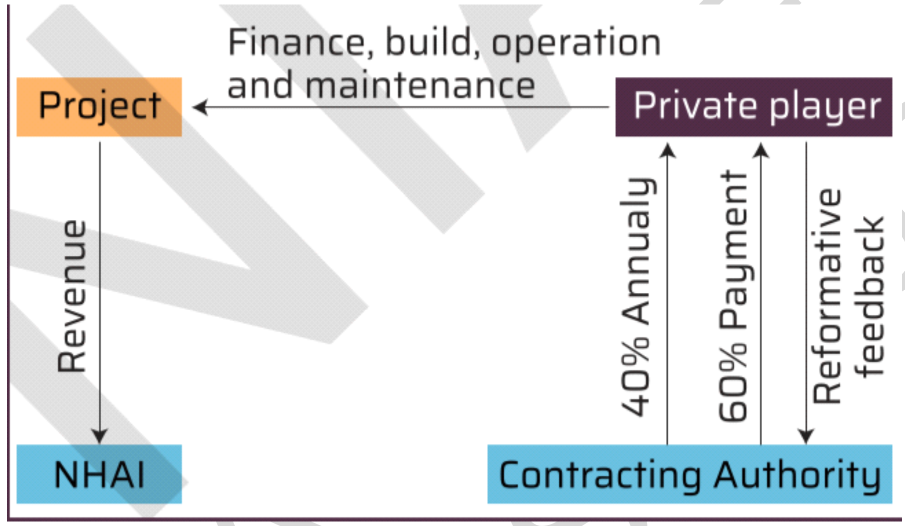
- Since 2016 - to attract pvt investment by mitigating revenue risk
- Combines EPC (40%) and BOT-Annuity (60%)
- Salient features - assured return + 90% land & envi clearances at onset + 60% capital from concessionaire
- Concessionaire gets fixed + assured payment fm govt

	Bidding	Construction	O&M (15-20 yrs)
Govt	Life cycle cost to evaluate bidder = NPV of capital cost + NPV of O&M cost	40% of capital cost in 5 equal instalments Based on progress	- Remaining 60% thru annuity - O&M payments
Private player		- 60% capital cost(20-25% equity, rest debt) - Design, construction, build	- Operation & maintenance - No toll rights - Debt repayment

- Pros
  - Viable
  - Need not bring 100% upfront financing
  - No traffic risk (toll)
  - NHAO collects toll, refunds in instalments upto 15-20 yrs -- ↓ upfront inv by govt
  - Govt does land acquisition + envi clearances -> delays ↓

- Sensible risk & reward sharing
- Shared investment burden
- Higher revenue certainty, reduced risk for developer
- Monitoring mechanism -- 5 instalments
- Tackles cost overruns -- inflation adjusted proj costs
- Govt bears risks regarding - regulatory clearances, compensation, commercial risk & traffic risk

- Challenges
  - Still new -- need testing, improvement, refinement
  - Need to increase participation to start off a +ve feedback loop
- Need
  - Developers shied away from BOT due to eco slowdown
  - Slowdown - ↓ fund-raising, ↓ toll collection



Swiss Challenge Model

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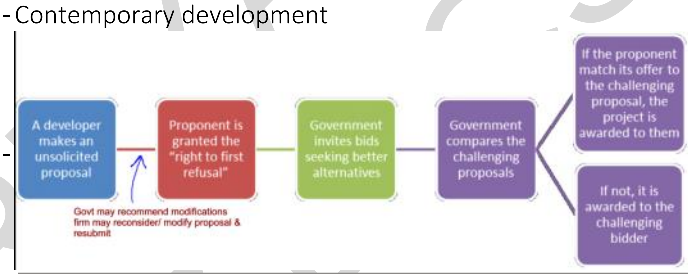
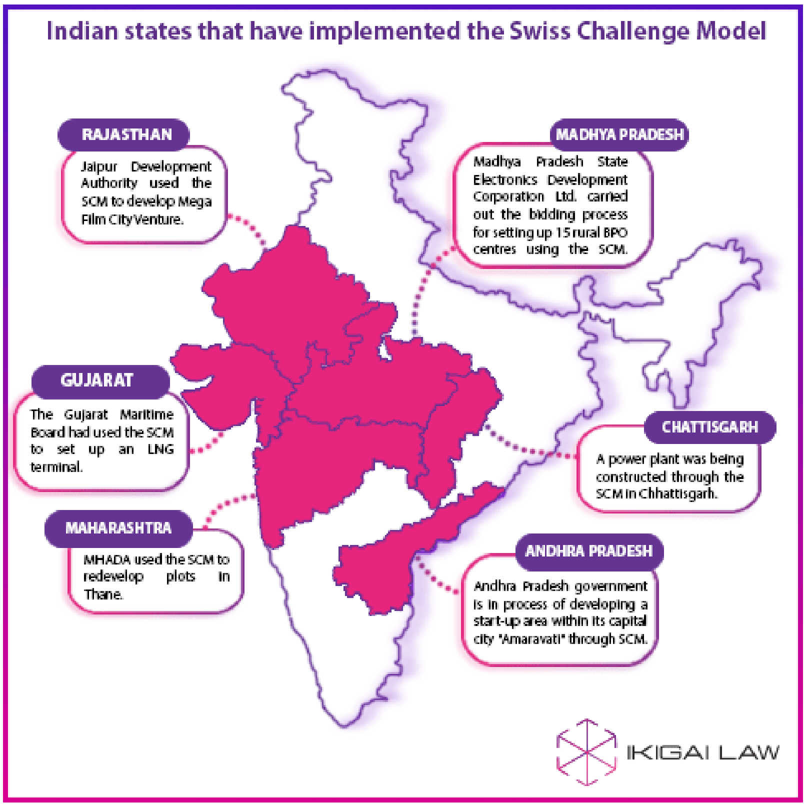
- Contemporary development

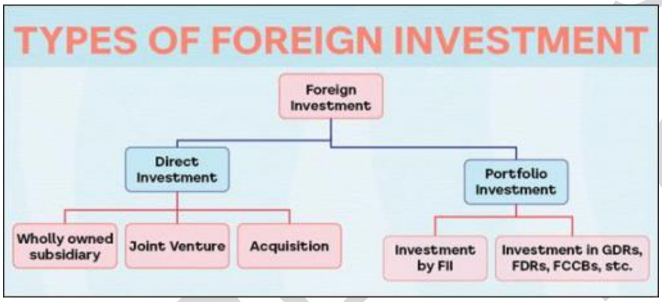


Pros	Cons
- Competition - allows competitive bidding, counter bidding - Better price discovery - Certainty of success - Initiative in developing a public need - Better project structuring - Resolution of stressed assets if applied to bankruptcy cases - Creativity - allows bidders to analyse design submitted by competitors, come out with a better design	- Information asymmetries (Vijay Kelkar Committee) - Lack of transparency - Need for strong regulatory framework - Crony capitalism & favouritism - Bidding asymmetry for counter proposals - Govt sometimes lack understanding of risks -> direct negotiations dangerous

- Suitability in India
  - No strong legal framework -- don't use for large scale projects
  - Applicable for small projects
  - Suitable where creativity, design, innovation are key

	- 

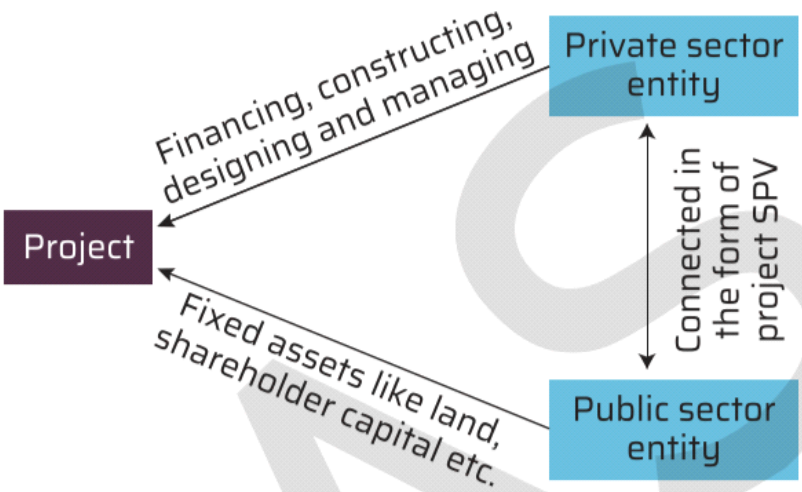
Foreign Investment Models



Why?

- Inadequate domestic capital
- Inflow of foreign capital helps in removing BoP
- Funds mobilised by taxing profits of foreign enterprise
- Employment generation
- Fills gaps in mgmt, entrepreneurship, technology, skill

Joint venture



FDI

- Involves majority stock ownership of enterprise
- Joint ventures b/w foreign and domestic companies
- Forms:
  - greenfield investment: new facilities/ expansion of existing facilities
  - Mergers & Acquisition: transfer of existing assets
- Pros:
  - Non-debt creating
  - Less prone to quick reversals (lesson from SE Asian Crisis)

India's FDI Policy

100% Club	Prohibited sectors for FDI	Newly opened for FDI
- Agriculture/ animal husbandry - Mining - Pharma - Aviation - Media - Petroleum - Construction development - Satellites - Financial services - Telecom	- Lottery businesses - Chit funds - Trading in Transferable Development Rights (TDR) - Mfg of cigars, cheroots, cigarillos, cigarettes - Gambling, betting (incl casinos) - Nidhi Company - Real estate business/ construction of farm houses - Sectors not open for pvt inv -- atomic E, railway operations	- Defence (subj to MoD clearance) - Trading (e-commerce, single brand retail) - Railway infra (suburban corridor, high speed train projs, freight terminals) - Further liberalisation in Pharma, Aviation, Media

3 routes

Category 1	Category 2	Category 3
100%	Upto 100%	Upto 100%
Automatic route	Govt route	Govt + automatic route

Recent Changes in FDI policy

- To curb possibility of predatory foreign investment (opportunistic takeovers) exploiting COVID induced financial distress
- Drastic increase in Chinese investment, esp tech start-ups
  - $1.6 bn (2014) - $26 bn (2019)
- Non-resident can invest subj to sector wise FDI policies
  - ONLY govt route for entities from countries sharing land border (prev only B'desh, Pak)
  - Pak - prohibited in defence, space, atomic energy
- Transfer of ownership of existing/ future FDI to entity from ctries sharing land border needs govt approval
  - Check on multi-layered txns
  - Pvt equity investors, venture capital funds w/ Chinese investments also need prior govt approval
- Can potentially rebalance extremely lopsided trading relationship w/ China
- Balance b/w -- (a) friendly, open, predictable investment envi + (b) safeguarding long term considerations of security, privacy
- <u>Concerns associated w/ Chinese investments</u>
  - Data security, propaganda, platform control
  - Chinese State-owned enterprises, provincial govts -- tool in China's diplomacy; source of ~50% Chinese investments in India
  - Part of 'Made in China 2025 Plan' (tech acquisition)
  - India's investment scrutiny mechanism not as robust as dvped ctries
    - Huawei 5G - blocked by US, Australia, Japan; India allowed in initial trials
  - Investment in sensitive sectors (news services, fin-tech services) - detrimental to privacy, data security
    - ByteDance invested $25mn in Dailyhunt (key role in China's censorship)
- <u>Challenges in implementation</u>
  - Impact on funding for start-ups
  - More clarity needed
  - China alleges flouting of WTO's non-discrimination (MFN, National Treatment) norms

- India denies -- neither restricts market access, nor national treatment
- Does NOT fall under Illustrative List of TRIMS detailing measures inconsistent w/ national treatment

- Spill-over on ngbd relations -- even Myanmar!

FII Foreign Institutional Investors

- Entity established/ incorporated outside India that invests in India
- 'hot money' -- can be taken out any time
- Considered FPI if investment upto <=10% of project cost

Recent Initiatives

Expansion of QFIs Scheme	NRI = domestic investment
- Qualified Foreign Investor - 2011-12: govt permitted KYC compliant QFIs to invest directly in Indian MFs - Definition expanded to include residents of GCC Gulf Cooperation Council & EC European Commission (both FATF members)	- Proposal to categorise NRI investments as domestic investment - Same benefits as dom investor - Would expand foreign investment by counting majority as domestic

What More Needs to be Done?

- Commercial viability of infrastructure project
  - To ensure regular debt servicing
  - Avoid jeopardising financial sector soundness
- Greater participation of state govts
  - For law & order, land acquisition, rehabilitation & settlement of displaced persons, shifting utilities, envi clearances
  - (+) - many states have implemented PPP for infra
- Improving efficiency of Corporate Bond Mkt
  - Reduce dependence on banking sector for funds
  - Standardise stamp duties on corporate bonds across states
  - Encourage public issuance
  - Broaden investor base thru new class of institutional investors -- insurance companies, pension funds, PFs)
- Credit enhancement
  - Sovereign credit rate ceiling - major obstacle
  - High credit risk perception
- Simplification of procedures
  - Single window clearance
  - Resolution of legal disputes -- land acquisition, clearances & coal/power/ water linkages

Decline in Private Investment in recent years

Reasons	Solutions
- Twin-balance sheet problem of overleveraged companies + stressed banks - Economic policy uncertainty - Vicious cycle of dd and investment - Lack of key structural reforms - Excess industrial capacity (lying unutilised)	- Reform financial institutions - Develop corporate bond market - Predictable policy actions - Sustained structural reforms - Increased formalisation • More savings -> more loanable funds • Business units eligible for formal credit thru income recognition • Spur consumption by reduction in taxes as tax base expands - Faster resolution of pending insolvency cases - Robust monetary policy to check crowding out reduce cost of capital, rationalise risk return trade-off for pvt inv - Robust export policy factoring in ongoing global trade war, WTO challenges, emerging bilateral trading platforms

FinTech Innovations

- Use of new technology to improve, automate delivery and use of financial resources

- E-wallets, P2P lending, payment gateways
- EY's Fintech Adoption Index 2017 -- India has 2nd highest fintech adoption rate globally

Strengths	Challenges
- Rapidly growing youth demographic - Upsurge in smartphone penetration (53% in 2014 to 64% in 2018) - Primarily untapped financial services market • 40% popn no asso with any bank • 80% cash txns - ~90% small businesses not linked to formal financial institutions - Innovation-driven startup landscape - Availability of investment for fintech sector	- Poor infrastructure - internet, unbanked popn, low financial literacy - High dependence on cash in financial txns - Prohibitive costs of integrating fintech soln for MSMEs - Regulatory uncertainty -- RBI/ SEBI yet to release comprehensive guidelines - Innovation curtailed by lack of timely access to capital for risk mgmt and investment, prevent scaling up

- Initiatives
    - RBI promoted UPI, Bharat Bill Payments System, digital payments, P2P lending, use of automated algos to offer financial advice
    - Govt's Digital India program, India Stack, NPCI
    - Need to focus on 'regulatory sandbox'

<u>SEZs</u>

- Established to provide simplified procedure, hassle free envi for businesses, boost mfg and employment
- Special trade, business laws

Reasons for failure	Measures
- Lack of external infra support - State govts didn't pursue long term regional dvpment - Tax incentives withdrawn due to misuse of tax concessions - Site selection based on real estate speculation rather than economic potential of region, undermines potential (Princeton) - Targets specific ethnic, caste group vote banks - Unutilised land procured for industrial units - Lack of flexibility to utilise land for diff sectors - Ambiguity due to multiple models of economic zones - SEZ, coastal economic zone, NIMZ - Disadvantage on domestic sales due to full custom duty v/s lower rates w/ other ctries due to FTA - Less attractive due to MAT Minimum Alternate Tax (2012), income tax on new SEZs - Lack of support from state govt wrt single window system	- Allow states to open own EPZs Export Promotion Zones - To improve competition among states - Union, state level policy reforms -- pockets of freer markets - Revisit withdrawal of tax exemptions - Ensure optimal utilisation of vacant land, remove sector specific constraints - Align policy framework to remove competition among similar schemes - EoDB for developers, tenants - Fast track approvals thru online application - Grant 'infra status' to buildings of SEZs, industrial parts to ease funding - Baba Kalyani Committee Recommendations • Shift focus from export to economic and employment growth • Parameter based incentives for mfg SEZs -- dd, investment, emp, tech, value addn, inclusivity • 1st mile & last mile connectivity infra • Replicate success of IT, ITeS in health care, financial services, legal, repair, design services • Simpler entry, exit processes

<u>CEZs Coastal Economic Zones</u>

- Proposed by NITI Aayog, one each on W, E Coast under Sagarmala
- ~Chinese export promotion strategy
- Features
    - Agglomeration of multiple coastal districts; area $\geq$ 500km^2
    - Flexible land conversion rules for multiple inter-related economic activities
    - Uniform policy to spur port led industrialisation
    - Liberal labour laws, tax incentives

- Facilitate EoDB
- Create urban spaces -- residential provision for CEZ employees
- 'Islands of excellence'

Challenges	Prospects
- Non-avblity of land parcels - Huge acquisition and compensation costs - UNCTAD: political risk by excluding other regions from dvpment - May not realise potential due to sub-optimal transport modal mix, lack of scale, low penetration of coastal/ inland shipping - Subdued global dd - Inefficient land allocation - ineligible land, in excess of need, non-use of notified land, diversion for commercial exploitation	- High productivity good jobs based on labour intensive sectors (apparel, footwear, electronics) - Exit of many firms from China - Attract large firms w/ tech, capital, good mgmt, link to global value chains - Ecosystem for productive cluster small, medium firms - Help tap synergies w/ planned industrial corridors (Vizag-Chennai, Delhi-Mumbai) - Frictionless movement of imports, exports w/ redn in clearance time, duty normalisation

Trade

10 November 2020 16:24

- New Economic Policy and Trade
    - Intellectual property rights
    - Implications of
        - TRIPS
        - TRIMS
        - GATS
    - new EXIM policy.

Uma Kapila

12 January 2021 23:02

Foreign Trade & Trade Policy

- 'inward looking' strategy of industrialisation
- High tariffs, high degree of effective protection
- Uncompetitive domestic industrial structure
- Exports viewed as necessarily evil - to generate forex earnings for part of import bill not covered by external assistance
- Participation in world markets declined steadily 1950 onwards; only marginal improvement after 1990

- $\frac{exports+imports}{GDP}$ -- openness of economy
    - 1980: 16.6%
    - 2000-01: 21.8%
    - 2013-14: 44.1%

- Origin of economic nationalism:
    - Freedom fighters thought laissez-faire + free trade - major cause of India's economic underdevelopment
    - Heavy influence of Soviet planned economy
    - International trade viewed as 'whirlpool of economic imperialism'
- Direct impact: limited participation in world trade
    - Minimise imports
    - Indigenous production
    - Priority to domestic use in disposition of production
    - Import tariffs for infant industry protection
    - Ambitious investment in heavy industries -- spurt in import dd, rapid depletion of forex reserves -- 1957 BoP crisis
    - QRs Quantitative Restrictions
    - Graded import tariffs
    - Persistent BoP deficits mitigated by increases in tariff levels, severity of QRs rather than devaluation of the rupee
- 2 prominent reports influencing reforms in 1980s
    - Alexander Committee (1978)
        - Committee on Import Export Policies and Procedures
        - Recos
            - Simplification of import licensing procedure
            - Shift in emphasis from 'controls' to 'development'
        - Implementations
            - Selective import liberalisation
            - Aimed at easier import of capital goods
            - Certain raw materials also place under OGL open general licence
            - Special measures to boost export of projected goods
    - Abid Hussain Committee (1984)
        - Committee on Trade Policies
        - Envisaged 'growth-led-exports' rather than 'exports-led-growth'
        - Stressed on need to harmonise foreign trade policies with other economic policies
        - Phased reduction of effective protection
        - Announcement of trade policies for longer periods
            - Continuity
            - Facilitate long term planning of export business

- 1991 crisis
    - Sparked reforms
    - Political factors
        - Rapid growth in 1980s with cautious, limited deregulation
        - Although unsustainable, 1980s rapid growth made further liberalisation politically acceptable

        - Rapid growth in 1980s with cautious, limited deregulation
        - Although unsustainable, 1980s rapid growth made further liberalisation politically acceptable
        - Collapse of Soviet Union
            - Eroded crucial external support
            - Access to defence supplies on concessional terms
            - Undermined India's faith in central planning
        - China's spectacular growth after 1978 reforms opened planned economy to RoW, allowed greater role for markets
    - Focus of reforms
        - Liberalisation, openness, transparency, globalisation
        - Outward orientation
        - Export promotion
        - Improving competitiveness of Indian industry
        - MTES Medium Term Export Strategy (2002-07) - stable policy environment
    - Distinctive features
        - Clear shift in emphasis from import substitution to export orientation
        - Wider reach of export incentives - to non-traditional, non-manufactured export items
        - Indirect promotional measures instead of direct export subsidy

- Structural changes in 1980s and 1990s
    - Diversity of markets and products
    - Higher degree of trade openness
    - Commodity composition favours technology intensive and industrial products
    - Destination profile: developing countries prominent
        - OECD group still largest market
        - Increasing prominence of OPEC & developing countries
        - Steep erosion in relative position of Eastern Europe
    - Diversification of exports
    - Shift in favour of manufactured exports over agri exports stalled around 1970s
    - Other items

Petroleum products	Increased
Ores and minerals	Declined
Engineering goods	Increased

    - Export share in world trade increased
        - 1980: 0.48% -> 1991-96: 0.56% -> 1996-02: 0.65%
        - still very low & unimpressive though
        - v/s China -- 2% in 1991 to 4.4% in 2001 (more than 2x)
    - Merchandise trade
        - Over 3x b/w 2005-06 and 2011-12 (exports)
        - POL (petroleum, oil and lubricants) v/s Non-POL exports
        - Imports grew faster -> merchandise trade deficit increased
            - Global commodity price rise
            - Tepid global economic growth is
        - Post 2014-15: exports declining for both developed and developing countries

- Critical Role of Exports
    - NITI Aayog's 3 year action agenda
        - Only 4 developing ctries successfully transformed themselves in 3 decades
        - South Korea, Taiwan, China, Singapore
        - Exports key in each of these
        - India - China comparable situations but we haven't taken advantage at all
    - Dd side issues
        - Inadequate demand for products
        - Though extremely large world market in merchandise exports
        - Uncompetitive products
        - Discipline of global economy -> fast productivity growth
        - Constant upgradation of technology, management, product quality

- Imports

- Changes in commodity structure
- Sharp fluctuation in share, absolute value of oil imports; significant volume increase
  - Increased domestic consumption
  - Stagnation in domestic crude oil production
- Sharp increase in import of capital goods in initial reform years; declining trend thereafter
- Changes in sources, country shares

- Composition of trade
  - Factors
    - Factor endowments
    - Trade policies
    - Technology
    - Movements in global commodity prices

- Direction of trade
  - Share in total Indian exports of advanced economies adversely affected by global slowdown fell significantly
    - Europe, America declined; Asia, Africa increased
  - Broad based decline in exports to all regions
  - Import sources also changed
    - Europe share declined; that of Africa, America, Asia increased

- Trade deficit
  - Steady increase b/w 2004-05 and 2010-11; exponential increase till 2012; moderated later as a result of govt measures
  - Decomposed into POL Deficit & non-POL deficit
  - POL Deficit is major component

Trade facilitation measures
- Reduction in number of mandatory documents to 3; comparable w/ international benchmarks
- Customs single window initiative - single point interface, reduce personal interface, dwell time, cost of doing business
- 24x7 customs clearance for specified imports & exports
- Paperless 24x7 environment
- Simplification of various 'aayat-niryat' forms, clarity in provisions, remove ambiguities, enhancing e-governance
- Training/ outreach programmes
  - Niryat Bandhu Scheme
    - 'industry partners', 'knowledge partners'
    - Online certification programme
  - Outreach programme for exporters in major export clusters/ cities
- Council for Trade Development and Promotion
  - Continuous dialogue with states, UTs for trade enabling environment
- Self ratification scheme to allow duty free inputs for export production

WTO

- Oversees operation of rules-based multilateral trading system
- Based on Uruguay Round (1986-94)
  - 8th and final trade round under GATT 1947
  - Estd at Treaty of Marrakesh 1994
  - One of 3 big int'l orgs overseeing economic relns
    - IMF, WB, WTO
    - Only one that doesn't extend loans
- Article 1 aka GATT 1994
- Article 2 - GATS
- Article 4 - TRIPS Trade related Aspect of Intellectual Property

5 core principles
- Trade without discrimination

5 core principles
- Trade without discrimination
  - MFN - trade concession granted to one WTO member automatically extends to all members
  - National treatment -- equal treatment of imported goods & domestically produced output
- Freer trade through progressive liberalisation of trade regimes
- Predictability of trade rules -- no arbitrary raising of tariff/ non-tariff barriers
- Fair competition - level playing field; minimise market distortions
- Economic development through trade

no disc
prog libs
predictable trade rules
fair comp
dev thru trade

Enforcement
- DSB Dispute Settlement Body - enforcement arm
- Consists of entire WTO membership
- Essence of multilateralism
- Stronger, more defined than GATT 1947's dispute settlement procedures
- Procedure
  - Trade complaint by any member
  - DSB establishes panel of 3-5 experts
  - Ruling in max 1 year, normally
  - Can be reversed only by unanimous vote of DSB
  - Either party can appeal
  - 7 member Appellate Body established
  - Ruling takes upto 3 months
  - Can be reversed only by unanimous vote of DSB
- DSB empowered to initiate retaliatory tariffs/ other trade sanctions for non-compliance with a WTO ruling

Developing countries' participation in int'l trade has risen faster than world trade
- Led by emerging ctries - India, China, Brazil, Malaysia, Mexico
- Drivers of economic growth
- Asserting role in global governance
- Increasingly attractive markets
- Relatively resilient to external shocks

Lamy (2013)
- Narrowing gap between developed and emerging economies requires a new balance of rights and obligations
- Dichotomy
  - Developed ctries reluctant to make concessions - direct competition
  - Developing ctries reluctant to accept much higher levels of commitment -- still face development challenges
- Stalling progress in multilateral negotiations -- trade, climate change, quota & voice in IMF etc.
- Need to rename 'Aid for Trade' to 'Investment for Trade'
  - Trade opportunities offered by WTO can be realised in many countries only if investment made through development assistance to build trade capacity

Challenges to multilateralism
- Rise of PTAs Preferential Trade Agreements due to stalling of Doha Development Round
  - +ve: shows appetite for trade openings
  - +ve: could be forerunners of further opening at multilateral level
  - -ve: increasingly divergent regulatory systems among members of different groups
- 21st century issues
  - Reality of trade decoupling from mere consideration of exchanges in goods & services
  - Linkages to other areas of int'l cooperation becoming more evident
  - Trade &
    - Climate change
    - Exchange rate policies
    - Food security
    - Energy policies
    - Competition

- Investment

Pg 527 onwards for India's specific role at each meeting

Broad Fw

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- Current account = net trade in goods and services
  + Income (net paid to Indian employees, includes remittances)
  ? + current transfers (needn't be repaid; doesn't give ownership of foreign assets, etc.) -- donations, aid, ODA(?)
- Remittances very stable.
- Export earnings very pro cyclical
- CAD - reflects gap between nation's savings and investments

? Statistics

- Share of trade in GDP - 43.4% (2018)
- Share of exports in GDP 19.7% (2018)
- Share of imports in GDP 23.6% (2018)
- Services growth rate ___
- Imports grown faster than exports -- widening of negative trade balance
  -3% in 1991 to ___
- Even during high growth phase of economy in mid 2000s, imports outpaced exports

Direction of trade

- US ~~remained~~ top trading partner in 2019-20 (2nd consecutive year)

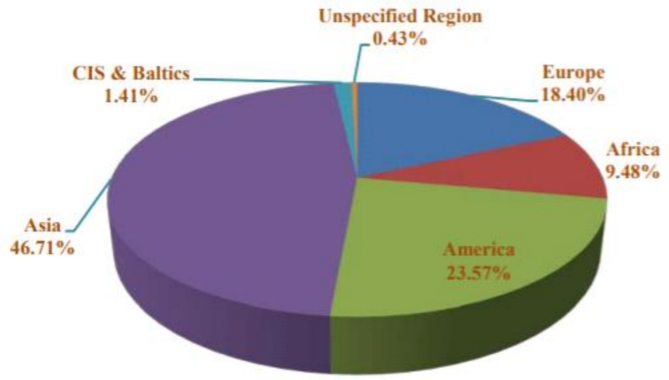
Top Three Major Principal Commodities exported to top ten Destinations (April-Nov 2020):

Following Table depicts the top three principal commodities of export of the respective destination along with the percentage share:

Sl. No	Destinations	Major Principal Commodities		
1	U S A	Drug Formulations, Biologicals (15.29%)	Pearl, Precs, Semiprecs Stones (11.52%)	Electric Machinery And Equipme (5.6%)
2	China P Rp	Iron Ore (17.9%)	Iron And Steel (16.59%)	Organic Chemicals (7.76%)
3	U Arab Emts	Petroleum Products (17.03%)	Gold And Oth Precs Metl Jwlery (6.17%)	Pearl, Precs, Semiprecs Stones (5.81%)
4	Hong Kong	Pearl, Precs, Semiprecs Stones (53.08%)	Gold And Oth Precs Metl Jwlery (23.95%)	Buffalo Meat (10.25%)
5	Singapore	Petroleum Products (43.19%)	Ship, Boat And Floating Struct (17.76%)	Electric Machinery And Equipme (4.25%)
6	Bangladesh PR	Cotton Yarn (8.36%)	Other Commodities (7.73%)	Cotton Raw Incld. Waste (6.57%)
7	Germany	Electric Machinery And Equipment (8.84%)	Rmg Cotton Incl Accessories (5.21%)	Drug Formulations, Biologicals (4.19%)
8	U K	Drug Formulations, Biologicals (8.24%)	Rmg Cotton Incl Accessories (7.99%)	Electric Machinery & Equipment (3.71%)
9	Malaysia	Aluminium, Products Of Aluminium (21.53%)	Petroleum Products (18.93%)	Ship, Boat And Floating Structure (6.15%)
10	Netherland	Petroleum Products (32.65%)	Drug Formulations, Biologicals (4.11%)	Organic Chemicals (4.04%)

Figure 10 : Region-wise share in India's Export during April-Nov 2020

Figure 10 : Region-wise share in India's Export during April-Nov 2020

- 

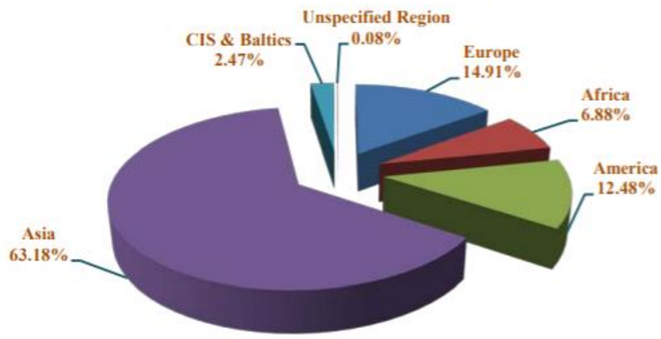
Top Three Major Principal Commodities imported from Top ten Sources during (April-Nov) 2020:

Following Table depicts the top three principal commodities of import of the respective source along with the percentage share:

-

S. No.	Sources	Major Principal Commodities Imported		
1	China P RP	Telecom Instruments (11.02%)	Electronics Components (8.81%)	Computer Hardware, Peripherals (8.62%)
2	U S A	Petroleum: Crude (13.76%)	Pearl, Precs, Semiprecious Stones (12.39%)	Petroleum Products (7.60%)
3	U Arab Emts	Petroleum: Crude (29.99%)	Petroleum Products (17.30%)	Pearl, Precious, Semiprecious Stones (16.93%)
4	Hong Kong	Pearl, Precious, Semiprecious Stones (19.48%)	Telecom Instruments (19.26%)	Electronics Components (19.19%)
5	Saudi Arab	Petroleum: Crude (65.91%)	Petroleum Products (12.97%)	Fertilizers Manufactured (6.96%)
6	Germany	Aircraft, Spacecraft And Parts (27.55%)	Indl. Machinery For Dairy Etc (8.55%)	Electric Machinery And Equipment (5.27%)
7	Iraq	Petroleum: Crude (26.31%)	Petroleum Products (19.50%)	Fresh Fruits (2.12%)
8	Indonesia	Coal, Coke And Briquettes Etc (40.20%)	Vegetable Oils (27.04%)	Fertilizers Manufactured (3.09%)
9	Korea RP	Iron And Steel (12.39%)	Electronics Components (9.71%)	Plastic Raw Materials (8.68%)
10	Singapore	Computer Hardware, Peripherals (11.94%)	Electronics Components (11.55%)	Organic Chemicals (6.63%)

Figure 14: Region-wise share in India's import during April-Nov 2020

- 

- https://en.wikipedia.org/wiki/List_of_the_largest_trading_partners_of_India

Rank	Country	Exports	Imports	Total Trade	Trade Balance
1	United States	57.7	34.3	92.0	23.4

Rank	Country	Exports	Imports	Total Trade	Trade Balance
1	United States	57.7	34.3	92.0	23.4
2	China	16.61	65.26	81.87	-48.65
3	United Arab Emirates	28.81	30.22	59.03	
4	Saudi Arabia	6.39	20.32	26.71	-13.93
5	Switzerland	1.21	16.9	18.11	-15.69
6	Germany	8.21	13.69	21.9	-5.48
7	Hong Kong	13.7	20.34	34.04	-6.64
8	Indonesia	4.12	15.06	19.18	-10.94
9	South Korea	4.85	15.65	20.5	-10.8
10	Malaysia	3.71	9.08	16.93	-5.30
11	Singapore	7.72	9.31	16.93	2.68
12	Nigeria	2.22	9.95	16.36	-11.00
13	Belgium	5.03	8.26	16.33	-5.29
14	Qatar	0.90	9.02	15.66	-13.55
15	Japan	4.66	9.85	15.52	-4.75
16	Iraq	1.00	10.84	15.08	-13.42
17	Kuwait	1.25	4.97	14.58	-12.18
18	United Kingdom	8.83	5.19	14.34	4.30
19	Iran	2.78	6.28	13.13	-4.78
20	Australia	3.26	8.90	13.03	-7.47
21	Venezuela	0.13	5.70	11.99	-11.47
22	South Africa	3.59	5.95	11.72	-3.40
-	*Remaining Countries*	126.78	104.92	231.70	21.86
	India's Total	330.08	514.08	844.16	-184.0

Countries of which India is the largest trading partner [edit]

India is the primary export or import partner of several countries. The percentages on these tables are based on 2017 data as shown on the CIA World Factbook.

Exports from these countries to India[6]

Region	Percentage
Bhutan	95.3%
Guinea-Bissau	67.1%
Afghanistan	56.5%
Nepal	53.1%
Nigeria	30.6%
Mozambique	28.1%
Ghana	23.8%
Tanzania	21.8%
Iraq	21.2%
United Arab Emirates	10.1%

Imports by these countries from India[7]

Region	Percentage
Bhutan	89.5%
Nepal	70.2%
Sri Lanka	22.0%
Burundi	18.5%
Mauritius	17.9%
Tanzania	16.5%

Export partners [edit]

India exports approximately 7500 commodities to about 192 countries.[8] The following table shows India's 10 largest destinations for exports in 2019-2020.[9]

-

Rank	Country	Value (US$ billion)	Share of overall exports
1	United States	57.7	16.94%
2	United Arab Emirates	28.8	9.20%
3	China	16.6	5.47%
4	Hong Kong	10.9	3.53%
5	Singapore	8.9	2.90%
6	United Kingdom	8.7	2.80%
7	Netherlands	8.3	2.69%
8	Germany	8.29	2.65%
9	Bangladesh	8.20	2.61%
10	Nepal	7.16	2.28%

Import partners Of India. [edit]

India imports around 6000 commodities from 140 countries.[8] The following table shows India's 10 largest sources of imports in 2019-2020.[9]

-

Rank	Country	Value (US$ billion)	Share of overall imports
1	China	57.8	14.37%
2	United States	30.5	7.57%
3	United Arab Emirates	25.8	6.39%
4	Saudi Arabia	23.0	5.70%
5	Iraq	19.8	4.91%
6	Switzerland	14.8	3.67%
7	Hong Kong	14.6	3.63%
8	South Korea	13.2	3.28%
9	Indonesia	12.8	3.17%
10	Singapore	12.2	3.02%

Composition of trade

- Not as skewed as before
- Gradually moved away from labour intensive to skill intensive products
- Top 10 exports constitute ~42% of trade
- Top 5 only ~25% (2020)

Three Major Destinations of Export of Top 10 Principal Commodities (April-November, 2020):

Following Table depicts the top three destinations of export of the respective commodity along with the percentage share:

S.No.	Principal Commodities	Major Destinations		
1	Petroleum Products	Singapore (15.49%)	U Arab Emts (10.74%)	Netherland (8.11%)
2	Drug Formulations, Biologicals	U S A (38.59%)	South Africa (3.56%)	U K (3.04%)
3	Pearl, Precs, Semiprecs Stones	U S A (37.49%)	Hong Kong (35.13%)	Belgium (6.84%)
4	Iron and Steel	China P Rp (29.29%)	Vietnam Soc Rep (10.25%)	U Arab Emts (6.99%)
5	Electric Machinery And Equipment	U S A (34.45%)	Germany (8.46%)	Singapore (4.60%)
6	Organic Chemicals	China P Rp (22.06%)	U S A (11.86%)	Saudi Arab (5.82%)
7	Gold & Other Precious Metal Jewellery	Hong Kong (38.29%)	U S A (28.81%)	U Arab Emts (14.98%)
8	Marine Products	U S A (41.07%)	China P Rp (17.28%)	Japan (7.15%)
9	RMG Cotton Incl Accessories	U S A (29.00%)	U Arab Emts (10.51%)	U K (9.38%)
10	Products of Iron And Steel	U S A (21.86%)	Canada (5.48%)	U Arab Emts (5.19%)

Three Major Sources of Import of Top ten Principal Commodities (April-Nov 2020):
Following Table depicts the top three sources of import of the respective commodity along with percentage share:

S. No.	Principal Commodities	Major Sources		
1	Petroleum: Crude	Iraq (22.05%)	Saudi Arab (19.44%)	U Arab Emts (12.58%)
2	Petroleum Products	Qatar (24.99%)	U Arab Emts (17.34%)	U S A (9.48%)
3	Gold	Switzerland (37.49%)	U Arab Emts (14.6%)	Peru (6.84%)
4	Telecom Instruments	China P Rp (43.79%)	Hong Kong (18.7%)	Vietnam Soc Rep (13.9%)
5	Coal,Coke And Briquittes Etc	Australia (31.45%)	Indonesia (30.04%)	South Africa (12.71%)
6	Pearl, Precs, Semiprecs Stones	U Arab Emts (23.74%)	U S A (21.64%)	Hong Kong (19.80%)
7	Electronics Components	China P Rp (39.35%)	Hong Kong (20.95%)	Singapore (9.40%)
8	Vegetable Oils	Indonesia (29.05%)	Argentina (21.11%)	Malaysia (18.20%)
9	Computer Hardware, Peripherals	China P Rp (50.80%)	Hong Kong (12.95%)	Singapore (12.81%)
10	Organic Chemicals	China P Rp (32.21%)	U S A (12.25%)	Singapore (7.44%)

Policy Considerations

Foreign Trade Policy 2015-20

- Extended by an year till March 2021
- Context: declining exports
- MEIS Merchandise Export from India Scheme
  - Merged 6 different schemes
  - 3 categories of countries for incentive grants
    - Traditional markets
    - Emerging and focus markets
    - Other markets
  - Notified goods, exported to notified markets -- incentivised on realised (?)FOB value of exports
    - The f.o.b. price (free on board price) of exports and imports of goods is the market value of the goods at the point of uniform valuation, (the customs

frontier of the economy from which they are exported)
    - High incentives for high domestic content, value addition
- SEIS Service Export from India Scheme
    - Applies to 'service providers located in India'
        - Wider than 'Indian service providers'
    - Rates of incentivisation depends on net forex earned
    - Issued as duty credit scrips
- MEIS, SEIS incentives extended to SEZs
- Duty credit scrips freely transferable; usable for
    - Customs duty
    - Excise duty
    - Service tax
- EPCG Export Promotion of Capital Goods scheme
    - Reduced export obligation when capital goods procured from indigenous manufacturers
    - Advance authorisation: exporters can source input/ capital goods from abroad as well as domestic suppliers for exports w/o upfront payment of GST
- Digital governance in MEIS, SEIS

Expectations from FTP 2021-26
- Rationalised duty structure
    - Pyramid duty structure -- with lowest duty on raw material
    - EPCG - allows duty free import of capital goods on condition that at least part of it is used for export production
        - Issue - low penalty for not meeting export obligation
- WTO Compliant schemes
    - Must be core of FTP
    - Done some, need more
    - Decided to replace MEIS with RoDTEP Remission of Duties or Taxes on Export Products -- for compliance with WTO
- Infrastructure improvement
    - Warehouses, ports, SEZs, quality testing labs, certification centers
    - TIES Trade Infrastructure for Export Sector (2017-20) -- good initiative
- Tech upgradation and upskilling
- Export assistance
    - MSME - large chunk; unaware of global laws and requirements, credit availability
    - Need to educate exporters on IPR, patents, GI, etc

Hurdles acc to pharma
- Logistics and supply chain hurdles --- ctry with highest logistics cost
- Land registration - takes very long
- Policy stability, defined approval timelines, simpler regulatory approval process, pricing rationalisation, single window accountability

WTO + Sectoral Implications

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https://commerce.gov.in/international-trade/india-and-world-trade-organization-wto/
https://www.wto.org/english/thewto_e/whatis_e/tif_e/utw_chap2_e.pdf

Current Issues

- [ ] Judges in WTO DSS
  - Logjam; expected to continue -> necessary quorum unavailable for dispute resolution -> aggravate
- [ ] E-commerce inclusion
  - (+) one market, greater trade, trickle down for poor ctries, new norm of GVCs
  - (-) India: may be used to circumvent original issues around DDR
- [ ] Investor-state dispute settlement system
  - Dvped - treat differences at int'l forum
  - India - BIT
- [ ] Investment facilitation
  - Mooted by China & Others
  - India blocked it - service facilitation first (Marrakesh, 1994); Investment facilitation is NOT part of WTO
- [ ] Int'l telecom agreement
- [ ] Covid vaccines
- [ ] India vs US
  - Agriculture
  - TRIPS/ IPR
    - Compulsory licensing to NATCO for 'nexavar' (by Bayer AG)
  - DCR in Solar Panel
  - Visa - doubled fees for certain H1B, L1 visas -- GATS4
  - WTO ruling against Indian ban on import of poultry, meat, eggs, live pigs from US

- [ ] https://commerce.gov.in/wp-content/uploads/2020/09/Flag-A_Background-note-on-the-WTO-negotiations.pdf

World Trade Organization's Agreement on Rules of Origin

- The agreement aims at **long-term harmonization of non preferential rules of origin** and to ensure that such rules do not themselves create unnecessary obstacles to trade.
- It sets out a **work programme for the harmonization** of rules of origin, negotiations for which are still ongoing. For this process two institutions were established:
  - A **Committee on Rules of Origin** within the framework of the WTO, open to all WTO Members.
  - A **Technical Committee on Rules of Origin** created under the auspices of the World Customs Organization.
- The agreement also provides **general principles for prescribing rules of origins**, such as transparency, positive standards, administrative assessments, judicial review etc., which **shall also apply to preferential rules of origin.**

History of WTO

- GATT - 1948
  - *Washington Consensus* - development will take place only if there is seamless trade among all countries, minimal tariff and non-tariff barriers
  - In backdrop of WWII, led by western countries
  - 3 institutions - Bretton Woods Twins (IMF, World Bank) + ITO Int'l Trade Organisation
  - ITO successfully negotiated, agreed upon by most countries

        - Supposed to work as specialised arm of UN - to promote free trade
        - Became dead letter as US, other major ctries failed to get it ratified in their legislatures
    - Led to GATT becoming de-facto platform
        - Successes: tariff reduction (custom duty), Anti-dumping duties by victim ctries
        - Signed in Geneva by 23 ctries; 123 members at Uruguay 1986
        - India - GATT member since 1948; party to Uruguay; founding member of WTO
        - China - 2001; Russia - 2012
        - Limitations:
            - Lacked institutional structure; GATT only a set of rules
            - Didn't cover trade in services, IPR, etc.
            - Main focus on textiles, agri
            - Strong Dispute Resolution Mechanism absent
            - Dvping ctries perceived it as a body meant to promote western interests
            - Failed to curb NTBs under GATT
- 1995 - Marrakesh agreement (Morocco) - end of Uruguay Round (1986-94)of negotiations
    - Origin of WTO as successor of GATT
    - GATT did NOT cease to exist -- continues as WTO's umbrella treaty for trade in goods
- Most issues that WTO focuses on derived from previous trade negotiations (esp Uruguay Round)
- Currently trying to complete Doha Development Round (since 2001), w/ explicit focus on developing countries
- 2013: Bali Package - trade facilitation agreement - first comprehensive package in organisation's history
- Concerns:
    - ***Democratic deficit*** - developed ctries have much greater sway
    - Ministerial Conferences - move away from multilateralism to PTAs
        - More pronounced since Cancun -- G4 led developing ctries demonstrated their negotiating capability
        - Since then, US, EU, China increasingly relying on bilateral, regional routes to pursue own interests
    - Failed to factor in wider socio-economic repercussions of trade liberalisation, w/ impact on equity and justice
- ***Transparency Mechanism***
    - Member ctries bound to disclose details of PTAs for WTO scrutiny
    - Though right intention, remains merely info disclosure mechanism a
- WTO India's friend or foe?
    - India - founding member, also very proactive; seen as leader of dvping & under-dvped world
    - WTO - consensus decisions
        - Only mild possibility that anything severely unfavourable to India's interests can be unilaterally imposed
    - India committed to various dvpmental issues -- Doha Development Agenda, SSM, permanent soln of public stockholding issue...
    - Dispute Resolution Mechanism, when functional, is highly efficient
    - 'Big But Poor' Dilemma -- EcoSur
        - Now that Indian mkt has become very significant, world expects a

reciprocal treatment from India in trade
- Need to upscale diplomatic capability
  - @Nairobi - while dvped ctries spoke in unison
  - Brazil - broke away from G20/G33 - aligned closely w/ dvped ctries due to globally competitive agri sector
  - US has been putting effort into bringing all dvped ctries on common platform -> most assertive & subtle power in negotiations
  - India needs to do this for dvping ctries from all continents
- India's submissions for WTO reforms:
  - 'Strengthening the WTO to promote development and inclusivity' [Developing Countries reform papers]
  - Co-sponsored by Bolivia, Cuba, Ecuador, Malawi, S Africa, Tunisia, Uganda, Zimbabwe and Oman
  - Aim: bring balance in ongoing discussions by re-affirming the importance of development
  - Elements:
    - preserving the core values of the Multilateral Trading System
    - Resolving the impasse in the Dispute Settlement System
    - Safeguarding development concerns
    - Transparency & notifications

Other challenges faced by WTO

- **Stalled Doha Development Round negotiations**: They focused on reducing important trade barriers in sectors, such as agriculture, industrial goods and services. However, after a decade of talks, it still remains to be concluded.
- **Growing protectionism**: Over the past two years, governments have introduced trade restrictions covering a substantial amount of international trade — affecting $747 billion in global imports in the past year alone. WTO has been less affective in addressing them, including US China trade war. This raised questions over WTO's credibility.
- **New emerging issues**: Groups of members are also working towards new rules on a range of issues — electronic commerce, investment facilitation, domestic regulation in services — that aim to make trade more efficient and predictable in cutting-edge sectors of the economy. However, the rising differences among developed and developing countries is delaying any early settlement.
- **Side stepping WTO:** Since the launch of the Doha Round, **countries have turned to free trade agreements (FTAs) in order to gain significant trade access in new markets** and to explore new trade-related issues that are currently not addressed within the WTO. As more FTAs have been concluded, the central role of the WTO in liberalizing trade has been called into question.
- **Limited success in major issues:** WTO has played a very limited role in helping address other global issues related to trade, such as food security, climate change and global trade imbalances.

Failure to negotiate effectively: Members are attempting to reach agreement on limiting fisheries subsidies (now in the 18th year of negotiations). Moreover, discussions on broader reform within the WTO have been being held over the last year or two, including efforts to restore vitality to the Committee process through improved notifications.

to eliminate unfair advantage

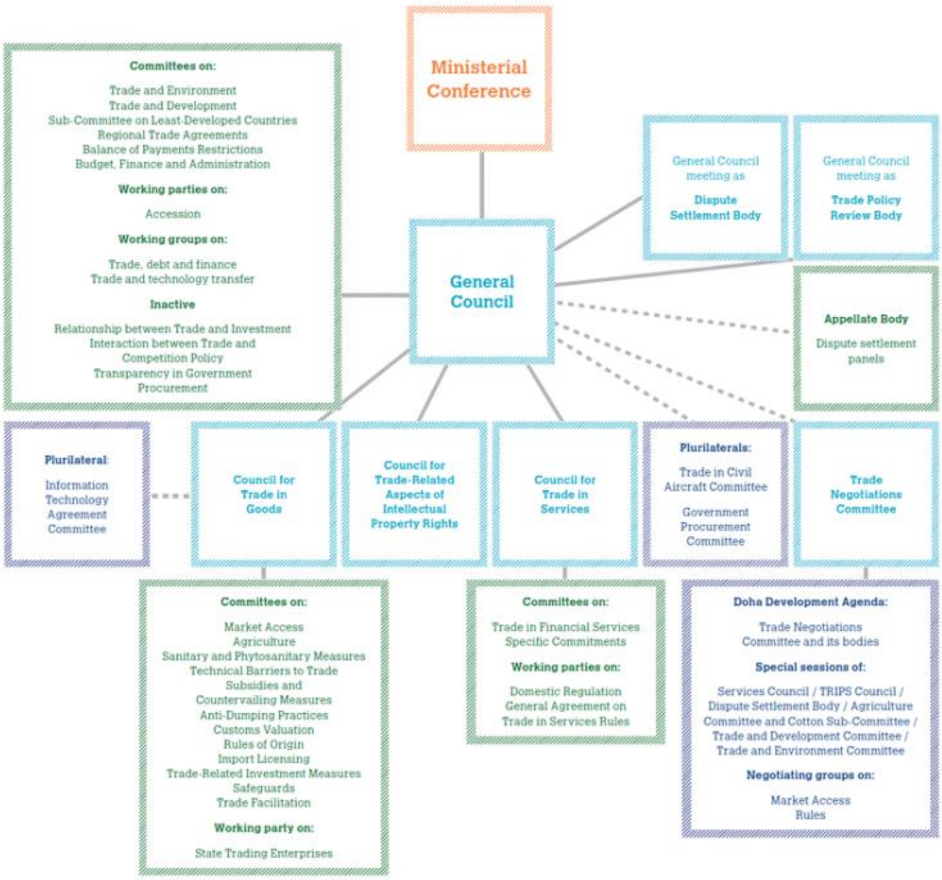
Uruguay Round (1986-94)

- 8th GATT round
- Sufficient recognition of GATT's deficiencies
- Led to genesis of TRIPS, TRIMS, GATS (pre-WTO)
- Successfully increased binding commitments for both developing and developed ctries
  - Evidence: tariffs bound before/ after 1986-94 talks
- Prescriptions:
  - WTO to replace GATT
  - Tariff reduction from avg 5% to 3% -- by 2005
  - Replace quotas
  - Health and safety regulations ONLY after proper scientific evidence
  - Reduce subsidised agri export by 20% over 6 yrs
  - Progressive liberalisation of trade in agri goods
- Actual experience:
  - Reduced NAMA tariff rates fm 6.3% to 3.8%
- Trade policy review mechanism
  - Early result of Uruguay Round

- Among WTO's basic functions in 1994 (Annex 3, Marrakesh Agreement)
- Expanded in 1995 when WTO came into force
- Important mechanism under WTO's monitoring function, involves comprehensive peer-review of member's national trade policies
  - 1995 - also covers services trade, IP
- All WTO members are subject to review under TPR<
  - EU, US, Japan, China - every 2 yrs (4 largest share of world trade)
  - Next 16 every 4 yrs
  - Remaining every 6 yrs (India is here)
  - Longer period possible for LDCs
- news: *7th TPRM of India* concluded in Jan 2021 (1998,2002, 07, 11, 15)
- 8 major agreements - SCM, AoA, TRIMS, TRIPS, GATS, SPS, Agreement on Textiles, GATT

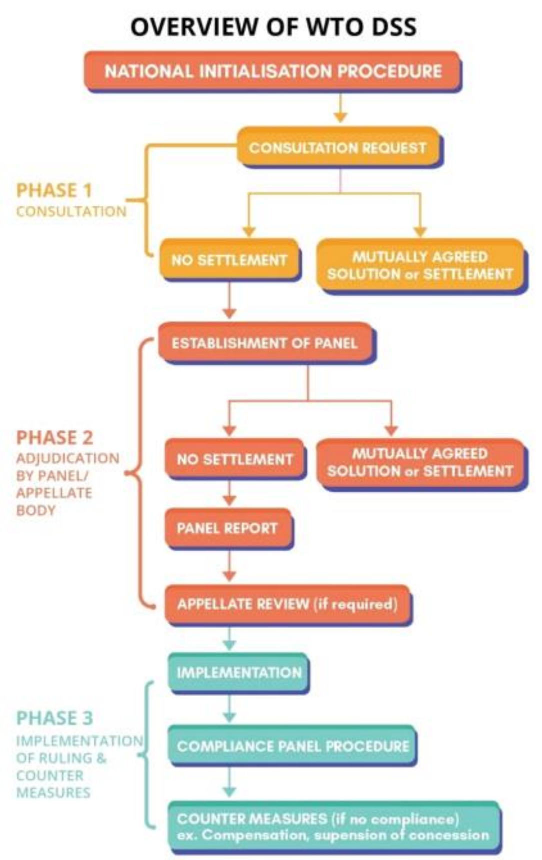
Principles of the trading system under WTO

Non-Discrimination	- Most favoured Nation MFN • No discrimination among trading partners • Exceptions permitted: ○ Can set up FTA, applying only to goods traded w/in the group ○ Special market access for developing ctries ○ Can raise barriers against products considered to be traded unfairly from specific ctries *(what is unfair?)* - National Treatment • Treating foreigners and locals equally • Only applies once a product, service, IP item has entered the market • Charging customs duty is NOT violation of this
Freer Trade	- Lower trade barriers like custom duties, quotas, other NTBs
Predictability and Stability	- To encourage investment -> job creation -> consumers benefit from competitions - choice, lower price
Promoting Fair Competition	- Rules Based Trade - MFN, National Treatment, Anti-Dumping all in pursuit of fairer conditions to trade - Complex issues; rules try to establish what is fair/ unfair + how govts can respond - Counter to MFN -- GSP -- nations can have preference order; separate for each nation; generally more to LDC, FTA, etc
Encouraging Development and Economic Reforms	- Special assistance, trade concessions for developing ctries - >75% members are dvping ctries, ctries in transition to mkt economies



WTO's Dispute Settlement Mechanism

- Disputes = broken promises
- Agreement among WTO members to use multilateral system of settling disputes when they believe fellow members are violating rules, rather than take unilateral actions
- GATT also had a dispute settlement mechanism.
    - Drawbacks: no fixed timetables, rulings easier to block, inconclusive and long dragged-on cases
- WTO - greater discipline for length of time taken to settle; flexible deadlines set in various stages of the procedure; automatic adoption of ruling unless there is a consensus to reject it (thus, one who wants to block it - the losing party - would have to convince ALL members, including adversary)
- DSB Dispute Settlement Body
    - All WTO members
    - Sole authority to establish panels of expert to consider the case
    - Also power to authorise retaliation in case of non-compliance to ruling
    - Either side can appeal - MUST be based on points of law; can't re-examine existing evidence/ examine new issues



○ Evidence of strength of mech: both developed and developing ctries use it frequently; India among the biggest players	

11.2. DISPUTE SETTLEMENT SYSTEM OF WTO

Why in news?

Some members of WTO established Multi-party Interim Appeal Arbitration Arrangement as contingency appeal arrangement for trade disputes.

More on news

- It has been setup as WTO's dispute settlement body has become dysfunctional.
- It offers **arbitration outside the Appellate Body** upon mutual agreement of the parties.
- It can be used between **any WTO members** when WTO Appellate Body is not functional.
- **India, USA are not part of** the agreement of MPIA.

About Dispute Settlement System

- Dispute Settlement System (DSS) is a **mechanism** to **resolve trade disputes** between member states. It utilises both political negotiation and adjudication for dispute resolution.
- The **Uruguay Round negotiations** (1986-1994) culminated in the creation of the DSS and the adoption of the Dispute Settlement Understanding (DSU) to govern trade disputes between member states.
- The **DSU** embodies important **principles** for the functioning of the DSS:
  - to provide stability and predictability to the multilateral trading system

AB - appellate body

Issues faced by DSS

Appointment of AB members		
Issue	**Description**	**Proposed solution**
Appointment of AB members	Appointment takes place through consensus. It is easy for onemember state (US, in this case) to block appointments.	Appoint members by majority voting, and not consensus. *Additional reforms*: Increasing the number of AB members, the term of their office, and a provision for automatic launch of AB selection process before the expiry of their term of office.
Procedural issues		
AB treats its decisions as precedent	Panels follow these precedents despite the absence of cogent reasons to do so. Some countries have contested this, as there is no legal provision that allows the AB to do so.	• A better approach would be to allow the AB to consider the extent to which prior reports can be relevant and useful to the dispute, and furnish reasons in their reports for doing so. • Sometimes, referring to prior reports helps in clarifying the application of WTO law to future disputes, since Panels and AB cannot operate in a vacuum.
AB exceeds its judicial mandate	AB's jurisdiction is limited to reviewing "issues of law" and "legal interpretations developed by the panel". AB sometimes goes into factual questions, and this has been criticized.	• AB should exercise **judicial economy** and limit itself to only the issues raised by parties. • A possible **external review mechanism** has been proposed to consider whether the AB has overstepped its mandate.
Systemic issues		
Delays in the DSS procedure	Despite overall decrease in DSS workload, the average time taken to complete disputes has steadily increased.	• Hiring more secretariat lawyers, streamlining translation process, reducing the length of panel etc. • Speedy resolution of disputes will reduce the economic harm that can be suffered by complainant states during pendency of cases.
Developing countries and LDCs' access to the DSS	The DSS has overall witnessed lesser participation from developing countries and LDCs.	• There is a need to give assistance to developing countries and LDCs in the negotiation stage, since most cases settle early with fuller concessions. • The ACWL (Advisory Centre on WTO Law) can be mobilized to give assistance to countries during negotiations and consultations. • Additionally, with increasing complexity of disputes and aging trade rules, it will be beneficial to use alternative mechanisms under the DSU like: (1) Consultation process, (2) Good offices, conciliation and mediation procedure, (3) arbitration.
No formal mechanism for dialogue between members and adjudicative bodies	Without a formal mechanism, there is no available forum for member states to raise and discuss new issues in the DSS.	• Proposal for initiating annual meetings between DSB and AB. • But there is a need for adequate transparency and ground rules for such proceedings, to avoid undue pressure on AB members.

India's experience with DSS

- India has been an **active participant** in cases before the DSS.
- India had lost some important **initial cases**, leading to far-reaching **law and policy reforms:**
    - The **"mail box" patents case** led to the enactment of the **Patents Amendment Act (1999)** to set up a legal basis for treatment of mailbox applications and for grant of exclusive marketing rights.
    - The decision against India in the **Quantitative Restrictions case** inspired India to bring several **reforms** in its **trade policies.**
- These losses also enabled India to increase its **human and institutional capacity**, enhance **involvement** of industry **stakeholders** and strengthen preparation of cases before the WTO.
- Some losses have enabled India to become a more **proactive litigant:**
    - After its defeat in the Solar Cells case, India complained and won against the US in a similar matter pertaining to domestic content requirement in the renewable energy sector.
- At the same time, India has initiated and **won** several important cases before the WTO, which have helped lay down **important jurisprudential principles** for **international trade law**.

Ministerial Conferences

- Highest decision making body of WTO
- Meets every 2 yrs (usually)
- Brings together all WTO members (countries, unions)
- 12th scheduled in Geneva, 2021
- https://www.wto.org/english/thewto_e/minist_e/minist_e.htm

MC1 Singapore 1996

- '*Singapore Issues*'
    - Disagreements about **4** working groups setup during this meeting
- Issues (C-FIT)

Trade and **Competition** Policy	- No clarity on export cartels - OPEC!
Trade **Facilitation**	- Unexceptionable at WTO - Developing ctries may not have resources to bring procedures in line -- tech/ otherwise
Trade and **Investment**	- Multilateral agreement would be serious impingement on sovereign rights of countries
Transparency in govt procurement	- Entirely acceptable - Though can't have universal determination of what constitutes transparent procedures

- Mostly opposed by developing ctries
- Despite repeated attempts to revisit these issue, resolution prevented due to disagreements
    - No progress made at Cancun due to this
- Some progress in area of trade facilitation - **'July Package'** under Doha round

MC2 Geneva 1998

MC3 Seattle 1999

- Failure -- massive demonstrations that had to be contained by use of police force
- Negotiations never started

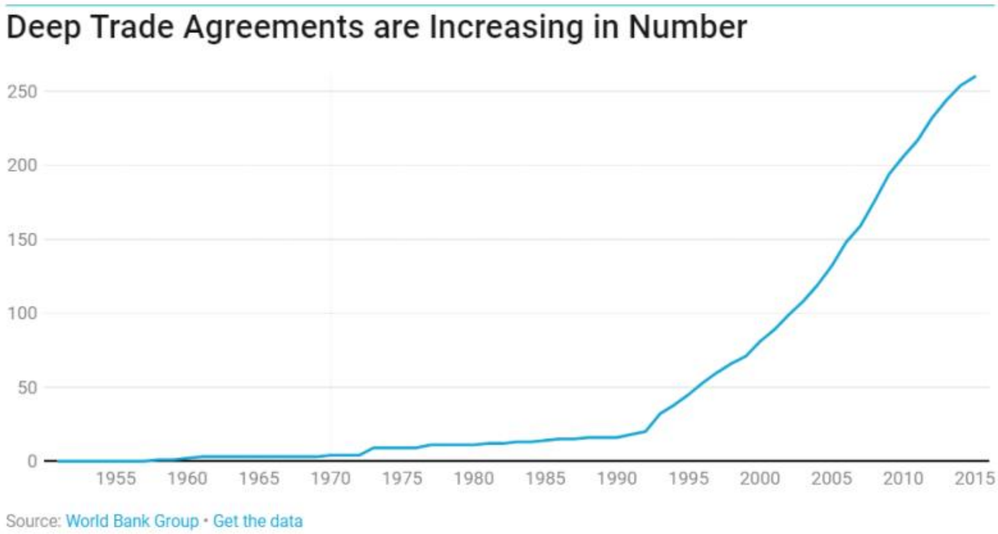
MC4 Doha 2001

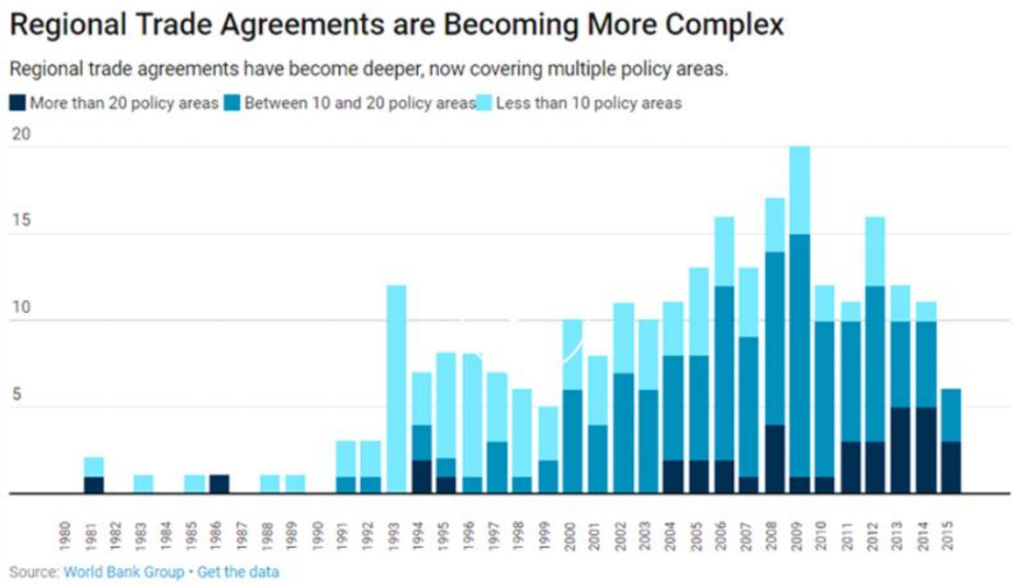
- China inducted as 143rd member of WTO
- Launch of Doha Development Round
    - This is the current trade-negotiation round of WTO, since 2001
    - Overseen by Trade Negotiations Committee
- Intent: make trade rules fairer for developing ctries (say proponents)

- Critics: intends to expand a system of trade rules bad for development and interferes excessively w/ ctries' domestic policy space
- Talks stalled since 2008 over divide b/w developed and developing ctries on issues of agri, industrial tariffs and non-tariff barriers (NTBs), services, trade remedies
- Contention against the EU and USA on retention of agri subsidies -- effectively operate as trade barriers
- 5 working groups
- Important topics under negotiation: market access, development issues, WTO rules, trade facilitation
- 2021 - uncertain - major sticking point: agri subsidies; India refuses to back down on this
- ***Almost ALL issues currently under deliberation are part of Doha Round***

Agri	- US asked to reduce domestic support - US/ EU insist on greater tariff reductions by dvping ctries + limit the no. Of import sensitive & 'Special Products' (AoA)
TRIPS	? - Medicines: evergreening, compulsory licensing, import during crises (COVID) !! • Pharma patents (dvped) vs public health (dvping) • Updates: approved interim waiver allowing members to export pharma made under compulsory licensing + can disallow evergreening + dvping nations can export to others in case of health crisis - GI - wines & spirits - Biotech and traditional knowledge
NAMA	See below
July	July Package vs Singapore Issues
S&DT	- Agreement on continued eligibility of dvping, LDCs for favourable treatment - Recently, dvped ctries have been reluctant - Big dvping ctries - India, China, Brazil being unreasonable; only LDCs rightful claimants
Implementation Issues	- Dvping ctries blame limited capacity + lack of technical assistance as hindrance to implementation of Uruguay commitments - Seek clarification in language relating to their interests in existing arrangements; as unable to realise expected benefits like increased access for their textiles and apparel in dvped ctry mkts
Conclude Doha	- West wants to do away w/ Doha round and move to new issues - G33 against any new inception w/o delivering the dvping ctries what is due to them

Rise of RTAs w/ failure of Doha





MC5 Cancun 2003

- Aim: forging agreements on Doha round
- G20 developing nations (led by India, China, Brazil) & ASEAN (led by Philippines)
  - resisted demands for agreements on 'Singapore issues'
  - Called for end to agri subsidies w/in EU & US
- Talks broke down -> seen as major victory for developing ctries

Geneva (2004)

- Not a 'full' ministerial meeting
- Achievements
  - EU accepted the elimination of agricultural subsidies by a 'date certain'
  - Singapore issues were moved off the Doha agenda
  - Dvping ctries agreed on trade facilitation negotiations (custom duties...)
  - After intense negotiations, members reached what has come to be known as the 'Framework Agreement' or the **'July Package'**, which covers agriculture, non-agricultural market access, services, and trade facilitation

NAMA Non-Agricultural Market Access

- Market access for all Non-agri products
- Negotiations

    - Working on a formula for tariff reduction
    - Binding coverage -- % of total products, on which ceiling limit of tariff would be applied
- Uruguay vs NAMA

GATT	NAMA
- Dvping ctries not reqd to reduce tariffs on a product-by-product basis - 'Least Onerous Manner' for dvping ctries u/ Uruguay • Thru avg tariff reductions • Low reduction on products in need of greater tariff protection and vice versa ? - Led to redn in avg tariff in dvped ctries from 6% to 4%	- Focus on reduction for ALL product lines covered -- i.e. Product by product basis - Covers 90% of merchandise trade today

- India's stance
    - Initially wanted simple % cut formula rather than 'least onerous manner'
        - -> would have led to lesser cuts
    - By 2005 - accepted non-linear ABI formula (Argentina-Brazil-India)
        - Variation of Swiss formula
        - led to higher cuts in tariff
        - Almost irreversible commitments -> deep cuts make it diff for India to use tariff protection as tool for industrial policy in the future
    - Defensive interest in NAMA in general (vs offensive interest in GATS)
        - Would expose our indigenous sector -- mostly part of informal
            - large emp potential, must seek import protection here
        - Since considerable protection at present -> would have to undergo substantial tariff cuts
    - Footwear, textiles -- comparative advantage => sectors of interest
    - Emphasis on removal of NTBs -- weak progress though
    - Gains: certain sensitive products have been kept out of the list
- Doha Declaration on NAMA
    - Tariff reduction
    - Comprehensive product coverage
    - Special needs and consideration of LDCs to be taken into account
    - Less than full reciprocity by the LDCs and developing ctries

MC6 Hong Kong 2005

- Considered vital for moving Doha round forward
- Key achievements:
  ranks
    - Countries agreed to phase out all their agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006
        - Not followed - Nairobi 2017
    - Further concessions to developing countries included an agreement to introduce duty-free, tariff-free access for goods from the Least Developed Countries, following the '*Everything but Arms*' initiative of the European Union
    - That is, industrialized countries agreed, in principle, to open up their markets for developing countries
- Other major issues were left for further negotiation to be completed by the end of 2010

MC7 Geneva 2009

MC8 Geneva 2011

MC9 Bali 2013

- Trade Facilitation & Peace Clause
- *TFA Trade Facilitation Agreement*
    - Addresses small portion of Doha programme
    - lowering cross-border tariffs, other regulations impeding int'l trade
    - Only binding target: reforming customs bureaucracies & formalities to facilitate trade
        - Incl lowering import tariffs, agri subsidies
        - Developed ctries reqd to abolish hard import quotas on agri products from developing world; only be allowed to charge tariffs on amount of agri imports exceeding specific limits
    - Expected benefits
        - Could cut shipping costs by >10% globally
        - Reduced times & corruption
        - raise global o/p by over $400 bn/ year (another estimate said $1 tn) -- no empirical backing though
        - w/ benefits flowing disproportionately to poorer ctries
    - ? Challenges for India --
- *Peace Clause*
    - For adjustment to limits under AoA (de minimis) provisions
    - Gave ctries 4 yrs time to adjust to limit, avoid sanctions
    - Indi had little backing from other dvping ctries -- lured by a 'Special Package'
    - India - US reached understanding -> time limit of 4 yrs removed; India agreed to TFA
- All other agreements except trade facilitation -- on best faith basis, no developed ctry has undertaken legal promises to reduce agri subsidies
- GoI update on TFA
    - In consonance w/ EoDB initiative
    - Ratified TFA in Apr 2016
    - TFA particularly imp for developing ctries as they stand to gain the most from efficient trade procedures
        - May be more challenging for them to achieve than dvped ctries
    - Set up NCTF National Committee on Trade Facilitation (Domestic coordination & implementation)
    - NTFAP National Trade Facilitation Action Plan for 2017-20
    - Landmark achievements in TFA
        - National Single Window System for all import formalities
        - Simplification of fees & charges
        - e-Sanchit portal for paperless export/ import documentation
        - Online publication of resource info
    - Gains:
        - Trading across borders indicator -- 146 (2017) to 68 (2019) [ranks]
        - Overall improvement in EoDB

MC10 Nairobi 2015 (Kenya)

- Commitment to completely *eliminate subsidies for farm exports*
    - Developed members committed for immediate removal

    - Developing countries by 2018
        - Will retain flexibility to cover marketing and transport costs for agri exports till 2023 end
- SSM Special Safeguard Mechanism
    - On agri imports
    - To raise tariffs if price falls
    - India's argument: dvped ctries have used it in some form or other
    - India actively pursuing its use for dvping ctries
    - Received in-principle approval in Nairobi declaration
- Public stockholding for food security by some dvping ctries allowed - interim (India)
- Unrestricted market access in non-LDC economies for 'Made in LDC' products
    - India already provides duty and quota free access
- Affirmation to RTAs (Regional Trade Agreements) as complementary, NOT substitute of WTO
- Acknowledged 'different views' on addressing Doha Round negotiations, noted 'strong commitment' to advance negotiations on the remaining subjects
- Prevent *'evergreening' of pharma patents*
- 7 year timeline to eliminate duty on 201 IT products
    - Conclusion of ITA-2 Info Tech Agreement
    - To drive down prices of video-cameras to semi-conductors
- Why did India stay out of ITA 2?
    - Deal would benefit only some ctries (US, China, Japan, Korea), not India
    - India expected to be consuming $400 bn worth of electronic items -- 75% imported
    - Electronic hardware mfg among main components of 'Make in India' & 'Digital India'; also PLI under 'Aatmanirbhar Bharat'
    - Also, original ITA in 1996
        - Compelled us to keep certain electronic items tariff free -> inverted duty structure + dismal state of Indian electronic industry

MC11 Buenos Aires 2017

The Eleventh Ministerial Conference (MC11) of the WTO was held at Buenos Aires, Argentina during 10-13 December 2017. In the run-up to MC11, decisions were expected on a permanent solution on food security, other agriculture issues and fisheries subsidies. Some of the Members were also pushing for outcomes in the area of e-commerce and domestic regulations in the services negotiations, investment facilitation and Micro, Small & Medium Enterprises (MSMEs).

2. The Conference concluded without a ministerial declaration but with ministerial decisions on fisheries subsidies and TRIPS Non-Violation and Situation Complaints (NVSC) and with a commitment to continue negotiations in all areas where consensus could not be established. Two work programmes were established in areas of e-commerce and small economies. There was no decision on agriculture issues including on permanent solution on public stockholding for food security purposes. The impasse on agriculture issues continued due to gaps in positions of the members.

Informal WTO Ministerial Meeting, Delhi, 19-20 March, 2018

4. In order to continue political engagement on the multilateral trade issues in the aftermath of MC11, India hosted a two-day Informal WTO Ministerial Meeting in New Delhi on 19-20 March 2018. Ministers and officials from 52 member countries of the World Trade Organization (WTO) and the Director General of the WTO attended the meeting. Discussions were held with the aim of providing political guidance for further work in the WTO and the way forward on development.

5. Participants stressed on the need to preserve and enhance the functioning and credibility of the rules-based multilateral trading system as embodied in the WTO. Majority of the participants sought expeditious and immediate resolution of the impasse in the appointment of Appellate Body members - an issue that was viewed to be adversely affecting the credibility and functioning of the WTO.

6. In many interventions deep concern was expressed at the serious threat posed to the credibility of the WTO rules and some of its cardinal principles, such as non-discrimination, by the cycle of recent unilateral trade measures and proposed counter-measures.

WTO Ministerial Meeting of developing countries, Delhi, 13-14 May, 2019

7. India hosted a two-day WTO Ministerial Meeting of trade Ministers on 13-14 May 2019 in New Delhi wherein sixteen developing and six least developed countries along with the DG, WTO participated against a backdrop of continuing unilateral measures, impasse in the WTO and the one-sided narrative being built by a set of countries to dilute core elements of the WTO agreements, including the special and differential treatment for developing countries. The meeting culminated in an outcome document, which lays out priorities for developing countries in various areas. In addition, the document envisages addressing the challenges being faced by the Dispute Settlement system of the WTO.

8. In the meeting, members acknowledged the importance of the WTO as the global forum for formulating trade rules and agreed to work collectively to strengthen the WTO by making it more effective to the diverse needs of developing members including LDCs in line with the objectives of the WTO. India is a votary of multilateralism and will continue to work to strengthen the WTO in order to ensure relevance of the multilateral institution.

MC12 Geneva 2021

- Upcoming

8 Major Agreements under WTO

SCM - Agreement on Subsidies and Countervailing Measures

- Definition of 'subsidy' - 3 basic elements
  - Financial contribution
  - By a govt/ any public body w/in the territory of a Member
  - Which confers a benefit
- All 3 elements MUST be satisfied
- Also applies to measures of sub-national govts, public bodies like state-owned companies

Prohibited Subsidies	Actionable subsidies
- 2 types • Subsidies contingent on export performance • Subsidies contingent on use of domestic content over imported goods - India - LCR in defence, solar...	- Not prohibited - 'countervailing measures' can be taken against these - Can be challenged under DSM - Types of actions • Countervailing duty -- to counterbalance subsidy on imported goods • Anti-dumping duty -- to counterbalance subsidisation aimed at wiping out domestic industry by selling below domestic price/ cost of prodn - Actions must be taken in transparent manner; must specify sunset clause

AoA Agreement on Agriculture

- Concluded in 1994
- Aim: remove trade barriers, promote transparent market access, integration of global markets
- Critique:
  - Very complicated and controversial
  - Tool in hands of dvped ctries to exploit weak countries
- Ongoing negotiations regarding TBT, SPS

Views

Opponents	Proponents
- Agri is matter of livelihood in dvping ctries rather than commerce - Not appropriate to treat it at par with industrial goods - -> disciplines on agriculture should not be included in trade agreements at the WTO.	- WTO negotiations ONLY available vehicle for seeking a reduction in developed-country subsidies - Which have significantly distorted global trade and agricultural production

3 pillars of negotiations towards AoA

Domestic Support:

- Reduction commitment for total support (measured by AMS Aggregate Measurement of Support)
  - 20% in dvped ctries
  - 13.3% in dvping ctries
- S&DT provisions for developing ctries
  - Purchases for/ sales from food security stocks at administered prices (subsidy must be included in AMS calculations)
  - Untargeted (in terms of production/ export) subsidised food distn to meet requirements of urban & rural poor
  - Excluded investment, input subsidies for agri (esp for poor farmers)
- Agricultural subsidies (domestic support) provided by developed countries:
  - Restrict the access of developing-country exports
  - Depress world food prices
  - Subsidised exports by developed countries pose a threat to food and livelihood

security in developing countries by depressing domestic market prices

- July Framework: 2 broad categories of domestic support:

Trade distorting	Non-trade distorting
- Currently: EU, US high flexibility - very high levels of trade-distorting support; though less than WTO ceiling - US offered to lower the ceiling, but would have still been above the actual level of support it provided - G20 disappointed -- esp US seeking effective tariff redn from dvping ctries in exchange for its 'paper reduction'	- ~$90bn subsidies by US, EU, Japan under Green Box - Adversely affect interest of farmers in dvping ctries - Doha round -- no ceiling on green box subsidies; though G20 demanding to limit these to low income farmers only - 'Amber Box' cap set wrt 1986-88 price levels!! (ridiculous) - Absence of discipline on 'Green Box' could undermine gains achieved thru ceiling on trade-distorting subsidies

Amber Box	Blue Box	Green Box
- All distortionary domestic support measures, wrt production, trade - commitment to reduce these - AMS = diff b/w acquisition price & ERP (External Price/ local mandi price) - 20% / 13.3% - De-minimis (5% / 10%)	- Direct payments under production limiting program Also covers payments directly linked to acreage/ animal nos. BUT also limit prodn by imposing production quotas/ requiring farmers to set aside part of their land - Not subject to amber box reduction agreement - Could be tool to reform agri, achieve 'non-trade' objectives -- shouldn't be restricted as less distortionary - 'target price' allowed to be fixed by govt; if mkt price < target price -- can compensate farmers w/ diff -- must not be utilised to expand prodn • == price deficiency mechanism	- Policies not restricted by trade agreement - Considered not trade distorting - Must be govt-funded, not high consumer prices - Must NOT involve price support - Not directed at particular products; can be farming in general - May include direct income support for farmers, decoupled from current production levels/ prices

- De-minimis
  - India's subsidies below 10% limit; consistently growing due to upward revision of MSP + fluctuating mkt prices
  - De-minimis & NFSA
- S&D Box
  - Special & Differential Treatment to developing ctries
  - Duty free and quota free access
- Bali Summit (Trade facilitation and Peace Clause)

Critique:

- Green Box
  - Exploited fully by US - 90% subsidies under Green Box
    - Easily decoupled w/ o/p as not concerned w/ food security, prosperous agro economy
  - Regressive
    - US - green box subsidy = 13% of agri GDP in 1995; India - 2.5%
  - EU, US reorienting farm support programmes by relying mainly on 'green box' subsidies

- Blue Box
    - only partly decoupled w/ production - must be eliminated/ limited
    - No limit on target prices that can be set; often deliberately set way above market prices
    - Actively used by EU
- Amber box
    - Must have been bound to 1996-98
        - Subsidies in western ctries were at historical highs in 1986-88

However, according to Report by Centre for WTO Studies **per-farmer Amber box entitlement for India is a small fraction** of that of developed nations.

- It is also indicated that **number of people engaged in agriculture is significantly higher** in most developing countries and majority of farmers are low-income or resource-poor.

Market Access:

- Measures:
    - Tariff reduction - progressively cut by individual countries
    - '*Tariffication*' -- replace all NTBs into equivalent tariffs
        - quotas, variable levies, min import prices, discretionary licensing, state trading measures, voluntary restraint agreements, etc
    - Single Approach
        - Every member except LDCs must open their market
- Exemptions
    - Special Safeguard Mechanism/ SSM - Nairobi
        - Temporary additional duties if
            - import >> particular level
            - Entry of unusually cheap imports
        - G33: main proponents - SSM very imp given West's significant power to subsidise production, exports
    - Special Products (SPs) -
        - Dvping ctries have right to self designate these
            - Subj to food security, livelihood, rural dvpment concerns
        - Subject to flexible tariff reduction
        - Must also be improved/ reduced
        - US - SP designation should be limited to no more than 5 tariff lines
    - Exemptions for LDCs
- India
    - Agreed, substantial reduced tariffs
    - Only exempted goods kept under control
    - Managed to secure exceptions under SSM
    - Win-win for us if able to diversify prodn, add value by food processing
    - (+) $20bn worth of agri exports --- can help Indian more in the future
    - (-) Abhijit Sen et al - Int'l price variations >> domestic variations
        - -> more instability in Indian agri
    - (-) General issues wrt import, competition (SSM crucial here)

- Dvped ctries: Dvping ctries (incl India) must reduce agri tariffs -- severe consequences (unemployment, poverty, hunger) unless accompanied by substantial redn in/ removal of dvped ctry farm subsidies

- India - worldwide phase-out of 'tariff-quota system'
  - First Q imports have low level of tariff; after that prohibitively high
  - Dvped ctries abusing this

Export Competition/ Contain Export Subsidies:

- Export subsidies, export credits, export insurance, food aid, etc
- Benchmark: 1986-90 levels
  - (!) - Substantially high export subsidies by dvped ctries
  - Almost negligible by developing ctries
- Target:
  - Cut total export subsidies by 36% in 6 yrs (Dvped); 24% in 10 yrs (Dvping)
- HK MC - eliminate export subsidies by 2013
  - Limited actual impact -- significantly less than domestic support
- USA
  - Dodging thru 'Export Credit Guarantee' Program
  - Provides subsidised credit to purchaser of US agri products; w/ long repayment periods
  - Generally done for Food Aid programs (PL-480)
  - -> perpetual dependence on foreign grain in recipient ctries; destroys domestic agri
  - Thus it is equally trade distorting subsidy; yet NOT under ambit of AoA currently
- India
  - 0 export subsidies in 1986-90 -- counted as base period
  - => unable to resort to export subsidies in the future
  - v/s US, EU -- huge window of export subsidies even after meeting reduction commitments
  - Benefited from S&DT under AoA
    - Internal transport, freight charges on export shipments, handling, upgrading and processing costs related to export -- exempted from redn commitments

Agreement on Agriculture AoA 1995 & India

- India didn't have to make many commitments:
  - India's schemes of input subsidies and farm price supports (MSP) were both under the 10% ceiling in the base year.
  - Also, **as a developing country, these were counted in the 'Special and Differential Treatment' box**, which provides enough flexibility for developing countries for their prevailing set of domestic policies
  - no market subsidies apart from the ones in which developing countries had already been exempt from reduction commitments during the implementation period (i.e., the first 10 years, till 2004)
- It was only in market access that India committed to tariff-bound rates representing a ceiling on tariffs that could potentially be levied
- **G20** - seeking parallelism b/w subsidies and tariffs; progress on tariff reduction possible only if subsidy granting ctries rein in their subsidies

- India's Stand on Agricultural Negotiations: (from Gahlaut, need edits)
  - Given the immense importance of agriculture in India, India's stance at the WTO is mainly defensive in trying to maintain its own subsidies, while also going offensive by trying to get the developed countries to reduce their own subsidies

(focus is on defence)
    - We have considerable flexibility to increase customs duties on most agriculture products, as there is a substantial gap between the existing bound rates and applied customs duty
    - Strong pitch for according adequate tariff protection to certain products by designating them special products. These include cereals, edible oils and oilseeds and dairy products
    - As part of G33, India has strongly supported the need for developing countries to have a Special Safeguard Mechanism (SSM) which would allow them to impose additional tariffs when faced with cheap imports or when there is a surge in imports. However, developed countries and some developing countries have sought to impose extremely restrictive requirements for invoking SSM, which would render this instrument ineffective
    - While India's negotiating strategy has been defensive, in general, there are several products in which it may have an export interest. These include cereals, meat, dairy products, some horticultural products and sugar
    - Elements of offensive strategy include asking for a cap under 'green box' subsidies, and rejecting any expansion of 'blue box' subsidies (provided for limiting production)

- [ ] http://infochangeindia.org/trade-a-development/backgrounder/wto-negotiations-and-indias-stand-agriculture-nama-and-services.html
- [ ] http://www.frontline.in/world-affairs/expose-us-hypocrisy-in-wto-talks/article7188323.ece?homepage=true

Other Agreements related to agriculture

- TBT Technical Barriers to Trade
- SPS - Sanitary & Phytosanitary Measures
    - Both TBT & SPS under negotiation at present
- TRIPS
    - IPR protection for Plant varieties
    - India adopted the concept, passed Protection of Plant Varieties and Farmers Rights Act, 2001
    - Opted for Sui Generis system - to safeguard interest of farmers
        - Allows farmers to improve, adapt to improve success in local conditions
        - Can use, reuse but NOT sell these seeds

Way out for India

- Press for redefinition of AMS - total subsidies, not just trade distorting subsidies
- **Development Box**, outside Amber Box
- Use SSM
- Need to shift fiscal expenditure from subsidy to investment
    - Will bring it into **green box**
    - At least 3x effective -- Gulati & Fan
- Use India's offensive interest as a bargaining tool for defensive interests

--- some repetition in the following part, extract non-repetitive content from here ---

Agreement on Agriculture AoA

- Framework for long term reform of agricultural trade, domestic policies over coming years w/ objective of introducing increased market orientation in agricultural trade

- Deals specifically with
    - Providing market access (AMA)
    - Regulating domestic support
    - Containing export subsidies
- Market Access
    - Abolish non-tariff barriers in agri trade, considered distortionary
    - Convert into tariffs -> same level of protection
    - Subsequently, progressive reduction of tariffs by
        - 36% by developed countries over 6 yrs (ending in 2000)
        - 24% by developing ctries over 10 yrs (ending 2004)
- Reducing domestic support
    - 2 types
        - Trade distorting - amber box
        - Non-trade distorting - green box, blue box, S&D Special & Differential Box
    - Green box
        - assistance thru envi assistance programmes; research, training and extension services, marketing information, rural infrastructure, etc
        - NO reduction commitments; NO upper limits
    - Blue Box
        - Direct payment to farmers, eg Deficiency payments (USA, diff b/w MSP & market price), Production limiting programs (EU - surplus production in W Europe)
        - Exempted from reduction commitments; has upper limit though
    - S&D Box
        - Measures by developing countries (otherwise subj to reductions)
            - Investment subsidies & input subsidies
        - Only avbl to resource poor, low income producers in dvping countries
    - Amber box
        - All trade distorting domestic support; quantified in acc w/ AMS - Aggregate Measure Support
        - AMS
            - Product specific - qty * diff b/w dom support prices & external reference prices
            - Non-product specific - subsidy on various agri inputs like fertilisers, electricity, irrigation & credit
    - AoA stipulated redn of AMS by
        - 20% in developed ctries over 6 yrs
        - 13% in developing ctries over 10 yrs
    - De-minimis subsidies
        - minimal amt of domestic support allowed
        - Policies which amount to domestic support (under both product specific, non-product specific) at **<5%** of value of production for developed ctries and **<10%** for developing ctries - excluded from any reduction commitments
- Containing Export Subsidies
    - Developed ctries reqd to reduce
        - Volume of subsidised exports by 21% over 6 yrs
        - Budgetary outlays for export - by 36%
    - Developing countries
        - Volume - by 10% - over 10 yrs
        - Budgetary outlays - by 24% over 10 yrs

Agreement on SPS Measures - Sanitary and Phyto-Sanitary Measures

- WTO sets constraints relating to food safety (bacterial contaminants, pesticides, inspection & labelling) as well as animal and plant health (phytosanitary)

Agreement on Technical Barriers to Trade TBT

- To ensure technical regulations, standards, testing and certification procedures do not create unnecessary obstacles to trade

TRIPS

- 7 types of IP covered -

Patents	Copyrights	Trademarks	
GI Geographical Indications	Design layouts	Undisclosed information	Industrial design

- Members must provide for protection of plant varieties, either by patent of effective sui generis system or combination thereof

India v US - disagreement on farm subsidies

- Market Price Support - gap b/w MSP (at which govt procures crops) & ERP (External Reference Price) set by WTO at 1986-89 prices
    - MPS = MSP - ERP

- US alleged India's MPS to rice in 2013-14 much higher - at 77% production value; 65% for wheat (verify numbers(
- India claims MPS provided to rice was 5.45% -- much lower than 10% prescribed limit
- 2 main reasons
    - Choice of dollar - rupee exchange rate
    - Choice of quantity considered
- US uses total production of rice, wheat rather than qty produced
- India reports its subsidy in dollar terms (using avg exchange rate of ₹60.5/$)
- US converts the external price to rupees, using the 1986-89 exchange rate of ₹13.4/$ (the period when ERP was set)
- AoA does NOT place a binding obligation on India to notify in a particular currency

--- repetition ends ---

SPS - Sanitary and Phytosanitary Measures

- Set out basic rules for food safety, animal & plant health standards
- Allows ctries to set their own standards -- must be Scientific regulations!
- Application to extent necessary for protection of human/ animal/ plant life or health
- Must not arbitrarily/ unjustifiably discriminate b/w ctries where identical/ similar conditions prevail
- History w/ India
    - Alphonso exports to Europe

TRIMS Trade Related Investment Measures

- Rules applying to domestic regulations which a country applies to foreign firms investing in the country as part of industrial policy
- Restrict preferential treatment of domestic firms
- Enable int'l firms to operate more easily in foreign markets
- Addresses 7 issues

Domestic content requirements	Forced transfer of technology
Domestic sales requirement	Forex use restrictions
Restriction on import of inputs, intermediaries	Discrimination against foreign firms
Employment restrictions	

- Bans traditional practices aimed at unfair promotion of domestic interests

Local content requirements	Trade balancing rules
Domestic sales requirement and export restrictions	Export performance requirements
Forex and local equity share restrictions	Mfg requirements
Tech transfer requirements	Employment restrictions
Fiscal incentives for these behaviours	

- Critique:
    - Prevents imposition of performance clause on foreign investors wrt earning foreign exchange, foreign equity participation, transfer of tech
    - Requires at par/ better treatment for foreign companies
    - Prevents imposition of restriction on areas of investment
    - Requires free import of raw materials, components and intermediaries
- Developing ctries

    - Infant industry argument
    - BoP argument - need protections to balance favourable BoP otherwise domestic mkt will be flooded w/ foreign goods
    - How these provisions act as check against their industrialisation
    - Want to <u>expand Negative list of TRIMS</u>
- Timelines (starting 1995)
    - Transitional period
        - Developed ctries - 2 yrs
        - Developing countries - 5 yrs
        - LDCs - 7 yrs
    - Equitable provisions allowed - national govts could impose existing rules on new FDI during transition
    - Exceptions for developing countries on ground of adverse BoP
- Exemptions
    - Negative list
    - Govt procurements
- India
    - Modified its laws well before end of transition period; has no outstanding obligations to WTO in this regard. (Commerce Ministry)
    - <u>India regularly imposes local content requirements for sourcing from SMEs, restrictions on foreign equity shares in FDI in some sectors (although such sectors are very few now) etc</u>

Solar Mission Domestic Content requirement	- Subsidy of upto ₹1cr/ MW to solar developers sourcing components from local manufacturers - Stipulates that 10% of 100GW solar capacity target by 2022 should be built w/ domestically manufactured solar modules
India's Defence	- Principally '<u>govt procurement</u>' justification - Measures justified under general exceptions, as this was necessary for compliance w/ int'l law obligations wrt ecologically sustainable dvpment & climate change - Only a small portion of demand can be met by India (capacity 1.5 GW)-> substantial mkt for foreign component makers - 9 US states have similar measures - 90% cheap imports - dumping by China (70%) - Hurts sustainable fight against climate change -- greater envi costs of mfg solar cells at one place and transporting to use destination - KPMG: India can save $40 bn by 2030 by mfg at home

    - National Procurement Policy, 2017
        - FDI contingent upon Domestic Procurement from MSMEs (Retail, Trade) although such restrictions are declining
    - 2002 - India dragged to WTO regarding Domestic Procurement in automobiles sector
    - Pros/ Cons
        - FDI, MNC points
        - ? Focus on ancillary industries & multiplier effect

☐ ** edit, merge**

<u>India and TRIMS</u>

- ? Updates?
- Gahlaut:

- In 2002, India had to do away with local content requirements and trade balancing requirements in the automobile sector, following a WTO ruling

- India was dragged to the WTO dispute resolution mechanism by the US in 2013, regarding India's **domestic content requirements under the Jawaharlal Nehru National Solar Mission**, for solar cells and solar modules; the US claims that this amounts to preferential treatment to national industry, and hence violates Article III of GATT and 2.1 of TRIMS. This dispute is ongoing, and judgment is expected in August 2015

  - India's response might include the fact that most of the sourcing requirements are from government, and this is exempt from WTO rules

  - Environmental groups from across the globe, and many from the US, have strongly expressed that the US should not discourage emerging economies such as India from creating an optimal environment for use of renewable energy

  - If the ruling goes in favour of the US and against India, it can spark a north-south divide with respect to climate justice actions. The US government is strongly defending its action before the WTO by stating that it supports the deployment of clean energy technologies all across the world, including India. However, if a country's clean energy initiatives adversely affect the US manufacturers and workers, whereby there is a rise in the cost of clean energy, it would result in the undermining of the shared vision with regard to promotion of use of renewable energy
  - A ruling in favour of India will serve as a great encouragement to emerging economies such as India which wish to reduce the dependence on fossil fuels and increase the use of renewable energy, and at the same time create a sustainable industry
- As a follow-through within a couple of months, India also dragged the USA to WTO alleging that the US, both at the federal and state levels, is offering subsidy programmes in the sector for local content requirements, making the entry of Indian companies difficult and breaching global trading rules.

** end**

TRIPS Trade Related Aspects of IP Rights

- [ ] anurag's on TRIPS, IPR
- [ ] PMF IAS file -- on plant breeders, etc (Desktop)

- Sets down minimum standards of IP regulation applicable to nationals of other WTO members
- Ground rules
  - Meeting obligations of agreements led by WIPO (since before WTO)
    - Paris Convention for the Protection of IP (patents, industrial designs, etc)
    - Berne Convention for the Protection of Literary and Artistic Works (Copyright)

    - Addl areas added in TRIPS
- Bone of contention b/w developed and developing ctries
- Why growing importance of IPR?
    - Incre asing dominance of ***new knowledge economy***
    - Exponential growth of ***scientific knowledge*** - medicines, high tech products
    - Incentivising *long term investment* in R&D -> innovation
    - Increasing dd for *protection of various kinds of innovations*
    - Counter dd for *access to already protected ones*
    - Address complexities linked to IP in *traditional knowledge, community knowledge, animate objects*
- Why do we need TRIPS?
    - Dvped ctries complain of shortening product cycle -> hurting desire to engage in new R&D
        - EU adopted Right to Repair in 2021 against planned obsolescence
- WTO's 5 IPR Principles

Balance	- Balance b/w **private rights** (incentives to create) & **public interest** (ability to access/ use the creation) • Compulsory licensing to meet health emergencies - serves public interest - Balance b/w **short & long run** • LR - society benefits from creation & innovation • SR - social costs imposed
Technology transfer	- Contribute to technical innovation
Equal treatment	- National treatment - MFN
Respect diversity	- Different legal systems of different ctries + different implementation
Uniformity	- Same minimum standards for everyone

- Provisions

Coverage	- Copyrights, Trademarks, Industrial Designs, Patents (incl new plant varieties), GI, etc - Both products and processes - Can be covered under ambit of 'patents for innovations'
Minimum duration	20 years
Pharma test data	- To be protected against unfair commercial use
Protections for developing ctries	- Doha Round • Compulsory licensing • Protection against Evergreening - Bolar exception • Allows firms to get marketing approval of a patented product of another firm, before the expiry of the patent; allows them to make Generic Equivalents as soon as patent expires • If not, original patentee would get addl period of monopoly until generic versions attain marketing approval - Encourages transfer of technology and financial assistance from dvped ctries in case of health emergency - Sec 7, 8

	- Differential time period to comply w/ law

Status of TRIPS in India

- India Patents Act, 1970 did NOT allow patents in pharma
- Modified under Indian Patents (Amendment) Act, 2005
- 20 years of licensing; previously 14
- Patents extended to food, medicine, agro-chemicals, etc
    - Almost all sectors now covered, except for plant varieties
- Conditional patents on life forms (microorganisms)
- IPAB Indian Patents Appellate Board set up
- Rationalised, reduced timelines for processing of patent applications
- Sui Generis (one of a kind) system -- both farmers & breeder have right over seeds under Protection of Plant Varieties and Farmers Rights Act, 2001
- Sec 84 - limited compulsory licensing -- only under conditions of extreme national emergency
- Sec 3(D) - check against evergreening; reaffirmed in Nairobi
- Other acts

GI Act (1999)	Semiconductor Design Act, 2000
Competition Act 2002	Sui Generis Seeds Act

- TKDL Traditional Knowledge Digital Library - ensure traditional knowledge not patented by external firms

Patent Pooling

- PP is an **agreement between two or more patent owners** to license their patents to one another or to third parties.
    - It **supports greater innovation, removes bottlenecks** in patent regimes and **hastens product development.**
- With the outbreak of COVID-19, Public health PP represent an innovative type of partnership that **can be used to manage privately held Intellectual Property rights in public interest.**
    - It can **speed up the effort to find medicines and vaccines** by creation of a pool and immediate licensing.

- new varieties of plants;
- layout-designs of integrated circuit,
- trade secrets and test data.
- Membership in the WTO includes an **obligation to comply with the TRIPS Agreement.**

Some major flexibilities under TRIPs are:

- **Compulsory Licensing:** enables a government authority to license use of a patented invention to a third party or government agency without consent of the patent-holder.
- **Parallel importation:** It is importation without the consent of the patent-holder of a patented product marketed in another country either by the patent holder or with the patent-holder's consent.
- **Exemptions from patentability:** The agreement does not require the patenting of new uses of known products including pharmaceuticals and permits countries to deny protection for such uses of lack of novelty, inventive step or industrial applicability.
- **Limits on Data Protection:** As a condition for permitting the sale or marketing of a pharmaceutical product, drug regulatory authorities require pharmaceutical companies to submit data demonstrating the safety, quality and efficacy of the product.
- **Extension of transition period for Least-Developed Countries (LDCs):** Amendment to Doha Declaration extended transition period for LDCs for implementation of the TRIPS obligations to 2021.

Parallel or grey-market imports are not imports of counterfeit products or illegal copies. These are products marketed by the patent owner (or trademark- or copyright-owner, etc) or with the patent owner's permission in one country and imported into another country without the approval of the patent owner.

About TRIPS Flexibilities • TRIPS flexibilities are **'policy spaces' for countries to mitigate the impact of patents** (i.e., the excessively high price of patented medicines due to lack of competition). • TRIPs agreement and subsequent **Doha Declaration on TRIPS and Public Health of 2001** provide some flexibilities. • Flexibilities aim to **permit developing and least-developed countries to use TRIPS-compatible norms** in a manner that enables them to pursue ○ their public policies, in fields like access to pharmaceutical products or protection of biodiversity, ○ in establishing macroeconomic, institutional conditions that support economic development.	India has asked the **G20 members to work on an agreement that would enable countries to use the flexibilities** under TRIPs. **More about news** • India called for an agreement to enable the use of TRIPS (Trade Related Intellectual Property Rights) flexibilities to ensure access to **essential medicines, treatments and vaccines at affordable prices.** o India uses these flexibilities under Patent Act, 1970 for the public health and emergency purposes. • Such an agreement will make possible for nations to issue **compulsory licenses to make generic copies** of essential patented medicines

TRIPS, Biodiversity, Traditional Knowledge, Plants & Life Forms

- 3 pronged agenda issue under Doha
  - Animals & Plants - patentability/ non-patentability
  - TRIPS & CBD - relnship
  - Traditional Knowledge

Convergence on Necessity	- Need to avoid inappropriate patenting • Where invention is not new/ doesn't involve inventive step - Avoid loosely defined biopiracy - unauthorised use of genetic resources/ traditional knowledge
Divergence on Approach	- India, Brazil: • amend TRIPS so that patent applicants reqd to disclose origin of genetic sources/ traditional knowledge used • Provide evidence of 'prior informed consent' • Provide evidence of fair & equitable benefit distn - Contracts w/ whoever is considered to be rightful owner -- thru national legislation & contractual arrangements + databases that patent examiners can use to avoid bad patenting (eg TKDL) - Some members opposed to patenting of life forms at all

- Different stand on disclosures of different countries
  - Through TRIPS amendment - India, Brazil
  - Through WIPO, not TRIPS - Switzerland
  - Disclosure, but outside patent law - EU
  - ? Use of national legislation, including contracts rather than an obligatory disclosure -- (who?)
- Non-violation complaints
  - Allows members to bring cases if another ctry's action or specific situation have deprived them of an *expected* benefit even if no violation of agreement
  - Different opinions on feasibility wrt IP
  - Current situation - temporary restraint on bringing non-violation complaints
- Status in India
  - Biological Diversity Act, 2000
    - Regulates access to genetic resources, subsequent benefit sharing
    - Provides for conservation of biological diversity
    - Sustainable use of components
    - Fair & equitable benefit sharing

- Protection of Plant Varieties & Farmers' Rights PPVFR Act, 2001
  - Sui generis - protects both innovator and farmer rights
  - 3 roles of farmers
    - Cultivator - plant-back rights
    - Breeders - farmers equivalent to plant breeders
    - Conservers - farmers entitled to rewards from a National Gene Fund
  - Can plant, grow, exchange & sell patent-protected crops & seeds; only can't sell 'branded seeds'
  - Rejected UPOV Convention (Int'l Union for Protection of New Plant varieties) initially
    - Denied farmers freedom to re-use farm-saved seeds, exchange them with their neighbours

Impact of TRIPS on India

- Enforcement, judicial hurdles; overall beneficial outcomes
- R&D increased - spurred Indian companies to invest, encouraged MNCs to outsource more R&D work to India
- Growth (ISB paper)
  - Patent growth - 10% since 1995; 12% from 2005 onwards
  - Growth in trademark applications increased from 10% to 17% since 2005
- Since TRIPS getting patent in India became tougher; once granted - mark of quality + valued higher than before
- Pharma
  - Change in direction - new focus on western markets; prev LDCs
  - Felt challenged for the first time in years -- invested in Drug Discovery programmes, capacity addition in prodn of generic drugs, efforts to mfg patented drugs under license, efforts to get deals for mkting patented drugs in Indian market
  - -> greater dynamism
  - India's considered stance -> pharma still growing at 15% p.a.
  - Full use of exemptions provided under the act
    - Denied evergreening to Gilivec (2013) (Sec 3(d) of Indian Patents Act)
    - Compulsory licensing of medicine by Bayer

Criticism of TRIPS

- 3x patent litigations since 1995
  - Courts juggling to balance pro-innovation and anti-competition effects of IPR
  - Pending patent cases - 50k (2005) -> 2.5 lakh (2018)
- Panagariya
  - IP protection NOT in core mandate of WTO
  - Leads to larger patent protection timelines, cost escalation
- Price effect not limited to patented products; also extends to other products
- Wealth concentration effects - to developed ctries
- Public Health
  - Increase OOPE
  - Counter
    - Bibek Debroy - only 10% of WHO essential drugs covered by TRIPS
    - Provisions against evergreening, favouring compulsory licensing avbl
- Limited technology transfer
- Farmers age old practice -- counter: Sui Generis
- GI Geographical Indication
  - 2 types:

        - For wines & spirits - multilateral GI register; higher level of protection
        - Other products
    - Issue under Doha mandate - GI Extension
        - Demand for extending this high level of protection to ALL products
        - India supporting this through a group called <u>Friends of GI</u> - incl EU, Switzerland, Bulgaria, Hungary, Sri Lanka
- UN: human rights >> IP Rights

TRIPS+

- US, EU unhappy about current strict terms of patent under TRIPS
- Even S Korea, Japan pushing for TRIPS+ in RCEP
- As extra IP protection can't be legally enforced, being done through individual FTAs that EU, US are signing
- Provisions
    - Patents > 20 years
    - Restrictions on compulsory licensing; looser evergreening restrictions
    - Limit on generic medicines
    - Data exclusivity
        - Info on drug's efficacy kept confidential for say 5-10 yrs
        - Thus generic manufacturers can't use this data while applying for licenses; will have 2 alternatives
            - Sit out the exclusivity period
            - Repeat lengthy clinical trials to demonstrate safety, efficacy of drug - effort duplication

- [ ] ** check overlaps in this section, add to yours**

Basics

- Requires member states to provide strong protection for IPR
- WTO agreement that sets down minimum standards for many forms of IP regulations
- TRIPS ratification - mandatory for WTO membership
- Powerful enforcement mechanism - thru dispute settlement mechanism
- Brings about degree of harmonisation of domestic laws
- IPRs covered -- Copyrights, Trademarks, Industrial Designs, Patents (incl new varieties of plants), GI, etc
- TRIPS+
    - Bilateral agreements among nations for higher standard of protection
    - Common feature of FTAs increasingly
    - Thus FTAs create an <u>imbalanced</u> set of rights and obligations in favour of developed countries by ratcheting up the levels of IPR protection

Criticisms:

- Wealth concentration effects - moving money from people in developing ctries to copyright and patent owners in developed ctries
- Imposition of artifical scarcity on citizens of countries that would otherwise have had weaker IP laws
- Although money is needed for R&D, IPR laws in Africa, etc don't significantly affect revenues of big firms -- primary profits come from developed markets, safe from competition
- Arvind Panagariya
    - TRIPS doesn't really fall under domain of WTO's core mandate, which is

trade liberalisation
    - Proponents of TRIPS claim IPR is imp as tech becoming more important in good and commodities, with greater portion of value added from invention and design (intellectual creativity)
    - Trade liberalisation benefits all
    - WTO's championing of non-trade agendas -- TRIPS, labour & envi laws -- inefficiency inducing; benefit rich, hurt poor
    - Ever larger patent protection timelines => high prices for products

Doha Declaration on Public Health
- TRIPS => pharma manufactures can charge above marginal cost of production
- Affects govts' ability to monitor, protect public health
- 2001 - Doha Declaration to clarify TRIPS in the context of Public Health - huge win for G33
- The declaration states that the **TRIPS Agreement would not prevent members from taking steps to protect public health** and makes clear that each member has the right to create certain exceptions to its IPR laws to enable it to grant compulsory licenses for manufacture of essential goods such as life-saving drugs even if the consent of the holder of the IPR is not forthcoming
- A 2003 agreement loosened the domestic market requirement, and allows developing countries to export to other countries where there is a national health problem as long as drugs exported are not part of a commercial or industrial policy
- Challenges to Doha declaration:
    - After Doha, Pharma, the United States and to a lesser extent other developed nations began working to minimize the effect of the declaration
    - The official documents left a number of legal and technical problems unresolved: e.g., the term 'epidemics' hasn't been defined, which might mean that chronic diseases such as AIDS, TB, Malaria etc. are not covered under the exemptions

Future Concerns
- Debate still on about exclusion of life forms and plants from IPR laws
- Protection of innovations of indigenous and local farming communities, continuation of traditional farming practices - right to save, exchange seeds, sell harvest
- Protect rights of indigenous communities, prevent any private monopolistic intellectual property claims over their traditional knowledge
- Grant of same level of protection of GI in other products as in wines and spirits

IPR laws in India and TRIPS
? - Af
- Gahlaut:
    - **Key:** India hasn't been afraid to stand its ground, and while adhering to TRIPS clauses, has ensured that its industry (especially pharmaceuticals industry) does not suffer. This is evidenced by the fact that although India has now allowed product patents in pharmaceuticals, clause 3(d) still allows it to overturn patents that impinge upon public health delivery. Similarly, it has increased the timeline for patent from 7 to 20 years, but has made the granting of new patents significantly tougher, and much more merit based, so the **value of a patent has grown** significantly. The number of patent applications has been growing at about 12% p.a. since

    the new Patent Act of 2005, which is a healthy growth rate by any standards
    - Although TRIPS agreement was finalized in 1994, it took India over a decade to make its laws compliant; this was achieved in 2005
    - **Several domestic laws** such as the **Patent Act, Trademarks Act, Copyrights Act** etc. have been modified from time to time to make them TRIPS compliant
    - In 1970s, India moved from the colonial-era strict patent laws to more relaxed ones, to promote indigenous manufacturing. The 1970 Patent Act abolished product patents for food, pharmaceuticals, and chemicals, and restricted grant of patents in these fields only to process patents. The maximum duration of a product patent was fixed at 7 years
        - The 1970 Patent Act, thus, provided an impetus to the generic drugs industry in India; between 1970-1995, the sector grew at 15%+ p.a.
        - The amendments made to the 1970 PA in 1999, 2002, and then in 2005 made it TRIPS compliant:
        - 2002 (2nd amendment): 'License of right' deleted, 'burden of proof' reversed, microorganisms made patentable
        - 2005 (3rd amendment): Product patents allowed in pharmaceuticals, food, and chemicals, compulsory license now required for export of patented pharmaceutical products
    - Thus, under WTO pressure, when the Indian parliament passed the new patent law in 2005, it not only brought back product patents, but also granted **all patents a term of 20 years.** Moreover, the new law paved way for the formation of **the Intellectual Property Appellate Board**, a specialised judiciary to hear IP cases
    - There is of course a major commercial reason for copyright enforcement, and that has to do with the global cross-sectoral marketing of products
        - The emergence of strong contenders in the domestic software and Bollywood business have led to the emergence of a new culture of IP in India, consonant with the global IP regime
        - Given the changes to many acts such as Patent Act, Copyrights Act, agreement to join the **Berne convention**, Trademark Act etc., along with liberalization of telecom and many other services, show that the global 'proprietary' agenda has become a significant part of India's social and economic features
    - This transition has been chaotic. **Patent litigations have increased three-fold since 1995**, and many of these have been highly controversial and long-drawn affairs. Interestingly, it appears that the courts are also grappling with how to balance the pro-innovation and anti-competitive effects of IPR
    - The Indian Patent Office and courts face significant challenges in interpreting and applying the new Patent Act' s provisions. In the short-term, opponents of stronger patent protection may be able to take advantage of ambiguities in the interpretation of various provisions of the patent law. But this can have serious long-term consequences, as a lack of confidence in the patent system could adversely impact indigenous innovation to a large extent and foreign direct investment to a small extent

- **USA and India:** (May 2015) The office of the USTR has once again placed India on its 'priority watch list' citing what it believes to be India's poor record in protecting IPRs. India's stance is that its IPR laws are TRIPS compliant, and haven't been significantly challenged at the WTO. To change these laws only based on US pressure would reflect badly on the government (Read: http://www.thehindu.com/opinion/editorial/patent-pressures/article7177626.ece)

  - The U.S. administration is irked over the government's announcement of a series of 1,000-MW grid-connected solar photovoltaic (PV) power projects that has a **mandatory condition** that all PV cells and modules used in solar plants set up under this scheme will be made in India.
  - There is already an ongoing dispute at the World Trade Organisation, where the U.S. has complained against India over the Jawaharlal Nehru National Solar Mission's domestic content requirement (DCR) for solar cells and solar modules in projects that it awards.

- *ISB paper:* Despite enforcement and judicial hurdles, **the outcomes of stronger IPRs in India have mostly been beneficial:**
  - The amount of R&D activity in India has increased since TRIPS. Stronger IPR has spurred Indian companies to invest in R&D and **encouraged multinational corporations to outsource more R&D work to India**
  - The average number of patent applications filed per year with the Indian Patent Office (IPO) by Indian residents grew by about 10% since 1995, and by about 12% from 2005 onwards- number of trademark applications increased from 10% growth to 17%
  - It looks like **under TRIPS, getting a patent issued has got tougher, but once granted, the patent is seen as a mark of quality and is valued higher as compared to before**
  - (Several commentators seem to be saying that patent applications grew 'dramatically'; see what line to take here)

- Impact on India's pharmaceutical sector: Several domestic laws such as the Patent Act, Trademarks Act, Copyrights Act etc. have been modified from time to time to make them TRIPS compliant
  - The advent of TRIPS has done wonders for the Indian pharmaceutical sector; for the first time in years, the industry was challenged, and consequently had to make investments in Drug Discovery Programmes, greater capacity addition in production of generic drugs, organized efforts to manufacture patented drugs under license, and efforts to get deals for marketing patented drugs to the Indian market

  - All of this has led to greater dynamism in the industry

  - While this is true, 'big pharma' firms from developed countries haven't been allowed a free run in India, due to carefully drafted exemptions

  - Pre-TRIPS, Indian firms has started exporting large amounts of drugs to LDCs; post-TRIPS, the orientation is changing towards developed countries

  - One unique provision of the Indian Patent Act is embodied in **Section 3, clause (d)**. This provision prevents patenting of minor improvements in chemical and pharmaceutical entities unless the invention results in the enhancement of known efficacy of that substance. This provision is a safeguard for public health purposes and sets a higher threshold for granting pharmaceutical patents. **In January, Gilead Sciences (a US company) was denied a patent by the Indian Patent Office for its drug**

Sofosbuvir that cures Hepatitis C, owing to application of Section 3(d)

  - Section 3(d) has been extremely contentious since its introduction in 2005. The transnational pharmaceutical industry regards it as establishing an unacceptably high barrier to patenting, as do many foreign governments. But many observers, including the United Nations Programme on HIV/AIDS and civil society groups, defend 3(d) and point to India as a model for developing countries attempting to use TRIPS flexibilities to promote public health

  - In 2013, pharma giant Novartis lost a six-year legal battle after the Indian supreme court ruled that small changes to its leukaemia drug Glivec did not deserve a new patent
  - This gives a clear distaste in India for **'evergreening'**- the practise of big pharma firms to make small changes to drugs whose licenses are about to expire, simply to renew their licenses. In such cases, India has started giving out **'compulsory licenses'**
  - The best thing is that *India broke no TRIPS laws*; it's decision is valid under TRIPS, but so far countries had just been too scared to try it

- **Due to India's considered stance, it's pharmaceutical industry is still growing at a strong 15% p.a. rate**

- India and other developing countries have been raising the issue of protection of traditional knowledge and the relationship between the ***CBD and the TRIPS*** Agreement for the last few years in the WTO

- With TRIPS and GATT the level of competition rose with stronger requirements, and India needs policy options to catch up the leading firms. The typical SMEs Indian system has to face a competition with established MNCs, bringing in new kind of business models and dynamic capabilities

- ***Plant varieties:*** India is one of the only countries in the world to have passed sui generis ('of its own kind') legislation granting rights to both breeders and farmers under the **Protection of Plant Varieties and Farmers Rights Act, 2001**. Where a country excludes plant and animal inventions and plant varieties from patentability, it is expected to protect them under an effective sui generis system as mandated by TRIPS

** end **

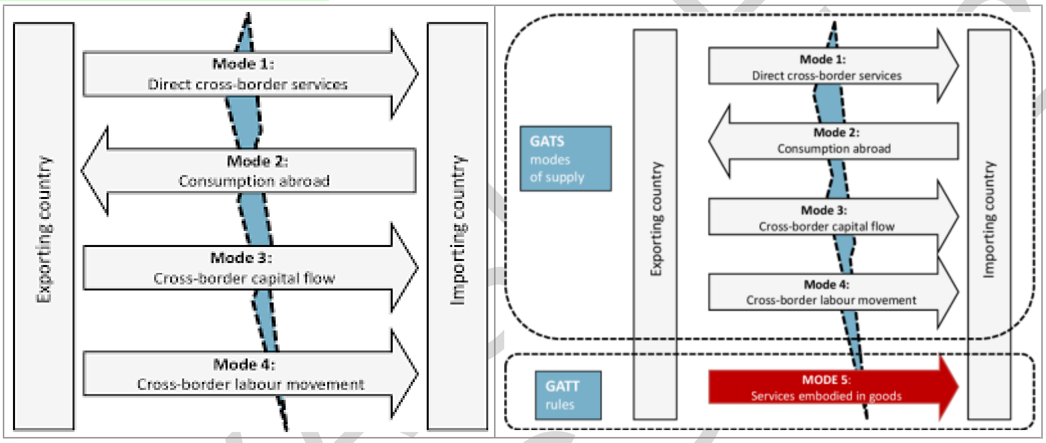
GATS General Agreement on Trade in Services

- Services: account for >60% of global prodn, employment; <20% total trade (acc to BoP)
- Increasing internationalisation of services traditionally considered domestic
  - Likely to continue -- new transmission tech, opening up of entrenched monopolies in many ctries
- Obligation under GATS

General Obligations	**Conditional** Obligations
- MFN for all	- Strings attached; decided by a ctry for specific service (diff

- Transparency	from goods trade) - Market Access - National Treatment

- Positive list of services covered
  - W/120 - Negotiation list
    - List of service sub-sectors that can be negotiated under GATS
  - States take up services which they want to cover
    - India took up **47** service sub-sectors in Doha Round (mnemonic: 1947)
  - NO obligations
- West pushing hard to move to a negative list approach
  - Services where GATS is not applicable will have to be negotiated, agreed upon and specified
  - India against this -- would throw upon entire Indian services sector to western MNC giants
- 4 modes of supplying services



Mode 1
- NO movement of natural persons
  - (consumers or providers) in cross-border ss of services
- Eg. BPO, distance learning
- *India's interest to push for liberalisation* given its large HR pool, competitive IT industry

Mode 2
- Consumption abroad
- Eg. Students travelling abroad (US largest destination, next UK)
  - Tourism

Mode 3
- Cross-border capital flow
- Commercial presence of service provider from one country in territory of another
- West's interests to push for liberalisation here
  - Sustained pressure to open up higher ed, insurance, medical
- India may also have *some interest* as more Indian MNC's acquiring foreign companies, increase in OFDI outward FDI

Mode 4
- Cross-border labour movement
- Natural persons providing services move to another ctry's territory
- Eg Infosys, TCS sending engineers for onsite work in US/ EU/ Oz
- India's interest to push for liberalisation
- 2012: India dragged US to WTO's DSB over increase in professional visa fee (H1B/L1)
- Other issues
  - ? totalisation agreement (?)
  - Brain drain

- Remittances

- TFS - India wants extension of Trade Facilitation Agreement to Services, especially Mode 1,2,4
- Ratchet effect --
    - Can't roll back commitments
    - New commitments must be better or at least as good
    - Similar to Paris Agreement (Envi)
- India's initiative for services exports --
    - SEIS
    - GST free on Services Exports
        - Many services like edu, health have 0 GST rates
    - FTA w/ ASEAN extended to services as well
    - ? Pushing in RCEP for __
    - ? More recent stuff

India's offensive interest wrt Mode 1 & Mode 4

- (vis-à-vis defensive interests in agri, NAMA)
- Also a bit for Mode 2
- What we want?
    - Economic needs test, portability of health insurance, mutual recognition of degrees, removal of barriers to movement of professionals
- Also reqd -- domestic regulatory reforms to prevent market failure, address issues like quality control, accreditation & equivalence, effective regn & certification systems, revenue sharing, enhance transparency
- Market access commitments by India must be preceded by effective regulatory fw
- ? Submitted draft TFS in 2017 (no idea what happened to it)
- Basic idea - facilitate trade in services by Single Window Clearance, provisions for Transparency, Streamlining Procedures
- Specific points:
    - Portability of social security contribution (Totalisation agreement)
    - Facilitate movement of skilled workers (Mode 4)
    - Boost insurance coverage to medical tourism
    - Room for S&D treatment to LDCs
- Opposition to TFS
    - West opposed specifically on immigration issue (Mode 4)
    - Africa not enthusiastic (Service deficit)
    - Pakistan opposed (highlights one track opposition focus)
- Similar pact - Trade in Services TISA led by US - Multilateral; excluded India
    - Hasn't reached any conclusion as of 2021

GATS & market access for higher education

- Western ctries pushing hard to get unrestricted access to Indian edu sector under Mode 3 -- India defensive
- Higher ed under GATS -> tradeable commodity; currently treated as not for profit
- Possible that any agreement will curb power of Indian govt to provide subsidy to the sector
- Likely to affect reservation policy of India
- Foreign university will consume scarce educational human resource avbl in India -> less competitive domestic and public institutions starved of good teachers
- Speed up process of brain drain -- foreign universities likely to design courses under ambit of their parent insti
- Pros:

- Gross enrolment in higher edu is just 23% - govt aims to increase it to 30%
- Over time, competition will result in better educational alternatives for students at lower costs

- Need redlines while negotiating -- support to public insti, scholarship to weaker sections, reservation policy

- [ ] **edit, merge**

Basics

- **Article 1:** defines 4 modes of ss in service trade sector (examples related to education sector)
  - Mode 1: cross border supply
    - E-learning, correspondence courses, etc
    - Huge market in India; massive comparative advantage of Western universities
  - Mode 2: consumption abroad
    - Involves movement of consumers
    - Barriers: visa requirements , recognition of prior qualifications, quotas on no of students, restrictions on employment while studying
  - Mode 3: commercial presence
    - Issues: FDI, IPRs
    - Internal 'brain drain' of academics from domestic to foreign players possible
  - Mode 4: presence of natural persons
    - Affects teachers/ researchers going abroad temporarily
    - Perceived barriers: tight immigration policy, recognition of qualifications, etc
    - Mostly horizontal so far i.e. Movement in same firm, concentrated among top layer of employees

GATS Part 2 covers articles 2-5

- **Article 2:** MFN Clause
  - fundamental principle of GATT, WTO
- **Article 3:** Transparency
  - Annually inform WTO of new laws, changes to existing laws that affect trade in services
  - Uneasy for developing ctries -- makes regulatory mechanism public; brings out weaknesses
  - 'clean' regulatory mechanism - beneficial for general population -- eliminates monopolistic tendencies
- **Article 4:** increasing participation of developing ctries
  - Improve domestic capacity and efficiency of 3rd world - access to tech on commercial basis
  - Access to distribution channels, info networks
  - Liberalisation of market access
- **Article 5:** recognition of qualification, work experience
  - Involves international standardisation of quality of content, recognition of universities based on predetermined criteria
  - Difficult for 3rd world, esp if standards are set high

GATS Part 3 -- market access and national treatment

- 6 limitations defined on market access - no. Of service providers, value of

transactions, number of service operations, number of natural persons, specific type of legal entities, participation of foreign capital
- Quotas often used by developed ctries
- Limitations on FDI used by developing countries
- National treatment -- domestic industries can't be accorded any special treatment vis-a-vis foreign ones

Other provisions
- Overall goal of GATS - remove barriers of trade
- Members free to choose
  - Which sectors are to progressively 'liberalised', i.e. Markets and privatisation
  - Which mode of supply would apply to a particular sector
  - To what extent liberalisation will occur over a given period of time
- Services Sector Classifications - defined in W/120 list -- list of all sectors that can be negotiated under the GATS
- Members' commitment governed by 'ratchet effect' - commitments are 1-way, can't be wound back later
- Article XXI - does allow members to withdraw commitments' so far USA, EU are the only members who have exercised this option

GATS and India
- ? Present?
- Gahlaut:

  • While national governments have the option to exclude any specific service from liberalisation under GATS, they are also under pressure from international business interests to refrain from excluding any service ‘provided on a commercial basis’

   Important public utilities such as water and electricity most commonly involve purchase by consumers and are thus demonstrably ‘provided on a commercial basis’

   The same may be said of many health and education services which are sought to be 'exported' by some countries as profitable industries

  • The single biggest apprehension about GATS is the opening up and liberalization of sensitive social sectors like education, health, water, and energy

  • GATS could lead to erosion of autonomy and sovereign right of governments to lay down policy, regulate, and legislate

  • Several proponents of GATS say that concessions made under GATS by India need not necessarily be counter-productive to India, but their effects will depend on our diplomatic and negotiating capabilities. They say that as long as we can make use of cross-sectoral and cross-modal leverages, outcomes need not turn out unbalanced

   However, such arguments forget that in any such negotiations, sections of the society with a comprehensive political voice are likely to gain (such as the middle class, who would want easing the restrictions on Mode 4 of GATS, which deals with movement of labour in the services sector across national boundaries), while poor rural population is likely to lose, in the form of privatization of essential services (Modes 1 and 3)

• GATS does specify that members may take measures to 'protect public morals or public order', but these terms aren't concretely defined. Any dispute arising from differing interpretations will be adjudicated not by India's courts, but by a WTO tribunal, which brings forth serious questions on India's autonomy

• Important: Thought listed and discussed separately, the Articles in GATS have a high degree of overlap.
 For example, if Mode 4 in Article 1 is accepted by India, without proper negotiations about Article 5 which deals with recognition of qualifications, it will not lead to better circumstances for Indian workforce
 If Mode 3 (Commercial presence) is liberalized before Mode 4 (movement of natural persons), FDI flows in India will precede international skilled migration
 The 'sequencing' of acceptance during negotiations of different Articles in therefore very important

GATS and US

- Very vocal in negotiations
- Services -- 80% of US employment, over 65% of GDP
- Entertainment industry in US increasingly called 'copyrights industry'
  - Contributed 5-7% of US GDP
  - Thus US is big proponent of liberalising AV services
- Side note: debate on AV services -- tradable commodity vs expression of heritage that needs to be protected from unbridled globalisation
  - EU favour protectionism
  - India, US favor liberalisation, given strong entertainment industries

** end**

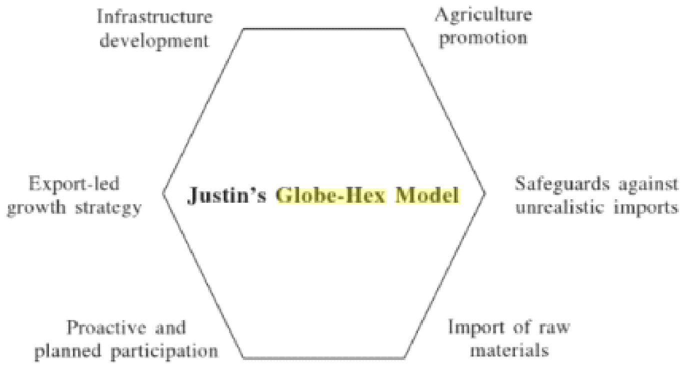
Agreement on Textiles & Clothing Act

- Previously regulated by Multi Fibre Arrangement MFA
  - 1974-2004
  - Imposed quota on amt of clothing & textile exports from dvping ctries into dvped ctries -- conflict w/ GATT principles
- Absolute advantage to developing ctries, ctries w/o welfare state
  - Labour intensive sector; low labour costs
- Taken over by WTO's Agreement on Textiles & Clothing in 1995; active till 2004 after which textile sector was fully integrated into normal GATT rules
- ONLY WTO provision w/ built in self-destruct mode
- Didn't necessarily negatively impact all developing ctries
  - EU imposed no restrictions/ duties on imports form emerging ctries like Bangladesh -> massive expansion

GATT

JUSTIN'S 'GLOBE-HEX' MODEL: STRATEGIES FOR SUCCESS*

The word "Globe" represents globalization and "Hex" (Hex is abbreviation for Hexagon which is a polygon of six sides) symbolizes the six strategies that



* Model developed by Prof. Justin Paul and his former students Chejan Majethia and Amit Dosh.

should be implemented by the Governments of developing countries. Private sector firms can also adopt some of these strategies.

The following strategies should be adopted by the Governments while dealing with all the issues and concerns in relation to WTO:

Strategy 1: Proactive and Planned Participation

The authorities and industry associations should participate in the future negotiations within the ambit of WTO in order to protect the national interests and for making the playing field less uneven given the space available.

Measures. The Government of India has to put forth the policies that would shape up the future economy. The Government must form a team of experts (the team can be named as **"Team Globe-Hex"**) immediately to review the impact of WTO Agreements signed during the previous conferences held at Cancun, Doha, Seattle and Singapore, and to suggest strategies for the firms. Each member has to be assigned the responsibility of implementing measures pertaining to one of the six Globe-Hex strategies. On the whole, the Globe-Hex team should study the issues related to TRIPS and GATS and work out solutions to protect the interests of the country in the long run.

Strategy 2: Export-led Growth Strategy

The firms should follow export-led growth policy rather than depending merely on the domestic market activities. Even assuming that the Indian exports are hampered by the slowdown of US and Japanese economies, nevertheless, it would not be an ambitious target to increase its global share in the world trade from 0.7% to at least 1% in the distant future.

Measures. The Market Access Initiative (MAI) announced in the EXIM policy should be strengthened so that commercial intelligence would be strengthened. This would catapult exports to $ 100 billion in the near future. Hopefully, this target would be turned into realties; otherwise, the effectiveness of MAI would remain on paper. Crores of rupees would be required for these purposes and the Government has already provided Rs. 100 crores to the states to start acting on the export propellants. Exporters should try to make use of the opportunities for business through Export Promotion Councils.

Strategy 3: Infrastructure Development

In India, it takes about seven days to load or offload a container. Any other technologically advanced port abroad performs the same task in 7–8 hours. Therefore, India should develop technologically advanced ports and have infrastructure facilities and invest in R&D.

Measures. There should be no dearth of funds for boosting exports and creating infrastructural facilities. The Government should make efforts to woo the private sector in these cash-starved and obsolete domestic ports with a view to modernizing them. The Government should have full commitments in assisting the industry in R&D, market research, specific market and product studies, providing warehousing facilities and retail marketing infrastructure. Though the Government is committed to do so under MAI, so far no initiatives have been taken.

Strategy 4: Agriculture Promotion

The Government and exporting firms should formulate and implement the strategy for giving primacy to the promotion of agricultural exports to enable the country to position herself to take advantage of the expected liberalization of the world agriculture trade.

Measures. The lack of information regarding the global prices, demands and quality standards have prevented many predominantly agricultural regions from fully participating in international trade. Setting up export bodies can fill up this information gaps. Though an initiative has been taken in this regard through setting up of the Agro-Economic Zones (AEZ), the Government should consistently monitor their operations and provide facilities to the exporters. For the promotion of the agricultural sector, facilities such as Export Promotion Capital Goods (EPCG) should be extended to all agricultural items. It would also be worthwhile to actively involve the panchayats and village cooperative societies in the Agri-Economic Zones to take the policy to a logical conclusion. The involvement of Agri-Process Export Development Authority could provide timely help to make this pursuit a resounding success. Take, for example, the wheat exports. If proper mechanisms had been in place by institutionalizing the procedure of export of wheat and other agricultural products early enough, the situation of exporting wheat at a discount price in the country would not have arisen.

Strategy 5: Safeguards against Unrealistic Imports

Adequate safeguards should be made to counter any surge of unrealistic imports. The Ministry of Commerce should take timely and tactical decisions on anti-dumping duties so that any unrealistic imports with a motive of destroying the local industries. The firms should give timely information about the anti-dumping to the government bodies.

Measures. To collect the information about the imports, the Government should set up a Standing Group. Members of this Group should be people from all the industries and its task should be collecting and publishing a statement about

Exchange Rate Regime

10 November 2020 16:24

- [ ] New Exchange Rate Regime
  - [ ] Partial and full convertibility
  - [ ] Capital account convertibility

Uma Kapila

12 January 2021 23:01

BoP

BoP components
- Current account
  - Merchandise
  - Invisibles
    - Services - travel, transportation, insurance, GNIE (govt not included elsewhere), misc.
    - Income
    - Transfers - no quid pro quo
- Capital account
  - Acc to instrument -- debt vs equity
  - Acc to maturity -- short vs long term
  - Foreign investment (non-debt liabilities)
    - FDI
    - Portfolio - FII
    - ADRs/ GDRs
  - Loans (debt liabilities)
    - External assistance
    - ECBs External Commercial Borrowing
    - Trade credit
  - Banking capital (debt liabilities)
    - Incl NRI deposits
- Errors and omissions
- Changes in forex reserves

India's BoP reflects
- Changes in our development paradigm
- Exogenous shocks
- 7 6 events with lasting impact
  - 1966 devaluation
  - 1st and 2nd oil shocks - 1973, 1980
  - External payment crisis 1991
  - East Asian Crisis 1997
  - Y2K event of 2000
  - Global financial crisis 2008 → now also covid
- Bg for 1966 crisis
  - Reasonably open in early 1950s
  - Gradual decline of external share
  - Export basket: traditional items - tea, jute, cotton textiles
    - Low scope of expansion of world trade
    - Competition from new emerging suppliers
  - Policy emphasis - import saving rather than export promotion
  - Heavy imports for Mahalanobis plan but modest exports
  - Persistent CAD
  - Major BoP crisis
  - Sharp devaluation increased export competitiveness
    - Exports growth outpaced imports growth

- Current account surplus
    - Exports growth + invisible receipts increased
- Oil Shocks
  - 1st shock - 1973-74
    - Buoyant exports, spurt in private transfer receipts, increased inflow of aid
    - Smooth adjustment
    - Significant utilisation of aid
  - 2nd shock - 1980
    - More severe
    - Imports doubled b/w 1978 and 1981 -- mostly POL Petrol Oil Lubricants
    - 2nd round effects on non-POL imports
    - Subdued export performance due to severe international recession
    - Adjustment: EFF Extended Fund Facility negotiated w/ IMF
    - Intensified efforts to improve domestic production of crude oil
  - Factors against external stability
    - Subdued global growth conditions constrained export promotion measure effectiveness
    - Moderation of private transfers -> surplus due to invisibles also deteriorated
    - Debt servicing had increased w/ greater recourse to debt creating flows (ECBs, NRI deposits)
    - Deterioration in fiscal position due to twin deficit risks
- 1991 BoP crisis
  - Rapid increase in inflow of foreign borrowing
  - Excess domestic expenditure over income
  - Rapid depletion of forex reserves
  - Double digit inflation - oil price increase due to Iraq invasion of Kuwait
  - Downgraded credit rating
  - Net outflow of NRI deposits
  - Led to structural reforms
    - Insulated us from East Asian Crisis
  - **Rangarajan Committee** 1993
    - High level committee on BoP
- Y2K
  - Software exports got boosted
  - Migration of Indian software engineers to advanced economies
  - Sharp increase in service exports surplus, remittance account
  - Current account surplus also recorded

2011-12 to 2018-19
- Periodic shocks emanating from advanced economies + thru financial channels
- Shocks amplified due to
  - Weak external demand
  - Relatively stronger domestic demand
  - Heavy dependence on crude oil imports
- Widening of CAD
- Volatile external financing resources -> sharp depreciation of rupee
- Consistent CAD
  - Surplus on service trade
  - Positive net transfers from abroad (invisible earnings)
  - Higher trade deficit due to rising crude oil prices
  - Merchandise imports grew relatively faster than exports
- New export support policy
  - Widespread custom rate increase

- Increase in import duties

Capital flows

- Opportunity for developing countries
  - Large pools of int'l capital
  - Highly mobile across borders
  - Access to additional capital
  - Financing in both private and public sectors
  - Risk of volatility
  - Investor perceptions vulnerable to contagion
    - Even when not justified by underlying fundamentals
  - Financial system not strong enough to deal w/ inward, outward capital mobility
- Trilemma in internationally integrated capital market flows
  - Free capital mobility
  - Stable exchange rate
  - Independent monetary policy
- Undesirable to allow too large an appreciation in exchange rate in response to temporary capital flows
- Sterilised intervention: interest cost on budget
- Unsterilised intervention: increased liquidity and inflationary pressures
- Gradual move to fuller capital account convertibility
  - Pace st authorities able to deal w/ unexpected volatility
- Difficult to manage surge in capital inflows even with capital calibration
- Relative attractiveness of different types of flows

External Debt

- Prudent external debt policies
- Focus: sustainability, solvency, liquidity
- Emphasis
  - Monitoring of long and short term debt
  - Raising sovereign loans on concessional terms w/ long term maturities
  - Regulating ECBs through end use, all-in-cost restrictions
  - Rationalisation of interest rates on NRI deposits
- Structural transformation in composition of external debt
  - ? Decline in concessional debt
  - Non-govt external debt dominant and growing
- Maturity profile continues to be dominated by long-term loans
- ~50% US Dollar denominated debt
  - Followed by INR (35.7%), SDR, Japanese Yen, Euro
- Continues to be among less vulnerable countries
- Key debt indicators compares well with other indebted developing countries
  - 2nd lowest $\frac{external\ debt\ stock\ ratio}{GDP}$; after China
  - 5th highest cover provided by forex reserves to external debt
  - 8th lowest debt service ratio
- 3rd largest debtor country among developing countries
- Short term debt only 18.6%
- Not among top debtor countries globally (26th)

** QEDS Quarterly External Debt Statistics

- By IMF & WB
- For countries subscribing to IMF's Special Data Dissemination Standard / General Data Dissemination System

Forex Reserves

- 2 interlinked areas
  - Theory of reserves
    - Institutional and legal arrangements for holding reserve assets
    - Conceptual and definitional aspects
    - Objectives
    - Exchange rate regimes
    - Conceptualisation of appropriate level of reserves
  - Management of reserves
    - Guided by portfolio consideration
    - considerations: safety, liquidity, yield
- Motives for holding reserves
  - Transaction
    - Currency flows due to int'l trade, held by banks
  - Speculative
    - Individuals/ corporates
  - Precautionary
    - Central Bank reserves
    - +ve: wealth, cost of covering unplanned deficit
    - -ve: return from alternative assets
- Objectives
  - Maintain confidence in monetary and exchange rate policies
  - Enhancing capacity to intervene in forex markets
  - Limiting external vulnerability; forex liquidity absorbs shocks during crisis
  - Market confidence that external obligations can be met, incl credit rating agencies
  - Comfort market participants
- Approach
  - Until 1991- traditional approach-- maintain appropriate level of import cover, measured in terms of months of imports equivalent to reserves
  - After 1991
    - paradigm shift w/ R**angarajan Committee recommendation**s
      - Ensure reasonable level of confidence in int'l financial and trading communities
      - Need to take care of seasonal factors in any BoP
      - Counter speculative tendencies
      - Minimal cost of carrying liquidity
    - Market determined exchange rate
    - Emphasis on import cover supplemented w/ objective of smoothening out volatility in exchange rate
      - Size, composition and risk profiles of various types of capital flows
      - Types of external shocks
    - Size + quality of reserves matters
    - Need unencumbered reserve assets
    - Forward liabilities maintained at relatively low level (encumbered)
- Developments
  - India continues to be one of the countries that have sizeable foreign exchange reserves
    - Imp since some of the other major reserve holders have large current account surpluses
  - Among major economies w/ CAD, India has 2nd largest forex reserves after Brazil

Foreign Exchange Rate Policy

- Broad principles:

    - Careful monitoring
    - Management of exchange rates w/ flexibility
    - Allowing underlying dd & ss conditions to determine exch rate movements
- RBI intervention objectives
    - Reduce excess volatility
    - Prevent emergence of destabilising speculative activities
    - Maintaining adequate level of reserves
    - Orderly forex market
- 2 distinct phases
    - Two-way movement until July 2011
    - Sharp decline since Sep 2011
        - Supply-dd imbalance in domestic forex market due to FII inflows slowdown
        - Strengthening of USD
        - Heightened risk aversion
        - Deleveraging due to Euro Area crisis
        - Domestic: increasing CAD, high inflation
- Exchange rate
    - Bouts of volatility
    - Combo of domestic, global factors
    - Export contraction
    - Portfolio outflows
    - Gradual normalisation of US monetary policy
    - Global bond market sell off
    - REER - Real Effective Exchange Rate
        - Important indicator of export competitiveness
        - Common measure of alignment of currency to its true value
        - Appreciated continuously early 2014 onwards
- Impact of exchange rate volatility on some sectors
    - Ambiguous effect on trade in India; results heavily dependent on underlying assumptions
    - Volatility impacts different sectors and firms at different levels
    - Firm level performance (SR)
        - affected through import cost channel
        - Not export competitiveness channel
        - => real depreciation likely to result in contraction in real output growth atleast in SR
    - High import intensity sectors more impacted by depreciations -- value of imported inputs affected
    - Low import intensity sectors in advantageous position in price-sensitive international markets

Implications of global developments on India
- India integrating with RoW
    - Evidence: high and increasing correlation b/w Indian GDP growth and world GDP growth
- Capital inflows, exchange rate, asset prices co-move strongly w/ other emerging markets
- economic developments and monetary policy of advanced economies
- global liquidity conditions
- EMDE growth projected to strengthen (till 2019-20)
    - Improved global manufacturing activity
    - Robust global trade
    - Broadly favourable financing conditions
    - Firming commodity prices

- Updates in context of COVID

Convertibility

14 October 2021 22:54

Definitions of Convertibility

- Convertibility of currency means when currency of a country can be freely converted into forex at market determined exchange rate
- Freedom to convert local financial assets into foreign financial assets at market determined rates of exchange

Current Account Convertibility

- When forex received for export of merchandise and services can be freely converted into INR & vice-versa for exports

History

- 1970s, 80s - many countries adopted free convertibility
- 1992 - LERMS Liberalised Exchange Rate Mgmt Scheme -- ₹ became partly convertible

Share of current account receipts	
60%	Freely convertible into ₹ at market determined rate
40%	Surrendered to RBI and officially fixed exchange rate

  - 40% - meant for financing govt forex needs + financing imports of essential commodities
  - Partial convertibility = dual exchange rate system
- 1993 - ₹ fully convertible for all trade in merchandise
- 1994 - invisibles, remittances also became freely convertible
- Even so - capital account remained non-convertible

Pros of currency convertibility

- Encouragement to exports -- mkt rate >> official exch rate -> exporters earn more ₹ than forex for any given amt of export
- Encourages import substitution
- Incentivises remittances from abroad -- improves BoP
- Reduction in malpractices (eg under-invoicing of exports)
- Self-balancing mechanism -- Bop deficit due to over-valued exchange rate -> currency depreciates -> exports boosted -> no need of RBI intervention

Capital Account Convertibility

- Freedom to convert local financial assets into foreign financial assets at market determined exchange rates
- ? Aka Capital Asset Liberation/ Liberalisation
- Implies free exchangeability of currency at lower rates + unrestricted capital mobility

Pros of capital account convertibility

- Unrestricted capital mobility
- Ability to invest abroad easily
- Improved access to global financial markets

Cons of capital account convertibility

- Easier access to hawala money
- High volatility of markets

Tarapore 1 Committee on CAC 1997

- Setup by RBI; Chman: SS Tarapore (RBI DG)
- 3 crucial preconditions proposed for Capital Account Convertibility

Precondition	Recommendations	Current status
Fiscal consolidation	- Gross Fiscal deficit: GDP -- bring down from 4.5% (1997) to 3.5% (1999-00) - Consolidated sinking fund to meet govt's debt repayment needs; financed by increase in RBI's profit transfer to govt & disinvestment proceeds	
Mandated inflation target	- Inflation rate b/w 3-5% on avg b/w 1997-2000	
Strengthening of financial system	- Gross NPAs of PSBs -- 13.7% to 5% by 2000 - Avg effective CRR -- from 9.3% to 3% - RBI should have a Monitoring Exchange Rate Band of +- 5% around a neutral REER - Design external sector policies to increase current receipts: GDP ratio; bring down debt servicing ratio from 25% to 20% - Use 4 indicators to evaluate adequacy of forex reserves to safeguard against any contingency	

- Time limit: 3 yrs; until 1999-2000
- Other recommendations:
  - RBI should have monitoring exchange rate band of 5% around REER; should intervene only when REER is outside this band
  - CAD should be withing manageable limits; reduced debt servicing ratio from 25% to 20% of export earnings
  - Forex reserves should be adequate to meet import and debt service payments (~ $22 bn - $32 bn)
  - Govt should remove all restrictions on movement of gold

Tarapore 2 Committee on CAC

- Suggested 3 phases of adopting the full convertibility of rupee in capital account
  - 1st phase - 2006-07
  - 2nd phase - 2007-09
  - 3rd phase - 2011
- Recommendations:
  - Ceiling for ECB should be raised for automatic approval
  - Allow NRIs to invest in capital markets
  - Tax benefits for NRI deposits
  - Improved banking regulation
  - Prohibit FII from investing fresh money raised through participatory notes
  - Existing P-notes holders should be given an exit route to completely phase out PN
- Full capital account convertibility had seemed favourable in 2006 at the time of submitting the report

- 2008 - ctries with full CAC were worst affected

Current Status of Capital Account Liberalisation

Account	Description	Regulation --- ss is old data
Authorised dealers AD		RBI has provided license to the entities for dealing in foreign exchange. They have 3 categories: a) Authorized Dealers Category-I (Public, Private and Foreign Banks). b) Authorized Dealers Category-II (Authorized on the city basis. They include cooperative banks, private forex dealers and travel agents etc.). c) Authorized Dealers Category-III (Nonbanking Finance Corporations) The authority vested in the hands of AD-I is largest (ranging from stock market transactions to NRI accounts, ECBs, ADRs etc.) while other categories of ADs have a limited role to play.
FDI		FDI is restricted in the following sectors: a) Multi brand retailing. b) Lottery (public, private, online), gambling, betting and casino. c) Chit funds and Nidhi Company. d) Trading in Transferable Development Rights in real estate business or construction of farm houses. e) Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes f) Atomic energy and Railway transport In rest other sectors such as agriculture, mining, manufacturing, broadcasting, print media, aviation, courier services, construction, telecom, banking, insurance etc; the limits of FDI range from 26% to 100%. All the foreign operators have to abide by the sectoral restrictions of the statutory regulators in addition to FDI rules.
ADR/ GDR by Indian Companies		Indian companies can raise additional finances abroad through the issue companies of ADRs/ GDRs, in accordance with guidelines issued by the Government of India. Unlisted companies, which have not so far accessed the ADR/GDR route for raising funds in the global market, would require prior listing in the domestic market. Unlisted companies, which have already issued ADRs/GDRs in the international market, have to list in the domestic market on making profit or within three years of such issue of ADRs/GDRs, whichever is earlier. A Limited two way fungibility scheme is also operationalized through the custodians of securities and stock brokers under SEBI.

ECBs/ FCCBs Foreign Currency Convertible Bonds		The ECB limit under the automatic route is enhanced to USD 750 million (Circular No. 27 dated September 23, 2011). The maturity guidelines have also been revised (Circular No.64 January 05, 2012). (a) ECBs up to $20 million in a financial year should have a minimum average maturity of three years. b) ECBs of more than $20 million and up to $750 million or equivalent should have a minimum average maturity of 5 years. c) Eligible borrowers under the automatic route can raise Foreign Currency Convertible Bonds (FCCBs) up to USD 750 million or equivalent per financial year for permissible end-uses. d) Corporates in services like hotel, hospital and software, can raise FCCBs up to USD 200 million or equivalent for permissible end-uses during a financial but the proceeds of the ECB should not be used for acquisition of land. e) ECB / FCCB availed of for the purpose of refinancing the existing outstanding FCCB should be viewed as part of the limit of USD 750 million available under the automatic route.
G-Secs		NRIs and SEBI registered FIIs are permitted to purchase Government Securities/ Treasury bills and Corporate debt. The details are as under: 1. On repatriation basis a Non-resident Indian can purchase without limit, a) Dated Government securities (other than bearer securities) or treasury bills or units of domestic mutual funds. b) Bonds issued by a public sector undertaking (PSU) in India. c) Shares in Public Sector Enterprises being disinvested by GoI. 2. On non-repatriation basis a) Dated Government securities (other than bearer securities) or treasury bills or units of domestic mutual funds. b) Units of Money Market Mutual Funds in India. c) National Plan/Savings Certificates. A SEBI registered FII may purchase, on repatriation basis, dated Government securities/ treasury bills, listed non-convertible debentures/ bonds issued by an Indian company and units of domestic mutual funds either directly from the issuer of such securities or through a registered stock broker on a recognized stock exchange in India. The FII investment in Government securities and Corporate debt is subject to the Investment limit. For the FIIs in Government securities currently is USD 10billion and limit in Corporate debt is USD 20 billion.

Joint venture/ wholly owned subsidiary abroad		An Indian Party is allowed to disinvest,without prior approval of RBI, subject to the satisfaction of following conditions: a) The JV / WOS are listed in the overseas stock exchange. b) The Indian party is listed on a stock exchange in India and is having a net worth of INR 1000 million and investment in JV/WOS outside India is not exceeding USD 10 million. c) The Indian Party is an unlisted company and its investment in JV/WOS outside India does not exceed USD 10 million. d) The Indian party does not have any outstanding dues by way of dividend, technical know-how fees, royalty, consultancy, commission or other entitlements, and/or export proceeds from JV/WOS e) JV/WOS has been in operation for at least one full year and the Annual Performance Report together with the audited accounts for that year has been submitted to RBI f) The Indian party is not under investigation by Central Bureau of Investigation (CBI)/Directorate of Enforcement (DoE) /Securities and Exchange Board of India (SEBI) /Insurance Regulatory and Development Authority (IRDA) or any other regulatory authority in India An Indian Party, which does not satisfy the conditions stated above for undertaking any disinvestment in its JV/WOS abroad, shall have to apply to the RBI for permission.

- Summary
  - **Capital controls can be useful in insulating the economy from volatile capital flows during transitional periods and in providing authorities time to pursue discretionary domestic policies to strengthen initial conditions. Over longer periods, however, the international experience shows that capital controls turn progressively ineffective, costly and even distortive**.

- Definition
  - Refers to the **freedom to convert local financial assets into foreign financial assets and vice versa at market determined rates of exchange**

- **Benefits of CAC**
  - Capital
    - a***vailability of a larger capital stock*** to supplement domestic resources and thereby higher growth
    - ***reduction in the cost of capital*** and improved access to international financial markets.
    - dynamic gains from financial integration. **Competition is intensified among financial intermediaries** and as margins are reduced there is more efficient intermediation. The quality of financial assets improves

- CAC allows residents to hold an i***nternationally diversified portfolio*** which reduces the risk of
  income streams and wealth to domestic shocks. This also enables lower funding costs for
  borrowers
- **FDI, FII flows and the benefits**
- **Vehicle Currency**
  - Seigniorage benefits
- Reduces Distortion in the global allocation of savings
- **Reforms**
  - Sets up an incentive mechanism to carry out Economic Reforms
  - Eg Tax Reforms
- **Monetary policy**
  - Conduct of monetary policy is strengthened by the pursuit of a realistic and appropriate
    exchange rate policy which reflects fundamentals and is flexible enough to equilibrate the
    balance of payments
  - t **does not permit monetary policy to take on an excessive burden** of the adjustment
- **Fiscal policy**
  - **reducing crowding out** effects in the access to fund

- **Cons**
  - **Impossible trinity** - Mundell
  - Vulnerability to ***international shocks***
    - **India was more protected from the GFC because we did not have the CAC**
  - ***Currency volatility***
    - **Rangarajan**
      - **Herd instinct in the financial market** which tends to exaggerate the weakness
  - Higher FII means **higher fx reserves have to be maintained. These fx reserves can't be invested in
    India**
  - **May cause Greater Speculation**
    - Timing
    - May escalate the crisis
  - **As JAGDISH BHAGWATI says -** Not a pre requisite for growth
    - **Almost all countries including China, Japan that prospered did not have CAC**
    - Remember Bhagwati did not talk about the CAC and stopped at the 5th stage
  - Conditions imposed by Tarapore committee not fulfilled
  - **Banks may fail** due to the high competition
  - ***IMF*** which used to be a champion of CAC, *has recently said that it should be country specific*
  - Malaysia could check the impact of the Asian Crisis using Capital Controls . Similarly, Iceland in 2008

- **Tarapore committee 1**

- **1997**
- **Pre conditions before**
    - **Fiscal deficit** be reduced to <3.5% of GDP
        - Deterrmines Capital Flow
    - **Inflation** between 3-5%
        - Determines capital flow
    - **Financial** strengthrning - Since, there will be greater competition to the Financial
      Intermediaries
        - **NPA** below 5%
        - **CRR** < 3%
        - **Weak banks** should be liquidated / merged
        - **Interest rate** to be **decontrolled** (has been done)
    - Forex reserve over **22 billion $**
    - **Independence** to RBI
    - Monitoring **exchange rate band of 5% around** the Real Effective Exchange Rate (**REER**)
    - **Debt servicing ratio** (debt payment (principle + interest)/ export earning) to be **reduced to**
      20%
        - **Currently 18%**
- Recommended implementation in 3 years, ie till 2000 in phases
- Obviously, not done

- Should be done
    - Reserves of 350 billion $, more than the 22 billion $ as per Tarapore 1 and how many of the
      conditions are fulfileld
    - RBI has come up with schemes like **Market Stabilisation Schemes in 2004**
        - Alloes RBI to sell/buy securities in order to modify liquidity and sterilise inflws/outflows
        - Fiscal Deficit, Inflation, NPA
        - See Economic Bodies, Regulators
    - As the Economy gets **more globalised it will become harder than ever to reamin aloof**
        - It also incentises use of alternative mechanisms to get around such restrictions - like Transfer
          Pricing by corporates
    - ALL the **Points written above about the general benefits of CAC**

- **Tarapore 2**- Also on CAC
    - **2006**
    - **5 year plan - 3 phased**
    - Recommendations
        - **NRI be allowed to invest in the Capital Markets**
        - **NRI deposits - be given tax incentives**
        - Raise ceiling on ECB limits
        - Foreign corporates be allowed to invest in Indain equity and debt
        - Review of tax treaties like **DTAA** with Mauritius
        - Suspension of Participatory Notes
        - Consolidation of banking system - Like the 4 Ds of Economic Survey
    - **Conditions**

        - **FRBM targets**
        - **CAD < 3%**
        - **Banking Sector reforms**
        - **PDMA**
        - **Reduce Public/ RBI equity share in PSBs**

- **Other recommendations**
    - Expedite and augment the Masala Bonds Market
        - Ensures that raising debt by a company does not put pressure on the BoP , unlike a conventional ECB

- **Trends in Exchange rate**
    - Before LPG
        - Prgged tio pound
        - 57% devaluation of 1967
        - Brretton wood collapse - Pegged to basket of currencies - Overvalued
        - Overvalued to allow cheper imports of capital goods
        - FERA
    - **LPG**
        - **New Exchange Rate Management System - Syllabus**
            - Partial converbility on current account
                - Introduced in 92
                - Called **Liberalized Exchange Rate Management System**
                - Dual exhange rate system

60%	weight of f**ree market** determined exchange rate
40%	of official rate determined by RBI

                - Done because of the existence of black market becuase of the overvalued exchange rate
                - Exports benefited as 60% now on the market valued rate which was higher
                    - Increased from 5 billion $ in 90 to 25 billion $ in 94-95
            - And then **Full Current Account Convertibility**
            - Write all points related to <u>External</u> - Hyperlink
            - **Market Stabilisation Scheme**
                - Sterilization (December, 2003), a new sche**me known as the Market stabilization scheme (MSS) was set up. The LAF and the OMO's were dealing with day-to-day liquidity management, whereas the MSS was set up to sterilize the liquidity absorption and make it more enduring and counter the increase in High pOwered money by absorbing liquidity (Between 2003-08, FDI rose from 3% of GCF to 6.5% of GCF)**
                    - MSS was introduced because RBI became short of givt bonds in 2003 to reduce liquidity. Hence, MoU with govt to issue T-bills by

RBI on behalf of
govt even when govt does not need it. But, condition imposed that the govt
can use the money from MSS only in a limited way so that liquidity is no
tincreased through Fiscal routes, Hence, can be used only for buying bonds
like stuffs

- **Managed Floating Rate System**
- And talks for **CAC**

- **Behviour**
  - Indian Rupee has **depreciated** against the dollar since the LPG,
    - except the 2003-08 period
      - Hence, RBI came up with the **MSS**
  - Reduction in the Volatility of Exchange Rate
    - But, CAC will pose greater struggle
  - But, Volatality in the FII has increased
  - **2013 crisis**
- CAC today
  - Almost **no restrictions** on **FDI**
  - FPI also highly liberalised

Various controls in various asset/flow category in India -

1. **FDI** - **virtually free e**xcept few regulations related to equity, composition, forex neutrality & equity capn
   in strategic sectors
2. **FPI** - there are virtually no restriction on equity & there are **aggregate limits** in soveriegn & corporate
   debt which are progressively increased
3. Foreign currency denominated debt - Soverign market borrowing is almost none and is mostly in
   corporate sector
4. **ECB** - lower interest rate in developed countries have led to increase in debt component of corporate
   balance sheet.
   1. Issues
      a. THese have inherent foreign exchange risks which **increase volatility**.
      b. Most of the **exposures are unhedged.**
   2. Restrictions in Place
      a. Restriction on s**hort term** (less than three years) borrowing
      b. a loosely monitored **overall aggregate limit** on **foreign currency liability,**
      c. a discriminatory regime channelling flow into the priority sectors and **disallowing flow into**
      sensitive sectors such as real estate
      d. **a cap on the overall cost of borrowing**, as a tool to address the adverse selection problem,

An orthodox solution is to mandate compulsory hedging by all foreign currency borrowers. There are several practical difficulties, though. First, a central authority mandating how an entrepreneur should manage the risk smacks of a regression to the command and control economy. Second, do we have a market that can support hedging by all foreign currency borrowers? Third, hedging is essentially transfer or parcelling of risk. Where are we transferring the risk in this case? To the banks' books? Faulty mechanism design can create perverse incentives and lead to inefficient outcomes. A **saner approach** would perhap**s be t**o create an atmosphere and incentives for recognition of risk and to **make available a wide range of hedging instruments**

Convertibility of currency:

Has 4 dimensions:	1. Freedom to convert 2. Convert at market rate 3. Removal of restrictions on convertibility on current and capital account 4. Liberalization of outflows

The fuller the convertibility, the more the above items are relaxed.

Capital Account Convertibility

Currency convertibility refers to the freedom to convert the domestic currency into other internationally accepted currencies and vice versa. Convertibility in that sense is the obverse of controls or restrictions on currency transactions. While current account convertibility refers to freedom in respect of 'payments and transfers for current international transactions', capital account convertibility (CAC) would mean freedom of currency conversion in relation to capital transactions in terms of inflows and outflows.

read up on Mundell-flemming policy trilemma,
Appropriateness of Minskian development models for EMDs
Korinel's financial amplification effect & CAC -- & GFC
Countervailing monetary policies of EMDs - 2 uses

- Rectifies uneven power structure of nations in trade and finance
- Stabilises global capital flows

Exchange rate regime

09 February 2021 15:17

Public Finance

10 November 2020 16:24

- [ ] New Economic Policy and Public Finance
  - [ ] Fiscal Responsibility Act
  - [x] Finance Commission
  - [ ] Fiscal Federalism
  - [ ] Fiscal Consolidation

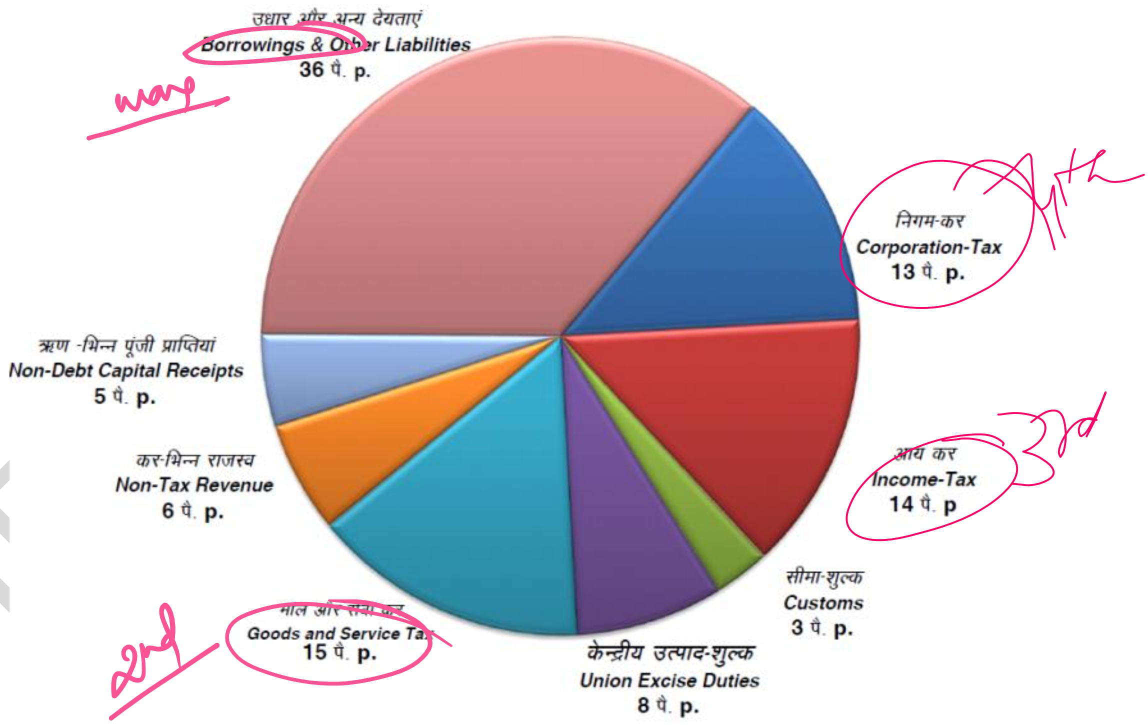
Stats

08 February 2021 16:54

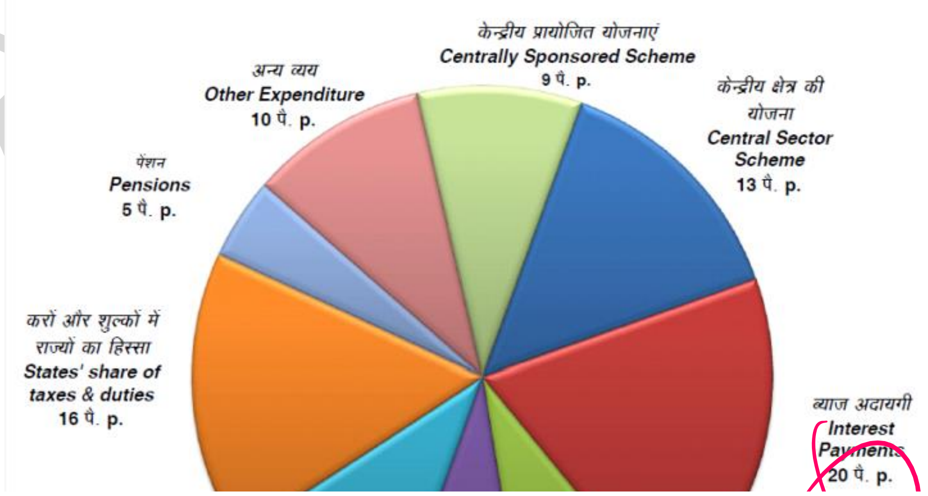
- Fiscal Deficit = Revenue Receipts + NDCR Non-Debt Capital Receipts - Total Expenditure
- Revenue Deficit = revenue receipts - revenue expenditure
- Effective Revenue Deficit = Revenue Deficit - Grants for Creation of Capital Assets
- Primary Deficit = fiscal deficit - interest payments

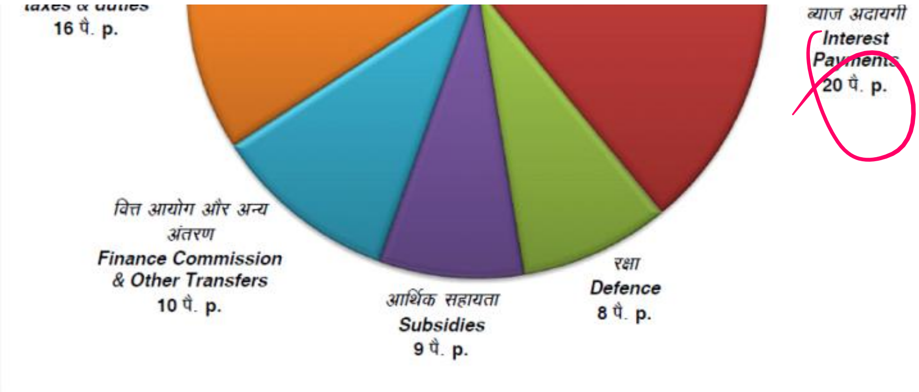
	2019-20 Actuals	2020-21 Revised Est	2021-22 Budget Est
Fiscal Deficit	4.6	9.5	6.8
Revenue Deficit	3.3	7.5	5.1
Eff RD	2.4	6.3	4.1
Primary Deficit	1.6	5.9	3.1

- Revenue Receipts in Budget 2021



- Revenue Expenditure Budget 2021





- Tax Burden
  - Tax-GDP Ratio
    - 1950-51: 6.3% - very low
    - 2014-15: 16.6% - abysmally low
    - ? 2019-20:
  - Thomas Piketty - India's overall tax revenues are very small for size of economy
  - Comparison
    - OECD - 33% in 2013
    - Russia - 36% - highest
    - Brazil - 33%
    - South Africa: 25%
  - Argument
    - Economy's tax-GDP ratio is a function of per capita GDP. Hence, unfair to compare with wealthier ctries
      - 1965-90 -- steady rise from 10% to 16% in 25 yrs; GDP increased 2.8 times
      - 1991-2014 -- tax-GDP steady around 16-17% while GDP rose 4.5x
    - Puzzle: as India broke away from cliched Hindu growth rate post 1991 reform, tax GDP ratio remained constant
  - Reasons
    - Large scale poverty
    - Small direct tax base
    - Exempted agricultural income
    - Sizeable shadow economy

Budget

09 June 2021 08:18

General features

Strategic sectors

- Atomic energy, space and defence
- Transport and telecom
- Power, petroleum, coal & other minerals
- Banking, insurance and financial services

Specific year wise

Tax, GST

09 February 2021 16:04

Notable features

- Tax buoyancy
  - Buoyant => revenue increases by more than 1% for a 1% increase in GDP
  - 1970-84 - buoyancy of total tax revenue greater than unity - 1.21
  - Eco sur 2012-13 - post FRBM period (2003-04), both direct and indirect taxes remained buoyant except the crisis years (2008-09, 09-10, 11-12)
  - 2011-12
    - Economic slowdown
    - Weak market sentiments
    - Slow investment growth
    - Global uncertainty
    - Persistent high inflation
- Regressive tax system
  - High reliance on indirect taxes
  - $\frac{direct}{indirect}$ tax ratio is ~35:65 (centre, states combined)
    - Versus 67:33 for most OECD economies - exactly opposite
- Administration efficiency
  - Highly complex => evasion
  - 'definitional defects' -> whimsical interpretations, corruption
- **Multiplicity** of tax laws and lack of **integration**
  - Income tax + wealth tax; excise-sales-octroi tax, etc
  - ? Update after GST
- **Inter-sectoral imbalances** in tax structure
  - Exemption of agri income
  - Companies investing in agri sector are exempted
- Burden of tax **exemptions**
  - Schemes and policies distort resource allocation, stunt productivity
- Equity
  - Exemptions and concessions violate principle of equal treatment

Change in Composition

	Net Tax Revenue	Direct Tax	Personal income tax	Corporate Tax	Indirect Tax	Excise duties	Customs duties
1970-71	2451	511 20.8%	114 4.6%	371 15.1%	1940 79.2%	1369 55.8%	524 ? 21%
1990-91	42978	6903 16.1%	1250 2.9%	5335 12.4%	36075	14100 32.8%	20644 48%
2014-15	908463	499253 55%	194920 21.5%	303684 33.4%	409210 45%	151813 16.7%	132981 14.6%
2019-20	?						

- 1970-71: more than half of tax revenue contributed by excise duties
- 1990-91: customs duties became most important source of tax revenue and contributed almost half of total revenue in 1990-91; because of tariffs
- Import liberalisation => share of customs duties in total receipts declined
- 2014-15: corporation tax - most important contributor to tax revenue
- ? 2019-20:

Tax Reforms since 1991

- Raja Chelliah Committee, 1991
    - To examine existing tax structure
    - Simple tax system; ad-hoc changes have undermined rationality and created complications
    - Decrease income tax rate; w/ narrow spread b/w entry rate and maximum marginal rate
    - Reduction of corporate tax rate to 40%, abolition of surcharge
    - Decrease tax rate for foreign companies; bring down differential b/w domestic and foreign to ~7.5%
    - Distinguish b/w productive and non-productive assets for levying wealth tax -- encourage investment
    - Ad-valorem excise duties; expand taxable items list
        - Ad-valorem preferable to specific duties -- ensure buoyancy

- Task Force on Direct Taxes and Indirect Taxes, 2002
    - Aka Vijay Kelkar Committee
    - Tax system should balance requirements of
        - Equity
        - Ease of collection
        - Fostering efficiency in resource allocation
    - Increase in exemption limit on Personal Income Tax
    - Corporate Income Tax - decrease to 30% and 35% for domestic and foreign companies respectively
        - Elimination of MAT Min Alternate Tax
    - Abolish wealth tax
    - Replace all excise duties by CENVAT - Central VAT
        - 0 excise duty on life saving drugs
        - Comprehensive extension of service tax
    - Reduce multiple customs levies into 3 duties
        - Basic custom duty
        - Additional duty
        - Anti-dumping duty

- GST, 101st CAA
    - WB's Indian Development Update: 28% rate is 2nd highest of the 115 countries sampled
    - 4 diff rates -- only 4 other ctries - Italy, Luxembourg, Pakistan, Ghana
    - Arvind Subramaniam
        - 28% rate should go
        - Tax buoyancy ~1.2 acc to collection of 9 months
        - More recent?

- Project Insight by CBDT; Operation Clean Money
- Project Saksham by CBEC
- Advanced Pricing Agreements
- GAAR
- Multilateral Convention to Prevent BEPS
- RAPID (Revenue, Accountability, Probity, Information and Digitisation) - in Union Budget 2017-18

GST

Introduction and passage

Legal framework
- Includes 4 central laws: CGST Act, IGST Act, UTGST Act, Goods and Services (Compensation to States) Act
- 24 state laws, relevant SGST Acts

Policy framework
- System of multiple rates to various categories of sales
- 0%, 5%, 12%, 18%, 28%; 0.25% for precious stones, 3% for gold

Tax Administrative Framework
- Parallelly by Central and State GST administrations w/ powers to audit and administer shared
- Common nation wide IT backbone: GSTN GST Network

Positives
- Increase in no. Of registered taxpayers (1.08 to 1.23 crore from 2017 to 2020)
- No. Of returns filed has increased steeply
- Significant presence of informal entities

Issues in functioning
- 15th FC:
  - Large shortfall in collections as compared to original forecast
  - High volatility in collections
  - Accumulation of large integrated GST credit
  - Glitches in invoice and input tax matching
  - Delay in refunds
  - Concern: continuing dependence of states on compensation from central govt for making up revenue shortfall (21/29 states in 2018-19)
- Stagnation in GST Tax Collection
- Complexity - introduced to simplify tax structure, improve tax compliance; yet multiple rates complicate this
- Coverage - power, fuel, aviation, ___ out of purview of GST
- Issues with collection of sales taxes - multiple rates & classification
  - Eg. Paper -- pamphlets @5%, letterheads at 12%, files at 18%, hardbound registers at 28%
  - Multiple layering defeats basic idea of 'One nation one tax'

GST Council
- Composition
  - Acc to 101st Constitutional Amendment Act
  - Union FinMin is chairman of GST Council
  - Other members: Min I/C of Finance or Taxation of States
  - Vice Chman - members choose one amongst themselves
  - Quorum: 50% of members
- Decision Making
  - Every decision of GST Council shall be taken at a meeting, by a 3/4th majority of weighted votes (P&V)
  - Centre has 1/3rd of total votes
  - Votes of States - total - 2/3rd
  - Centre has effective veto on all decisions of GST Council

<u>Salient features</u>

- Applicability on Supply Side
  - Applicable on supply of goods or services as opposed to old concept on manufacture of goods/ sale of goods/ provision of services
- Destination based taxation
  - Previously origin based taxation
- Dual GST
  - Centre and States simultaneously levy tax on a common base
  - CGST, IGST, SGST

    - Centre and States simultaneously levy tax on a common base
    - CGST, IGST, SGST
    - Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to applicable customs duties
- GST rates to be mutually decided by Centre & States; notified on recommendation of GST Council
- Multiple rates

<u>Reforms brought about by GST</u>
- Creation of common national market
- Mitigation of cascading effect
- Reduction in tax burden
- Making Indian products more competitive
- Easier to administer - transparent, self-policing

<u>Advantages</u>
For Govt
- Create a unified common market; 'Make in India'
- Streamline taxation - harmonisation of laws, procedures, rates of tax
- Increase tax compliance
- Discourage tax evasion - uniform SGST, IGST - eliminates arbitrage

Overall economy
- Certainty
- Reduced corruption
- Boost secondary sector
- Aid poverty eradication by employment generation + more financial resources

Trade & Industry
- Simpler tax regime w/ fewer exemptions
- Increased EoDB
- Reduction in multiplicity of taxes
- Elimination of double taxation on certain sectors
- More efficient neutralisation of taxes, especially for exports
- Competitiveness in international market
- Simplified and automated procedures for registration, returns, refunds, tax payments
- Decrease in average tax burden on supply of goods and services

Consumers
- Transparent prices
- Price reduction
- Poverty eradication

For states
- Expansion of tax base
- More economic empowerment
- Enhancing investments
- Increase compliance

<u>Exemptions</u>
- Customs duty will be still collected along with levy of IGST on imported goods
- Petroleum, tobacco exempted
- Excise duty on liquor, stamp duty, electricity taxes also exempted

<u>Challenges</u>
- SGST, CGST input credit can not be cross utilised
- Manufacturing states lose revenue on a bigger scale
- High rates of tax to compensate the revenue collected now from multiple taxes
- Reduction in fiscal autonomy of States
- Concerns raised by banks and insurance companies over need for multiple registrations under GST

- High rates of tax to compensate the revenue collected now from multiple taxes
- Reduction in fiscal autonomy of States
- Concerns raised by banks and insurance companies over need for multiple registrations under GST
- Levy of additional cess
- Capacity of State tax authorities -
- Success of GST depends on political consensus, technology and capacity of tax officials to adapt to new requirements

Fiscal consolidation

Fiscal federalism

A lower GST rate will weigh on fiscal consolidation efforts, says Moody's
Our Bureau New Delhi | Updated on July 30, 2018

The tax cuts will hit the government's revenue collections and are credit negative, Moody's said -
Tax cuts, tweaks will cost Centre ₹9,000 Cr
The GST Council's decision to lower rates on nearly 100 goods and also rationalise rates on some services will impact government's fiscal consolidation effort, a research report by Moody's Investors Service said on Monday.

Following the GST Council decision, Centre and States notified cuts on goods with effect from July 27. These cuts will be applicable mainly on 17 categories of white goods such as smaller TV, fridge, washing machines etc, sanitary napkins, handloom and handicraft goods. It is estimated that rate cuts on goods and change in methodology for rate calculation on some services will cost the government approximately ₹9,000 crore.

Also, refund of accumulated credit on account of inverted duty structure to fabric manufacturers will require ₹6,000 crore, taking total revenue loss on account the latest decision to ₹15,000 crore.

The research note said the tax cuts, which follow cuts in January 2018 and November 2017, will weigh on the government's revenue collections and are credit negative because they will put pressure on the government's fiscal consolidation effort, which is already diminished relative to the original fiscal deficit target set last fiscal year.

"We estimate revenue loss from the most recent tax cuts to be about 0.04 per cent-0.08 per cent of GDP annually. Although the proportion of revenue loss is small, the vacillation in tax rates creates uncertainty around government revenue and comes amid persistent upside risks to its expenditures," Moody's said.

It took note of the Government's expectation about GST revenue adding up to an additional 1.5 per cent of GDP in the medium-term. Despite initial disruptions to the GST implementation, GST collection has increased since December 2017, but "iterative changes to tax rates create downside risks to the target of ₹7.4 lakh crore($100 billion) for the full fiscal year," it said. Early this year, the Government revised the fiscal deficit upwards for fiscal year 2017-18 to 3.5 per cent from 3.2 per cent and for the fiscal year 2018-19 to 3.3 per cent from 3 per cent.

Published on July 30, 2018

Miscellaneous

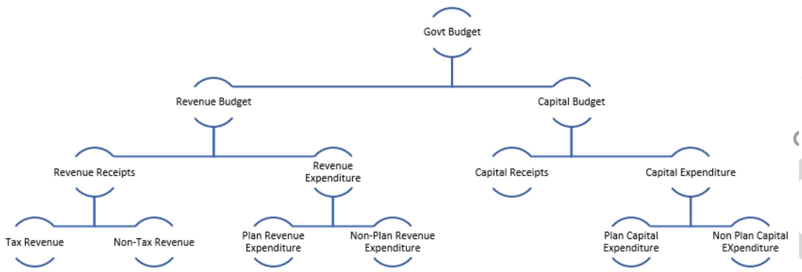
Authority for Advance Ruling

- Quasi-judicial bodies
- Taxpayers may approach these to seek clarity regarding correct interpretation of GST provisions
- Each state reqd to set up an AAR under GST Act
- Powerful mechanism to accord certainty on contentious issues
- Issues
    - In AAR judgements, bias towards revenue considerations observed
    - Lack of consistency among judgements of AARs in various states
    - Conflict of interest as composed of 1 officer of Central Tax Dept and 1 from State/ UT Tax Dept

FRBM

09 February 2021 16:05

Fiscal Policy

- Art 112 - Annual Financial Statement
    - Statement of estimated financial receipts and disbursements for a given forthcoming period of time
    - Usually for one year
- 3 policy statements mandated by FRBM
    - Medium term Fiscal Policy Statement
    - Fiscal Policy Strategy Statement
    - Macroeconomic Framework Statement
    - 

    - Plan and non-plan expenditure difference abolished in 2017 (12th FYP)
- Revenue account
    - Shows current receipts of govt + Expenditure that can be met from these receipts
    - Revenue receipts - non redeemable
        - Tax revenues
            - Direct - income, corporation
            - Indirect - excise, customs, services
        - Non-tax revenues
            - Interest receipts on account of loans by central govt
            - Dividends and profits on investments made by govt
        - Fees and other receipts
        - Cash, grants in aid from foreign countries and int'l org
        - Profits from PSUs, dividends etc.
    - Revenue expenditure
        - Plan revenue expenditure
            - Relates to central FYPS, Central assistance to States & UTs , etc
        - Non plan expenditure
            - Interest payments on debt incurred by govt
            - Subsidy (could be asset creating)
            - Defence services
            - Public administration - salaries, pensions, etc
- Capital account
    - Account of assets, liabilities of central govt, takes into acc changes in capital
    - Capital receipts
        - Create liability/ reduce financial assets
            - Loans raised by govt - mkt borrowing
            - Govt borrowing from RBI, commercial banks
            - Loans from foreign govt
            - Recoveries of loans granted by central govt
            - PSU disinvestment
            - Small savings (PO savings, national savings certificate)
    - Capital expenditure
        - Result in creation of physical/ financial assets or reduction in financial liabilities
        - Plan capital expenditure - central plan and assistance
        - Non-plan - general, social, economic services provided by govt

Fiscal Imbalance and Correction in India

Years	Revenue Deficit	Gross Fiscal Deficit	Primary Deficit
1980-81	1.4	5.6	3.8
1990-91	3.2	7.8	4.0

1991-92	2.4	5.4	1.4
2001-02	4.2	6.0	1.4
2008-09	4.5	6.0	2.6
2015-16	2.5	3.9	0.7

- Fiscal situation under mounting pressure thruout 80s decade
- Budget 1991-92 -- major steps to correct fiscal imbalance announced
- 1997-98
    - Reduction in tax rates
    - Non development expenditure increased
- FRBM Act in 2003
- Financial crisis in 2008-09 -- fiscal deficit rose to 6.5% of GDP in 2009-10
-

		Revised Estimates 2019-2020	Budget Estimates 2020-2021	(Projections) 2021-2022	2022-2023
1.	Fiscal Deficit	3.8	3.5	3.3	3.1
2.	Revenue Deficit	2.4	2.7	2.3	1.9
3.	Primary Deficit	0.7	0.4	0.2	0.0
4.	Gross Tax Revenue	10.6	10.8	10.7	10.7
5.	Non-tax Revenue	1.7	1.7	1.5	1.5
6.	Central Government debt	50.3	50.1	48.0	45.5
7.	Of which				
	Liabilities on account of EBR[1]	0.7	0.8	0.9	0.9

Vertical Fiscal Imbalances

Horizontal Fiscal Imbalances

--

Horizontal Imbalances

- **Horizontal imbalances and rising regional inequalities:** Replacing the Planning Commission (which was mandated to give grants to the states as conditional transfers using the Gadgil-Mukherjee formula) with **NITI Aayog** (Government think tank with no resources to dispense) has reduced the policy outreach of government by relying only on single instrument of fiscal federalism i.e Finance commission. This approach if not reviewed can lead to a serious problem of increasing **regional and sub-regional inequities.**

From <https://www.drishtiias.com/daily-updates/daily-news-editorials/redesigning-india-s-fiscal-federalism>

- **Vertical imbalance:** In India's fiscal federalism (three levels of Governments: Central Government, State Governments and the elected Local Bodies) central government has a far **greater domain of taxation** (e.g., income taxes personal or corporate, taxing consumption of goods and services (CGST), taxing foreign transactions, etc).
- **Central Government collects around 60%** of the total taxes, while its expenditure responsibility (for carrying out its constitutionally mandated responsibility such as defence, etc.) is only 40% of the total public expenditure.
- Such vertical imbalances are even sharper in **the case of the third tier** consisting of elected **local bodies and panchayats.**
- Vertical imbalances can adversely affect India's **urbanization, the quality of local public goods** and thus further aggravating the negative externalities for the **environment and climate change.**

From <https://www.drishtiias.com/daily-updates/daily-news-editorials/redesigning-india-s-fiscal-federalism>

The horizontal imbalances arise because of differing levels of attainment by the states due to differential growth rates and their developmental status in terms of the state of social or infrastructure capital.
Horizontal imbalances involve two types of imbalances:
Type I is to do with the adequate provision of basic public goods and services.
Type II is due to growth accelerating infrastructure or the transformational capital deficits.
Vertical imbalance

Vertical imbalance arises due to the fiscal asymmetry in powers of taxation vested with the different levels of government in relation to their expenditure responsibilities prescribed by the constitution.

https://www.ijcrt.org/papers/IJCRT1705192.pdf
https://www.ey.com/en_in/tax/economy-watch/growth-fiscal-imbalance-and-fiscal-transfers-in-india-prospects-up-to-fy25
http://www.amit-sengupta.com/fiscal-imbalance-existence-india-economy-economics-upsc/

FRBM Act, 2003

- 1990s:
  - resurgence of neo-classical ideology
  - Axiomatic acceptability for balanced budget at int'l level

Objectives:
- Transparent fiscal management systems
- More equitable and manageable distribution of country's debt over the years
- Aim for fiscal stability in the long run

Salient features
- Annual targets of reduction in deficits
  - Considers borrowing for 'revenue' purposes imprudent
  - 2003 act mandated Fiscal Deficit limit at 3%, revenue deficit at 0%
- A cap on level of guarantees and total liabilities of govt
- Prohibits govt to borrow from RBI (primary borrowing) after 2006
- RBI can't print money to lend to govt (only in exceptional situations like natural calamities)
- Annual presentation of 3 documents
  - Macro-economic framework statement
  - Medium Term fiscal policy
  - Fiscal Policy Strategy Statement
- 4 fiscal indicator projections in medium-term fiscal policy statement
  - Revenue Deficit as % of GDP
  - Fiscal Deficit as % of GDP
  - Tax Revenue as % of GDP
  - Total outstanding liabilities as % of GDP
- 2012 amendment
  - Centre can change FRBM targets, but only after providing reasons to Parliament
- Escape clauses
  - Centre can exceed the annual fiscal deficit target citing grounds including national security, war, national calamity, structural reforms, decline in real output, etc.

Significance
- Expenditure switching mechanism, not expenditure restricting
- Adherence to FRBM targets would improve GDP
  - ? Greater multiplier effects of capital expenditure (~2.45) vis-a-vis revenue expenditure (~0.99) (Data)

Track Record
- 2004-08: significant reduction in both revenue deficit and fiscal deficit both
- Reversal due to Global Financial crisis + domestic slowdown
- 2018 amendment: no longer target revenue deficit; only fiscal deficit targets now

Assessment
- Flawed assumptions
  - Assumptions
    - Lower fiscal deficits lead to higher and more sustained growth
    - Large fiscal deficits necessarily lead to higher inflation
    - Larger fiscal deficit increases external vulnerability of the economy
  - These assumptions rejected by CP Chandrashekhar and Jayati Ghosh
- Basis for setting numerical targets not provided; must be reasonably based on 2 criteria
  - Crowding out of private investments
  - Debt sustainability
- Ideally, FRBM should NOT prescribe specific numbers, but require the govt to annually present explicit analysis of crowding out implications and govt debt-to-GDP implications of proposed fiscal deficit trajectory of combined deficit over next 5 years
  - w/ explicit assumptions about GDP growth, household savings and inflation
- Asymmetry
  - States require Centre's permission to borrow

    - w/ explicit assumptions about GDP growth, household savings and inflation
- Asymmetry
    - States require Centre's permission to borrow
    - Absence of similar checks on Centre; only regulated by Parliament through discussion
- Revenue deficit target issues
    - Non plan expenditures have shot up - interest payment, public admin, revenue subsidies
    - Govt might cut down on social sector spending to meet imposed restriction on revenue deficit -- health, education -- since no lobby here
- Silent on revenue generation
    - No provisions to increase tax-GDP ratio
- Apportionment of debt b/w centre and states
    - Higher devolution to states (14th, 15th FC) must be accompanied by liberal fiscal deficit target for centre vis-a-vis states
    - States with higher debt burden and lower growth potential must be allowed to borrow less; more grants instead of greater borrowing limits for debt sustainability
- Lack of political will
    - Fiscal deficit in 2008-09: 6%
    - Off-budget liabilities not included; would take fiscal deficit to much higher levels. Viz. Oil bonds, fertiliser bonds

Way Forward

- Establishment of independent Fiscal Council
    - Reco by 13th, 14th, 15th FC
    - Autonomous independent body to review fiscal performance under FRBM
    - Statutory body; reporting to Parliament through FinMin
    - Advantages
        - Technical expertise - better understanding of consistency of fiscal stance of each budget w/ long term trajectory under FRBM
        - Improved quality of parliamentary oversight
        - More informed public debate
- Transition to cyclically adjusted fiscal deficit framework
    - In consonance w/ counter-cyclical policy
    - Theoretically sound, implementation difficult as dependent on forecasts, not always reliable
- Range/ band target instead of point target
    - Issue: would lead to obeying of upper end of target
    - Prudent step: link range for fiscal deficit with multiple indicators such as govt's debt level, interest service obligations, revenue deficit
    - This would ignore supply side issues though

Fiscal Consolidation, Federalism

08 June 2021 11:43

Fiscal Consolidation

Defn: policies undertaken by govts (national, sub-national) to reduce their deficits and accumulation of debt stock

Rangarajan Panel on Public Expenditure 2012

- Do away with plan and non-plan expenditure distinction
- Shift in budgeting approach from input based to outputs & outcomes
- Strengthen CPMS Central Plan Monitoring System, empower citizens to seek information

Roadmap for Fiscal Consolidation 2012

- Aka Kelkar Committee
- Reduction in FD thru
  - Strategic disinvestment
  - Rationalising subsidies
  - Implementation of GST

Also 2002

FRBM Review Committee 2017

- NK Singh (Chman of 15th FC)
- Recommended debt-to-GDP ratio of 40% for Centre, 20% for states
- Fiscal deficit of 2.5% of GDP by 2022-23 *updated in 15th FC
- Escape clause - 0.5% in case of calamities -- agri, national security, stagnation, etc
- Flexibility - FD to 3% till 2019-20
- Scrap FRBM, replace with Debt & Fiscal Responsibility Act
- Creation of Fiscal Council
  - Prepare multi year fiscal forecasts
  - Provide independent assessments

Views of Various Finance Commissions

- ToRs from 11th FC (2000-2005) onwards have mandated FCs to consider long-term sustainability of debt
- 12th FC (2005-10)
  - Debt Consolidation and Relief Facility for States - can avail of it after enacting a fiscal responsibility legislation that prescribes specific annual deficit reduction targets
  - Discontinue role of Union govt lending to states
  - Set up a sinking fund for amortisation of loans
  - Guarantee redemption funds for discharge of States' obligations under guarantees
- 13th FC (2010-15)
  - Union should achieve a revenue surplus by 2014-15
  - States with zero revenue deficit/ surplus in 2007-08 should maintain it
  - Other states must eliminated revenue deficit by 2014-15
  - Fiscal deficit target of 3% GSDP for all states; different target dates for NEH States (North East & Himalayan)
  - 2014-15: combined general debt target of 68%
    - 44.8% - Union; 24.3% - States
  - Align NSSF to market rate of interest, reset interest rates on NSSF loans to States subj to certain conditions
  - Conditional write-off of specified loans by Union to States
  - Centre to institute independent review and monitoring of implementation of own FRBM process
- 14th FC (2015-20)
  - Ceiling on fiscal deficit at 3% GDP (2016-17 to 2019-20)
  - States - fiscal deficit and annual borrowing limits - 3% of GSDP
  - Flexibility for states
    - 0.25% - no revenue deficit in the present and preceding year
    - 0.25% - interest payments <= 10% of revenue receipts
    - Un-utilised borrowing amount availed only in following year, within award period
  - Detailed recommendations on fiscal responsibility framework
    - Union govt may amend FRBM Act -- reflect fiscal roadmap, omit defn of effective revenue deficit, mandate establishment on indep fiscal council for ex-ante assessment
    - Expedite action to implement Sec 7A of FRBM for ex-post assessment (entrust CAG for periodical review of compliance to FRBM act)
    - Union and state govt to amend respective FRBM Acts -- provide a statutory ceiling

on sanction of new capital works to an appropriate multiple of annual budget provision
        - Both Union, State Govts may report extended public debt as supplement to budget document
            - Mindful of importance of risks arising from guarantees, off-budget borrowings, accumulated losses of financially weak public sector enterprises
- 15th FC (2021-26 + 2020-21)

Views of RBI

- States must pursue an active debt mgmt strategy similar to that followed by Union
    - Use of buybacks, switches, non-standard issuances
    - Buyback -> helps consolidation + reduces cost of borrowing
    - Passive consolidation = issuing a few new securities + reissuing repeatedly until they reach a cap
- Oversupply of SDLs must be dis-incentivised -- interest of all stakeholders, incl states
- SDLs unable to attract FPI due to lack of financial info on States
    - Regular disclosure of financial position
    - Credit ratings
        - Also reinforces fiscal discipline
        - Better pricing of SDLs
    - States must define and disclose contingent liabilities transparently, estimate them and risks associated with them
- Surplus cash balances of States have increased
    - Investment in ITBs Intermediate Treasury Bills -> negative spreads (interest rate differential b/w market borrowing and ITBs returns)
    - Limited avenues to invest surplus in short maturities other than T-Bills
    - Reco: States to be allowed to invest in CMBs of Union Govt thru non-competitive route to minimise negative carry of States
- States must build more avenues for short-term borrowings other than WMA/ OD facility
    - These have monetary policy implications

Federal Finance in India

Evolution

- Before Constitution
    - 1919 Montford Reforms - increased decentralisation
    - Meston Award - Financial Relations Committee - to recommend scheme of provincial contributions to the central govt year?
    - GoI Act, 1935 - further provincial fiscal autonomy functions; functions and financial resources classified under 3 lists - Provincial, Federal, Concurrent
    - Neimeyer Award - shaped GoI 1935 award
    - Deshmukh Award - transitory arrangement 1947-50
- Under Constitution -- 4 stages
    - #1 - 1950 Constitution
        - Patterned along GoI Act, 1935
        - Two-tiered govt
        - No separate list for local bodies
    - #2 - 73rd and 74th CAA, 1993
        - Schedules XI, XII added
        - No provision for separate allocation of resources for local bodies
        - State finance commission made responsible for that
    - #3 - 80th CAA, 2000
        - Net proceeds of all taxes and duties referred to in Union List mandatorily sharable with states
        - Exceptions - Art 268, 269, surcharges, cesses

      88th CAA, 2004
        - Centre specifically acquired right to levy service tax
        - Collection & appropriation by both centre and state acc to legislation
    - #4 - 101st CAA, 2016
        - Several Central and State level indirect taxes with integrated GST

Allocation of Resources

? - VII Schedule

Transfer of Resources

- Under 3 heads
    - Tax sharing

- Grants
- Loans

- Constitutional provisions
  - Art 275
    - Provides for grant-in-aid to states in need of assistance
    - Fixed on advice of Finance Commission (Art 280)
  - Art 282
    - Provides for grant for any public purpose
    - Fixed by central govt on its own discretion
- Tax sharing
  - Changes by 80th and 88th CAAs
    - 10th FC recommended assigning pre-determined percentage of entire tax revenue of centre to states as long term solution for dissatisfaction with existing tax sharing arrangements
    - Centre doesn't have incentive for a discriminatory tax policy
  - All taxes and duties referred to in the union list included in shareable pool (except Art 268, 268A, 269, surcharges, cess)
  - These will be levied and collected by centre; net proceeds to be shared with states
  - Vertical devolution - combined share of all states in the divisible pool
  - Horizontal devolution - shares of individual states within the combined share
- Grants (Art 275)
  - Absolute amounts; Usually called statutory
  - v/s discretionary grants
  - Special
    - Grants-in-aid of revenues - for meeting revenue deficiency
    - Special purpose grants - for relief against natural calamities, upgradation of admin, etc
    - Grants for local bodies - routed thru state govts
- Loans
- Other sources of transfer
  - Assistance for plan purposes from planning commission
    - 3 components
      - NCA Normal Central Assistance
      - Additional Central Assistance
      - Special Central Assistance
  - Discretionary grants from centre (Art 282)
  - For many years --
    - Statutory transfers by FC - 1/3rd (Art 275, 280)
    - PC assistance + discretionary - 2/3rd (Art 282)

365/28=13.0357
28*13=364

Gadgil Formula

- Objective criteria adopted since 1970 for Plan assistance to states

Criterion	**Weight**
Population	60%
Per capita income (if below national avg)	10%
Tax effort wrt per capita income	10%
Continuing major & medium irrigation projects	10%
Special problems of individual states	10%

- Used for distribution of Central Plan Assistance during 4th and 5th Plans

Gadgil-Mukherjee Formula

- Revised formula for 8th FYP
- By Pranab Mukherjee

Criterion	Weight
Population (1971)	60%
Per Capita Income (deviation method covering states with per capita SDP below national avg)	20%
Per Capita Income (distance method covering all states)	5%
Tax effort, fiscal mgmt and progress wrt national objective	7.5%
Special problems	7.5%

Fiscal Federalism

https://www.oecd-ilibrary.org/sites/940cc5ee-en/index.html?itemId=/content/component/940cc5ee-en# - NK Singh, OECD

- Financial relations b/w units of govt in a federal govt system
  Fiscal Federalism is concerned with understanding which functions and instruments are best centralised and which are best placed in the sphere of decentralised levels of government. This concept applies to all forms of government: unitary, federal and confederal
  " (Oates, 1999[1]).
- OR
- Fiscal federalism is the system of revenue generation, allocation and redistribution among the federating units in a federal system which gives room for regional fiscal autonomy.
- OR
- It broadly considers vertical structure of public sector, fiscal policy institutions and their interdependence. (NK Singh)
- Encompasses
  - Fiscal resource mgmt of Centre & States
  - Collective fiscal stability
  - Consolidation
  - Intergovernmental transfers
- Found to be positively correlated with
  - GDP per capita levels
  - Educational outcomes
  - Investment in physical and human capital
- Role
  - Political decentralisation - nature & extent
    - ~90% of transfers to third tier of govt in India are conditional -> limits decentralisation on that level
  - Nature of economic growth - dictates expenditure priorities based on tier of govt that spends the money
    - Russia -- centralised fiscal dynamics -> greater spending on central priorities like defence industries
  - Governance structures
    - Considerably affects administrative functioning of Govt
-

Evolution of fiscal federalism in India

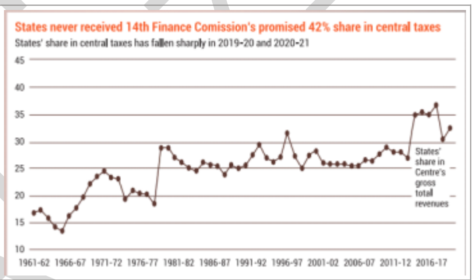
- Pre-independence
  - 1860 - India's first budget - rooting of federal division of finances
  - GoI Act, 1919 - division of subjects into central and provincial lists
  - GoI Act, 1935 - 3 lists - Federal, Provincial, concurrent; consolidated idea fiscal federalism as sharing of Centre's revenues and for the provision of grants-in-aid to provinces
- Post-independence:
  - Background: underdevelopment, large disparity among states, clear objective of a more egalitarian society, perennial fear of disintegration of Indian Union
  - 3 key ideas
    - 7th Schedule as constitutional basis for division of resources
    - Union of States rather than Federation of States - control tilted towards Centre
      - 2/3rd - 1/3rd distribution: States spend about 2/3rd of overall public expenditure done by both Centre & States; states control only ~1/3 of total tax levying sources
      - Planning Commission - role in intergovernmental transfers
      - Significant share of Central Sector Schemes and Centrally Sponsored Scheme - states just act as implementing agency
    - Finance Commission - primary channel of fiscal devolution (Art 280)
      - 3 channels - tax devolution; grants-in-aid; transfer of resources by Union to States outside award of FC (on advice of PC)

Fiscal Federalism in Recent Past

- 14th FC
  - Higher vertical devolution: increased fiscal autonomy available to States (increased proportion of General purpose transfers vis-a-vis Specific Purpose Transfers
  - Abolition of concept of Plan vs Non-Plan expenditure
  - Move away from idea of Special Category States - to remove political discretion in grants & devolutions

- Issues w/ ToR of 15th FC
  - Commission may examine whether revenue deficit grants be provided at all
    - Financing of revenue deficit grants not considered progressive
    - Completely doing away may put considerable financial pressure, esp on poor states
  - Use of 2011 Census data for population
    - Southern states - might be penalised for successful population control measures
    - They are overlooking core redistributive principle of revenue transfers
  - Proposal for measurable, performance based incentive for States
    - Eg Flagship Schemes achievement, creation of disaster resilient infrastructure, controlling expenditure on populist measures
    - (+) Healthy competition among states
    - (-) may indirectly increase centralisation, micro-mgmt of States
  - Separate funding mechanisms for defence and internal security needs
    - In light of declining defence expenditure (2% 2014-15 to 1.43% in 2019-20)
    - Reduction in overall vertical devolution of taxes to the States
- Moving from Planning Commission to NITI Aayog
  - Tilt toward cooperative federalism and competitive federalism
  - Shift of some functions from FC to NITI
    - Removed indicative ceilings on transfers outside FC (since abolished plan vs non-plan) - burden of increased transfers outside FC on NITI
    - Addressed overlaps b/w FC & PC - FC relinquished most of State specific/ project specific grants-in-aid and associated conditionalities
- GST implementation
  - Pooled sovereignty via GST Council
  - Mutual Trust on ensuring justified sharing of revenues
    - GST Compensation Cess - annual revenue growth of a State is less than 14%
    - Compensation payable to a State - released at end of every 2 months
- GST Compensation Cess & COVID-19
  - States' apprehensions
    - Centre not honouring moral and legal obligation
    - Ineffectiveness of GST Council - Centre has virtual veto
    - No steps taken to create dispute resolution mechanism on GST
    - Resort to legal proceedings under Art 131
  - Centre's response
    - Abysmal economic growth and negative tax buoyancy rates
    - Option to States to borrow - accepted by all
      - Special window; interest will be paid from the cess; States won't have to service the debt
    - COVID-19 Act of God - Centre not under legal obligation to compensate
    - Inflows to GST Compensation Fund to be made from GST Compensation Cess; if that is inadequate Centre not obliged to supplement it by diverting flows from other sources

<u>Persisting Challenges</u>

- Implementation of 14th FC: target of 42% not realised; peaked at 36.6% in 2018-19, fallen sharply since	

- Confusion regarding (dis)continuation of provisions and privileges of Special Category States
- Principles of Grant-in-Aid - conflicting views of States
  - Incentive based - dd by better off states (K'taka, TN, Goa, Maha, Guj)
  - To meet deficits in revenue expenditure - dd by less dvped states (MP, Odisha)
- Future of 7th Schedule
  - Based on pre-independence socio-economic realities; Needs revision
  - Expert opinion: <u>entitlement based central legislations</u> in conflict w/ 7th Schedule - States share substantial burden in fulfilment w/o accompanied fiscal & decision making powers (MGNREGA, RTE, NFSA)
- Misuse of Art 282
  - Objective: to enable Union to deal w/ unforeseen contingencies
  - Misuse: used as basis for transgression of Central govt into state subjects thru Centrally Sponsored, Central Sector Schemes

- Overuse of cesses and surcharges - outside divisible pool;
  - Increasingly important means of revenue mobilisation (15.7% of Centre's gross tax revenue in 2017-18)
- Issue w/ financing 3rd tier of govt - negligible own revenue; complete dependence on States; concern over arbitrariness and ad-hocism of fiscal transfers to them
- Fiscal stability and discipline
  - Both Centre and States necessary to maintain healthy fiscal balance
  - However both Central and State govt debt way above recos of 14th FC

Way Forward

Suggestions by Sh NK Singh (Chman 15th FC)

- Symmetry in working of GST Council and FC
  - FC uses projections of expenditure and revenue
  - GST issues entirely within domain of GST Council
  - Unsettled question on ways to monitor, scrutinise and optimise revenue outcomes
  - Could explore giving permanent status to FC
- Relook at 7th Schedule
- Need for a more credible policy for rationalisation of CSS and Central Outlays
  - NITI: thinktank, not financial body
  - No central body at present to provide overview of CSS, their amalgamation w/ central sector outlays
  - Need mechanism for detailed financial rationalisation of these schemes
  - Rebuilding institutional capital
    - Institutional vacuum due to abolition of PC
    - Efforts for rejuvenation, rekindling of Inter-State Council needed
    - Also political capital thru CMs' conference
- More effective devolution of funds to local bodies
  - Guarantee steady financial flow to provide effective fiscal autonomy
  - More taxation powers for local bodies
  - Constitution of State Finance Commissions
- Adopting a fiscal consolidation roadmap for sound fiscal mgmt
  - Adhere to FRBM's charted roadmap
  - Differentiated debt path of States recognising present constraints + issues of legacy debt
- Widening the ambit of GST for revenue augmentation
  - Currently GST excludes electricity, petrol, diesel, real estate, agri
  - Widening => larger tax base

Finance Commission

09 February 2021 16:05

Comparative Analysis

Vertical Devolution

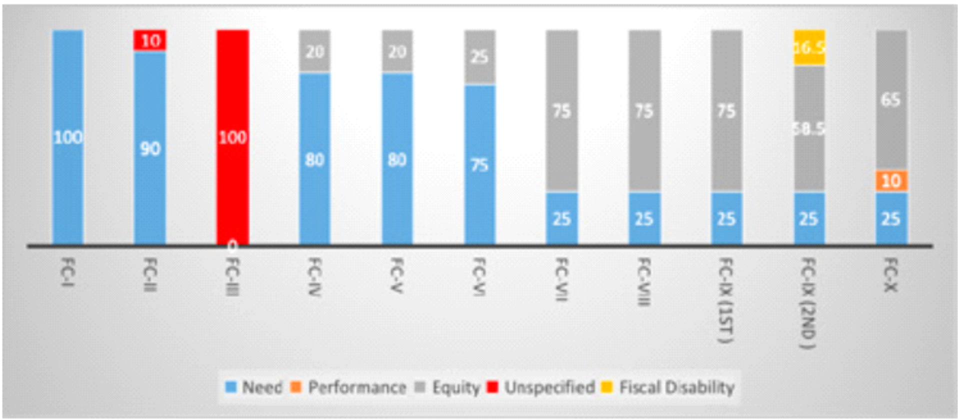
- Upto 10th FC: states' shares were derived separately from net proceeds of income tax and from net proceeds of union excise duties
    - 3 broad criteria - need, performance, equity
    - Need given highest weightage till 7th FC (upto 80-90%)
    - 8th - 10th FC: much greater weightage to equity (60-70%)
- With 80th CAA, all taxes from Union List were made part of divisible pool
-

FC	States' share in total divisible pool
11th (2000-05)	29.5
12th	30.5
13th	32
14th	42
15th (2021-26)	41

Horizontal Devolution

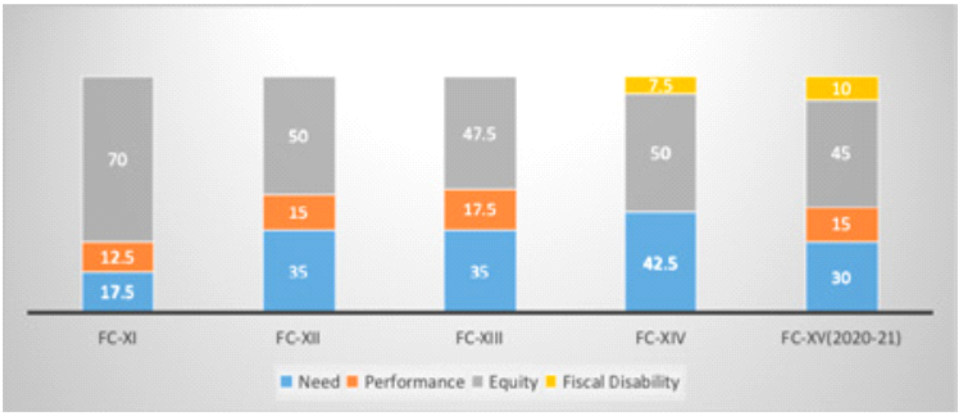
- Criteria for horizontal devolution to states
    - **1A. Criteria for Distribution of Income Tax Proceeds to States, First to Tenth Finance Commissions (%)**

1B. Criteria for Distribution of Union Excise Duties, First to Tenth Finance Commissions (%)



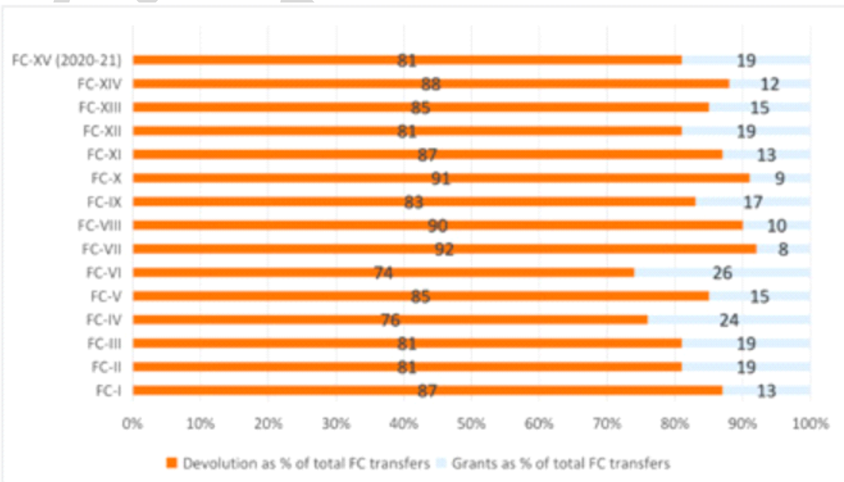
Note: The FC-III considered that while population should be the main factor, other factors, such as relative financial weakness of the states, disparities in the level of development should be taken into account, however, the exact method followed in arriving at inter-se share was not specified.

1C. Criteria for Distribution of States' Share in All Central Taxes, Eleventh to Fifteenth Finance Commission (2020-21) (%)



An examination of the weightage assigned to each one of the above criteria reveals that over the years, there has been a shift from need- based parameters to criteria representing equity and efficiency.

- Devolutions vs Grant-in-aids



Note: Only Second report of FC-IX is used here

**There was a fundamental change in the pattern of sharing of Union taxes with the States following the Eightieth Amendment of the Constitution. Under an amended Article 270, all taxes included in the Union List (except the duties and taxes referred to in Articles 268, 269, and 269-A, surcharges and any cess levied for a specific purpose under an Act of Parliament) are shareable with the States. The amendment came into operation from 9 June 2000. This came into implementation with the recommendations of Eleventh Finance Commission.*

Table 3: Total amount devolved to States through Tax devolution and Grants-in-aid

Commission	Devolution (Rs in crores)	Devolution as % of total FC transfers	Grants (Rs in crores)	Grants as % of total FC transfers	Total FC Transfers (Rs in crores)
FC-I	335	87	50	13	385
FC-II	852	81	197	19	1049
FC-III	1067	81	244	19	1311
FC-IV	1323	76	422	24	1745
FC-V	3628	85	638	15	4266
FC-VI	7099	74	2510	26	9609
FC-VII	19233	92	1610	8	20843
FC-VIII	35683	90	3769	10	39452
FC-IX (1st Report)	11786	86	1878	14	13664
FC-IX (2nd report	87882	83	18154	17	106036
FC-X	206343	91	20302	9	226645
FC-XI	376318	87	58588	13	434906
FC-XII	613112	81	142640	19	755752
FC-XIII	1448096	85	258581	15	1706677
FC-XIV	3948188	88	537353	12	4485541
FC-XV (2020-21)	855176	81	201023	19	1056199

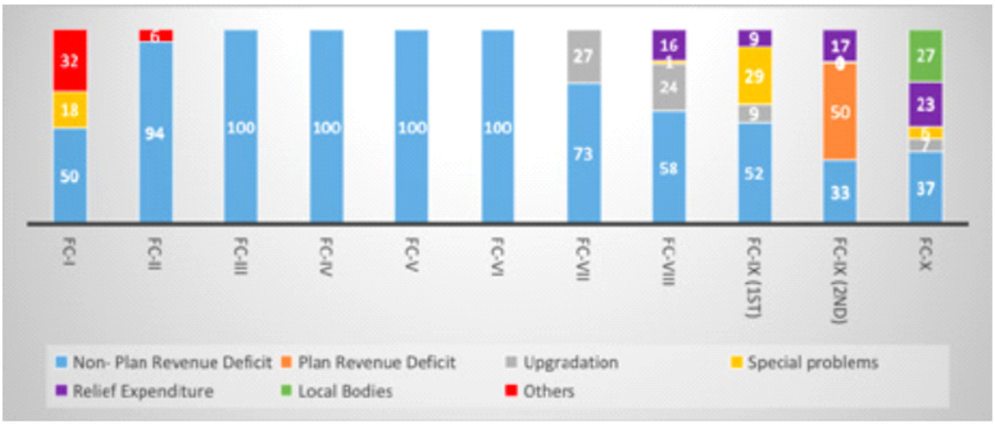
Note 1: Ninth Finance Commission (2nd Report) in addition provided plan grants of Rs 9000.83

Note 2: Fifteenth Finance Commission grants and devolution has been depicted for only one year

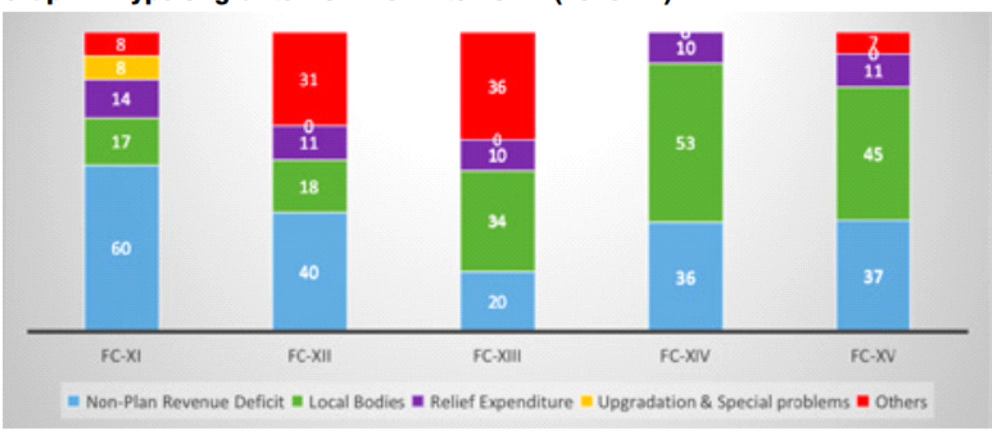
Note 3: % is rounded off to nearest decimal

Note 4: Grants do not include, among others, grants in respect of additional duties of excise in lieu of sales tax on textiles, tobacco, and sugar, grants in lieu of tax on railway passenger fares, grants in lieu of estate duty and grants in lieu of wealth tax

Graph 3: Type of grants from FC-I to FC-X



Graph 4: Type of grants from FC-XI to FC-XV(2020-21)



- Observation: shift from non-plan revenue deficit financing through grants towards local body grants (~50%)

- Local Body Grants

FC	Total Grants Recommended (₹ crores)	Grants to Local Bodies (₹ crores)	% share of grants to local bodies
10th	20300	5381	26.5
11th	58587	10000	17.07
12th	142640	25000	17.53
13th	258581	87519	33.85
14th	537353	287436	53.49
15th (2020-21)	201023	90000	44.77

- Criteria of devolution to local bodies

	10th	**11th**	**12th**	**13-RLB**	**13-ULB**	**14th**	**15th**
Population	100%	40%	40%	50%	50%	90%	90%
	1971	1971	2001	2001	2001	2011	2011
Income distance		20%	20%	10%	20%		
Index of Decentralisation		20%		15%	15%		
Index of Deprivation			10%				
Geographical Area		10%	10%	10%	10%	10%	10%
Revenue Effort		10%	20%				
SC/STs proportion in population				10%			
FC local body grants utilisation index				5%	5%		

- State Finance Commissions Status (Nov 2018)

FC	States
5th	Assam, Bihar, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Uttar Pradesh (13)
4th	Andhra Pradesh, Karnataka, Tripura, Uttarakhand, West Bengal (5)
3rd	Chhattisgarh, Goa, Gujarat, Manipur, Jharkhand (5)
2nd	Arunachal Pradesh, Nagaland, Jammu & Kashmir (3)
1st	Mizoram, Telangana (2)

Table 2: Fiscal Roadmap / Rules Recommended by Finance Commissions

Finance Commission and Tenure	General Government Finances		Central Government Finances		Finances of State Governments	
	Debt and Deficit Targets	Other Targets/ Measures	Debt and Deficit	Other Targets/ Measures	Debt and Deficit	Other Targets/ Measures
1	2	3	4	5	6	7
FC-XII (2005-10)	Debt-GDP ratio of 75 per cent by 2009-10.	Tax-GDP target of 17.6 per cent by 2009-10.	Long-term debt-GDP ratio to be 28 per cent; GFD-GDP ratio of 3 per cent; eliminate revenue deficit by 2008-09.	Achieve interest payments to revenue receipts ratio of 28 per cent by 2009-10.	Long-term debt-GDP ratio to be 28 per cent; GFD-GDP ratio of 3 per cent; eliminate revenue deficit by 2008-09.	Enactment of FRL legislation to define deficit targets; creation of sinking fund for future repayments of borrowings; creation of guarantee redemption fund to meet requirement of their invocation.
FC-XIII (2010-15)	Debt-GDP ratio of 68 per cent by 2014-15	Resource requirement of states in case of macroeconomic shocks to be managed through additional borrowings by the Centre to be devolved to the states as per the tax devolution formula.	Debt-GDP ratio of 44.8 per cent by 2014-15; eliminate revenue deficit by 2014-15.	Disinvestment receipts to be kept in a consolidated fund and not in the public account of the centre.	Debt-GDP ratio of 24.3 per cent by 2014-15; eliminate revenue deficit by 2014-15.	Amend/enact FRBM Acts to build in the fiscal reform path; state-specific grants to be conditional on compliance.
FC-XIV (2015-20)		Transparent accounting for the performance of public sector undertakings (guarantees, off-budget borrowings and accumulated losses) to be made available annually with the budget presentation.	GFD-GDP ratio of 3 per cent by 2016-17 and thereafter. Eliminate revenue deficit by 2019-20.	Amendment of the FRBM act to reflect the fiscal roadmap, omit the definition of effective revenue deficit and mandate the establishment of an independent fiscal council.	GFD-GDP ratio of 3 per cent; additional incentive based borrowing up to 0.5 per cent of GSDP based on achieving targets on revenue deficit, interest payments - revenue receipts ratio and debt-GSDP ratio.	Exclusion of state governments from NSSF operations from April 1, 2015 (existing obligations on servicing and repayments to be fulfilled).
FC-XV (2020-26)	GFD-GDP ratio glide path from 9.3 per cent in 2021-22 to 6.8 per cent in 2025-26; projected debt-GDP ratio of 85.7 per cent in 2025-26, after peaking at 89.6 per cent in 2022-23.	Restructuring of FRBM Act and time-table for defining and achieving debt sustainability to be examined by a high-powered inter-governmental group.	In the baseline scenario, GFD-GDP ratio glide path from 6 per cent in 2021-22 to 4 per cent in 2025-26[30]; projected debt-GDP ratio of 56.6 per cent in 2025-26, after peaking at 62.9 per cent in 2021-22.	-	Normal limit of net borrowings to be 4 per cent in 2021-22, 3.5 per cent in 2022-23 and 3 per cent of GSDP from 2023-24 to 2025-26; incentive based additional borrowings of 0.5 per cent of GSDP from 2021-22 to 2024-25.	-

15th Finance Commission 2021-26

- Chairman: NK Singh ()
- Terms of Reference
- Issues identified
- 2 reports submitted
    - Recos for 2020-21
    - Final Report 2021-26
- Vertical devolution
    - Constant in both reports at **41**%
    - Less than 14th FC's 42%
    - Gap of 1% for J&K, Ladakh UTs
- Horizontal Devolution

Criterion	14th FC	15th FC 2020-21	15th FC 2021-26
Income Distance	50%	45%	45%
Area	15%	15%	15%
Population (1971)	17.5%	-	-
Population (2011)	10%	15%	15%
Demographic Performance	-	12.5%	12.5%
Forest Cover	7.5	-	-

Forest and Ecology	-	10%	10%
Tax and Fiscal Efforts	-	2.5%	2.5%

- Income distance: distance of a state's income from the state with the highest income
- Demographic performance to rewards efforts by states in controlling fertility rates
- Forest and ecology -- dense forest
- Tax and fiscal efforts - to reward states with higher tax collection efficiency = $\frac{avg\ per\ capita\ own\ tax\ revenue}{avg\ per\ capita\ state\ GDP\ 2016-17\ to\ 2018-19}$

- Grants
    - Revenue deficit grants to 17 states
    - Sector specific grants for **8 sectors**
        - Health, School education, Higher education, Implementation of agri reforms, Maintenance of PMGSY roads, Judiciary, Statistics, Aspirational districts & blocks
        - A portion will be performance linked
        - High level committee at state level to review and monitor utilisation
    - State specific grants for 6 areas
        - Social needs, administrative governance and infra, water and sanitation, preservation of culture and historical monuments, high-cost physical infra, tourism
        - High level committee at state level to review and monitor utilisation
    - Grants to local bodies
        - ₹2.4 lakh crore for RLBs
        - ₹1.2 lakh crore for ULBs
        - ₹70,051 for health grants through local govts
        - To be distributed acc to population(90%) and area (10%)
        - *No grants if State FC not constituted by Mar 2024*
    - Disaster Risk management
        - Retention of existing cost-sharing patterns
        - 90:10 for NE, Himalayan States
        - 75:25 for rest all
- Fiscal Roadmap
    - Fiscal deficit and debt levels
        - Bring down *fiscal deficit* to **4%** by 2025-26 (Union)
        - States -- 4% in 2021-22, 3.5% in 2022-23, 3% in 2023-26
        - Extra 0.5% of GSDP borrowing till 2025 upon power sector reforms
            - Reduction in operational losses
            - Reduction in revenue gap
            - Reduction in payment of cash subsidy; adopting DBT
            - Reduction in tariff subsidy as a % of revenue
        - Reco: form high-powered inter-govtal group to
            - Review FRBM
            - Recommend new FRBM fw for centre + states
    - Revenue mobilisation
        - Strengthen income, asset-based taxation
        - Computerisation of property records + registration of txns -- capture market value of properties
        - Untapped potential - stamp duty, registration fees at state levels
        - Expand coverage of TDS/ TCS provisions
    - GST
        - Resolve inverted duty structure b/w intermediate inputs and final outputs
        - Restore revenue neutrality; compromised by multiple rate structure, downward adjustments
        - Rationalisation - merge 12% and 18%
    - Financial Management Practices
        - Establish indep **Fiscal Council** with powers to assess records from Centre + States
            - Must be advisory body only

            - Adoption of standard based accounting and financial reporting
            - Centre, states must not resort to off-budget financing/ any other non-transparent means of financing
            - Amend states' Fiscal responsibility laws to be consistent with Centre
            - More avenues needed for short term borrowing by states
                - Could form independent debt management cell
- **Other Recos**
    - Health
        - Increase state spending above 8% of budget
        - CSS in health must be flexible enough to allow adaptation, innovation
        - Focus to be shifted from inputs to outcome
        - Establish All India Medical and Health Services
    - Funding of defence and internal security
        - **MFDIS** Modernisation Fund for Defence and Internal Security
            - Dedicated, non-lapsable
            - Estimated corpus - ₹2.4 lakh crore
            - ₹1.5 lakh crore from Consolidated Fund of India
            - Rest from disinvestment of defence PSEs, monetisation of defence lands
    - CSS
        - Set min threshold for annual allocation below which funding stops
        - 3rd party evaluation of all CSS - timebound
        - Funding pattern - fixed upfront, transparent, kept stable

- **For local bodies**
    - Fixed amount devolution rather than proportion of divisible pool to ensure greater predictability of quantum, timing of fund flow
    - Total - ₹4.3 lakh crore (2021-26)
        - ₹8000 crore - performance based grants for incubation of new cities
        - ₹450 crore - for shared municipal services
    - Distribution among states for rural and urban local bodies
        - 90% - population
        - 10% - geographical area weightage
    - SFCs - to be mandatorily constituted by Mar 2024 - to receive grants
        - Must act upon recos + lay explanatory memo
        - MoPR to certify compliance of all Constitutional provisions by a State before release of grants for local bodies after this period
    - Entry level conditions

	RLB	ULB - Mn+	ULB - Basic
Provisional and audited accounts in public domain	Y	Y	Y
Fixation of minimum floor for property tax rates		Y	Y

    - Fulfilment of national priorities

RLB	60% of total grants tied to: - Sanitation, maintenance of ODF status - Drinking water, rain water harvesting, water recycling
ULB - Mn+	100% grants performance linked through **Million Plus Cities Challenge Fund (MCF)** - 33%: for ambient air quality - 67%: service level benchmarks for drinking water (rw harvesting, w recycling) + sanitation and solid waste mgmt
ULB - Basic	60% of grants tied to: - Sanitation and solid waste management - Attainment of star ratings developed by MoHUA - Drinking water, rain water harvesting, water recycling

- Last mile reach
  - Grants for 2021-26 must go to all 3 tiers of PRIs
  - Should also be distributed to areas not required to have panchayats (5th, 6th Schedule areas, Excluded areas) -- to similar local bodies
- Punctual release of funds
  - 2 equal instalments each year - June, October, after ascertaining entry level benchmarks + other recommended requirements
  - States shall transfer grants-in-aid to local bodies w/in 10 working days -- otherwise release with effective rate of interest on SDLs
- Health grants
  - To address gaps in primary health infrastructure
  - Allocations NOT on per capita basis
  - Acc to MoHFW proposal
- Ceiling for professions tax not been revised for last 3 decades -- relevant constitutional amendments must be carried out on priority basis

14th Finance Commission 2015-20

- Chairman: YV Reddy (Former RBI Governor)
- Terms of Reference
  - Sharing of tax proceeds b/w centre and states didn't give sector specific grants
  - Principle governing grants-in-aid
  - Measures needed to augment consolidated fund of a state to supplement resources of panchayats and municipalities
  - Suggest steps for pricing of public utilities (electricity, water)
  - Look into issues like disinvestment, GST, subsidies, etc
  - Review state of finances, deficit and debt level of centre and states
  - Review of present Public Expenditure Management System
  - Ecology, envi, climate change - sustainable economic development
- Issues noted
  - Increasing union govt spending on various state subjects -- increased expenditure at union level for functions primarily in the states' domain
  - Share of cess and surcharges in gross tax revenue of union govt increased from 7.1% in 2001 to 13.14% in 2013-14 -- not shared with states
  - 2009-15:
    - relative share of tax devolution in total transfer - 46.8%
    - grants - 54%
    - However, tax devolution should be primary route; formula based thus conducive to sound fiscal federalism
- Vertical devolution - 42% - highest ever (previously 32%)
- Horizontal Devolution

Criterion	Weight
Population (1971)	17.5%
Population (2011) *(new)*	10%
Fiscal Capacity/ Income distance	**50%**
Area	15%
Forest Cover *(new)*	7.5%

  - Population (2011) - captures demographic changes since 1971
  - Forest cover - to account for opportunity costs in terms of area not available for other economic activities
- Disaster Management Grant
  - SDRF - annual size of fund recommended
    - 10% state contribution

        - 90% central contribution
    - NDRF
        - Financing through cess and duties (National Calamity Contingent Duty)
        - Additional budgetary support

13th Finance Commission 2010-15

- 32%: share of states in net proceeds of shareable central tax pool
- Horizontal devolution criteria:

Criterion	Weight
Population (1971)	25%
Area	10%
Fiscal Capacity Distance	47.5%
Fiscal Discipline	17.5%

- Fiscal capacity distance
    - Calculated for each state
    - ? Distance of estimated per capita revenue from Haryana (2nd highest)
- Grants-in-aid
    - Several categories
    - 18.03% of total transfers

COVID & govt debt

03 June 2021 12:31

https://www.pwc.com.au/government/Raising-Government-debt-during-COVID-19.pdf
https://blogs.worldbank.org/opendata/what-pandemic-means-government-debt-five-charts
https://www.weforum.org/agenda/2020/11/covid-19-has-countries-borrowing-money-just-about-as-quickly-as-they-can-print-it/
https://economictimes.indiatimes.com/news/economy/indicators/indias-public-debt-ratio-to-jump-to-90-per-cent-because-of-covid-19-imf/articleshow/78661641.cms?from=mdr
Also, imf report pdf - govt debt covid

Monetary System

10 November 2020 16:24

- [ ] New Economic Policy and Monetary System
    - [ ] Role of RBI under the new regime.

Uma Kapila

12 January 2021 14:14

Financial Sector

3 distinct phases (Mohan and Ray, 2017)
- 1950s and 60s
  - laissez faire + underdeveloped banking => instability
  - Initially 3 major types of players in organised banking sector
    - Imperial Bank of India
    - Joint stock banks (both English, Indian)
    - Foreign owned exchange banks
  - Limited access to finance
  - Large no. Of banking failures
- 1970s and 80s
  - financial development under govt auspices + financial repression
  - Substantial nationalisation in response to bank failures
  - Classical symptoms of financial repression
    - High pre-emption of banks' investible resources
      - High CRR, SLR
    - Administered interest rates
    - Quantitative ceilings on sectoral credit
- 1990s onwards: gradual, calibrated financial deepening & liberalisation

Major types of financial institutions in India
- Commercial banks
- DFIs Development Finance Institutions
  - Not viable in long run
  - IDBI, ICICI converted into commercial banks; IFCI effectively non functional
- Cooperative banks
  - Majority operate in only 1 state
  - ? Dual regulatory oversight
    - RBI
    - State specific RCS Registrar of Cooperative Societies
  - Governance problems
  - Frequent political interference
  - Slow to modernise
- RRBs
  - ? Co-owned by state govt, central govt, sponsor PSB
  - Structured as commercial banks
  - To develop rural economy
- Post offices
  - Significant contribution to financial inclusion on the deposit side

Stock exchange
- BSE Sensex
  - Estd 1875
  - Quite underdeveloped till 1980s
    - governed by Controller of Capital Issues
    - Catered to deficit financing of govt
    - Draconian forex controls - virtually non existent forex market

    - Essentially mutualised exchange
- NSE
    - Estd 1992
    - First demutualised electronic exchange in India
    - New initiatives, eg. Derivative trading
    - Commands lion's share of equity market turnover

Insurance
- Life insurance
    - Nationalised 1956
        - LIC emerged as monopoly
        - Still has lion's share despite entry of new participants
    - 1993: RN Malhotra High Powered Committee
        - Opening up to private players, both domestic & foreign (preferably joint ventures)
        - Establishment of IRDA as autonomous body
    - IRDA Act, 1999
        - Autonomous body 1999, statutory in 2000
        - Repeal of monopoly of LIC, GIC
    - Enhancement of limit of foreign investment in insurance sector frim 26% to 49%
    - Global standing
        - Numerically largest - reflects huge population
        - Share 2.1% - ranked 11th/ 88 (2014)
- General insurance
    - Nationalised in 1972 - GIC monopoly
        - GIC: sole national re-insurer
    - Poor penetration of health insurance
- Need
    - Expansion of insurance services
        - Better spread of social protection
        - Development of capital markets
        - Corporate debt market heavily dependent on institutional investors
    - Efficiency and spread of distribution channels
        - Agent based distribution channels -> mis-selling, low persistency
    - Level of govt control
    - Regulatory constraints
    - Consumer education and production

Mutual Fund
- Only one in late 1980s - UTI Unit Trust of India - govt owned

Modern banking since 1990s
- Foundational reports
    - Narasimham Committee (1991)
        - Committee on Financial System (RBI)
        - Primary focus: enhance operational freedom in commercial banking measures
        - Recommendations
            - Reduce pre-emption of banks' investible resources (reduce CRR, SLR)
            - Gradual elimination of administered interest rate structure
    - Narasimham Committee (1998)
        - Committee on Banking Sector Reforms (GoI)

                - Measures for modernising banking sector
                    - Better regulation & supervision
                    - Introduction of prudential norms
                    - Review of bank ownership structure in India
- Other reforms (Mohan, 2006)
    - Significant reduction of financial repression
        - Incl removal of automatic monetisation
    - Dismantling of complex administered interest rate structure
        - Enabled process of price discovery
    - Operational and functional autonomy to public sector institutions
    - Preparing financial system for increasing international competition
    - Calibrated opening of external sector
    - Promoting financial stability in the wake of domestic, external shocks
- IT
    - More effective, lower cost, real time delivery of financial services
    - INFINET Indian Financial Network: Communication backbone for financial sector
    - RTGS Real Time Gross Settlement System
    - CBS Core Banking Solutions Brances
    - IDRBT Institute for Development and Research in Banking Technology by RBI (1996)
    - Adopted enthusiastically by new private sector banks
        - PSBs followed suit, w/ a log
- Outcomes
    - Huge increase in extent of financialisation
    - Spurred demand -- demand led growth

Money Market

- Regulatory oversight of RBI since affects monetary policy
- Obj: ensure short term interest rates, liquidity maintained at levels consistent with overall MP objective
- 5 segments
    - Call money market
    - Inter-bank term deposit market
    - Bills re-discount market
    - Treasury bill market
    - Inter-corporate funds market
- Reforms
    - new participants
    - New instruments
        - CP Commercial Paper
        - CD Certificates of deposit
        - inter-bank participation certificates
    - New maturities for T bills (182 days)
    - Repo rate
        - Signalling device for financial markets
    - LAF Liquidity Adjustment Facility
        - Reduced volatility in call rate

Capital Markets

- Both domestic and foreign sources significant in case of non-bank funding sources
- Capital market heavily depended on private placement -- lower costs
- Bond/ debt market

- Differentiation based on ownership
    - Govt bonds vs corporate bonds
- Govt bonds
    - Initially unbridled deficit financing via fixed coupon ad-hoc T bill
    - Now market driven auction process on electronic platform
    - Increase volume of txns
    - Increased liquidity as well
- Corporate bonds
    - Less developed
    - Concentrated in bonds of blue-chip corporates
    - Predominantly private placement market
    - Limited liquidity

- Equity market
    - Radical transformation since reforms
    - Aims
        - Growth-enabling institutions
        - Competitive conditions through improved price discovery mechanism
        - Appropriate regulatory framework
        - Reducing transaction costs
        - Reduce information asymmetry - boost investor confidence
    - Liberalised raising capital from market -- repeal of Capital Issues (Control) Act, 1947
    - SEBI, NSE

Mutual Funds

- Mechanism for pooling resources; units issued to investors; funds invested in both equity and debt securities
- Important role in Indian capital market
- Reform started in 1988; eventually private sector allowed
- SEBI (Mutual Fund) Regulations - 1996 => operational freedom

Pension Funds

- No universal social security system in India
- Pension system largely caters to organised segment of labour force
- Until recently, 3 fold structure for public sector employees
    - Provident fund
    - Gratuity
    - Pension schemes
- Private sector - mainly provident funds only accessible
- Limited significance in Indian financial sector
- Size (OECD, 2015)
    - India: 0.3% of GDP
    - China: 1% of GDP
    - Brazil: 13% of GDP
- Reforms
    - Defined-benefit pension system to defined-contribution pension system (NPS)
    - Estb PFRDA (2003)
- Large potential
    - Social security measure
    - Provide depth to financial markets
    - Source of funds for infrastructure, other projs with long gestation

Emerging Issues

- Asset quality deterioration in recent years
- Poor performance of PSBs vis-a-vis PVBs
  - Inherent inefficiency?
  - Inefficient governance?
  - Imperatives of societal concerns an issue?
  - Dilemma of efficiency vs equity?
- NPA
  - Previously driven by agriculture, small industries
  - Currently industrial sector, mainly infra, steel
    - 'Regulatory forbearance': Relaxation of credit norms by RBI in aftermath of 2008 crisis
    - Structural factors, sharp fall in commodity prices -> sharp decline in profitability
    - Govt pressure + pvt enthusiasm on PPP - huge new debt contracted by highly leveraged Indian corporate entities
    - Governance issues in PSBs

Financial inclusion
- Evidence: poorer sections unable to access financial services adequately from organised financial system (NABARD, 2008)
- Multipronged approach
  - Priority Sector Lending by commercial banks
    - 40% of total credit; also divvied up for sub-sectors
    - In case of shortfalls:
      - PSLCs PSL Certificates
      - RIDF Rural Infrastructure Development Fund
  - No frills accounts in commercial banks
  - PMJDY
  - Kisan Credit Cards

Entry of new private sector banks
- 2015: license to 2 existing financial instis after almost 10 yrs of no new licenses
- 2 new major types of small and differentiated banks
  - Payments banks
    - Narrow banks (Can raise deposits upto Rs 1 lakh)
    - Business model: utilise newer mobile technology
    - Also licensed to non financial big industry houses; assuming low chance of conflict of interest from intra group lending
  - Small Finance Banks
    - Mobilisation of savings
    - Supply of credit to small business units
    - High tech, low cost operations
  - Challenges
    - Restricted earning opportunities - limited to investment in govt securities
    - Unknown unknowns
  - Significance
    - Constitute competitive challenge to existing commercial banks wrt access to financial savings

Role of RBI

10 June 2021 08:01

My notes

Functions

- Printing currency notes
- Banker to the govt -- both Central and State banks;
  - Represents govt as a member of IMF, WB
- Custodian of Commercial Bank Deposits - SLR, CRR, BASEL III, DSIBs
- Custodian of Country's FOREX reserves - manage BoP, CAD
- Lender of last resort for commercial banks - MCLR
- Central Clearance and accounts settlement
- Credit control - monetary policy, base rate (repo)
- Facilitator of payments systems in India
- [ ] Check your RBI interview doc

Role of RBI

Role	Pre-Reform	Post-Reform
Developmental Role	- Priority Sector Lending • 1974: PSBs • 1992: all commercial banks - Lead bank scheme - RRBs - **Boost industrial development** • **Insti like IFCI, IDBI, ICICI set up w/ RBI assistance**	- PSL continues w/ thrust on ensuring adequate credit flow to sectors impacting large popn/ weaker sections + employment intensive (agri, SMEs) - Agriculture • Special Agricultural Credit Plan • Kisan Credit Card Scheme (1998-99) • **De-jure function (RBI Act) -> set up NABARD** - Financial Inclusion - **Expand savings ratio**
Monetary Policy	- <u>Regulation</u> of foreign exchange - Direct Credit Controls - CRR, SLR, administered interest rates - Highly managed rupee convertibility	- De jure - monetary stability - **De facto - price stability, growth, stability of exchange rate, issuer of currency** - <u>Management</u> of foreign exchange - Indirect Credit Controls - OMO - New instruments - MSS, LAF - Full current account convertibility - Some capital account convertibility
Banker to the Government	- Automatic Monetisation of Deficit - Monetary policy linked to fiscal policy	- Delinking of monetary and fiscal policies - FRBM - since 2006, RBI forbidden from participating in primary market auctions of G-Secs - Debt manager of govt - Floats new loans on behalf of govt

		- Adviser to govt on monetary, banking measures
Banks		- Lender of last resort (Bagehot Principle, 1873) - Regulator, supervisor of financial system - Custodian of cash reserves of commercial banks - DICGC - insurance of bank deposits
Regulator of Financial Sector	?	- Expansion of banking licences - On Tap Banking License - CAMELS vs BASEL - Differentiated Banks
Custodian of Forex reserves		- Need to manage levels to regulate exchange rates as well as inflationary impact in economy
Inflation Management	? - Direct instruments	- Multiple indicator approach - Inflation targeting framework (2014)
Financial Stability	- Closed economy	Increased FDI and FII inflows -> fin stab has been made explicit policy objective
Money Market		- Narasimhan committee 1998 recommended reforms ?

History of Monetary Policy

- 1935-50
  - Instruments - CRR, Bank Rate, OMO
  - Operating target - Balance demand for and supply of credit
- 1951-72
  - Fiscal dominance
    - when central banks use their monetary powers to support the prices of government securities and to peg interest rates at low levels to reduce the costs of servicing sovereign debt
  - Aim to balance inflation with expanding credit availability to core sectors
  - Newer instruments like Selective Credit Controls
  - Frequent raising of Bank rates
- 1972-91
  - High inflation since 1972
  - Chakraborty Committee 1985
    - Monetisation of govt deficit -> increase in money supply
    - Deficit financing couldn't be undertaken because of low yield on govt bonds
    - Changed operating target -> controlling M3 (currently WACR)
  - Collapse of Fixed Exchange Rate system that maintained price discipline
- 1991-95
  - Liquidity eased
    - Progressive reduction in SLR from 38.5% to 22%
    - ? CRR reduced from 15% to 4% (2022)
    - Removed floor rates for CRR, SLR
  - 1993 - pact b/w govt & RBI to discontinue
  - New bank licenses
- 1995-2008
  - Liquidity tightening phase
    - Led to period of less growth

    - Gradual tightening to sterilise the high investment inflow during 2003-08
    - 1994: Narasimhan Committee recommendations -> LAF set up
    - New operating target: Interest Rate (target: money mkt)
- 2008-
    - Liquidity easing in the wake of Global Financial Crisis GFC
    - Repo down from 9% to 5% (reverse repo now at 3.35)
    - Inflationary conditions led to gradual tightening again
    - WACR - explicitly recognised as operating target in 2011
    - MSF evolved to check against emergency situations of deficit
    - Repo rate made ONLY varying instrument; other rates linked to it
    - Recent bank credit growth
        - High of 20% during high growth period of 2003-08 -> debt fuelled growth
        - Dropped to 15% after 2008 -> GFC, crowding out due to fiscal stimuli
        - Currently at 5.6% [RBI data] -> record low in 2021 -> COVID induced global economic slowdown

Inflation Targeting

☐ Paper 2021 - Inflation targeting much ado about nothing (Surjit Bhalla)

- 2 modes of inflation growth
    - Supply deficit driven
    - Excess demand driven
- Monetary Policy effective in case of demand driven inflation

Inflation Targeting Framework

- Target: CPI inflation of 4% with band of +-2%
- Initially for 2016-17 to 2020-21
- Extended for 5 more years in 2021
- RBI given free hand in policy rates, i.e. Repo rate
- Transparency
    - Publish document explaining the sources of inflation and inflation forecast for 6-8 months, twice a year -> Monetary Policy Report
    - Govt can send message only in writing
- Failure
    - Considered failing if missed target for 3 consecutive quarters
    - RBI needs to show cause and proposed remedy to govt
- Dispute resolution -> meeting b/w RBI Guv & govt
- Previous model
    - Multiple indicator approach -> unemployment, inflation, BoP, deficit
    - Since 1998
- Monetary Policy Committee
    - 6 members - 3 from RBI + 3 appointed by Union Govt
    - Quorum - 4
    - RBI Guv - Chman, Casting vote
- Benefits
    - Check against **inflation**
        - Inflation affects equity by disproportionate impact on poor, non-salaried
            - Counter: emphasis on CPI hurts farmers as 46% weight given to food
        - Misallocation of resources -- Inflation Tax
        - Institutional savings

            - Manmohan Singh - high savings occur only under stable price conditions
    - Rules based policy
        - Limited success of measures adopted by Central Bank since collapse of Gold Standard in 1970s
        - ? Friedman
            - Active Monetary Policy can create a Real Business Cycle
            - Could end up being counter cyclical in nature due to lags
            - Also reduces time inconsistency problem
        - CPI targeting - adopted by ~30 countries; none reverted so far
    - Price expectations
        - Stabilises expectations
        - Reduced tendency of formation of business cycles (Neo-classical)
    - Clarity of role
        - Both RBI and govt's roles made clearer
        - Accountability of RBI
    - International precedent
        - 30 countries adopted since 1990s, including US, UK, Japan
        - WB empirical study
            - Inverted U shape of growth and inflation
            - Upto a certain level, growth rises with inflation, then falls

? - CASE study - India
    - See the problems of unclear mandate
    - In 2004-2008 period of rapid growth, RBI targeted low interest rate to check against excessive inflows and appreciation. This pro-cyclical policy however raised Inflation
    - 2009 onwards RBI chose to tackle Inflation. However, the tight money now crippled growth
    - All hands being full

- Limitations
    - Economic
        - ? 'Monetary Brutality' according to Keynesians and Monetarists
        - At low rates - inflation reduces unemployment and stimulates growth
        - Antithetical to growth only at high inflation rates
        - Threshold level -- not known clearly
            - Rakesh Mohan -- could be as high as 7-11% for developing countries
        - Chakraborty, 2008 - Tighter policy today may mean more inflation tomorrow because of supply side effects
            - Tight MP -> constrains real growth on ss side, but dd expands -> high inflation tomorrow
    - ? Inflation no longer dominant issue !!
        - Greater challenge: subdued growth
    - Ability of central bank to control inflation via monetary policy is weak
        - Weak monetary transmission
            - Reasons (RBI)
                - Stickiness of deposit rates - only 20% deposit are re-priced each year
                - Competition from small savings scheme
                - Savings rate on savings deposits in banks fixed at 4%
            - IMF - can lead to countercyclical results
        - Also depends on fiscal policies
            - Govt decides supply side bottleneck
            - G stimulated demand and causes inflation -> by inadvertent overspending (fiscal deficit)
            - Oil, food inflation - depend more on external factors
        - Supply side shocks

- Structural issues in developing countries - Myrdal
- Economy too complex to be modelled on a rules based approach
- Difficulties associated with inflation measurement
    - CPI based - 46% weightage to food - regressive
    - Excludes asset prices
- Conflict of role
    - Subbarao - focus on inflation target led to goal of Financial Stability taking a backseat -> culminated in GFC of 2007
    - Similar conflict with external balance
- Possible loss of confidence in monetary policy if RBI fails in its mandate frequently -> would hamper effectiveness of subsequent policies

- Way forward
    - YV Reddy
        - RBI should aim at better inflation forecasting models
        - Employment & Inflationary Gap measurements also need improvement (Taylor's Rule)
        - Need to compile singular CPI index
            - Divergence in CPI-IW, CPI-AL
    - Focus on aligning private expectations with monetary policy by raising credibility of bank

RBI's Autonomy

History

- Started as autonomous central bank in 1935; nationalised in 1949
    - In lines w/ developed world -- demands of war financing reduced independence of Central Banks
    - Fixed Exchange system collapsed -> inflationary conditions
    - -> greater independence of CBs + inflation targeting mandate
- Post independence
    - Inadequate savings
    - Capital intensive public sector
    - -> demand for mobilisation of savings -> fiscal dominance
    - Limited control of RBI over reserves
    - Also, addl funds being raised through instruments like postal savings
    - Administered rates -> to keep debt burden low -> financial repression
- Post 1991 crisis
    - LPG + end to automatic monetisation of debt in 1993
    - Reforms
        - Interest rate reforms
        - Banking license to private banks
        - Reforms in capital market - SEBI
        - Monetisation of Debt
            - Automatic monetisation of debt - phased out b/w 1993-97 using Ways and Means Advances as a tool
            - FRBM, 2003 - statutory backing -- monetisation reserved only for exceptional circumstances -- war, extreme national calamity
            - Restriction on RBI participation in Primary Market Auctions in 2006
            - Counter:
                - Charan Singh - indirect monetisation of debt still being done
                - Eg. Sterilisation process under MSS
- 2014: RBI ranked least independent by International Journal of Central Banking (89 total)
    - 4 indicators used
        - Govt intervention in appointing head of Central Bank

        - Govt intervention in making policy decisions
        - Price stability being the sole or primary goal of monetary policy
        - Limits on ability of the govt to borrow from the central bank
    - Didn't account for the incoming inflation targeting framework
    - Also, this sort of autonomy doesn't guarantee credibility of CB - even US, Japan ranked low in this index; top - Kyrgyz, Latvia

<u>Case for autonomy</u>

- Inflationary bias - leads to fiscal dominance -- Lin
- Ye - 3% points higher inflation in countries where inflation targeting is not followed
- Academic literature does NOT decisively conclude that independence of CB leads to lesser inflation
    - Some studies have pointed to positive correlation b/w inflation and independence in developed countries
- Need to separate regulator (RBI) and principal owner (Govt) of banking system
- Measures to estimate independence
    - Power to <u>appoint, remove</u>, <u>stipulate terms of membership</u> & <u>issue directions</u>
    - Occurrence of fiscal dominance, monetisation of debt
    - Independence of monetary policy
    - Dimensions of dis-autonomy of RBI

Dimension	Way forward
Vacancies @ regional boards, central board, small no. Of independent directors appointed	Fill quickly
Holds office at pleasure of the govt (tenure of RBI Guv -- 3/ 5 years)	- Involve LoO + experts in RBI Guv appointment process - Creation of a rotating board as in USA
Govt intervention in Demonetisation -- allowed under RBI Act, 1934	- Need to reframe act
MPC has 3 govt nominees	Multi-stakeholder screening committee
Cabinet Secretary heads panel to select DGs	Should be headed by RBI Guv

<u>Sources of Conflict with Govt</u>

- Interest rate and monetary policy
    - Inflationary bias
- Banking sector - govt owns 70% banks and issues directions to them -- infringing on role of regulator
- Dividend to govt
    - RBI - minimum; Govt - maximum
    - Dividends arise due to profits
    - Profits - yield on govt bonds that it holds + return on forex reserves investment + profit on repo window - employee cost - cost of printing notes
    - All profit traditionally goes to govt, sparing contingency reserve to be used in emergencies
- Friction b/w CB & legislature more common in developing economies than in industrialised economies (BIS data)

Nature of incident ▼	Total (%)	Industrialised countries (%)	Emerging market economies (%)
Central bank and its policies were subject of extraordinarily heated debate in the legislature that went substantially beyond the critical review of the central bank that is part of the ongoing process of accountability	15	9	20
Legislature passed formal resolution or formal comment on the central bank and its policies, outside or in addition to the legislative review foreseen in the law	9	0	16
Occurrence of at least one of above incidents	19	9	28

The data shows responses from 40 central banks

Source: Mint research based on BIS data Get the data

Monetary Policy Transmission

- How changes made by the Reserve Bank to the instruments of monetary policy flow through to economic activity and inflation
- Important channels
    - Interest Rate
    - Exchange Rate
    - Credit Flow
    - Asset Prices
    - Expectations
- Current states in India
    - Not completely effective (numbers)
    - Economic Survey 2021-22
        - Transmission weak on quantity of credit, improved on rate structure and term structure
        - Rate structure:
            - Transmission to deposit and lending rates of SCBs has improved
            - WA LR Weighted Avg Lending Rate on fresh rupee loans declines by 94bps in response to reduction in 115 bps
            - PVBs exhibited greater transmission on fresh loans; PSBs on outstanding loans
        - Credit growth
            - Declined to 5.1% in Oct 2020 from 14.8% in Feb 2019
            - Moderation in most sectors, except services
        - Term structure
            - Reduction in policy rates + surplus liquidity -> both short term, long term interest rates brought down
            - Gap b/w yield of 1 year and 10 yr G-sec widened
    - RBI Bulletin (AK Mitra, 2021)
        - Full and reasonably swift transmission across various money market segments and private corporate bond market
        - Delayed, partial transmission to bank deposit and lending rates
- Reasons for ineffectiveness in developing economies
    - Structural issues - Myrdal
        - Supply side constraints
        - Fiscal dominance - due to predominance of PSBs
        - Rigidity in factor market
    - Constricted monetary policy channels
        - Administered interest rates & financial repression
        - Savings in the form of unproductive physical assets

    - Stagnant savings rate after growth from 7% to 10% (proof)
    - Fixed exchange rate
    - Credit flow constraints -- eg.
    - Under-developed capital markets
    - Expectations -- time-inconsistency problem
- Large part of economy out of financial net
    - Low financial inclusion
    - Last mile coverage
        - Banking Correspondents
            - India v Kenya
        - Informal economy, dependent on self financing
            - MSMEs, unorganised
        - Financial literacy
- RBI Bulletin (AK Mitra, 2021)
    - Long maturity profile of deposits at fixed interest rates
    - Rigidity in saving deposit interest rates
    - Legacy of base rate loans
    - Periodicity of interest rate reset under the MCLR system
    - Competitive pressures - mutual funds and small savings schemes
    - Asset quality of banks

<u>Benchmarking of Lending Rates - External vs Internal</u>

- Recommendation of Internal Study Group (under Janak Raj)
- Wef 2019
- Banks: All SCBs except RRBs
- Loan categories: all new floating rate personal or retail loans and floating rates to MSEs
- Benchmark: repo rate/ 3-month T-bill/ 6-month T-Bill/ any benchmark interest rate by FIBIL
- Freedom to fix spread over the external benchmark for new borrowers
- Once fixed; only allowed to change spread if substantial change in borrower's credit assessment, as agreed upon in loan contract
- Benefits over MCLR
    - Any change in benchmark rate will lead to change in lending rates for new borrowers
    - Need to reset interest rates at least once in 3 months for outstanding loans; (1 year under MCLR)
    - Constrains arbitrary adjustment of spread for existing borrowers
    - Under MCLR - transmission to lending rates indirect; contingent upon changes in deposit interest rates

Money Market vs Capital Market

Money Market	Capital Market
<1 year tenor	>1 year
Instruments: - T-bills - Commercial papers - Bills of exchange - Certificate of deposits - CMBs for govt, - Participatory Notes for pvt	Instruments: - Shares - Debentures - Bonds - G-secs - Sovereign bonds

Participants - Commercial banks - NBFS - Chit funds	Participants - Stock brokers, - Under-writers - Mutual funds - Individual investors - Financial institutions
Regulator: RBI	Regulator: SEBI
	Primary market, Secondary market

- [ ] https://www.civilserviceindia.com/subject/Management/notes/capital-and-money-markets.html

Cash Management Bills CMB
- Started in 2009
- Like T-bills, but maturity <91 days
- Also used to such liquidity post demonetisation

Types of money
- M0 or H - High powered money
  - Reserve money
  - Currency in circulation + deposits of banks w/ RBI + other deposits
  - = total liabilities of RBI
  - = total assets of RBI = loans to govt + Credit to banks + RBI claims on Banks (equity) + net foreign assets + govt currency liabilities to the public - other liabilities
  - ? Has been growing in recent years due to expansion of NFA (Net foreign assets)
- M1
  - Narrow money
  - Currency w/ public + demand deposits
- M3
  - Broad money
  - M1 + time deposits

Regulatory and Supervisory Role

- Need for regulator
  - Historical: Banking crisis 1913 in India, Great Depression 1929 -- bank runs
  - Presence of regulator mitigates systemic risks
  - Protects interests of the depositors
  - Reduces information asymmetry
- Role in regulation
  - License to banks, revoke licences
  - Banks must provide weekly return to RBI showing assets and liabilities
  - Power to inspect accounts of any commercial banks
- Tools of supervision
  - Previously CAMELS
    - Capital, Assets, Management, Earnings, Liquidity, Sensitivity
  - Presently - 3 pillars of BASEL III
    - Capital Adequacy, Stress Testing, Market Discipline
- Issues
  - Conflict of interest -- supervisory vs regulatory roles
  - As regulator - RBI influences behaviour of market participants,
    - ? Inflation -> tight monetary policy -> counter effect of write-off of Banking assets (real value of return declines)

- Calls for separation of regulatory and supervisory functions in separate bodies

https://www.insightsonindia.com/2021/05/13/niti-aayog-report-on-digital-financial-inclusion/
Rangarajan Committee on Financial Inclusion (2008) had defined FI as the process of ensuring timely access to financial services and adequate credit to vulnerable groups such as the weaker sections and low income groups at an affordable cost

Bank Credit Trends
- ES 2022

RECENT Bank credit Trends
Bank Credit trend

- **High of 20% during the high growth period of 2003-08**
  - Debt fuelled growth
- After crisis and fiscal stimuli (crowding out), dropped to 15%
- Now at a low of **5% - slowest in 60 years**
- Reasons
  - **Break into SUPPLY side and DEMAND side**
  - Expensive
    - Monetary transmission incomplete
      - 20% re-priced every year, small savings, bank deposits, averge vs marginal pricing
      - Inditect Policy control - **only lending upto 0.25% of Bank's NDTL can be done via Repo**
  - Unwillingness to Loan
    - NPA high - unwillingness to loan
    - Balance sheet syndrome
  - bond market is providing moe attractive rates

1. Non food bank credit ***(NFC) - Share of Industry @ 25% down from 50% in 2011 - Eco survey 15-16***
   a. **Credit growth to industry < 0** for the 1st time in a decade
2. Personal loan section is rising
   a. Role of consumption in growth

RBI to move from persistent liquidity deficit in the banking system to liquidity neutral in phases

- Liquidity deficit
  - Banks have shortage of daily requirement of cash
  - Hence, have to borrow from RBI through LAF mechanism
  - Has been the RBIs position since 2000
    - to check against the persistent Inflation
    - Liquidity deficit **also led to better transmission of Monetary Policy since dependence on LAF increases**
  - Hence, sustained deficit of 1%
- Why neutral now ?
  - **Different Issues today**
    - Stressed quality of assets
      - NPA - 9.2%
    - Sluggish demand of bank credit
  - **Inflation under control**
  - **Better monetary transmission**
  - High return on S,all savings account

        - Fallen now
    -

- How ?
    - Through OMOs, buyind dollars to inject rupees
    - Around 1 lakh crore need to be injected

MCLR

he marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. It is an internal benchmark or reference rate for the bank. MCLR actually describes the method by which the minimum interest rate for loans is determined by a bank - on the basis of marginal cost or the additional or incremental cost of arrangingarranging one more rupee to the prospective borrower.

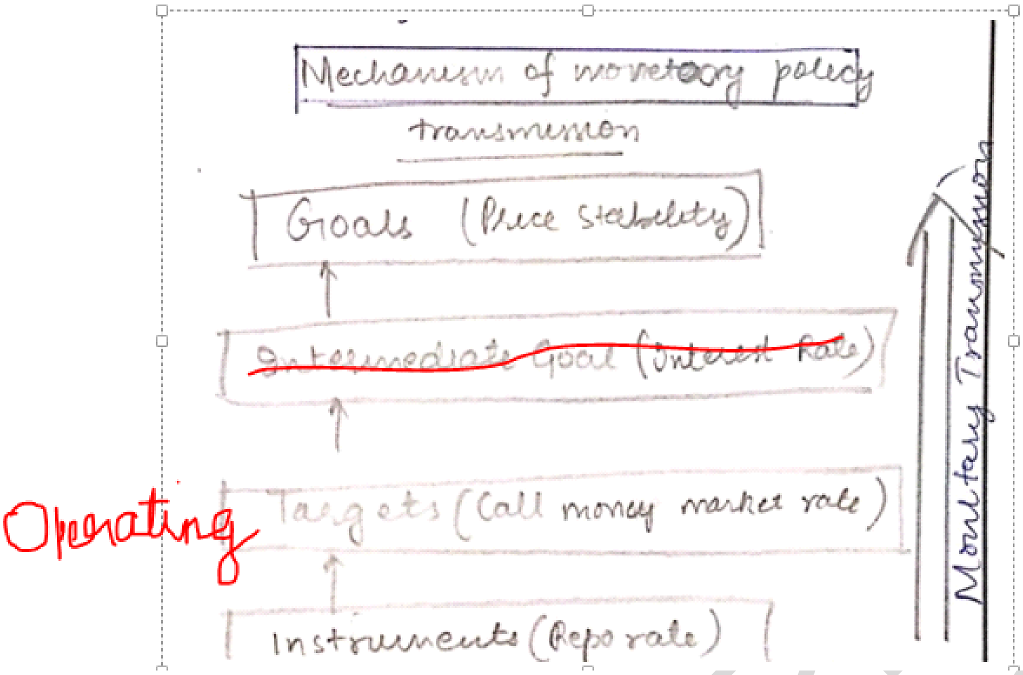
Reasons for introducing MCLR
- rates based on marginal cost of funds are more sensitive to changes in the policy rates. This is very essential for the effective implementation of monetary policy.
- **Standardisation** Prior to MCLR system, different banks were following different methodology for calculation of base rate /minimum rate – that is either on the basis of average cost of funds or marginal cost of funds or blended cost of funds. -
- **Brings transparency**

The MCLR is a tenor linked internal benchmark (tenor means the amount of time left for the repayment of a loan).

Calculation
- Marginal Cost of Funds
    - 92% - marginal cost of borrowings
    - 8%- Return on networth
- Negative carry ratio
    - Since no return on CRR
- Operating costs
- Tenor premium

Difference with Bank Rate
- Bank Rate based on cost of funds- MCLE - marginal cost
- Bank rate used profit - MCLR uses tenor premium
- Both use operating costs and negative carry on CRR

- [ ] **Instruments of Credit Control - DISCUSS In DETAIL the PROS / CONS of EACH**



- **Quantitative or General Credit Controls**

1. Repo rate - fixed interest rate at which RBI provides short-term (overnight) liquidity to banks against collateral of G.sec under LAF
    - LAF consists of overnight & term repo auctions
    - **6%**
2. Reverse repo rate - fixed/variable interest rate at which RBI absorbs short-term liquidity, on overnight basis, from banks against the collateral of G.sec under LAF
    a. **5.75%**
3. MSF (Marginal Standing facility) - scheduled commercial banks can borrow additional amount of overnight money from RBI dipping into their SLR portofolio (2% of NDTL) at penal rate. Provides a safety valve against unanticipated liquidity shocks
    - MSF & Reverse repo rate determines a corridor for daily movement in weighted average call money rate. = 50 bps now
    - **6.25%**
4. Bank Rate - Rate at which RBI is ready to buy or rediscount bills of exchange - lending without collateral could also be long term - aligned with MSF
5. CRR -
    a. **share of NDTL** that banks must maintain as cash balance with RBI
    b. **4%**
6. SLR -
    a. the **share of NDT**L that banks must maintain in **safe & liquid assets** (G.sec, cash, gold)
    b. influences availability of resources in banking system for lending purposes
7. OMO - outright purchase or sale of G.sec for injection/absorption of durable liquidity
8. Refinance facilities - Sector-specific refinance facilities aim at achieving sector specific objectives through provision of liquidity at a cost linked to policy repo rate
    a. de-emphasising this as it interferes with transmission mechanism
9. Market Stabilisation Scheme (MSS) - for Sterlisation
    a. surplus liquidity of a more enduring nature arising out from large capital inflows is absorbed through sale of short-dated G.sec & T-bills. The mobilised cash is held in a seperate govt. account with RBI

- **CRR**
    - Of NDTL
    - Was the main tool of monetary policy till 1991 when OMO was evolved and floor Limits were reduced from a high of about 15%
    - Issues
        - Specifies **only the floor limit and** Depends on **Market Appetite** - **Applicable to All**
            - If banks have parked funds in excess of the requirement then will have little impact
        - **Affects only the SCBs**
        - Willingness to borrow even if RBI cuts rates - Depends on **MEC** - **Applicable to All - Verify**
- **SLR**
    - Of NDTL
    - Issues
        - Specifies only the floor limit
            - If banks have parked funds in excess of the requirement then will have little impact
        - ER

- **Open Market Operations in India**

  or to the 1991 financial reforms, RBI's major source of funding and control over credit and interest rates was the CRR (Cash reserve ratio) and the SLR (Statutory Liquidity Ratio). **But after the reforms, the use of CRR as an effective tool was de-emphasized and the use of open market operations increased**. **(** one shortcoming of CRR is that ot affects only the SCBs)**(Thus economomy moved from using direct instruments to market based indirect instruments - Earlier aloso - base rate - limits by govt on SLR, minimum CRR)** OMO's are more effective in adjusting market liquidity.

  The two traditional type of OMO's used by RBI
    1. **Outright purchase (PEMO): Is outright buying or selling of government securities.** (Permanent).
        a. Used for longer term liquidity correction
    2. Repurchase agreement (REPO): Is short term, and are subject to repurchase.[9
        a. For Short term liquidity correction

  In OMO, G Secs (higher maturity) and T bills used (in MSS - g sec + T Bills + CMBs)

  Issues with OMO
    - May be followed by **reverse Cash Management**
        - Say after RBI purchases securities, then the increased cash surplus may flow back to it as the banks park extra cash with RBI
    - Even if bonds are purchased or sold, the capacity of banks to create or reduce credit may not be affected highly
    - **Requires maturity in bond market**
        - Which is difficult esp in developing countrie s
        - Although Indian bond market has matured
    - I depends on MEC more than r

  Superiority over others
    - It **affects the cash reserves with Banks directly** and hence **d**oesn't depend so

much on the attitude of banks
- **Not restricted to SCBs**

- **LAF**
    - **Repurchase Agreement (Repo):** Repo is a **money market instrument** combining elements of two different types of transactions *viz*., lending-borrowing and sale-purchase. The Repo transaction has **two legs,** which can be explained as follows – in the first leg: Seller sells securities and receives cash while the purchaser buys securities and parts with cash. In the second leg: Securities are repurchased by the original holder. She pays to the counter party the amount originally received by her plus the return on the money for the number of days for which the money was used by her which is mutually agreed. Under Repo, the Reserve Bank of India injects funds to organisations (**SCBs and Primary Dealers**) which have both current account and SGL account with the Reserve Bank of India.

      Time - Generally 7 days, 14 days upto 91 days

      Started in 2000 after Narsimhan Commiittee Recommendations (also led to reduction in SLR and CRR)

    - **Reverse Repo(just mentioning for a better understanding):**This is exactly the opposite of the Repo transaction and is used for absorption of liquidity. The Reverse Repo Rate at present is at 50 basis points below the repo rate. Reverse Repo facility is available to **Primary Dealers also.**
        - Summary
            - **Policy Rate(as they both are referred to at times):** Repo rate is the rate at which banks borrow funds from the Reserve Bank **against eligible collaterals** and the reverse repo rate is the rate at which **banks place their surplus funds with the RBI** under the liquidity adjustment facility (LAF) introduced in June 2000. The repo rate has emerged as the key policy rate for signaling the monetary policy stance since June 2000.
    - **Marginal Standing Facility rate(MSF)(ie bank rate same as msf)** MSF is the amount of Cash that a Scheduled bank can borrow from the RBI by pledging its reserves even though it is below the SLR(Statutory Liquidity Ratio),but at **a penal rate**. It is used for overnight lending as emergency measure when funds dry up completely **MSF is overnight rate** 50 basis point above REPO Started in 2011 Unlike REPO which can be used by Central and State govt and banks, MSF only for SCBs

- **Market Stabilisation Scheme (MSS)**

  India experiences large capital inflows every day, and even though the OMO and the LAF policies were able to withhold the inflows, another instrument was needed to keep the liquidity intact. Thus, on the recommendations of the Working Group of RBI on instruments of Sterilization (December, 2003), a new sche**me known as the Market stabilization scheme (MSS) was set up. The LAF and the OMO's were dealing with day-to-day liquidity management, whereas the MSS was set up to sterilize the liquidity absorption and make it more enduring and counter the increase in High pOwered money by absorbing liquidity (Between 2003-08, FDI rose from 3% of GCF to 6.5% of GCF)**
    - MSS was introduced because RBI became short of givt bonds in 2003 to reduce liquidity. Hence, MoU with govt to issue T-bills by RBI on behalf of govt even

when govt does not need it. But, condition imposed that the govt can use the money from MSS only in a limited way so that liquidity is no tincreased through Fiscal routes, Hence, can be used only for buying bonds like stuffs

- During Demonetisation
  - TO suck liquidity post demonetisation, MSS limit increased to 6 lakh crore
  - Issues
    - it is costly, since it increases the indebtness of the govt
  - Hence, RBI looking to raise CRR rates recently which can be a cheaper solution
    - Con - Hurts Profitability of banking sector

- Bank Rate
  - **Dicontinued - Now a penal rate**
  - Varied definition
  - But basically, medium to loan long term from RBI without collateral - 50 bps above Repo
  - *Difference between repo and bank lies in*
    - ***Loan vs. Securities*** – bank rate usually deals with loans, whereas, repo or repurchase rate deals with the securities. The bank rate is charged to commercial banks against the loan issued to them by central banks(RBI), whereas, the repo rate is charged for repurchasing the securities.
    - ***Using a Collateral** – **No collateral is involved in a bank rate***. But a repurchase agreement uses securities as collateral, which are repurchased at a later date.
    - ***Duration-*** REPO rate is used to lend money for short term (more than 2 days and upto 90 days)while bank rate for long term(more than 90 days upto 1 yr).
    - Rate - Bank rates are higher because there is no collateral involved and is for longer duration
    - Impact - Bank rate usually more effective tool

• **Qualitative or Selective control**	Unlike Quantitative, it affects credit only in particular sectod s

  - **Moral suasion,**
  - **PSL,**
  - **Credit Rationing (** Interest Subvention),
  - **Loan to Credit Ratio (** LTV - Say - 60%, meaning Muthoot Finance can provide credit of upto 60% of the total value of gold deposited with it),
  - Fixing minimum rate of credit to be charged in particular sectors
  - **Changing EMI,**
  - **and Direct Action (** Fines in accordance with Banking Regulation Act, 1949)
- Issues
  - Can be effective only if supplemented by Quantitative credit control
  - May be offset by borrowing from NBFCs

Facts about monetary Policy

- **Money market vs Capital Market**

Money market	Capital Market
< 1year	> 1 year
T bills, CMBs for govt P notes for private	Primary and secondary debt and equity market like G secs and Soverign Bonds

- **Cash Management Bills (CMB)**
  - Started in 2009 . Like T- bills
  - < 91 days of maturity
  - Was also used to suck liquidity post demonetisaiton
- **Money types**
  - M0 or High Powered Money
    - Reserve money
    - Currency in circulation + deposits of Banks with RBI + Other deposits (= Total Liabilities of RBI) = Total assets of RBIs = Loans to govt + Credit to banks + RBI claims on banks (equity) + Net foreign assets + Govt currency liabilities to the public - Other liabilities
    - Has been growing because of rising NFA (Net Foreign Exchange Assets)
  - M1
    - Narrow money
    - Currency with public + Demand depoits
  - M3
    - Broad money
    - M1 + Time deposits

- **WACR**
  - Weighted Average Call Rate
  - Call marked is **bank to bank lending using uncolattarised means**
  - The average of such rates is WACR
  - Operating target of RBI is WACR
    - Through LAF, wants to influence WACR
    - Since Jan 2015 when easing started, 175 basis points reduction
      - Transmission was low until recently
      - When after demonetisation, SBI reduced rted by 90 bps. Others followed too
  - Helps in better monetary transmission . Hence, RB has reduced olicy corridor window

- CBLO
  - Collaterised Borrowing and Lending Operation
  - Collaterised like REPO but is bank to bank in the clearing union

What is a policy rate corridor?

Interest rate corridor refers to the window between the repo rate and the reverse repo rate wherein the reverse repo rate acts as a floor and the repo as the ceiling. Ideally, rates in the overnight interbank call money market, where lending and borrowing is unsecured, should move within this corridor. However, when banks are short of funds and the overnight call money rates are high and above the repo rate, banks approach the RBI to borrow under the repo window.

Therefore, the repo rate becomes an effective policy tool as it would help bring down the rates in the overnight market . The reverse hap-pens when money market rates fall below the reverse repo rate. Banks then park surplus funds with the RBI through a reverse repo trans-action. As a result, when there is excess liquidity in the system, the reverse repo is more effective. When liquidity is tight and banks need short-term funds from the RBI to manage mismatches, then the repo rate emerges as the effective policy rate. But if liquidity returns to the system the reverse repo would become the operative policy rate as the RBI would be draining out funds from the system.

Why is a narrow rate corridor desirable?

A narrow rate corridor means that short-term interest rates in the call money market will move within that band. This band was earlier 150 basis points, which has now been lowered to 125 basis points. Effectively, the narrower rate corridor will mean there will be less volatility in short term rates

Operating Target The Weighted Average Call-money Rate (WACR) is the operating target of monetary policy. Note that Call money is the overnight funds that are lent by one bank to another bank. Aim of RBI is to closely align it with Repo rate -

SEE ECO SURVEY 15-16 2 Page 49

- Bank Nationalisation Process
  - RBI nationalised in 1949
  - Imperial Bank was nationalised into State Bank in 1955
  - 14 banks nationalised in 1969 and 6 more in 1980
  - Result
    - No of branches rose by **7 times between 1969 and 1990**
    - 20 times increment in rural areas
  - Bank Nationalisation was done to **exercise social control over their activities and nationalisation did succeed in increasing the no of branches in rural areas and in Mobilising of Private savings**
  - **Along with administered interest rates and fiscal dominance, the monetary policy operation as constrained**

- **Evolution of Central Banking Role**
  - Started as Banker to govt
  - Led to comparative advantage and took up position of Lender of Last Resort
  - Assumed Banking supervisory role to check against Moral Hazard
  - Only later did the Role in Stabilising Monetary Policy came up

See Banking

GS TYPES

Monetary transmission lag

- CURRENT
    - **Since Jan 2015 when easing started, 175 basis points reduction**
        - **Transmission was low until recently**
        - **When after demonetisation, SBI reduced rted by 90 bps**. Others followed too
        - Hence, demonitastion helped in monetary transmission
        - But, unlikely to last
            - Since, when withdrawal limits will rise, liquidity preference would no longer have artificial restrictions and deposits would reduce

- **Urjit Patel put Lag at 2-3 quarters** and WPI inflation at 3-4 quarters
- Cons
    - Renders monetary policy ineffective
    - Sometimes even pro cyclical
- **Reasons**
    - Transmission works through a **number of channels**
        - Interest rate
        - Exchange rate
        - Expectation
    - **Repo** only a small part- **1% of total banks assets**
    - Large informal sector , not in direct control
    - Capital adequacy ratio, **Basel norms**
    - Especially for PSBs where govt is injecting capital at a very slow pace
- World picture
    - Elaboration required

Rajan says that **low interest rate should not be the target**
- Because inflation is currently low because of the high base effect
- Speculative bubble
    - Indian Eg - easy financing available to PPP during boom -> now NPA
- Since monetary policy works with a lag of 2-3 quarters, need to predict about future inflation
- Element of uncertainty about monsoon, crude oil, etc
- Hurts savers

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

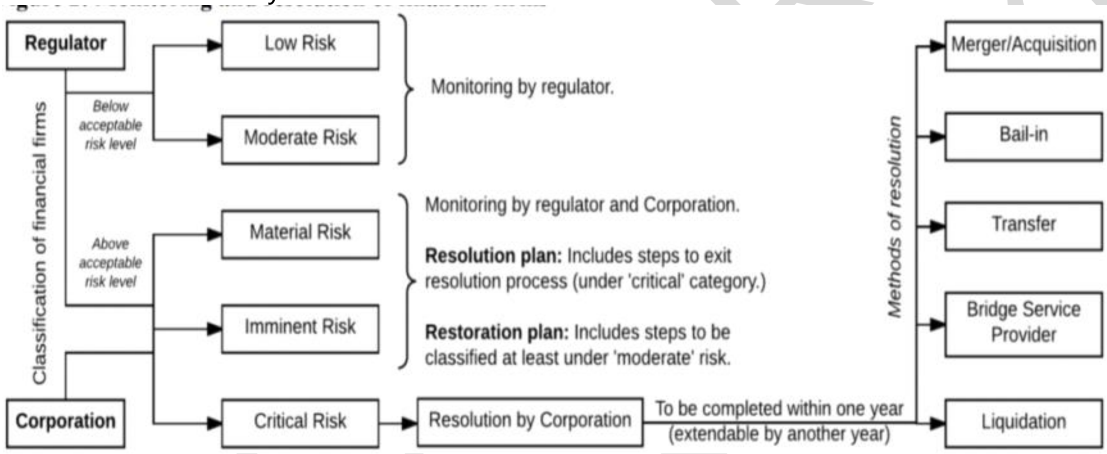
Legislations	

The Financial Resolution and Deposit Insurance Bill, 2017	

- Withdrawn in Lok Sabha following criticism in Aug 2018
- Highlights-
    i. The Bill establishes a Resolution Corporation to monitor financial firms, anticipate risk of failure, take corrective action, and resolve them in case of such failure. The Corporation will also provide deposit insurance up to a certain limit, in case of bank failure.
    ii. RC will classify firms into five categories
    iii. If a firm is classified 'critical', RC will take over its management

iv. RC will resolve using - M&A, Transferring the assets, liabilities and mgmt., liquidation. If resolution is not done within 2 years, firm will be liquidated.
v. **Deposit insurance**: The Resolution Corporation will provide deposit insurance to banks up to a certain limit (to be notified). This implies that repayment of a certain amount to each depositor will be guaranteed by the Corporation, in case a bank fails. The Corporation will subsume the functions of the Deposit Insurance and Credit Guarantee Corporation (under DICGC Act, 1961), which currently provides deposit insurance of up to one lakh rupees.

- Issues-
  - No appellate mechanism against the decision of RC
  - Bail in provision - depositors might lose their rightful claim to retrieve their savings in case of liquidation of banks and insurance companies.
- Limitations in the current framework which include:
  i. involvement of multiple regulators preventing specialised resolution capabilities for the entire financial sector being developed,
  ii. regulators exercising forbearance and delaying resolution in the hope of reviving a firm, and
  iii. availability of limited methods to resolve firms



Insolvency and Bankruptcy Code

India takes average 4.3 years to resolve bankruptcy compared to 0.6 in Japan, 1.5 USA, 1.7 China.
Salient Features-

- **Fixed a timeline of 180 days**, extendable by another 90 days, to resolve cases of insolvency or bankruptcy.
- **New regulator** - the Insolvency and Bankruptcy Board of India (**IBBI**) to regulate professionals/agencies dealing with insolvency and informational utilities.
- Specialized Bench at the National Company Law Tribunal (NCLT) to adjudicate bankruptcy cases over companies, limited liability entities.
- Debt Recovery Tribunal ("DRT") shall be the Adjudicating Authority with jurisdiction over individuals and unlimited liability partnership firms.
- The code allows the corporate debtor itself to initiate the insolvency-resolution process once it has defaulted on a debt.
- Prioritization of claims by different classes of creditors (Financial creditors and operation creditors.)
- Challenge- The insolvency request can be stayed by the adjudicatory authority or an appeal against it can be filed in High court.

Information Utility

- NeSL(National e Governance Services Ltd) became 1st IU for IBC.
- IU would store financial data like borrowing, default and security interest, etc of firms. It

would specialize in procuring, maintaining and providing/supplying financial information to businesses financial institutions, adjuvating authority, insolvency professional, etc

Performance Evaluation-
1. Low usage by financial creditors- only 1/3rd of admitted cases were filed by them
2. Operational Creditors are opting for IBC as it offers credible warning to corporate debtors, and default of payment hurt small and medium creditors worst
3. Most cases referred to NCLT have been unresolved missing deadline
4. The focus is more on recovery than revival

Amendment Ordinance 2018-
1. Home buyers to be treated as financial creditors and have right to be represented in Committee of Creditors
2. Redefining 'related party' to exclude parties of conflict of interest from bidding

RBI

Autonomy Of RBI

1. Post Demonetization events
2. Questions raised by PSC on Finance
3. Tenure of RBI Governor- Reduced to 3 years from previous norm of 5yr
4. Takeover of functions- PFMC, Payment Regulator (reco by watal)
5. Empty regional board, Vacancy in Central Board, small number of independent directors appointed
6. International Journal of Central Banking ranked it least independent in 2014

Positives -
1. MPC setup(but selection of external member is headed by Cabinet Sec)
2. Inflation targeting
3. Taking over of not core function
4. Absolute autonomy not envisaged in RBI Act
5. 2018- IMF and WB commended the remarkable progress of RBI in strengthening banking supervision in India FSAP (Financial Sector Assessment Program). It appreciated sector wise AQR, implementation of most of Basel-III norms. It also acknowledged Indradhanush plan

Monetary Policy Transmission
- Panel recommended linking the bank lending rates to a market benchmark in order to hasten the monetary policy transmission
- Currently the bank lending rates are determined by MCLR or marginal cost of funds based lending rate introduced in 2016, by replacing the Base rate system
- Both the base rate and MCLR were internally determined by the banks themselves. However MCLR was to be calculated through a set formula.
- Panel suggested that banks violated RBI guidelines, inflating base rates and arbitrary adjustment of spreads
- Recommendations-
  - All interest for loans be linked to one of the three external benchmarks- Tbill, COD or Repo Rate
  - The lending rate must be reset quarterly rather than annually
  - Banks migrate all existing borrowers to the proposed regime without any charges or fees.
  - The decision of the spread over the external benchmark should be left to the commercial judgement of bank

Issues in PSL-
1. Sectoral Issues esp. in Agriculture- lack of adequate coverage
2. Lethargy in Lending - underperformance
3. Rising NPA
4. Cost of PSL- capital allocates to sectors with low returns, banks resorting to contribution to RIDF under NABARD
5. PSLC recommended by Raghuram Rajan Committee.

Public Credit Registry

RBI considering setting up PCR which will be a database of borrowing contracts and credit information (credit rating of the party, financial and economic background, past financial transactions, credit risk level, and other related information) and is accessible to all stakeholders mandated by law.
- Many developed economies have PCR.
- Will help in improving credit culture
- Transparency in credit information

Non-Performing Assets	

Stressed assets are those where principal and/or interest is overdue for more than 30days whereas for NPA its 90days. Stressed assets include- NPA, restructured assets, written off loans. **PSB- 7.5lakh crore while Private bank- 1lakh crore**. Most of it came from corporate defaulters. SBI has highest gross NPA by value. Gross NPA is about **10.8% March 2018 (stress tests).**

Reasons-
1. Lending to unworthy borrowers to expand their balance sheets
2. Borrowers' estimate of future demand was too optimistic
3. Global Financial Crisis led to global demand slump
4. Delays in project execution resulted in cost escalation. Reasons vary from land acquisition, environmental clearances to litigation.
5. Ability of banks to recover the losses was poor due to absence of proper insolvency and bankruptcy legislation
6. Wilful defaulter-
   -
     - **Willful defaulter**- is an entity or person that has not paid the loan despite the ability to repay due to
       1. siphoning off of funds,
       2. misutilization of assets and proceeds,
       3. misrepresentation of records,
       4. disposal of securities without bank knowledge or
       5. fraudulent transaction by the borrower.

       Standing Committee on Finance recommended that PSB make public the names of their respective top 30 stressed accounts involving willful defaulters.
7. Poor internal mechanisms in banks to assess creditworthiness of borrowers.
8. Political interference in PSB functioning
9. Poor management incentive structure esp. in PSBs.

Looking Ahead-
1. We need robust and well capitalized banking system to extend credit and allocate resources efficiently in the economy

2. Punish wilful defaulters

-
    - Fugitive Economic Offender Bill, 2017 empowers the govt to confiscate properties of fugitive economic offenders where value of offence exceeds 100crore. A special court under PMLA will declare a person FEO. FEO is defined as a person who has an arrest warrant issued in respect of a scheduled offence and who leaves or has left India to avoid criminal prosecution, or refuses to return to India to face criminal prosecution.

3. Recapitalization has to be complemented by - corporate governance reform, improved financial supervision, development of a dynamic corporate debt market and efficient debt recovery mechanisms
4. Forensic Audit- to assess the end use of funds. Using big data analytics.

Problem

1. **Recovery Options**- SARFAESI 2002, RDDBFI - DRT, Insolvency and Bankruptcy code, 2016

   SARAFAESI Act is used to recover assets of financial institutions without involvement of courts.

   Under **Recovery of Debts due to Banks and Financial Institutions Act, 1993** a debt may be recovered on the issue of a recovery certificate by the Debt Recovery Tribunal.

   As per Insolvency and Bankruptcy Code, 2016, the debtor or the creditor can trigger the insolvency resolution process on default involving restructuring of the debts. If the plan fails, the liquidation / bankruptcy process is triggered.

2. **Indradhanush**-

THE SEVEN-POINT AGENDA

The govt is looking to nurse ailing PSU banks back to health

1 APPOINTMENTS

	Previous position	Current position
PS Jayakumar	Consumer banking head, Citibank	CEO & MD, Bank of Baroda
Ravi Venkatesan	Chairman, Microsoft India and board member, Infosys	Chairman, Bank of Baroda
Rakesh Sharma	Chairman, Lakshmi Vilas Bank	MD & CEO, Canara Bank

Bank of India, IDBI Bank and Punjab National Bank will be headed by public sector veterans **MO Rego, Kishor Kharat Piraji** and **Usha Ananthasubramanian**

2 BANK BOARD BUREAU
To monitor PSU banks for key performance indicators

3 CAPITALISATION
Government to infuse ₹25,000 cr into PSU banks, ₹20,000 cr in a month

4 DE-STRESSING
Centre, ministries in talks for speedy project approvals

5 EMPOWERMENT
More flexibility to banks for recruiting staff

6 PERFORMANCE
Out of 100, 80% stress on quantity and 20% on quality

7 REFORMS
Assurance of no political interference, move to reduce pressure on banks

3. RBI - BASEL III, DSIB to improve resilience; Prompt Corrective Action (PCA) by RBI [Asset Quality, Capital Adequacy, Profitability]
4. AQR, SDR, S4A, JLF, 5:25, ARC,

Other steps taken by RBI

- 5:25 Scheme: It allows banks to extend long-term loans of 20-25 years to match the cash flow of projects while refinancing them every 5 or 7 years.
- Strategic Debt Restructuring (SDR) - consortium of lenders converts a part of their loan in an ailing company into equity, with the consortium owning at least 51 percent stake

1. Empowering RBI in Finance Act, 2017 to issue direction- Banking Regulation Ordinance 2017 to issue dir, empower oversight, initiate bankruptcy

1. PAMC (Viral Acharya), PARA (Eco Survey 2016)- would buy NPAs from other banks to free up their book for recapitalization and fresh lending. This has been successful in many western European countries

-

PSB

- the gross NPA of PSBs have grown exponentially over the last 10 years (from 2.9 per cent in 2013 to 13.8 per cent in 2016). PSBs need as much as 4 lakh crore by 2019 to meet Basel III standards. [**Basel III** is a comprehensive set of reform measures, developed by the Basel

Committee on Banking Supervision, to strengthen the **regulation, supervision and risk management** of the banking sector. Basel Committee was established by **Bureau of International Settlement**]

- The recap plan is a three part package- 18k crore from budget, 58k crore that bank can raise by diluting their equity and 1.35 lakh crore through issuance of recap bond [**Recapitalization Bonds**- The govt will transfer its ownership equity of PSB to a holding company which will raise capital from the PSBs by issuing bonds and the capital thus obtained will be transferred to PSBs in return for further equity to the holding company. This way the debt so raised to recapitalize won't add to fiscal deficit of government. The bonds thus purchased by the PSB could be sold to the market for raising capital. Effectively the depositors money is being used to buy bank's equity. The govt will only have to pay interest cost of the bond later.]
- **Willful Defaulter owe over 1 lakh crore.**

<u>Governance problem in PSBs</u>

1. Lack of transparency in lending operation
2. Undue influence and interference by govt and influential businesses
3. Nepotism in appointments
4. Short tenures of executives

<u>Consolidation of PSBs</u>

- With a view of creating 3-4 global sized banks
- Significance-
    - Acquiring efficiency in the wake of mounting NPA
    - Cater massive credit requirement of the growing economy. Absorb shock and raise resources on its own
    - Would facilitate resource diversion to underserved segments
    - Better diversification of risk and stronger overall profitability contributing to higher overall ratings
- **Narsihman Committee Report 1991**- advised such merger

Basel Committee on Banking Supervision	

DSIB

- SBI (bucket 3), ICICI (bk1), HDFC (bk1) are identified as Domestic- Systematically Important Bank under the bucket structure
- DSIBs are "Too Big To Fail" because of their size, cross-jurisdictional activities, complexity and lack of substitute and interconnection.
- Banks whose asset cross **2% of GDP** are considered DSIB
- DSIB are categorized under five buckets. These banks have to keep aside **Additional Common Equity Teir 1 as a % of Risk Weighted Assets (RWAs).**
- Identified by Central Bank (**RBI**) & idea proposed by Basel Committee.

Chit Fund Scams	

- Shardha Scam, Rose Valley Case

Cryptocurrency	

A cryptocurrency is a digital or virtual currency (computer generated currency). It is based on the principle of cryptography.

Bitcoin
The first cryptocurrency to catch public imagination in 2009 launched by an individual or group under the pseudonym Satoshi Nakamoto.

Regulation of Bitcoins

- Bitcoin startups Zebpay, Unocoin, Coinsecure and Searchtrade, have come together to form **Digital Assets and Blockchain Foundation of India (DABFI)**, an independent regulatory authority for the orderly and transparent growth of the currency.

How do these work?
Bitcoins are created through a process known as **mining.** New coins are created when an individual solves a complex algorithm. Newly created bitcoins are added to a public ledger known as blockchain.

Blockchain
A blockchain is the electronic ledger which maintains record of all the transactions from the time the first unit of the cryptocurrency – the seed - was mined. Blockchain can validate the integrity of all the units of currency at any given point of time. As a protocol, each new block contains the hash of the preceding blocks, and this phenomenon links the previous blocks to the new block, thus forming a chain of blocks.

Why blockchain could be the next big thing for India?

- **Asset database:** The technology can be used in many industries like real estate, insurance, brokerage etc. to store information such as identity, stocks, land or commodity in an encrypted format.
- **No Counterfeit:** blockchain is considered as a breakthrough in innovation against cyber fraud as all financial transactions can be verified electronically over a network of computers.
- **Cost benefits:** Blockchain eases the cost and complexity involved in recording transactions of financial companies. The transactions are immutable and they do not have to worry about its security. Hence, they have the opportunity to save billions of dollars.

RBI praised the intrinsic potential of blockchain technology to help check counterfeiting and bring a major transformation in financial infrastructure, collateral identification and payments system.

Potential application of Blockchain-

1. Blockchain powered smart contracts where every piece of information is recorded in a traceable and immutable manner to promote ease of doing business
2. Property deals- on paper makes them prone to dispute, unclear title records
3. Financial services- Yes bank digitized vendor payments using blockchain
4. NITI suggested IndiaChain for JAM trinity implementation
5. Healthcare and pharmaceuticals- involves a lot of clinical data demanding security
6. Insurance sector- insurance claim management
7. Education sector- maintaining records for easier verification

Crypto Currency
Factors responsible for growth of cryptocurrencies

- The rise of computational power that allows algorithms to programmatically issue currencies
- Distrust towards governments that can idiosyncratically debase currency or even demonetize at will
- Scarcity of safe assets to store wealth over the long term.

Benefits of Cryptocurrency-

- Privacy Protection
- Cost effectiveness- low processing fees, transaction charges
- Lower entry barrier
- Alternative to Banking system and Fiat Currencies
- Open source methodology and public participation
- Immunity to government led financial retribution

Risks

- Wallet is the weakest link
- Hijacking/ DDoS
- Uncertain regulatory environment
- Lack of liquidity and lower acceptability
- Price Volatility
- Uncertainty over Consumer protection and dispute settlement mechanisms
- Potential use for illicit trade and criminal activities
- Potential for tax evasion

Way forward-

1. Educating the users
2. Central bank issued digital currency
3. Global institutional framework to check misuse

SEBI	

Market Infrastructure Institution(MII) Panel

- Headed by former RBI governor R. Gandhi
- MII includes stock exchanges, depositories and clearing houses
- Bimal Jalan Committee, 2012 recommeded review of MII every five years
- Recommendation-
    - Adequately capitalized Public Finance Institutions and banks should be eligible to own up to 15-24 % of stock exchanges
    - Depositors and clearing houses shouldn't own other classes of MII
    - MII should not be listed on Stock exchanges

Algorithmic Trading/ High Frequency Trading

Algo-trading provides the following benefits:

- Trades executed at the best possible prices
- Reduced transaction costs
- Simultaneous automated checks on multiple market conditions
- Reduced risk of manual errors in placing the trades

- For example, a spoofer may offer to sell a large number of shares in stock ABC at a price that's a little away from the current price. When other sellers jump in on the action and the price goes lower, the spoofer quickly cancels his sell orders in ABC and buys the stock instead. Then the spoofer puts in a large number of buy orders to drive up the price of ABC. And after this occurs, the spoofer sells his holdings of ABC, pocketing a tidy profit, and cancels the spurious buy orders. Rinse and repeat.

Credit Rating Agencies

- Issues in CRA in India
  - Conflict of Interest- cross shareholding among CRAs
  - Issuer paid model compromises objectivity
  - Information availability is limited
  - The system does not permit publishing a rating without the issuer's consent
  - Non rating activities of CRAs
- Way Forward-
  - CRAs should refrain from non rating activities eg advisory role
  - Disclosure of underlying assumptions

World Bank

Global Financial Development Report

Released by WB. It says restrictions posed by developing economies are hampering prospects of growth by limiting the flow of much needed finance to firms and households .
It focusses on three important developments that are shaping international banking-

1. Rise of the South-South Banking- regionalization by definition means less risk sharing
2. Shift toward alternative sources of funding- eg Capital markets
3. Rise of fintech- constant monitoring is required

Cashless Economy

Why Cashless?

1. India's high cash-to-GDP ratio **12%**. much higher than China 4%
2. High cash prevalence further promotes **Black** economy, corruption
3. **Soil rate** of notes tells amount of black money
4. **Ratan Watal Committee** envisages 20% share of digital transactions in next three years
5. Its easier to **track fraudulent transactions** in digital medium
6. It will help in **formalizing** the economy
7. Its the future of currency transactions - **Bitcoin, Blockchain tech**
8. Its in line with govt vision of **Digital India**
9. Allows DBT effectively
10. Tackle terror financing using **FICN**
11. Enhance tax to gdp ratio

Steps taken by Govt-

1. Shock- Demonetization
2. Financial Inclusion- PMJDY, Payments Bank by RBI
3. Technology-NPCI- UPI, BHIM, BHARAT QR, Making facilities available even in feature phones; Pushing digital drive through e return in GST, Income tax filings
4. Incentives- NITI cheap schemes, DBT in various schemes, Payment of Wages in cash discouraged- legislative reform
5. Encouragement- by PM in Mann ki Baat programme
6. Electoral Reform- 2000 limit, electoral bonds
7. Infrastructure- Improving internet connectivity- Bharatnet; Securing transactions - CERT Fin

Recommendation-
Chandrababu Naidu Committee (Committee of Chief Ministers on Digital Payments) recommended bringing all government insurance, educational institutes, fertilisers, PDS and

petroleum sectors within the ambit of digital payments. It also recommended bringing back Banking Cash Transaction Tax above a specified limit by an individual or HUF (first introduced in 2005-2009)

Banking Sector

10 June 2021 17:57

Banking Sector Reforms in India

Pre 1991

- Imperial Bank of India -> SBI, 1955
  - 95% share acquired by RBI
  - 1st state owned commercial bank in country
  - Era of mixed banking system
- 1969 - 14 commercial banks nationalised (Indira Gandhi)
- 1969 - Lead Bank Scheme
  - Reco of Nariman Committee
  - Major development responsibility in the district
- 1976 - estb of RRBs
- 1980 - nationalisation of 6 more pvt banks
- 1982 - NABARD estd

Post 1991

- Narasimhan Committee I - 1991 - Committee on Financial System
- Narasimhan Committee II - 1998 - Committee on Banking Sector Reforms

- Prudential Regulation and Supervision
  - RBI issued guidelines in 1992 - asset classification; adopted Basel Capital Adequacy Standards
  - CRAR - 9% (requirement) - 13% (2015) - 16% (2021)
- Rehabilitation of PSBs
  - Narasimhan II - ARF Asset Reconstruction Fund; not suitable for govt -> SARFAESI Act, 2002
  - NPA issue

PSBs	Pvt	Foreign banks
14%	4.6%	3.4%

  - Solvency ratio = (NPA/ net worth) - for 19 state owned banks as high as 45%
- Reduction in SLR & CRR

	1991	1996	2013	now
SLR	38.5			19.5
CRR		13	4	3.35

- Deregulation of interest rate
  - 1989 - RBI deregulated money market interest rates
  - 2003 - Benchmark Prime Lending Rate -
    - To serve as the benchmark rate for bank's pricing of their loan
    - Issue - banks could lend below BPLR; began undercutting
  - 2010 - base rate system - ensure banks can not lend below a certain benchmark
    - Issue - base rate calculation do not include repo rate; ineffective MPT
  - 2016 - MCLR - mandatory for banks to consider the repo rate
- Promoting competition - FDI, private sector, payment banks, small finance banks, etc

PSBs

?- __ no (2022)
- Asset share of banking industry __
- Share of total deposits __

- Nationalisation
1955	1969	1980
- Objectives of nationalisation
  - Break ownership and control of banks by few business families -- prevent concentration of wealth
  - Bank as tools for socio-economic planning; extension to rural & unbanked areas
  - Mobilise savings
  - Cater to needs of priority sector

Role of PSBs
- Led the drive towards branch expansion; especially in rural areas
  - ? Share __
- Introduced concept of PSL, DRIs Differentiated Rate of Interest loans to very poor
- Extended loans to women SHGs
- Funded rural infra through RIDF Rural Infra Dvpment Fund
- Pioneered financial inclusion (Eg 31.11 cr PMJDY accounts)

Reform Agenda - 'Responsive & Responsible PSBs'
AIM: EASE Enhanced Access & Service Excellence
6 themes

Customer responsiveness	Responsible banking	Credit offtake
PSBs as Udyami Mitras	Deepening Financial Inclusion	Ensuring outcomes

NPA

?- Current stats

Why?
- Bad lending practices -> no accountability + limited autonomy
- Genuine defaults -> slowdown in economy + past investment decisions
- Balance sheet recession due to previous two
- Wilful default - eg Mallya
- Fraud - ₹70k crore - Nirav Modi

Wilful defaulter - borrower defaulted in meeting payment/ repayment obligations to lender despite capacity to honour these commitments; also includes those who have siphoned off/ diverted funds

Balance Sheet Recession (Richard Koo) - when equity prices rise in a boom, the debt of firms tend to rise as the firms over-invest. If asset prices subsequently fall, then there is discomfort w/ what becomes a high debt-equity ratio.

Consequences
- Cross-subsidisation from poor to rich -- eg Nirav Modi's ₹11000 cr could fund NHPS
- ↓investment - as capital gets locked up; genuine borrowers find difficulty in raising

money
- Bank's profitability ↓ and cost of borrowings ↑

Why has govt failed so far?
- Delayed recognition -- due to evergreening of loans by banks
- Lending practices in PSUs are not autonomous -> need for grass roots reformation
- Provision to deal w/ economic issues were inadequate; lenders didn't have adequate power
  - Eg avg of 4 years for a firm to liquidate -- Chakravyuh problem

Top 10 sectors having highest NPAs for SCBs
- Metal products (steel) -> textiles -> construction -> gems & jewellery -> beverages

Solution to NPA Problem
- Governance reforms
- Eco Survey - 4Rs strategy

Recognition	Resolution	Recapitalisation	Reforms
- RBI - Asset Quality Review - PCA fw	IBC	- Gross budgetary support - Recap bonds - Market raising ? Exact magnitudes	- Consolidation - Autonomy & independence - Modern HR mgmt - Technology and digitisation

Way Forward
- PARA (bad bank)
- Ground reforms

PSB consolidation	Autonomy & independence
- Narasimhan I outlined struct: • 3/4 large int'l banks • 8-10 national banks • Regional banks • Rural banks - If PSBs can not mobilise reqd resources for profitable growth, must be privatised/ merged rather than remain Zombie	- Accountability on lending practices - Adequate functional autonomy - Minimise dual control of bureaucratic & political interference
Modern HR mgmt	**Digitalisation challenge**
- Bank specific - Individual bank -> individual recruitment - Replace present collective bargaining by 'different bank different pay' model - Link remuneration to individual bank's ability to pay - Motivational aspects like variable pay, ESOP employee stock ownership plan	- Only few PSBs truly active in NEFT, PoS, card txn space - Explore sharing of payment systems; collab w/ fin-tech companies - Hiving off (breaking) the payment system to separate subsidiaries

- Tackle wilful defaulters

Fugitive economic offenders	Extradition treaty	Separate cell for economic offenders

- Immediate focus on attaching the asset and recovery of amount

- Regular monitoring of large loans by experts

PJ Nayak Committee Recommendations

- Ownership of PSBs
  - All must be incorporate under Companies Act, 2013
  - Govt should transfer its holdings in PSBs to BIC Bank Investment Company
- Board Appointments - in 3 phases
  - Phase I - by Bank Boards Bureau
  - Phase II - BBB -> BIC
  - Phase III - BIC -> PSB Boards
- Fixed term of 5 yrs for the Chairperson/ MD of a PSB; 3 yr term for whole time director

---- iske neeche need to read and shorten/ consolidate

READ The ENTIRE CHAPTER 5 of ECONOMIC SURVEY 2015-16

- Nirav Modi scam
  - 19k crore
  - PNB
  - **Letter of Undertaking** Modus Operandi
    - LoU - **Letter of Understanding** were issued were issued by the PNB, which acted as a certificate f authenticity to avail the **Input Credit (** Credit for the Importers). Shared vi **SWIFT** mechanism
      - In case of default, the bank issuig the LoU is discharged with the duty of repayment
      - LoU is usually shared between 2 different banks
      - In contrast, LoC is a letter of comfort, which is shared between 2 partner banks or between 2 intermediaries of saem bank assuring the creditworthiness of th borrorwer
    - This was then passed to other banks through SWIFT system and hence, other banks also lent
    - **Concern**
      - Around 300 LoUs were issued
      - These were not integrated in to the Core Banking system
      - LoUs are generally issued only for 90 days period. Here much more
    - **Why LoUs** are demanded
      - Because, it enables firms to get loans from abroad which are at **cheaper rates**
      - Rates - LIBOR + margin
  - Issue
    - **Rise in corporate fraud**
      - **66k crore in last 4 years**
      - **Wilful Defaulters - 1 lakh crore**
    - Accountibility mechanism
    - NPA issues
    - Recapitalisation
    - On since 2011
    - **Repercussions**

        - LoU to gems and jewellery industry has been effected
        - PNB share
        - Possible use of Taxpayers money or Bail In in case of Resolution

- **How to do ?**
    - **Rotation of employees** and managers looking after a single client
    - Better **internal audit** mechanism
        - Implement **NFRA**
            - National Financial Reporting Authority
            - Regultor
        - Strengthen Quality Review Board (**QRB**)
            - A body that oversees auditors
    - Integrating **SWIFT** with **Core Banking** solution in a better way
    - Using **machine learning tools** to detect possible frauds
        - Eg IBM has recently developed such a software
    - **Bank reforms**
        - Often said - Privatisation
        - My answer - more than rivatisation, we need better regulation
        - Such a scam can take place anywhere. And, I personally believe, that public scams come to light easily because they have more checks and balances. Private scams are in contrast seldo revealed because of Brand Value issues
    - **Extradition treaty**
        - Current reasons why extradition can't be done
            - Needs to be punishable in both countries. Some countries - no capital punishment, some countries - don't extradite their citizens
            - India - most extradited from UAE
    - Ability to prosecute the culprit - **Fugitive offenders bill**
        - **Confiscate the Assets in India and abroad**
        - Fast Trials
        - Minimum threshold - 100 crore - to put the onus on the large companies and large defaulters

- **Rotomac**
    - Kanpur
    - Issue
        - **Wilful Defaulter - Total 1 lakh crore**
            - Diverted money for other purposes than what originally sanctioned
            - Not repaying wven when capable to do so
        - Money Laundering
- Why PSB ?
    - Politically driven decisions
    - Social Banking
    - Infra Financing
    - MORAL HAZARD
    - No PR like private
- **Steps**
    - **Malegam Committee by RBI**
    - **RBI - deadline for SWIFT intgration with core banking**

        - 3 people to verify SWIFT transacations (PNB)

- BBB recommendations
    - Management committee board (MCB) should be reconstituted with only permanent members on board
    - Stock options be provided to employees
    - Risk Management Committee (RMC) should be given the mandate to decide on credit rating
        - Credit Approval committee of bank be done away with
    - Loan resolution authority
    - Empowering BBB

- What do you think of loan waivers
    - Sir, the farmers in India need to be taken care of. But, i don't think that Loan Waiver is the best means to do so.
    - Instead, it **creates problems like**
        - Moral Hazard,
        - diversion of loans to non-agri purposes
        - Unwillingness for banks to loan
        - **fiscal costs**
            - 60k crore
            - **UP - 8%** of its reveneues
        - Regressivity
        - Penalises the **Honest**
        - Inflation
        - Pandoras Box
        - **Thomas Committee - Corruption**
    - **Positives**
        - **Consumption Effect -** WB study - Weak effect wrt 2008-09 60k waivers
        - **Crowding In Effect -** As Bank bad loans are taken over by the govt - Lending increases- WB - Yes
        - Famers have a NPA rate of only 6% as compared to non Agri
    - **Overall, Eco Survey - Reduce AD by 0.7% of GDP**
    - What we instead need to do are Interest subvention or Haircuts for short term and Improvements in irrigation, insurance, awareness and marketing facilities to truly benefit the farmers and the country at large
        - Interest subvention
            - Central Govt allready has a plan to cap the interest rates at 4% for farmers upto 3 lakh of loans
        - Price Deficiency Mechanism
            - Bhavantar Bhugtan Scheme
        - Crop Insurance
        - Lump sum paymnet
            - As in Telangana
            - Would minimise the deadweight loss

Basel norms
- BCBS
    - Basel Committee on Banking Supervision

        - Group of 27 central banks
    - General Aim
        - Global framework on **capital adequacy, stress testing and market liquidity risk**
            - Capital Adequacy
                - Bank has enough capital wrt its assets to reduce the risk
                - Capital here refers to the shareholders equity (Called Tier 1 Capital)
                    - The money originally invested in the bank, plus the profits accumulated
                    - Eg 500 crore provision for payment banks
                - Plus, other undisclosed capital called Tier 2 capital
            - **Capital Adequacy Ratio**
                - Ration of Capital to Risk weighted Asset
                - Risk Weighted means weighted average of the assets based on the risk profile
    - How
        - No international bindings, only recommendations
        - But monitors it
    - First came with Basel 1 in early 90s. India implemented in 1999

    - **Basel 3**
        - In 2010
        - Made more stringemt in response to Financal Crisis
        - 3 pillars of **Risk Based Assessment** (Earlier CAMELS by RBI)
            - **Pillar 1 : Minimum Regulatory Capital Requirements** based on **Risk Weighted Assets (RWAs)** : Maintaining capital calculated through credit, market and operational risk areas.
            - **Pillar 2 : Supervisory Review Process**
                - To monitor that Capital requirements are being met
                - And to incentivize sounder practices than stipulated
            - **Pillar 3: Market Discipline**
                - Revealing of financial details by banks
                - To evaluate the risks in the Banking System
        - Provisions
            - **CAR of 11.5% by 2019**
                - Core capital ratio of 8%
                - CAR is ratio of capital to its risk weighted assets
                - Just to compare and understand better - For Small Banks CAR is 15%. Usha Tharot recommended 12% for NBFC
            - 90 billion dollars estimated capital requirement
            - Tier 1 capital of 7%
            - Limit on levarage
                - Leverage basically means buying assets with borrowed money to multiply the gain. The underlying belief is that the asset will return the investor more than the interest he has to pay on the loan
                - **Levarae ratio of 3%**
                    - **Capital / Asset** (in India,. Opposite in world)

- Requirement of CRR, SLR to prevent run off bank
- stricter definition of capital. Better quality capital means the higher loss-absorbing capacity.
- **2 buffer requirements - each 2.5%**
  - **Capital Conservation Buffer:** required to hold a capital conservation buffer of 2.5%. The aim of asking to build conservation buffer is to ensure that banks maintain a cushion of capital that can be used to absorb losses during periods of financial and economic stress.
  - **Countercyclical Buffer**: This is also one of the key elements of Basel III. The countercyclical buffer has been introducted with the objective to increase capital requirements in good times and decrease the same in bad times. The buffer will slow banking activity when it overheats and will encourage lending when times are tough i.e. in bad times. Upto 2.5%

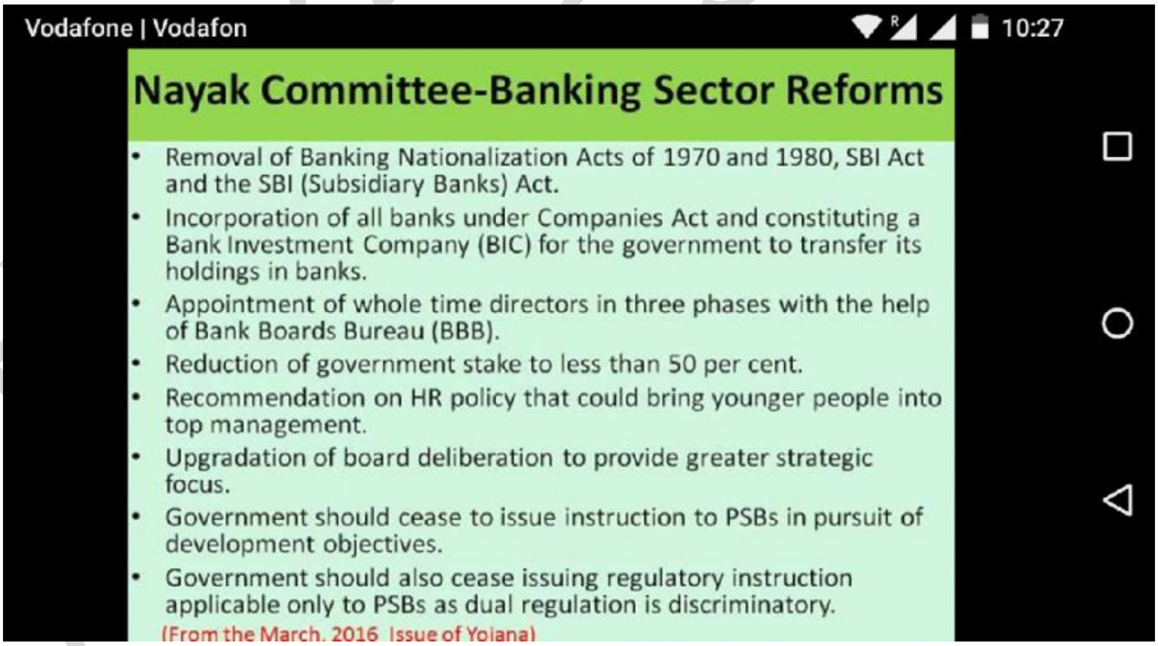
- Basel 3 norms and India
  - - deferred for implementation to **2019**
  - Recapitalisation
    - 2012, then RBI governor D. Subbarao said the banking sector would need around
      - **5 lakh crore** of capital to meet Basel III norms,
      - of which equity capital would be Rs.1.75 lakh crore.
      - Of this, between Rs.70,000 crore and Rs.1 lakh crore can be raised from the market. (hence that leave**s at least 70k crore of budgetary support)**
    - To implement Basel 3 **around 3 lakh crore capital required**
    - Govt plans to reduce stake to 51%-
    - **Indradhanush program**
      - 70k crore of budgetary support
        - Based on individual performance (Differentiate - Economic Survey)
        - **Moodys study - insufficient - need for 90k crore in next 2 years**
      - 1 lakh crore by selling shares (Disinvestment)This will incentivize efficiency
        - Challenge
          - Nationalisation Act says that govt stake must not fall below 51%
          - Weak market right now
      - Other concern
        - Recapitalization equivant to bailout
        - **Tarapore committee said that weak banks must not be**

supported and left to 'die'

- RBI
  - needs to support recapitalisation by **reducing its equity share** from the currnt exceptional levels (**Eco Survey** 15-16)
    - 30% vs 2% of ECB
  - Unlock 40k crore by labelling foreign currency reserves as Tier-1 capital
- FFC also recommends a committee to look into the infusion benchmarks
-

Indradhanush Program

- For PSBs
- Based on PJ Nayak committee recommendations
- Features - **ABCDEFG**
  - Appointment - Transparent - Includng Private, **Separation of Chairman, MD** (CEO)
  - **BBB**
  - Capitalisation - **70k crore** over 5 years
  - **De stressing** PSBs
  - **Empowerment** - By minimising givt interference - Employee stock option program
  - Framework **of Accountability** - By having a set of performance indicators
  - **Governance** reform - **Digitising**, Improving managerial performance
- Challenges
  - No talk of disinvestment
  - And revoking of the banking acts

- 

NPA

- MOST RECENT
  - Has Improved to 9.8%
  - 7.5 lakh crore

- Recent measure by RBI
  - All banks have to **report** all stressed assets **above 5 crore -** better recognition
  - Restructured Plans more than 100 crore would now require independent **evaluation by a credit rating agency**
  - If more than 2000 crore, resolution plan in 180 days - if doesn't help - take to IBC

- Non Performing Assets
  - Crudely, any asset that is not producing any income, eg loans, collaterals, etc
  - More specifically, when borrower has failed to repay principal or interst for **90 days** past time thus having a strong possibility of default

- Value
  - Currently NPA **(Gross NPA)**stands at **9.8% of total advances**
    - RBI expects that it would rise to 11% by next year
    - More so, because of new RBI measure - any evergreening and restructured loan would now be counted as NPA
    - High because of the new classification - A rigorous **Asset Quality Review**
      - **HAS EXPOSED NPAs in PRIVATE sector - Axis, Yes - Were hiding or evergreening them**
    - Which includes Restructured Assets too
    - Is still peaking as the **Asset Quality Review exercise** will complete in March
    - Although, growth is tapering now
    - ***Stressed asset of 12.2 %***
      - NPA + Restructured loans + Written off
      - Stressed assets are NPA in making
        - No repayment uptill **45 days**
        - Though decreasing
        - 30% of these are in the infrastructure sector
      - If NPA for < 1year - Sub Standard Asset and if that for upto 1 year cxalled Doubtful that - Beyond that Loss Assets
    - Net NPA
      - Around **4.6%**
        - Net NPA= Gross NPA- reserves (collateral)
        - Thus more realistic
        - But, sometimes difficult to sell collateral
  - Total worth nearly **100 billion $** (**7 lakh crores**)
- Public Banks more exposed
  - NPAs at **13.8%** (2016) of public banks
  - **Why more with Public Sector ?**
    - Public Sector - Almost exclusively exposed to **Infra Financing**
    - **Moral hazard**
    - **Social Banking objective - PSL**
    - **Govt Intervention -** Lax implementation of laws
    - Hire and fore policy in Private
- Distribution
  - A major proportion by **corporates**- data : **top 50 corporates contribute 25% of all NPAs**
    - **UPDATE FIGURE**
    - Large borrowers with exposure of 5 crore or more make up 87%
    - Importance of Essar sale - 1 lakh crore of NPA release possible

- If Govt can demonetise 86% currency in 1 go, it similarly needs to find the inspiration to go ahead with these50 corporates
- CEMENT - highest

Mining and metals (Steel)	30%
Textiles	15%
Construction	15%

- **1 lakh crore** in steel alone
  - Recent steps like CVD, anti dumping duty, Minimum Import Price are bringing a turnaround
  - Production risen to 100 MT
  - Has Doubled Exports in the FY 17
- Aviation sector - 60% of advances stressed
-
  - Economically NO
  - **Contribution of agriculture sector is the lowest and declining**
  - Rising share of moeylenders and informal in agri
  - Education loans - 7% as NPAs
    - Because of rising fees
    - And middle class job market
- Scam in making
  i. 60k crore of NPAs have been written off
  ii. In a non transparent manner
  iii. Counter - Policy Paralysis

Impact of NPA's

a. ***Run off banks*** - Banks in losses, could lead to closure such as to Lehman Brothers
b. Unwilling to givr loans especially to the Infrastructure sector
   i. Non food bank credit ***(NFC) - Share of Industry @ 25% down from 53% in 2011 - Eco survey 15-16***
   ii. **Credit growth down to 5.1% in FY 17**
      1) Lowest in 60 years
      2) **Reasons**
         a) Supply
            i) **Balance Sheet** Syndrome
            ii) Greater investment in **govt bonds** by banks - UDAY
         b) Demand
            i) Growing **Tertiarisation** of Economy - Requires less capital investment
            ii) **Demonetisation** - Could not disperse loans
      3) Also shows the necessity of public investment
   iii. **Credit growth to industry < -5%** and **falling**
      1) **Infrastructure** worse affected at **-10%** decline in yoy growth
      2) Within Infra Power sector more affected - UDAY, Falling PLF
      3) Shows need for **Development Finance Banks**
c. Shareholders - at loss, also includes govt - revenue to the govt in form of direct income and taxes reduced
d. Transmission of expansionary monetary policy slows as seen in recent times
e. ***Interest rate high*** Industries in peril, common man's loans very expensive
f. Slowdown of economy, creates another ***vicious cycle***, where NPA's rise as defaulters increase

How NPAs high ?

a. Dynamic
   i. According to Cresit Suisse, 30% of firms have ICR<1 because of the "**Balance sheet Syndrome with Indian characteristics** "
      - **Credit growth to industry < 0** for the 1st time in a decade
        - Shows building up of inventory and muted demand
        - Capacity utilisation (OBICUS survey of RBI) down to 70%
        - Contraction also seen for MSME
   ii. A general ***recession*** in the world, infrastructure, exports in limbo
   iii. **Infrastructure** spending, which were not completed
      1) because of lapse of **clearances**
      2) **Asset Liability Mismatch**
      3) **DFIs** like ICICI, IDBI converted into banks
         a) DFI - Development Financial Institutions provide long term loans
         b) While DFI loans have risen in most countries, **fell in Indian from 8% to 0.8%** between 2000 & 2010
   iv. Role of recession
      1) To combat recession RISK WEIGHTS were reduced to shore up lending and growth
      2) Subbarao
   v. **Double Financial Repression**
      1) Recent step **New Bank Authorisation Policy** by which RBI permission to open Branches in Tier 1 to Tier 6 is not required, plus provision of 25% Branches in Unbanked Rural Centers (URCs) has been modified to mean those branches where no existing Core Banking facilities
   vi. **Asset Quality Review** exposed private sectors evergreening policies - Thus growth in NPAs have been higher in the private banks
   vii. **RECOVERY RATES have fallen**
      1) To about 20%
      2) Down from 60% in 2009
   viii. **Current economic situation**
      1) Where growth has plummeted
   ix. 30% in metal
      1) Dumping

b. **Structural**
   i. Inefficiency in public banks
      1) Incentive structure
      2) Political presssure, Corruption
      3) Govt ownership - Non availability of capital
      4) Hire and fire
      5) Management issue s- Nayak Committee
      6) Social Banking
   ii. Over Ambitious growth targets
   iii. Poor Credit Appraisal by **rating agencies**
      1) Economic Survey has pointed out that how unfair to India vis-a-vis China
      2) Stiglitz - Criticised them for the role in spreading the financial crisis - By labelling junks as AA

c. Political
   i. Political support to **willful defaulters**

        1) Make 20% of PSBs
        2) PSC on Finance has recommended to revea the names of top 30 wilful defaulters
    ii. Even though, PSBs have **identified 7k wilful defaulters, FIR has been lodged to only 20%** of these
    iii. Political interference in the PSBs
    iv. Corruption - IDBI Ex- Chairman Arrested

What is needed ?

a. WE Don't have any short run steps . But, we need structural changes

b. New Steps
    i. Ordinance
        1) RBI caxn direct banks
        2) The majority threshold required in **JLF** for action to be reduced to 60%
        3) **Oversight Committee** to oversee - Will be protected from 3Cs
        4) Will also allow it to tackle **firms on a case by case method** rather than the industry as a whole as RBI used to do earlier
        5)

I. Banking Regulation (Amendment) Ordinance, 2017

To deal with stressed assets, particularly those in consortium or multiple banking arrangements.

Details

- **Expeditious resolution:** It authorize the Reserve Bank of India (RBI) to direct banking companies to resolve the issues related to specific stressed assets, by initiating insolvency resolution process.
- **Initiate insolvency:** Two new provisions had introduced namely, sections 35AA and 35AB, under Section 35A of the Banking Regulation of Act of 1949 through which banking companies can initiate insolvency proceedings.
- **Empowering RBI**: The RBI can now issue other directions for resolution, and appoint authorities and **oversight committees** to advise banking companies for stressed asset resolution.
- **Time-bound resolution:** in the wake of new Insolvency and Bankruptcy Code (IBC), 2016 which consolidated and amended the laws relating to reorganization and insolvency of corporate persons may lead to time-bound resolution.
- **Facilitating recoveries:** Ordinance could firm up with the IBC along with Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) and Debt Recovery Acts, which have been amended to facilitate recoveries.

        6) Issues
            a) **Regulator** involvement in the working principles
            b) **Moral Hazard**
            c) Does not tackle the **Wilful Defaulters**
            d) Limited success of previous schemes
                i) Counter - Will counter the precise reasons why they did not succeed
            e) Govt can direct RBI - Here, instead, Govt should have directly ordered Banks - Unwise to involve regulator
        7) My stand
            a) Desparate measures need desparate steps. Sir, the current NPA crisis has reached desparately high levels requiring us to take tough steps. Nonethless, what we should ensure that these steps remain one off solutions and do not become the norms

    ii. New Proposal
        1) Asset Management Companies
            a) Wealth managers

b) Focus on the large 50 companies or so which hild about 25% of the Debts
c) Then the **Credit Rating Agencies** will rate the different plans by the AMCs
d) Finally, **Creditors** will choose from one of them
e) Promoters not to have a say

2) **For those requiring longer term solution**
   a) Private AMCs may not be most feasible
   b) Need for Govt Backed AMCs. Govt with minority ownership
   c) Will raise debt as well as manage ARCs
3) Why these ideas ?
   a) Banks by themselves have not worked optimally. Need to involve other players like govt, credit agencies, Wealth managers

iii. **50% fine deposit before Appeal**
   1) To disincentivise excessive litigation in courts
      a) 18 lakh such pending cases
   2) And greater recovery in short time
   3) Issue - SC overturned such as scheme in 2007

c. **4 Rs**
   - As proposed by Eco - Survey 15-16
   i. ***Recognition-*** Banks must recognise the true value of their assets
   ii. ***Recaptilisation -*** Then after recapitalisation
      1) **2.11 lakh crore is being injected**

   iii. ***Rehabilitation*** - The stressed assets need to be rehabilitated
      1) NITI Aayog reconnendation for govt equity funding in ARC
   iv. ***Reform*** - To ensure things are not repeated
      1) Bankruptcy

d. **ARC -** FDI in asset reconstruction companies welcome, could be given more incentive like tax breaks
   i. Similarly, they may be allowed to tap the equity market
   ii. The total NPAs ~ 6 lakh crore, **ARCs worth - 4k crore**
   iii. **NITI Aayog** has recommended **govt equity funding in ARC**
      1) They will take over the troubled assets of banks, cleaning up their balance sheets and then preparing the assets to send to corporate companies when situation improves
      2) **Rajan's** reservation
         a) Says "**Moral Hazard"**
         b) In using taxpayers money to clean up mess created by private sector

e. **Securitisation**
   i. **Chinese** did it to reduce their NPA burden
   ii. Helps to pass on the debt
   iii. May involve private players and ARCs in the process in a better way
   iv. Con - Moral Hazard and GFC of 2008
   v. **Similarly, Chinese provide Tax Breaks, exemption from Administrative Fees to Banks- Con - Moral Hazard**

f. **Loan Resolution Authority**
   i. **By Act of Parliament**
   ii. To write off and accept haircuts
   iii. And to get statutory protection from action of 4 Cs - CAG, CVC, etc

g. **Infrastructure**
   i. TSR report - Single window , Fast, efficient clearances to the struck project
   ii. Asset Liability mismatch requires - Fund infra projects via infra bonds, pension funds, - **Kelkar committee**
   iii. Project monitoring Group (PMG) has been set up in the cabinet secretariat under PM

h. **Strategic Disinvestment**
   i. Bringing ownership less than 51%
   ii. Presence of Payment Bank, Small Bank, MFI means Market Failure is less likely now
   iii. Instead a regulator controlled banking should take place

i. Deepening of **Corporate Bond market**
   i. To reduce demand and vulnerability on banking channel
   ii. Particularly for those where asset liability mismatch is high

j. **WILFUL DEFAULTERS**
   i. **Fugitives Bill**
   ii. **Name and shame - PSC - top 30 of each bank**
   iii. Lenders pressurise the promoters to part with profit making business to ease debts
      1) **Essar** sold its profitable oil business to Russian firm
      2) **10 thousand crore** of debt recovery in other loss making subsidiaries

k. Greater scrutiny is needed, before loans processing, banks also need to be active earlier

l. **Coordination - JLF**
   i. DRT advised banks to coordinate to withdraw 2k crore parked in banks

Steps taken
- by RBI
  - **Most of them have lapsed now**
    - Because were being used to evergreen NPAs
    - Instead full flocus would be on IBC
  - **Prompt Corrective Action**
    - To identify an ailing financial firm faster
    - And take remedial steps
  - **S4A scheme**
    - **Scheme for sustainable structuring of stressed assets**
    - Like SDR but with a difference won't take over the management
    - Loan will be converted into 2 parts
      - **sustainable** part, debtor will have to pay interest
      - The 2nd will be converted into equity
    - Only for loans > 500 crore
    - And firms that have commmenced commercial operations (**Up and Running projects)**

- Challenge
  - **Restructuring not possible** as in 5/25 scheme
  - Cab be ap**plied only when the sustainable debt (Part A) is greater than 50%**
  - Thumb rule is provided to all debt- one size fit all

- **Strategic Debit Restructuring** (SDR)
  - While restructuring loans
  - Empowers ***consortium of lenders (JLF) to convert their loans into equity***
  - Consortium will own at least 51% stake
  - The loans thus restructures are not treated as NPA for 18 months
    - Within this time banks have to find a new buyer
    - If not will be entered as NPA
  - Will help turnaround of those companies especially which are willfully doing bad, diverting funds
  - Cons
    - won't solve major problems because even ARCs are finding it hard
    - Also, is a way of postponing NPAs to future
- **5/25 scheme**
  - allows banks to **extend the re-payment** schedule of loans to ***25 years***,
  - with an option to ***re*-finance or transfer to different bank**s ***at the end of five years***.
  - It had been set up mainly with an aim to provide relief to the power and infrastructure sectors, the ones with a **long gestation period. -** ***enable banks to mitigate ALM (asset liability management***)
- **CRILC**
  - **Credit Repository of Information on Large Credits**
  - To collect and disseminate credit data to all lenders
  - Defaulters and fraudsters will be **debarred** from availing loans **for 5 years**
- **Prompt Cirrective Action**
  - Banks with high NPAs under special watch of NPA
  - Helps to see that equity injection and profitability is prioritised
  - If not, becomes liable to be merged
- Key focus area tracking **EWS** (early warning ⚠ systems) and RFA (red flag accounts, dealing with fraud cases)
  - Monthly reports to CEO/ CMD of banks about EWS tagged accounts
- **JLF**
  - Joint Lenders Forum
- Pre sanction of loan- availing market information through registrar of companies, public domain

- **By govt**
  - **2 lakh crore recapitalisation**
    - Using mix of Budgetary support, diluting rquity and raising bonds
    - See Oct 17 20
  - **Ordinance - RBI to direct**
  - **Financial <u>Resolution</u> and <u>Deposit Insurance</u> Bill (FRDI Bill) 2017**
    - **Provision**
      - Basically a bankruptcy process for financial firms

- Creation of **Resolution Corporations**
  - **Role**
    - **Monitor** financial firms
    - **Anticipate** risk of **failure** (Classifying them)
    - Take **corrective** action
    - Use **Resolution** in case of failure
      - Liquidation
      - Merger and Acquisition
      - **Takeover** of assets and Management
        - Can happen 1 year after being declared as critical
- **Priority order** for liquidation has been specified
  - Deposit Insurance >Secured Creditor > Wages to employees > Unsecured creditors > Government Dues > Shareholders
- **Deposits** can be used as an **Insurance** as a Bail Out
  - Called **Bail IN (**using promoters and depositers assets to engage in resolution)
    - In contrast to bail out where government revenues are used to rescue a system

- Benefits
  - The current norms do not empower thr RBI be involved in resolution o public banks
  - Will act as a receiver - and ensur**e quick payment** to depositors - Thus helping consumers
  - **Faster resolution**
  - Will act as a ppreventive check against a **bubble** getting burst and development of a situation like the GFC
  - And even if a crisis happens, the provisions will insure that the govt (taxpayers) don't have to part with their money for bailout
  - Has been promised by India at the G20 and non compliance may result in diplomatic difficulties
- Issues
  - Conerns about **deposits**
    - Can undermine the confidence in the banking system which may create a **self fulfilling prophecy of a run offf bank**
    - In India, th<u>e banking deposits are the principle form of financial savings.</u> Hence, due care is a must
    - **Most of it is unfounded**
      - The hedged amount of 1 lakh has been in existence for long
      - A run off bank has never occurred in India since independence and since, most of the banks are backed by the sovereign, a run off bank is extremely unlikely
      - 93% of all deposits have deposits below the 1 lakh insurance limit
      - In contrast, this will save the taxpayers amount and would check against moral hazard in the banking system
  - **Bank Unions** criticise this for interference in the banking system

- Bankruptcy Act
  1) 12 companies referred to insolvation under the act
  2) Half of them Steel companies

- Indradhanush

i. FUGITIVE ECONOMIC OFFENDERS Bill 2017
  1) Declare anyone escaping India after defaulting with default > 100 cr as a fugitive
  2) Current mechanism - CrPC with no special provisions for economic offenders of large default and such high externalities
- Commercial courts
- ARC amendment act
  - 100% FDI allowed
  - Yet only 4k crore ARC size
- NBFCs allowed to invest into stressed assets
  - Now they are using a version of Securitisation that triggered Financial Crisis
  - Bundling them, converting to securities and then selling to FIIs
  - Could expose fault lines
- Gyan Sangam

- By SEBI
  - Eases norm for acquisition of listed companies under stress

Write Off
- Means loans are now moved away from the balance sheet, and recognised as bad loans
- Doesn't mean no recovery - Can do by selling colaateral
- Benefit - Better recognistion (4Rs) and helps banks to reduce their tax liabilities

Past Laws
- Committees- Tandon Committee- 1976, H N Ray committee - 1981, Tiwari Commitee-1983
- Laws
  - Sick Industrial Companies (Special Provisions) Act in 1985
  - Board for Industrial and Financial Reconstruction (BIFR) in 1987
  - Didn't help
  - SARFAESI Act, 2002
    - -The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
    - Provisions
      - The Act empowers Banks / Financial Institutions to recover their non-performing assets **without the intervention of the Court**,
        - For secured assets
        - Have a file a law suit for unsecured assets
      - through **acquiring and disposing of the secured assets**
      - Only for outstanding amount of Rs. 1 lakh and above.
      - And has been classified as NPA by bank
      - The banks have to first issue a notice.
      - In recovery process, will be helped by the DM
      - Right of borrower

        - ◇ Can apply to Debt Recovery Tribunal (DRT)
        - ◇ Can deposit money any time before sale is concluded
      - ◆ Paved way for Asset Reconstruction Companies (ARC)
        - ◇ Elaboration Required
    - ▪ **Recovery of Debts Due to Banks and Financial Institutions, 1993 (DRT) Act:** The Act provides setting up of **Debt Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs)** for expeditious and exclusive disposal of suits filed by banks / FIs for recovery of their dues in NPA accounts with outstanding amount of Rs. 10 lac and above. Government has, so far, set up 33 DRTs and 5 DRATs all over the country
    - ▪ And now the Bankruptcy Act

DIFFEREENTIATED BANKS

- ○ Nachiket More Committee
- ○ Payment Bank, Small Bank and Development Finance Bank(see exact term - for infra)
- ○ For specialised institutions

Payment Banks

a. Customer
    i. Payments banks will cater to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.
        1) Will help in the financial inclusion of migrant - Will chiefly target ***Remittances*** and earn revenue from here through transaction charges
        2) 1 lakh cap on deposits ensures this
    ii. Payments banks can take ***deposits up to only Rs 1 lakh per person*** are allowed currently.
    iii. They ***can issue ATM*** or debit cards but not credit cards
b. Revenue
    i. Customers who do not have the means to maintain minimum balance will be welcomed into payments banks a***s revenue will be earned through transaction charge***s and not on the spread of interest between deposits and loans.
    ii. Payments banks can sell financial products like mutual fund units and insurance policies.
c. Investing
    i. Min 75% in SLR
    ii. Max 25 % in savings deposits with banks- As working capital
    iii. To follow CRR
d. The minimum paid-up equity capital for payments banks is Rs 100 crore.
e. Minimum Leverage Ratio (Capital Base/ Assets) < 3%
f. Other benefits
    i. Financial inclusion
        1) Will reduce disaprity as impact more in rural areas
        2) And in states such as Bihar and those in NE
        3) ***Credit to GDP (all financial)=77% all India, while <60% in these regions***
            a) ***Bank Credit - GDP is 51%***
    ii. Remmitances

iii. The operations of the payments banks will be fully networked and <u>technology driven</u> from the beginning , will also have a high-powered customer care cell to handle customer complaints.
iv. <u>Does not compete with the existing banks</u> who have different customer base
v. **Vodafone's M-Pesa** success- payment in the platform : ***30%*** of Kenya's GDP
vi. India has the ***2nd largest smartphone market*** - can be used as a medium to propel payment banks
vii. Would utilise ***Indian post*** existing platform
1) See bottom

g. License given to 11 players inclusing Airtel, Paytm , INDIAN POST

Small Finance Banks

he small finance bank will primarily undertake basic banking activities of **acceptance of deposits and lending to unserved and underserved sections** including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

 What they can do:

o Take small deposits and disburse loans.

o Distribute mutual funds, insurance products and other simple third-party financial products.

o **Lend 75% of their total adjusted net bank credit to priority sector.**

o Maximum loan size would be 10% of capital funds to single borrower, 15% to a group.

o **Minimum 50% of loans should be up to 25 lakhs.**

 What they cannot do:

o Lend to big corporates and groups.

o Cannot open branches with prior RBI approval for first five years.

o Other financial activities of the promoter must not mingle with the bank.

o It cannot set up subsidiaries to undertake non-banking financial services activities.

o Cannot be a business correspondent of any bank.

 The guidelines they need to follow:

o **Promoter** must contribute minimum 40% equity capital and should be brought down to 30% in 10 years.

o **Minimum paid-up capital** would be Rs 100 cr.

o **Capital adequacy ratio** should be **15**% of risk weighted assets, Tier-I should be 7.5%.

o **Foreign shareholding** <u>capped at 74%</u> of paid capital, FPIs cannot hold more than 24%.

o **Priority sector lending** requirement of 75% of total adjusted net bank credit.

o 50% of loans must be up to Rs 25 lakh.

o

Stricter norms for e-wallets on anvil by RBI

- **Full KYC**
- **PAN/ Adhaar linkage -** To reduce money laundering
- Additional factor of authentification
- Interoperatibility to be allowed

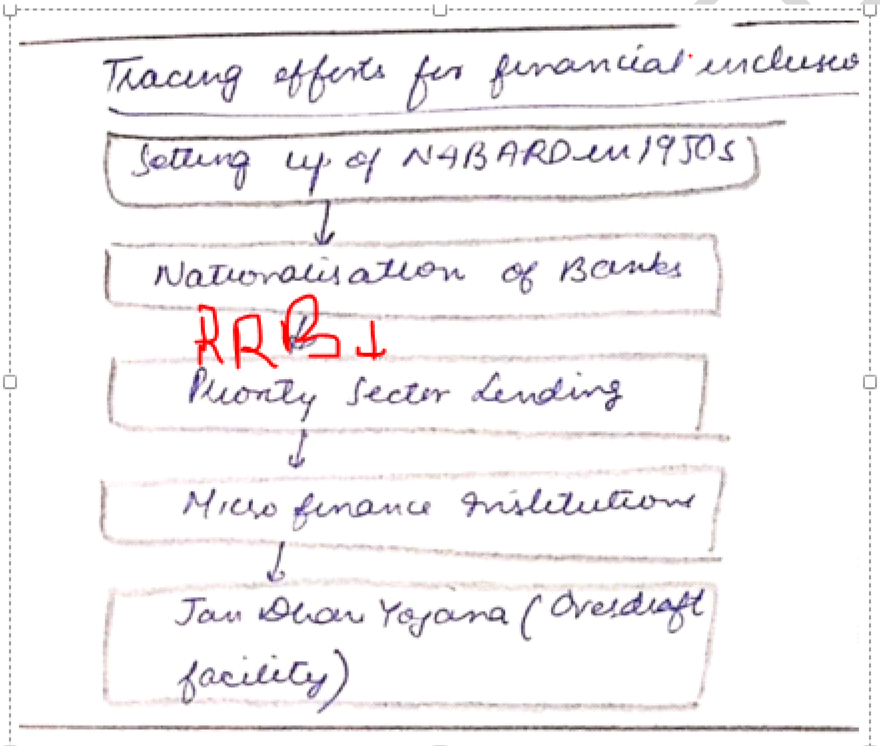
Financial Inclusion

i. ***Nachiket Mor committee*** for financial inclusion

ii. Means universal access to **all financial services** like

1) Access to Savings - PMJDY
2) Cheap credit- MUDRA
3) Payment - Payment Banks
4) Insurance - PMSBY, PMJJBY
5) Consumer Protection
    a) Recommended setting up of Financial Redressal Agency
    b) Similar reco by FSLRC
6) Access to other financial products like mutual funds to maximise gains from saving

iii. Historical steps



1) Bank Nationalisation
    a) of 14 commercial banks in 1969
    b) 6 more in 1980
    c) All worthy goals, which she succeeded in achieving. In the next two decades bank branches rose from 8,262 in 1969 to 60,190 in 1991—half of them in rural areas—and the average population served by a bank declined from 65,000 in 1969 to 11,000 in 1991. Bank deposits soared from 13 percent of GDP in 1969 to 38 percent in 1991, and loans expanded from 10 percent to 25 percent of GDP in the same period.
    d) The bad news was that the efficiency of the system sank. . Productivity and profitability of banks plunged. By 1990, the banks' gross profits dropped to 1.1 percent of working funds (without counting their bad debts) and their establishment expenses rose to 2 percent of working funds.
2) **Regional Rural Banks** establishment in 1975
    a) <u>75% PSL</u> - RBI + States + Sponsor Banks
3) **NABARD**
    a) **Role** -

i) <u>Apex Agency</u> that has power to deal with all <u>policies and planning</u> related to rural credit
ii) **SHG- Bank Linkage,**
iii) Funds to state Govt for rural development work

b) **NABARD Bill, 2017**
i) Allows the govt to raise its equity capital to **30k crore** from current 5k crore
One. Allows to lend more
ii) Transfers <u>RBI share to govt</u>
One. <u>Reduces RBI CONFLICT OF INTEREST</u>
iii) <u>Expands the domain of NABARD to cover **MSME** more holisttically</u>
One. All benefits of MSME

4) **PSL** - Priority Sector Lending
a) 40%
b) 32% for foreign - In phases to be increased to 40% by 2020
c) Provided to
i) Women till 1 lakh, Agri, SC, ST, PH, Overdraft in PMJDY, MSME , School, Health, Renewable Energy
d) Now PSL - C

5) No frill accounts since 2005
a) Accounts without balance

i. **Recent Steps**
1) PMJDY
2) **Differentiated Banks - Payment** Banks, Small Banks, MUDRA
3) **On Tap Licenses** - But still not time bound, and large discretion available
4) Insurance - pmjjby, pmsby, fdi in insurance, APY
5) **Tech - UPI, BHIM ADHAAR ,** Demonetisation

ii. Progress
1) Pro
a) <u>**- 98% of household** have a bank account</u>
b) BSBDA - Basic Savings Bank Deposit Accounts - 45 crore people
c) Success of <u>PMJDY - 15 crore accounts</u> against an original target of 7.5 crore
2) Con
a) All India Debt and Investment survey 2013-
i) % of households a***vailing formal institution loans- 17%***
ii) From informal -19%

Deepak Mohanty Committee suggestions
- Digitisation of **Land records** / Model Land Lease
- Graded system of **BCs** - would act as an incentive and would ensure a better targeted monitoring
- Need for Great**er focus on Gender Equality** in Financial Inclusion

Other that can be done
- Sprread of MFI in poorer states

RISK Management

- Systemic Risk
  - Systemic risk is the risk of collapse of an entire financial system or entire market
  - Macroprudential policy seeks to limit systemic, or system-wide, financial risk
Arises because of **PROCYCLICALITY**	Banks give m**ore loans without considering about risks in boom phase**. Results in Bubble creation. Are risk averse during recession. Procyclicality increases the adversity of a shock and increases risk exposure
  - Both are harmful and therefore RBI pursues countercyclical Policies
    - Too much credit growth also has the ill effect on inflation and unemployment
- NPA
  - All related points
- Political Risks
  - Hirschmann - Equality
- Shadow Banking

SHADOW BANKING - Imp because of SARADHA scam and every year 1 question on it

NBFC - ALSO INCLUDES MFI

The shadow banking system is a term for the co*llection of non-bank financial intermediaries that provide services similar to traditional commercial bank*s. Around 12,000 **NBFCs** registered with the RBI, and they largely offer loans. Some, like traditional banks, also take deposits (on;y around 200) . . According to Subbarao, Indian NBFCs can't be treated as Shadow Banks developed in India within the frameworks of regulatory watch

- Functions
  - Loan, Investment in share, bond market, Acquisition of stock

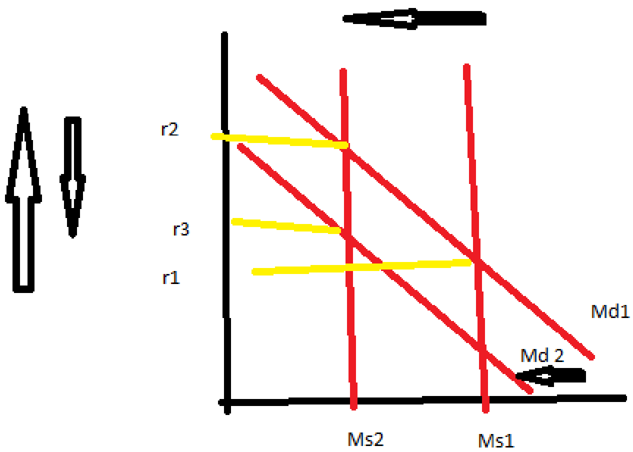
Difference with normal Banks

- Mostly about lending money
- Can't issue **checks**

- Generally don't take deposits
- RBI - no lender of last resort
- **No credit insurance** facility
- Cash Reserve Requirements
- Generally pose less systemic risk . Hence, they are **less regulated** (by RBI only - see Subbarao 3rd last chapter)

CONS

- However, of late the **interdependence with the formal banking system has increased and the contagion can quickly spread**
- **Invest in risky sectors such as real estate, stock market - Harshad Mehta & Ketan Parekh scam**
- **Reduce the effect of Monetary Policy**
    - As they provide an alternative route to borrow and lend money
    - Let us take a Contractionary policy, that raise the rate of interest
    - For a NBFC, it provides an opportunity to lend at a higher rate as the market interest rate rises
    - This in turn leads it to increases the rate on deposits to gather more funds
    - As deposit rates rises, the Md reduces and this softens the rise in interest rate , reducing the net effect of the Monetary Policy



- Other cons
    - Investing in **high risk sectors**
    - **Rate of lending very high - as much as 100%**
    - **Rate of deposits** very high
        - Can lead to speculation
        - Attracts many

- But then get duped and gain nothing
- **CHIT FUNDS and PONZI scam**
  - **Reasons for Chit Fund -** Financial Literacy, Politicians (TMC leaders), Confusion over jurisdiction of center, states and regulators, Financial Inclusion low Pushed by Poverty, Unemployment and Inequality, Model of Ponzi schemes that rewards certain participants
  - **Steps taken -** Prizes Chits Act, 1978, SEBI guidelines
- smuggling
- ***Money laundering - Shell companies***
- *Terror financing*
- **Big role in spreading of Financial Crisis in US - as in US regulations are wewak unlike India**

- Hence, greater need to regualte them

- **Benefits**
  - **Financial Intermediary - Benefit to savers as well as to borrowers**
  - **Gross NPA only of 4%**
  - In the context of developing economies, shadow banks play a gainful role in credit delivery and financial inclusion as they can facilitate credit availability to certain sectors that might otherwise have difficulty in access to credit.

Usha Thorat Recommendations accepted and subsequent **changes made**

- purchase of a stake of 26% or more in a company, or a change in more than **30% of its directors, would need the central bank's permission.**
- **source of funds** behind new investors in any NBFC will have to be **disclosed**.
- Regulations similar to banks
- **CAR at 12%**
- Would be given benefit of **SARFAESI**
- H**owever, one recommendation of registry requirement only for NBFC with capital greater than 50 crore** - Not accepted - Would have removed 90% NBFCs ut of the purview
  - Needs to be done
  - Currenctly, only 2 crore limit is required which has led to unnecessary proliferation and monitoring has become difficult
  - If not absolute thresholds, other restrictions like compulsory listing within 5 years needs to be put in place
  - Has been recommended by Basel based FSB as well (see below)

Suggestion of Basel based FSB (Financial Stability Board)
- NBFCs
    - **Rationalise (reduce) their no**
    - Harmonise the rules in **congruence with the banks** - ie Greater regulatory control akin with banks
- Data
    - RBI should **improve data collectio**n from NBFCs
    - Better **forecasting mwthodogie**s
- Step up regulation of Housing Finance Companies
- Other suggestions
    - **FINANCIAL LITERACY**

Rural Financial Intermediaries / Micro Finance Institutions
- RFI / MFI
- Grammen Bank
    - Rural poo esp women
    - No collateral
    - As liitle as 10$
    - Monitoring
        - 1st 2 members given. Close scrutiny till 2 months
        - Based on this - rest members of the group given
    - **Repayment - 98%**
    - Peer Pressure, ethos, relationship of Grammen Bank, goodwill generated by social development programs such as Plantation, sanitation drives might be the reason
- MFI have now spread to over a 100 countries like Banco Sol in Bolivia'
- Con
    - High interest rate - 25% of Grameen
    - **Dependence on state for subsidy** because of high overhead costs
    - **Adverse selection - Lemon problem**
    - **Have been found to be used more for Working Capital**
    - **Others of SHG**

Case study - Andhra
- **40% of all Indian MFIs in this state**
- Allegations
    - Usurious rate
    - Coercive recovery practises
    - Unscrupulous business models
- 2010- In this view the Andhra govt legislated to have them registered annually, they can't visit the house of the borrowers, recovery cycle be lengthened, cap on interest rates
- However, the entire MFI system in Andhra collapses as it was interpretd as borroowes as interest subvention and default magnified
- Thus Malegam Committee was formed

H Malegam Committee on Micro finance Institutions

This committee was constituted by RBI in wake of the MFI developments in AP. Its main

recommendations are:
1. **MFIs** to be designated as separate NBFC to be brought **under RBI control.**
2. A **margin cap** of 10% for established MFIs and 12% for small MFIs.
3. **A cap of 24%** on the interest chargeable.
4. A **borrower can be a member of only one SHG.**
5. MFIs can only charge 3 fees for increasing transparency - interest, insurance fee, processing
fee

Impact of demonetisation on NBFC and MFI
- MFI size is 60k crore in India
- Negative
  - 85% of loan disbursement and 95% repayment in cash
- Positive
  - Csashless economy will reduce dependency on manpower increasing effciency
  - Transaction trail will improve credit history details

History
- Early 1990's spurt
  - Due to store like 100% FDI
- Led to the scams of Harshad Mehta and Ketan Parekh
- RBI tightened regulations
- And since late 1990s, no new license to NBFCs
- And now Ponzi schemes - Saradha
- Also **Banking License to NBFCs like Bandhan Bank**
- **Write also about the spurt in Micro Finance, Kudumbashree and Andhra - 40%**
  - **Acc to RBI, NBFCs include MFIs too**

Ponzi Schemes
- Fraudelent schemes
- Promise unrealistic returns
- Modus Operandi
  - Lure investors by promising huge returns
  - **DO NOT invest in real market**
  - Rather they transfer the money from one investor to another
  - ***Service their debt only with new debt***
  - Initially, unrealistic returns can be sustained as more and more new investors are joining in
  - But, slowly this becomes unsustainable
  - Finally, lid is blown either by legal authorities or by the original investor running away
- **India**
  - **Govt looking to regulate it**
  - **7 year jail term for unregualted Ponzi**

Post Offices as Banks

- Reasons
    - Postal Dept. has 1.5 lakh branches across India
        - Much more than all the branches of banks combined
        - 1.4 lakh are in rural areas
            - Only 23k banks in rural areas
    - Post Offices already maintain the ***Post Office Saving Banks Account***
        - Total corpus 6 lakh crore
    - *MNREGA* - cash payments are handle through it
        - Over 6 crore MNREGA accounts
    - Benefit to banks
        - At least, the social security schemes should be made POs responsibility
            - Will allow the Public Banks to focus more on the core banking
        - Public banks can compete with the Private Banks in a better way
    - Will also allow the govt to make use of the ***extensive postal workforce***
    - Post Offices as banks have been ***successfully used in the UK*** & in the process of doing so in the USA
- Granted PAYMENT BANK license
- Relavance of Post
    - Post - Esp for Business purposes
    - Courier
    - Banks
    - MGNREGS
    - Small savings scheme
    - Now **Passport** coordinating to set up PSKs
    - Also being used to provide **High Yielding Seeds to Farmers**
    - A good medium for last mile delivery

AJAY SHAH

However, the financial system still remains underdeveloped, and even marginal improvements would significantly help towards promoting growth. Some salient features of the Indian financial system are as follows:

1. Financial Repression (DOUBLE actually)
    - The government, thus, gets about 25% of banks' assets, about 50% of insurers' assets, and all of pension funds' assets
    a. Banks, insurance companies and pension funds would be safer if their assets were diversified internationally, including purchases of government bonds of countries with lower credit risk than that of the Indian government
    b. Repression on liability side- Gold, real estate prefered

2. Protectionism:
    - There are very stringent restrictions on the banking business in India
    - The beneficiaries of India's protectionism in finance are the domestic financial firms, who face reduced competition and are thus able to pay elevated wages and generate elevated return on capital.

3. Public Ownership:
    - Roughly 80% of banking, 95% of insurance and 100% of pensions is held in public sector financial firms

a. At the same time, The barriers are the weakest with securities firms that seek to become members of exchanges such as NSE and BSE, and with mutual funds. In these two areas, India is de facto open to private or foreign firms that seek to establish business. Unsurprisingly, these are also areas where creative destruction is visible, with both entry and exit taking place every year.

b. Under the present legal arrangements in India, deposits with public sector banks are insured without limit by the government. Under difficult conditions, such as the financial stress of late 2008, depositors have an incentive to switch from private banks to public banks. Thus, even a small presence of public sector banks with unlimited deposit insurance exacerbates the risk faced by private banks and induces systemic risk

4. **Central Planning:**
   - Government controls minute details of financial products and processes
   - In this environment, the process of change is slow. If a financial firm gets an idea for an improvement, it does not reap the benefits (of a short-term advantage over rivals) since it has to go to the regulator for permission,
   - Bureaucrats face asymmetric payoffs, where they can be penalized for actions taken, or when scandals or crises take place. However, bureaucrats pay no cost when the Indian economy suffers from a poorly performing financial system

5. **Regulatory and Legal Arrangements:**
   Given that financial regulation in India is dispersed across multiple agencies, and given the growing complexity of the financial system, better coordination mechanisms are now called for *(see FSLRC recommendations*

PMJDY
RESULT
- 30 crore bank accounts opened
  - 10 crore PMSBY
  - 3 crore PMJJBY
- 40% total bank accounts in name of Women now - Inclusive
- 0 Balance accounts
  - Only 25% now
- According to WB, people having formal ban account increased : from 35% in 2013 to 53% in 2014
- **Households with bank accounts have rise to 95% up from 65% of census 2011**
- Collective funds around 30k crore
  - Money supply increasing
  - Modi calls this "richness of the poor" unlike "poverty of the rich", where rich don't pay

Implementation in 2 phase
- Phase 1

- 15th Aug 2014 to 14th Aug 15
    - Aim - 10 crore accounts, issue of RuPay cards, financial literacy, RS 5000 overdraft per household, accidental and life insurance
  - Phase 2
    - 15/8/15 to 15/8/18
    - Aim - micro insurance, creation of credit guarantee find to manage overdraft, linking with pension schemes like Swavalamban

Pro
- For Consumers-
  - Each account provided with accidental insurance worth Rs 1 Lakh, Accidental Insurance - Rs 30,000 and RuPay Debit Card Scheme, overdraft facility upto Rs 5,000 without any extra cost or significant paper work and hassles
    - Overdraft of RS 5000 only on 1 account of the household, preferably that of the lady
    - Can be availed only if account in proper order for the first 6 months
  - Insurance increases - > Poverty due to sudden abrupt crises decreases
  - General banking- savings rate protects against money erosion
  - Overdraft facility
    - Upto 5k
    - Condition- account operated satisfactorily for at least 6 months
    - Granted to earning member of family
- For Poor-
  - Provides Financial Inclusion
  - Currently, only 35% of Indians have bank accounts
  - They can save their deposits, receive interests and thereby, reduce the impact of inflation
  - Having a bank account, along with the overdraft facility gives them the option of receiving cheap loans -> no grudging cheat moneylenders -> no vicious cycle of poverty
- For the industries
  - More money can now be available in the banking system
  - 30k crore, in Jan 2016, in such accounts
    - Modi called this the richness of the poor
  - More customers for banks, both borrowers and depositors
  - The loans to industries and other seekers will increase
- For the Government
  - Biggest Beneficiary
  - Creates a platform for the Direct Cash Transfer to operate for subsidies and other targeted schemes
  - Will thus reduce corruption
  - RuPay
    - seamless and more transparent banking system
    - involves Indianisation of the card system
    - More plastic currency use-more billing of invoices takes place-more tax collection
    - Further need to incentive this
  - Also use

Cons/ Challenges
- It is a challenge to keep the new accounts active

- With NPA's already in high waters, Banks will see greater pressure due to over drafting facilities, and inclusion of the poor, who can easily default
- Financial costs to maintain accounts, providing of risky insurances, and support infrastructure like technology for RuPay high
- Research shows a single rural transaction costs Rs 110
  - It is reduced to single digit using Baking Correspondents
  - **Solution**- Using **technology** like those in payment banks using mobile telephony reduces cost of transaction to under a rupee
- Unawareness amongst the most poor
  - The no of **households** having bank accounts only increased to 92% from 88%
- Overdraft can only be accessed deoending on th usage pattern of the RuPay
  - Many have not even received these cards

FSLRC

- Composition
- History
- Also called Sri Krishna Committee
- Recommended an ***Indian Financial code***, currently under public discussion
- **Key recommendations**
  - Consumer centric
    - Focus on protection of consumer, particularly retail
    - Regulators must drive to increase awareness
  - Repeal of the ancient RBI, SEBI, Insurance acts
  - Merger of all regulators except RBI
  - MPC in RBI
  - Micro prudential regulation to reduce the possibility of failure
  - Review of decision of the regulators
    - Elaboration Required
  - Board to assess the individual performance of the board members
  - Lay annul reports to the Parliament
    - To ensure accountability
  - Creation of specialised agencies such as PDMA, Resolution Corporation (Quick Bankruptcy)
    - Elaboration required
- Pros
  - Increases accountability
  - Merger to ensure non overlap of jurisdiction
  - Review ensures protection against over use of power
  - Consumer centric
  - New specialised agencies
- Cons
  - Reduces independence
  - Indian finance sector working suitably well, almost unaffected by the Financial Crisis
    - Recently praised by the IMF
  - World - moving towards greater power to the Central bank
    - UK- Financial Services Authority has been brought back
  - Induces at least a short period of instability
  - Cons of PDMA
  - Trade offs- difficult to measure from the judicial angle

- Elaboration Required

RBI publishes biannual financial stability report

Themes (?)

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Financial Inclusion

- Nachiket Mor Committee
- Definition - delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups
- Need - even in 2013 - 40% of agri credit from moneylenders, other non-insti sources
- Challenges

Supply side issues	Demand side issues
- Narrowing of branches in rural areas - ↓ in credit/ deposit ratio in rural areas - Disproportionate decline in agri credit to SMFs - Crippling of RRBs - Volume of business -- commercially insignificant - Loans -> NPAs --> reallocation of bank credit to less risky segments	- Inadequate awareness - Low financial literacy - High vulnerability to risks - Low productivity - Gender gap - Non-institutional finance pervasive - Excluded are unorganised -- difficult to cover - Widely dispersed nature + small individual requirements

- Steps
  - Expansion of banking network
    - Introduction of BC-BF model (Business Correspondent/ Business Facilitator)
    - Relaxation of stringent KYC norms
    - Setting up of *Financial Literacy Centres* & *Credit Counselling Centres*
    - *Bank Authorisation Policy* -- RBI removes restriction in opening banking branches in Tier 1-6 cities
  - PM JDY/ JAM Trinity
    - Universal access to banking facilities; features:
    - At least one basic banking account for every household
    - Financial literacy
    - Access to credit & insurance
    - Facility to open a ***BSBA*** Basic Savings Bank Account in any bank branch/ BC outlet
    - Accidental insurance cover (₹1 lakh) and life insurance cover (₹30000)
    - Stats:
      - EcoSur - 2022 - PMJDY formed part of barbell strategy cushion -- ₹500/ mo to women accounts
      - 80% popn now has bank account -- 83% male; 77% female
  - Differentiated banking - Small Finance Banks, Payment Banks
  - Mobile payment systems, UPI, BHIM, micro finance
  - Revitalisation of rural cooperative sector
  - SHG-BLP and MFIs
    - Most important
    - SHG-BLP by NABARD - pilot project in 1992; now covers 73 lakh SHGs
    - H Malegam Committee Report -- RBI announced NBFC-MFI in 2011

- Deepak Mohanty Committee

- To frame action plan on financial inclusion
- Aadhaar linked credit account
- Digitisation of land records
- Nurturing SHGs
- Direct Income Transfer instead of subsidies (~UBI Universal Basic Income)

- CASE: SHG in Odisha + SBI - 1st ever tie up to provide banking service
- SFBs - Suryoday & Utkarsh -- on lines of Nachiket Mor Committee recommendations

PMJDY Achievements
- 34 crore accounts in first 5 years
- 80% popn now has bank acc - 83% male, 77% female
- Share of zero-balance accounts fallen from 67% (2015) to only 28% in 2016 (with doubling of total accounts)
- Rising deposit in accounts -- more than thrice since 2016-17
- EcoSur 2016 - leakages in LPG subsidy fell 24%

NBFCs Non-Banking Financial Companies
- Company registered under Companies Act, 1956
- engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Govt or local authorities or other marketable securities of a like nature, leasing, hire purchase, insurance business, chit business.
- 2017:

17% of bank assets	0.26% of bank deposits

- Banks vs NBFCs
  - Can't accept dd deposits
  - NOT part of payment & settlement system
  - Can NOT issue cheques drawn on themselves
  - Deposit insurance facility under DICGC unavailable
- Eg - Muthoot, Bajaj Finance, etc
- Significance:
  - Supplement banking sector in fin inclusion
  - Cater needs of corporate sector
  - Diversity + efficiency
  - Very useful for sectors/ activities generally excluded from formal banking activities
  - Source of financial irregularity in localised pockets, from time to time -- issue of consumer protection
- CA -
  - RBI launched Ombudsman scheme for NBFC for complaint redressal
  - P2P lending - classified as NBFC; follow reverse auction - lenders bid to get borrowers; borrowers free to accept/ reject a proposal

History of NBFCs
- RBI Amendment Act, 1963 -- introduced to regulate deposit accepting NBFCs
- James Raj Committee - reco ban on prize chit and other schemes; implemented by govt in 1978, 1982
- Chakravarty Committee (Prof Sukhamoy Chakravarty) - recommended assessment of links among banking sector, non-banking financial insti & organised sector

Types of NBFCs

AFC Asset Finance Committee	IC Investment Committee
LC Loan Company	IFC Infra Financing Company
P2P Peer to Peer (new)	Account Aggregators (new)

- Indian innovations:
  - MBFC Mutual Benefit Financial Companies -- 'Nidhi' - does business only w/ its equity shareholders
  - MNBCs Miscellaneous Non-Banking Companies -- chit funds/ 'Kuri' in Kerala -- form of rotating savings & credit association

Twin Balance Sheet

- Over leveraged companies -- carrying too much debt + unable to service interests from loans
  - ES: more than 40% debt-ridden companies are IC1 companies
- Bad loans encumbered banks
  - ? PSUs hold >75% of NPA

- Boom phase -> $\uparrow$in liabilities -> over-leveraged companies -> NPAs
- Reasons
  - High growth phase 2000 -- non food bank credit had doubled
    - Overseas funding - 9% of GDP (2007)
  - Financial crisis 2008
    - $\downarrow$ growth rates $\Rightarrow$ $\downarrow$revenue from investments
  - Environmental and land clearances -> time delays
  - RBI -> $\uparrow$ interest rate to counter inflation -> $\uparrow$ financing costs

Balance Sheet Syndrome -- ES 2017
- TBS co-existed w/ high AD and high growth rate
- Although infrastructure created became financially unviable, it allowed for Indian economy to grow
- v/s unlike in USA -- US Housing Boom -> did not prove useful for infra needs -> led to recession

PDMA

- Investment banker to the govt
- PDMC as a special cell created w/in RBI in India
- Will eventually be transformed into a fully independent PDMA
- Reco
  - Initially by RBI in 2001
  - Endorsed by Tarapore Committee, Percy Mistry Committee (2007), Raghuram Rajan Committee (2008), Financial Sector Legislative Reforms Committee (2011)

Importance
- Resolve conflict of interest w/in RBI -- manages debt + decides MP + regulates bond market
  - Shed inflation bias of RBI
- Specialisation argument -- both internal and external debt by same body; specialised + holistic
- Allow market determined yield curves for G-secs
- Fiscal discipline -- may raise the cost of borrowing
- Highest form of monetary discipline
- Int'l experience - no G20 country adopting it has ever turned back;

Issues

- FRBM - already inculcated fiscal discipline to great extent
- Bond market is not yet fully mature for market mechanism
- FIIs -> currency appreciation
- Raise the cost of borrowing -> impedes necessary fiscal, especially capex
- Flexibility in substitution b/w internal and external debt; may not be desirable
- Need to phase out SLRs, removing limit to treasury operations of banks (= sale/ purchase of G-secs)
- PDMA's focus is only on central govt, but RBI can harmonise the debt mgmt of both union and state govt; some states don't have that capacity

Demonetisation

11 June 2021 20:19

Demon - short term costs, long run benefits
Aka helicopter hoover/ reverse helicopter drop
Stats
- 86.4% of currency notes in circulation in March 2016 demonetised
- Estimated - 25% to be black money
- Cash/GDP ratio - 12%

Aims

Curb corruption	Counterfeiting	Terror	Black money accu

Earlier efforts

SIT in 2014 Budget	Black Money Act, 2015
Benami Txn Act, 2016	Information exch agreement w/ Switzerland
Income disclosure scheme	New tax treaties w/ Mauritius & Cyprus

Premise
- Cash/GDP - GNP/ capita: must have inverse relationship; to show on avg, use of cash declines w/ dvpment
- TI report: higher the amt of cash in circulation -> greater amt of corruption
- Soil rates -- rate at which notes considered too damaged to use; returned to CB

Why should it have been avoided
- Estimation of black money in cash form is not accounted (cash/GDP + soil rate)
- We did NOT have infra capacity to absorb 86% cash by value in one go
- Global Financial Inclusion Report figures
  - Bank Penetration - @53% in 2014
  - No. Of ATMs/ 100,000 - 18 (SA - 66, Russia - 184, Brazil - 129)
  - 11% debit cards; 3.4% credit card
  - Only 2.2% used mobile payments
  - Only 20% received wages in banks
  - Very high digital illiteracy - @80%
- Bank branch density in rural areas is less than 1/2 of that in urban areas
- JAM trinity preparedness index -- dismal for rural areas
- IT dept - grossly understaffed for assessment of heavy txns + many loopholes present

Alternative methods of implementation/ better
- Start by building the necessary infrastructure
  - Last mile connectivity - BCs, Bank Mitras
  - Invest in cheap tablets & phones - eg Akash tabs
  - Digital India & internet connectivity
  - PM DISHA Digital Saksharta Abhiyan
  - Increase internet penetration
- Work on people's inertia
  - All bills and payments to be cashless (internet/ ATM kiosks)
  - All govt txns to be cashless -- debit - Rupay, credit
    - Will force people to have bank account
- Create alternative monetary structure
  - 80% people have mobile phones, can be linked w/ bank accounts
- Certain proportion of income as e-rupaiya or digital fiat currency -- must be transacted online

- PAHAL - DBT - e-Rupaiya

Things to ensure in case of sudden implementation

Logistics	Loopholes reporting
Tie up w/ Google et c- Internet based txn in Project Loon	Mobile operators - transfer of limited amt of txns -- via regular mobile numbers

Analysis of demonetisation

(A) standalone
- Not been a pragmatic approach
- Economic cost
    - AD shock - due to decline in money supply -- informal economy relied mainly on cash
    - AS shock -- money is input for economic activity (eg labour wages in cash)
    - Uncertainty shock -
- Social cost
    - Lives lost

(B) as part of larger plan to weed out corruption
- Signalled a regime change
    - Soft state -> decisive state + Govt determination
    - Tax on black money -- hold, deposit & pay tax, conversion fees
- 18 lakh addl individual IT filers since Nov 2016
    - Effective Tax payers
- Cash/ GDP ratio -- 9%, ↓from 12%
- 3 fold increase in PAN regn; digitisation
- Complemented by

GST	Benami Txn Act	RERA	Project Insight/ Clean Money by CBDT

Below this -- shorten it

Demonetisation was aimed at signalling and emphasizing the government's determination to penalize illicit activities and the associated wealth. India's demonetization was unprecedented in international economic history because:

• It was highly secretive and sudden.

• It was carried out in normal economic and political condition exemplified by macro-economic stability and fastest GDP growth rate. All other sudden demonetisations have occurred in the context of hyperinflation, wars, political upheavals, or other extreme circumstances.

In India there were two previous instances of demonetisation, in 1946 and 1978, the latter not having any significant effect on cash, but the recent action had large, albeit temporary, currency consequences.

Globally new monetary policy tools like negative interest rates policy and 'helicopter drops' of money have been employed to stimulate growth and increase money supply. India on the other hand instead of expanding money supply has squeezed it and it can be called as 'reverse helicopter drop' or 'helicopter hoover'.

Benefits of demonetization

A. Tax on black money: Demonetization offered three options for black money holders:
• Declare their income, deposit it and pay tax rate with penalty.
• Continue to hide and suffer 100% tax rate.
• Launder their money.
Anecdotal evidence says that there was money laundering through various methods like:
• Retime the accrual of money and then depositing in account.
• Paying intermediaries to convert black money into white (as commission, payment for standing in queue, depositing in others account).
Despite these demonetization provided following benefits:
• In all these cases, black money holders still suffered a substantial loss, in taxes or "conversion fees".
• Laundering run the risk of punitive taxes and prosecution, in addition to the fees or taxes already paid because of continuous surveillance and data mining by government on spooky deposits.
• The December 30, 2016 Ordinance has declared the unreturned notes as no longer constituting legal tender and this will extinguish RBI liability and increase its net worth.
In this sense, demonetisation has affected a transfer of wealth from holders of illicit black money to the public sector, which can then be redeployed in various productive ways – to retire government debt, recapitalize banks, or even redistribute back to the private sector.

B. Tax compliance
• Demonetization has shown state's resolve to crack down on black money.
• Social condemnation: Since this action has commanded support amongst the population, demonetisation shows that black money will no longer be tolerated by the wider public.
These two effects if combined with other incentive measures can result into behavioural change among people and greater tax compliance.
• Demonetisation could also aid tax administration in another way, by shifting transactions out of the cash economy and into the formal payments system.
• As a result, the tax-GDP ratio, as well as the size of the formal economy, could be permanently higher.
• It will channel more savings into financial system. It will help banks in providing more loans at lower rates.
• In the longer-term, if demonetisation is successful, it will reduce the equilibrium cash-GDP and cash-deposits ratio in the economy. This will increase financial savings which could have a positive impact on long run growth.

Potential long term benefits

Though it will take several years to see the impact of demonetization on illicit transactions, on black money, and on financial savings, there are some signs pointing to change.

A. Impact on Digitization: One intermediate objective of demonetisation is to create a less-cash or cash-lite economy, as this is a key to channelling more saving through the formal financial system and improving tax compliance.
Watal Committee has recently estimated that cash accounts for about 78 percent of all consumer payments. And there are many reasons for this situation. Cash has many advantages:
• It is convenient, accepted everywhere, and
• Its use is costless for ordinary people, though not of course for society at large.
• Cash transactions are also anonymous, helping to preserve privacy, which is a virtue as long as the transactions are not illicit or designed to evade taxation.
In contrast, digital transactions face significant impediments:

• They require special equipment, cell phones for customers and Point-of-Sale (POS) machines for merchants, which will only work if there is internet connectivity.
• They are also costly to users, since e-payment firms need to recoup their costs by imposing charges on customers, merchants, or both.
At the same time, these disadvantages are counter balanced by two cardinal virtues.
• Digital transactions help bring people into the modern "wired" era.
• They bring people into the formal economy, thereby increasing financial saving, reducing tax evasion, and levelling the playing field between tax-compliant and tax-evading firms (and individuals).
In the wake of the demonetisation, the government has taken a number of steps to facilitate and incentivize the move to a digital economy. These include:
• Launch of the **BHIM (Bharat Interface for Money) app** for smart-phones based on the new Unified Payments Interface (UPI) which has created inter-operability of digital transactions.
• Launch of **BHIM USSD 2.0**, a product that allows the 350 million feature phone users to take advantage of the UPI.
• Launch of **Aadhar Merchant Pay**, aimed at the 350 million who do not have phones. This enables anyone with just an Aadhar number and a bank account to make a merchant payment using his biometric identification.
• Reductions in fees (Merchant Discount Rate) paid on digital transactions and transactions that use the UPI.
• There have also been relaxations of limits on the use of payment wallets.
• Tax benefits have also been provided for to incentivize digital transactions.
• Encouraging the adoption of POS devices beyond the current 1.5 million, through tariff reductions.
As a result of all these number of digital transactions has increased considerably. Data from the National Payments Corporation of India (NPCI) show that RuPay-based electronic transactions increased by about Rs. 13,000 crore in case of POS transactions and about Rs. 2,000 crore in e-commerce, an increase of over 300-400 percent. Same has been the case with debit card, credit card and AEPS (Aadhar-Enabled Payments System) transactions.
The success of digitalization will depend considerably on:
• The inter-operability of the payments system. The Unified Payments Interface (UPI) created by the NPCI is the technology platform that will be the basis for ensuring interoperability. But to ensure this, individual banks should facilitate not thwart inter-operability.
• As digital payments increase the security features of these e-payment systems will need to inspire trust, to ensure this trend continues.

B. Impact on Real estate sector

• **Demonetization can** have profound impact on real estate prices as black money was used evade taxes on property sale and have resulted into inflated prices. According to **Knight Frank and Survey calculations real estate prices in** eight major cities has
started declining post demonetization.
• Reduction in real estate prices is desirable as it will lead to affordable housing for the middle class, and facilitate labour mobility across India currently impeded by high and unaffordable rents.

Short term impacts

A. Impact on GDP: Demonetisation is potentially:
• An **aggregate demand shock,** because it reduces the supply of money and affects private wealth (especially of those holding unaccounted money and owning real estate);
• An **aggregate supply shock** to the extent that cash is a necessary input for economic activity

(for example, if agricultural producers require cash to pay labour);
• And an **uncertainty shock** because economic agents face imponderables related to the impact and duration of the liquidity shock as well as further policy responses
To analyze the impact of demonetization on GDP in a macro-assessment on five broad indicators are focused:
• Agricultural (rabi) sowing;
• Indirect tax revenue, as a broad gauge of production and sales;
• Auto sales generally, as a measure of discretionary consumer spending, and two-wheelers in particular as it is the best available indicator of rural and demand of the less affluent;
• Real estate prices; and
• Real credit growth
The high frequency indicators present a mixed picture.
• Agricultural sowing, passenger car sales, and overall excise taxes bear little imprint of demonetisation;
• Sales of twowheelers show a marked decline after demonetisation;
• Credit numbers were already looking weak before demonetisation, and those pre-existing trends were further reinforced after November 8.

Impact of Demonetization (Tabular Format)

Table 2. Impact of Demonetisation

Sector	Impact	
	Effect through end-December	**Likely longer-term effect**
Money/interest rates	Cash declined sharply	Cash will recover but settle at a lower level
	Bank deposits increased sharply	Deposits will decline, but probably settle at a slightly higher level
	RBI's balance sheet largely unchanged: return of currency reduced the central bank's cash liabilities but increased its deposit liabilities to commercial banks	RBI's balance sheet will shrink, after the deadline for redeeming outstanding notes
	Interest rates on deposits, loans, and government securities declined; implicit rate on cash increased	Loan rates could fall further, if much of the deposit increase proves durable
Financial System Savings	Increased	Increase, to the extent that the cash-deposit ratio falls permanently
Corruption (underlying illicit activities)		Could decline, if incentives for compliance improve
Unaccounted income/black money (underlying activity may or may not be illicit)	*Stock* of black money fell, as some holders came into the tax net	Formalization should reduce the *flow* of unaccounted income
Private Wealth	Private sector wealth declined, since some high denomination notes were not returned and real estate prices fell	Wealth could fall further, if real estate prices continue to decline
Public Sector Wealth	No effect.	Government/RBI's wealth will increase when unreturned cash is extinguished, reducing liabilities
Formalization/ digitilisation	Digital transactions amongst new users (RuPay/ AEPS) increased sharply; existing users' transactions increased in line with historical trend	Some return to cash as supply normalises, but the now-launched digital revolution will continue
Real estate	Prices declined, as wealth fell while cash shortages impeded transactions	Prices could fall further as investing undeclared income in real estate becomes more difficult; but tax component could rise, especially if GST imposed on real estate

	shortages impeded transactions	undeclared income in real estate becomes more difficult; but tax component could rise, especially if GST imposed on real estate
Broader economy	Job losses, decline in farm incomes, social disruption, especially in cash-intensive sectors	Should gradually stabilize as the economy is remonetized
GDP	Growth slowed, as demonetisation reduced demand (cash, private wealth), supply (reduced liquidity and working capital, and disrupted supply chains), and increased uncertainty	Could be beneficial in the long run if formalization increases and corruption falls
	Cash-intensive sectors (agriculture, real estate, jewellery) were affected more Recorded GDP will understate impact on informal sector because informal manufacturing is estimated using formal sector indicators (Index of Industrial Production). But over time as the economy becomes more formalized the underestimation will decline. Recorded GDP will also be overstated because banking sector value added is based (*inter alia*) on deposits which have surged temporarily	Informal output could decline but recorded GDP would increase as the economy becomes more formalized
Tax collection	Income taxes rose because of increased disclosure Payments to local bodies and discoms increased because demonetised notes remained legal tender for tax payments/ clearances of arrears	Indirect and corporate taxes could decline, to the extent growth slows Over long run, taxes should increase as formalization expands and compliance improves
Uncertainty/ Credibility	Uncertainty increased, as firms and households were unsure of the economic impact and implications for future policy Investment decisions and durable goods purchases postponed	Credibility will be strengthened if demonetisation is accompanied by complementary measures. Early and full remonetisation essential. Tax arbitrariness and harassment could attenuate credibility

Supplementary Reading

A. Experience of demonetization around world

1. Ghana 1982 -
• **Measures:** Demonetisation of 50 cedi notes in 1982; no exchange facility for long; freeze on bank deposits
• **Rationale:** Excess liquidity and inflation
• **Effect:** Loss of confidence in the banking system

2. Brazil 1990
• **Measures:** Collor Plan: monetary contraction by freezing all deposits above certain limit .Deposits upto a ceiling denominated in the old currency (cruzado novo) were converted to the new currency (cruzeiro) at parity.
• **Rationale:** To fight hyperinflation
• **Effect:** Contraction of output; price moderation only very gradual due to uncontrolled re-injection of liquidity

3. Australia (1988, 2015)
• **Measures:** Introduction of next generation notes with tactile features.
• **Rationale:** Prevent counterfeit
• **Impact:** The first country to have a full series of circulating polymer bank notes

• Measures: Introduction of next generation notes with tactile features.
• **Rationale:** Prevent counterfeit
• **Impact:** The first country to have a full series of circulating polymer bank notes

4. Singapore (1999, 2004)
• **Measures:** The Portrait notes, the fourth series of currency notes, were launched in September 1999 with sophisticated security features (1999). Discontinued issuance of S $10,000note and instructed banks to stop re- circulating it since October 2014; but still remained legal tender (2004).
• **Rationale:** Mitigate higher money- laundering risks associated with large-value cash transactions.

IMPACT OF DEMONETIZATION ON BANKING SECTOR

Demonetization is a tool to battle Inflation, Black Money, Corruption and Crime, discourage a cash dependent economy and help trade. Its policy of the government by banning Rs. 500 and Rs.1000 currency notes has influenced all almost all the corner of the economy.

Hereby analyzing the impact of demonetization on Banking Sector.

A study by Bhupal Singh and Indrajit Roy, RBI directors from the monetary policy department and department of statistics and information management, published in August this year showed that the excess deposits accrued to the banking system due to demonetisation range between Rs 2.8-4.3 trillion.

"Excess deposit growth in the banking system during the demonetisation period (i.e., November 11, 2016 to December 30, 2016) works out to 4-4.7 percentage points. If the period up to mid-February 2017 is taken into account to allow for some surge to taper off, excess deposit growth is in the range of 3.3-4.2 percentage points.

The liquidity boost resulting from the demonetisation announcement on November 8, 2016 has stayed with the banking sector a year after the event, helping banks reduce their high-cost deposits and boosting their current account and savings account (CASA) ratio.

CASA is abbreviation of current Account Savings Account. It is the ratio which indicates how much of the total deposits with bank in the current account and savings account. In a simple language, the deposits with the bank are in the current account and savings account. Banks do not pay interest on the current account deposits and pays a very low% of interest on savings on account deposits. Hence, it is a good measures to get deposits at no or very low cost.

Thus influences of demonetization are:

• **Increase in Deposits:** Demonetization has increased the deposits in Banks. Unaccounted money in the form of Rs.500 and Rs.1000 were flowing to the Banks and the sizes of deposits have been increased. It helped the banks to grab the deposits and increase their deposits.

Bulk of the deposits so mobilised by SCBs have been deployed in: (i) reverse repos of various tenors with the RBI; and (ii) cash management bills (CMBs) issued under the Market Stabilisation Scheme (which is a part of investment in government securities in the balance sheet of banks). Loans and advances extended by banks increased by Rs.1,008 billion. The incremental credit deposit ratio for the period was only 18.2 per cent. Additional deposits mobilised by commercial banks have been largely deployed in liquid assets.

incremental credit deposit ratio for the period was only 18.2 per cent. Additional deposits mobilised by commercial banks have been largely deployed in liquid assets.

• **Fall in cost of Funds:** Over the past few months, the deposits are increased. It led the banks to keep a major part of deposits in the form of cash deposits. PSU Banks have a lion share (over 70%) of the deposits and biggest gainers of the rise in deposits, leading to lower cost of funds.
Surplus liquidity conditions have helped facilitate the transmission of monetary policy to market interest rates. Post demonetisation, several banks lowered their domestic term deposit rates and lending rates. The median term deposit rates of SCBs declined by 38 bps during November 2016-February 2017, while the weighted average term deposit rate of banks declined by 24 bps (up to January 2017). Combined with the sharp increase in low cost CASA deposits, the overall cost of borrowings declined, allowing banks to reduce their lending rates.

• **Demand for Government Bonds:** After sharp rise in deposits on post demonetization, banks started lending such surplus deposits to the RBI under the reverse repo options. PSU Banks, particularly, deployed excess funds in government bonds. The return on bond investment is likely to add 15 to 20 per cent increase in the earnings of banks.

• **Sagginess in Lending:** Lending growth of the banks is considerably less even after demonetization and its impact of growth in the amount of public deposit. Banks have tried to lend the money to the needy group by reducing their interest rates, but it shrunk over the last few months.

Opening of Jan Dhan Account

Post-demonetisation, 23.3 million new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY), bulk of which (80 per cent) were with public sector banks. Of the new Jan Dhan accounts opened, 53.6 per cent were in urban areas and 46.4 per cent in rural areas. Deposits under PMJDY accounts increased significantly post demonetisation. The total balance in PMJDY deposit accounts peaked at Rs. 746 billion as on December 7, 2016 from Rs. 456 billion as on November 9, 2016 - an increase of 63.6 per cent. As there were reports regarding the use of these accounts to convert black money into white, the Government issued a warning against the misuse of such accounts.

Push to Digital Banking

A cashless economy is one in the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer and Real Time Gross Settlement in India.

Benefits of Cashless economy

• Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
• Curb generation of black money.
• IT will reduce real estate prices because of curbs on black money.
• It will place universal availability of banking services to all as no physical infrastructure is needed other than digital.
• There will be greater efficiency in welfare programmes as money is wired directly into the

needed other than digital.

• There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients.

• Reduced cost of printing notes, instances of their soiled or becoming unusable, counterfeit currency.

• Reduced costs of operating ATMs.

• Speed and satisfaction of operations for customers as no delays and queues, no interactions with bank staff required.

Digital transaction platforms

• **UPI:** Unified Payment Interface (UPI) allows you to make payments using your mobile phone as the primary device for transactions, through the creation of a 'virtual payment address', which is an alias for your bank account. UPI was launched by the National Payment Corporation of India (NPCI).

• **BHIM App:** The Bharat Interface for Money (BHIM) in an initiative by the Govt to enable fast,secure and reliable cashless payments through mobile phones. BHIM is Aadhaar-enabled, inter- operable with other Unified Payment Interface (UPI) applications and bank accounts, and has been developed by the National Payments Corporation of India (NPCI). This seals the government's push towards digital payments after the demonetization that resulted in the scrapping of high-value Rs 1,000 and Rs 500 currency notes.

• **Aadhar Pay:** There are lots of payment apps in the market. These are the UPI apps, SBI Pay, Paytm, Phonepe, Freecharge, mobile wallets etc. But, the Adhaar Payment App is special as you can pay through the Adhaar Payment App without phone. It is possible because you the customer does not require the app. The merchant or a person, who want money, have to arrange a smartphone, app, etc. The payer don't require anything. This app is made for the merchants and shopkeepers. Customer would only enjoy its benefits. The Adhaar Payment Appuses your fingerprints for the authentication. On the basis of this authentication, the money ispaid from your Aadhaar linked account.

• **IMPS:** Immediate Payment Service (IMPS) is an instant interbank electronic fund transfer service through mobile phones. It is also being extended through other channels such as ATM, Internet Banking, etc.

• **POS terminals:** A point-of- sale (POS) terminal is a computerized replacement for a cash register. Much more complex than the cash registers of even just a few years ago, the POS system can include the ability to record and track customer orders, process credit and debit cards, connect to other systems in a network, and manage inventory. Generally, a POS terminal has as its core a personal computer, which is provided with application-specific programs and I/O devices for the particular environment in which it will serve.

• **USSD:** USSD (Unstructured Supplementary Service Data) is a Global System for Mobile(GSM) Communication technology that is used to send text between a mobile phone and an application program in the network. Applications may include prepaid roaming or mobile chatting.

Challenges of a cashless rural economy

• **Currency dominated economy:** High level of cash circulation in India. Cash in circulation amounts to around 13 per cent of India's GDP.

• **Transactions are mainly in cash:** Nearly 95 per cent of transactions take place in cash. Large amounts to around 13 per cent of India's GDP.

• **Transactions are mainly in cash:** Nearly 95 per cent of transactions take place in cash. Large size of informal/unorganized sector entities and workers prefer cash based transactions. They don't have required digital literacy.

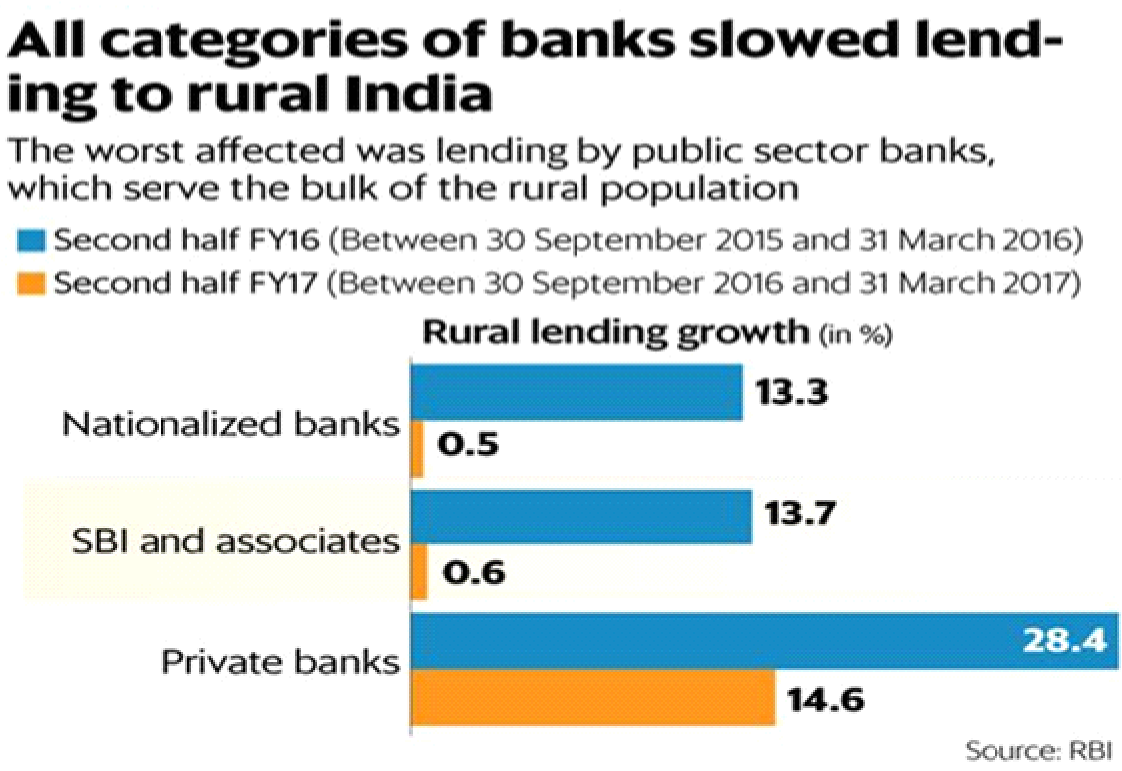
• **ATM use is mainly for cash withdrawals and not for settling online transactions:** There are large number of ATM cards including around 21 crore Rupaya cards. But nearly 92 per cent of ATM cards are used for cash withdrawals. Multiple holding of cards in urban and semi-urban areas show low rural penetration.

• **Limited availability of Point of Sale terminals:** According to RBI, there are 1.44 million PoS terminals installed by various banks across locations at the end of July 2016. But most of them remain in urban/ semi-urban areas.

• **Mobile internet penetration remains weak in rural India:** For settling transactions digitally, internet connection is needed. But in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale. This is being overcome by application BHIM (Bharat Interface for Money) launched by the Prime Minister which will work on USSD i.e without mobile internet.

Demonetization crippled rural bank lending

The note ban hurt rural India, loan growth was far below its pre-demonetisation levels. Indeed, in the second half of FY2017, bank lending to rural Haryana, Punjab, Goa, Maharashtra and Kerala contracted. Lending to rural Maharashtra fell by as much as 9.2%. Putting that in perspective, bank loans in the second half of FY16 to rural Haryana increased by 18% and to rural Punjab by 12.2%, while rural Maharashtra saw an increase in lending of 5.8%. Not a single state had showed a contraction in rural lending in the second half of FY16. In other words, the slowdown in rural lending in the second half of FY17 was very abnormal and may be attributed largely to demonetisation.



Source: RBI

The rural parts of western India bore the brunt, with credit growth falling by 5.1% in the second half of FY17. Rural northern India and metropolitan western India also saw very low credit growth.

Nationalized banks' credit growth was 2.7% in the FY17 second half, compared to 8.8% growth in second half FY16. SBI and its associates saw their credit growth fall to 7.8% in the second half of FY17 compared to 13.7% in the second half of the previous year. Private banks' credit growth was 10.1% in the second half of FY17 compared to 18.8% in the year-ago period. Clearly, every category of banks was affected.

The negative impacts are because of regulation, costs of demonetisation, loss of opportunity and short-term damage to economy.

• The 100% cash reserve requirement (CRR) on incremental deposits meant that banks did not earn any interest on Rs 3 lakhs crores of deposits for nearly a fortnight.
• The waiver of ATM charges would result in banks losing Rs 20 in every transaction.
• The waiver of merchant discount rate on cards would result in banks losing 1% in every card transaction.
• Banks use third parties like cash logistics companies for cash transportation. Moving out Rs 15 lakh crore of currency notes and moving in Rs 7 lakh crore plus from currency chests would have cost several thousand crore.
• As banks have been focused on exchanging currency notes, they have not been able to sell any loan products.
• Some SME businesses have seen their sales drop 50–80% and could default in their instalments. They won't immediately be classified as NPAs because of some relaxations, but if the delay persists bank NPAs might worsen.
• Uncertainty has resulted in drop in spending on high value items from credit cards. These are the transactions which are converted into EMIs and banks earn from them.

Demonetization has led to the increase in the use of plastic cards, online Banking, opening of new accounts, number of customers in the branches and the use of ATM.

DEMONETISATION AND ITS IMPACT ON MICROFINANCE SECTOR

Introduction

Microfinance Institutions (MFIs), irrespective of legal form, seek to promote financial inclusion by providing financial services to clients of financially un-served and under-served households. Over time, the microfinance sector has become an integral part of the financial infrastructure catering to the vulnerable sections of society in India. In the Indian microfinance industry NBFC-MFIs hold a significant share and are regulated by RBI. As on date, there are 71 NBFC-MFIs registered with the RBI.

Demonetisation and micro-finance sector

• In November 2016, the Indian government launched a huge demonetisation drive when they banned 500 and 1000 Rupees notes. In a country where 69% of the population lived in rural areas and 90% of the transactions are cash based, the move was paralysing.
• For the Micro Finance industry this came as a blow too. Most of the borrowers of the MFIs are based in rural areas; they borrow in cash and repay in cash. Typically, MFIs that have had a repayment rate of 99% have had a fall of upto 12% in repayment rates. For many MFIs the non-performing assets (NPA) have risen by 7-10%

are based in rural areas; they borrow in cash and repay in cash. Typically, MFIs that have had a repayment rate of 99% have had a fall of upto 12% in repayment rates. For many MFIs the non-performing assets (NPA) have risen by 7-10%.
• ICRA's estimates show that MFIs (including some erstwhile ones that have now become small finance banks) raised nearly Rs.5, 500 crore through the securitisation route in the first six months of FY17. However, they raised only around Rs.1,650 crore in the second-half of the fiscal, resulting in total securitisation volumes of around Rs.7,150 crore for the full year.
• In comparison, MFI securitisation volumes had increased by 80 per cent to around Rs.9,000 crore in FY16. Securitisation involves pooling of assets such as micro loans, and creation and issuance of securities backed by cash flows from the underlying assets.
• The dip in micro loan securitisation volumes is primarily due to the impact of the demonetisation event on the portfolio of most MFIs.

Negative impacts have been discussed below:

• Impact on collections:
a) Microfinance entities traditionally use cash in their lending and recovery operations. The installments on microfinance loans have weekly / fortnightly / monthly collections of small denominations. On account of non-availability of cash post demonetization, the borrowers were not in a position to service their loans which led to delay and drop in collection rates.
• Impact on lending:
a) Despite the efforts to increase cashless disbursement, majority of the disbursements were still cash based. Because of the withdrawal limits imposed on current accounts, MFIs were not able to withdraw cash for further disbursement and the incremental disbursements were restricted to the collections.
b) The main reason for this significant drop in disbursements was due to the focus of MFIs shifting from disbursements to collections and they also adopted a wait and watch approach in order to comprehend the position.
• Impacts on farmers:
a) Particularly farmers and SMEs that make up most of the customers are affected in a big way. The drying up of liquidity that the demonetisation drive has caused has affected cash dependent rural communities in a big way.
b) In Tamil Nadu, farmers-suicide due to debt issues is almost a daily occurrence. There have been several cases where farmers have had to borrow from local lenders at higher rates, to pay off the MFIs, as MFIs tend to be stricter on their debt collection dates.
• Interruption in economic activities in rural economy:
a) Inability in the repayment of dues and hence lack of new credit will hinder the business of small farmer and entrepreneurs. This have drastically affect the blossoming rural economy.
• Delay in loan repayment:
a) Repayment of loans to MFIs has dropped as it is unable to accept cash in older denominations from the poor people which has affected its ability to repay the banks. Banks would block the process of financial support to MFIs, which would lead to shutting down of many NBFC MFIs. This would also have an adverse impact on SMEs.
• Threat to existence of small MFIs:
a) Outstanding dues of these institutions will further hinder the availability of term loan from the lending institutions imposing a threat to their survival. Despite 60 days extension by RBI in due repayment, political interference is making the prospect of recovery less optimistic.
b) MFIs with high financial leverage and low collections efficiencies are expected to face deterioration in their credit profile.
Positive impacts have been discussed below:
• While these are certainly tragic incidents, there are various avenues the government and the MFIs have explored and continue to explore. One positive outcome of it all is that, the top 8 MFIs in India that hold about 40% of the market share, have now been provided the

• While these are certainly tragic incidents, there are various avenues the government and the MFIs have explored and continue to explore. One positive outcome of it all is that, the top 8 MFIs in India that hold about 40% of the market share, have now been provided the small finance bank licenses. This would mean they can have their own cash out points and the demonetisation drive is very likely to increase usage of their accounts.
• MFIs have also been lobbying with the Reserve Bank of India (RBI) to extend deadlines for the usage of the banned currency notes and farmers have had some special exemptions to this extent.
• RBI has also provided MFIs with a further 90 days extension before classifying loans as NPAs, if payments were due in November and December 2016.
• There have been some signs of recovery in certain parts of the country where repayments had fallen immediately after demonetisation.
• Due to demonetisation and the push for a cashless economy, awareness has been created regarding use of technology like e-wallets, PAytm, USSD, AEPS, etc which would drive the people towards financial inclusion.
• Though this demonetization has brought adverse impact on the rural economy, it should be taken a step to connect the rural people with the banking sector directly.
• More focus on opening accounts under PMJDY which would promote financial inclusion.
• This move is expected to 'break the ice' between marginalized, illiterate and ignorant rural people and banks and hence providing them to approach the main stream avenue of credit.
• MFIs are increasingly looking for cashless disbursement and collection through Jan-Dhan accounts and by leveraging technology. With 8 NBFC-MFIs converting into Small Finance Banks (SFBs) by March 2017, the competitive environment is bound to undergo a major shift within the microfinance industry as a whole. As these entities are expected to remain focused on microfinance, cashless disbursement and collection of loans is bound to increase in the future.
• Even though the collections are less, many MFIs are conducting center / group meetings to make borrowers aware of the impact on their credit profile due to default on repayment and the role credit bureaus. These meetings are also used to educate the borrowers to overcome any kind of slowdown in their business activities and to encourage banking habits in order to move towards non-cash based model.

Way Forward

According to a December, 2015 Reserve Bank of India report titled "**Report of the Committee on Medium-term Path on Financial Inclusion**", the number of branches per 1, 00,000 of population in rural and semi-urban areas is less than half of that in urban and metropolitan areas.
• The presence of ATMs is also very low in rural areas. However, NBFC-MFIs have a very strong reach in rural areas and semi-urban areas where banks have a considerably lower penetration.
• Therefore, with a view to mitigate the hardship and financial crunch currently being faced by NBFC-MFIs and the rural and semi-urban community, the government / RBI may consider the following:

1. Exchange of SBNs:

a. The Government may take advantage of the extensive infrastructure and reach that NBFC-MFIs have in rural and semi-urban areas by allowing them to be eligible to exchange SBNs against valid compliance documents and by putting in place other checks and balances.

2. Acceptance of SBNs:

a. NBFC-MFIs may be allowed to act as facilitators and collect repayment of loans from their customers through SBNs until December 30, 2016 while complying with all other control and KYC requirements stipulated by the RBI in this regard.
b. This would help reduce cases of unintentional defaults in loans and also ensure that the

customers through SBNs until December 30, 2016 while complying with all other control and KYC requirements stipulated by the RBI in this regard.
b. This would help reduce cases of unintentional defaults in loans and also ensure that the overall asset quality of the NBFC-MFI sector does not get eroded.
3. Enhance the withdrawal limits:
a. In order to provide necessary operational flexibility and at the same time being mindful of the growing business needs, the Government/ RBI may consider relaxing the daily / weekly withdrawal limits for companies involved in the micro-financing sector.

Conclusion

If MFIs, particularly the smaller MFIs, continue to experience worsening repayment rates and defaults, their sustainability is questionable. Bearing in mind the importance of microfinance for financial inclusion and livelihoods of a client-base of around 40 million, demonetisation has dealt a severe blow to the microfinance sector in more ways than one. It has considerably damaged the repayment behaviour and credit discipline that is central to the success of the microfinance model. Even if there is recovery in sight in the coming quarters, the report highlight the tremendous stress that the sector has borne following demonetisation.

DEMONETIZATION IMPACT ON DOMESTIC REMITTANCES

Domestic Remittance Market
The domestic remittance market is growing at a faster pace with the help of organised money transfer channels, mobile money transfer and business correspondents (BCs) of banks.

Nearly 100 million migrants have travelled to Tier-I cities in search of jobs. This results in the overall domestic remittance market growing at an average rate of 10.3 per cent during 2007-13.

Remittances from migrant workers contribute more than 50 per cent to the overall domestic remittances market.
Traditionally, a migrant worker can transfer money by visiting a post office, or depositing the money in bank branches, or handing over the money to friends/families who are travelling back home.

At present, migrant labours prefer to send money through instant money transfer products compared to the bank route, NEFT (National Electronic Funds Transfer), because of the efficiency and convenience the products offer. Through these channels, a migrant labour can make transactions at his convenience at an agent located near his home.
The Domestic Money Transfer is a service launched by the Reserve Bank of India. The RBI allows banks to create their own merchant outlets or enable their partner company's merchants to facilitate general public with money transfer service.
The service offers to transfer or deposit money in bank accounts by simply visiting the local mobile shop, kirana stores, and chemist outlets etc. These merchants are registered either with a master bank correspondent or prepaid instrument issuer company.
Customers can deposit or transfer Rs. 25000 in a month to their own or others accounts. This service is widely used by the migrants working in the metro cities and those who send money to their families and businesses on regular basis.
The service felicitates the customers and eases the banks in terms of managing their customers in the decentralized way and giving the liberty to perform transactions even after "bank timings".

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Benefits of Domestic Remittances

• Increased domestic remittances have a positive impact on the nation's economic growth.
• Domestic remittances also eliminate difficulties associated with credit rationing.
• These remittances finance needs for consumption or capital expenditures.
• On a macroeconomic level, raising the total capacity of financing of investments through domestic remittances will improve the local economic situation.
• Domestic remittances can also provide support in counter-cyclic conditions when when local market situations are not favourable.

Demonetisation and Domestic Remittance Market

On 8 November 2016, the Government of India announced the demonetisation of all Rs.500 and Rs.1,000 banknotes of the Mahatma Gandhi Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. The sudden nature of the announcement and the prolonged cash shortages in the weeks that followed created significant disruption throughout the economy, threatening economic output.
The Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016 was issued by the Government of India on 28 December 2016, ceasing the liability of the government for the banned bank notes.
This has impacted the firms associated with movement of domestic remittances.

Effects of demonetization on remittance business:

• Firms related to remittance movement have a Prepaid Payments Instruments (PPI) licence from the Reserve Bank of India (RBI) and act as business correspondents (BCs) for banks.
• They set up their "money transfer counters" in kirana stores, medical shops, and mobile recharge outlets.
• Their software platforms and logistics systems for cash collection facilitate domestic remittances that are paid in the form of cash by the remitter and deposited in the bank account of the beneficiary.
• Operating with relaxed KYC (know your customer) norms, they channelize small-value remittances with a limit of Rs.5,000 per transaction and a monthly cap of Rs.25,000 per remitter.
• Thus, these firms belong to an intermediate zone between the fully cash-based courier system and the entirely digital systems of a bank-to-bank transfer or a mobile-wallet transaction.
• Before demonetisation, Rs.4,000 crore per month was remitted through this channel. After demonetization, a big drop in the business numbers has been recognized across the country. The current trend shows a downfall of 60% of total business.
• Shortfall of valid currency notes in the market has stopped remittance transactions.
• RBIs instructions to the industry of not accepting the Old Currency Notes.
• There could be some regular people enjoying the service to convert their illegal money into white. After demonetization, it has been stopped.
• Businesses with cash transactions are almost stopped; people are not paying each others, not accepting payments.
• The number of "Wallet to bank transfer" transactions using multiple mobile apps has increased.
• Banks have started promoting UPI and other modes and mobilizing public to do fund

• The number of "Wallet to bank transfer" transactions using multiple mobile apps has increased.
• Banks have started promoting UPI and other modes and mobilizing public to do fund transfer using their mobiles.
• To enjoy the high session, some wallet companies have waived off the transaction changes on money transfer.
• "Switching" charges are officially waived off.

Conclusion

The failure of incomes in the informal sector to recover to the levels they would have reached without demonetisation appears to be an important factor for the weakness in the business correspondents (BC) remittances market. Steps need to be taken to reduce the impact of demonetization on remittance sector.

EMPLOYMENT AND DEMONETIZATION

Introduction
• The labour market in India has been witnessing numerous uncertainties including the problem of world recession, and growing 'automation' particularly in the manufacturing sector. Today major policy change like 'demonetization' is likely to make the employment scenario further volatile by causing uncertainties to rise in labour market.
• Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins.
• The opposite of demonetization is remonetisation, in which a form of payment is restored as legal tender.
• On 8th November 2016, the Government of India has announced the demonetization of all 500 and 1000 banknotes of Mahatma Gandhi Series.
• The move was taken to curb the menace of black money, fake notes and corruption by reducing the amount of cash available in the system.

Effect of Demonetization on Employment:

• The Centre for Monitoring Indian Economy has estimated that 1.5 million jobs were lost after demonetization. Alongside this loss of jobs, there has been a decline in the labour force participation rate (LPR).
• For a developing economy like India, a drop in labour participation rate is a sign of an economic slowdown.
• The All India Manufacturers' Organization (AIMO), which represents traders and small-, medium- and large-scale industries, conducted survey and has found a drop in employment of 60 per cent and loss in revenue of 55 after demonetization last year.

• Effect on Medium and large scale industries:

a) Medium and large scale industries engaged in infrastructure projects, such as big-ticket road construction, reported a 35% cut in employment and 45% revenue loss. The industries like foreign companies, engaged in export-oriented activities reported 30% job losses and 40% revenue fall.
b) In the manufacturing sector, medium and large scale industries reported the least job-losses are 5% and took a revenue hit of 20%.
c) It is further found that labour intensive units such as food and beverage, tobacco, textile, leather, wood and jewelry employ nearly half of the total workers in the organized

c) It is further found that labour intensive units such as food and beverage, tobacco, textile, leather, wood and jewelry employ nearly half of the total workers in the organized manufacturing sector of the economy. Given that nearly 84 percent of total factories have employment in the range of 0 to 99 are affected by the recent move of the government.

• Effect on Informal Sector:

a. The informal sector presently employs more than 80% of India's workforce. It includes workers in small and medium industries, grocers, barbers, maids and others.
b. More than 95% of total transactions in informal sector are in cash form. The decision of sudden 'demonetization' therefore led the labor market dynamics changed significantly by rendering millions of informal workers exposed to increased uncertainty in employment; they resorted to 'reverse migration'.
c. Within manufacturing, labour intensive sectors such as textiles, leather and gems and jewelry have already reported considerable job losses due to supply chain and market disruptions.
d. Demonetization is considered as a means of increasing formality in informal sector. But a 2009 OECD study on informal economies concluded that enforcing formality can be counterproductive and lead to an increase in poverty.
e. Many daily wage workers or contract workers were rendered jobless due to paucity of cash in the system. But even after re-monetization the number of new recruits has been reduced considerably as compared to pre demonetization.
f. The 2016-17 economic survey also point out the decrease in demand for MGNREGA work in the aftermath of demonetization.

• Effect on Agriculture:

a. Agriculture was expected to grow at 4% this year according to, but demonetization is likely to dent that forecast. The impact is visible in different sub-segments. Winter crops such as wheat, mustard, chickpeas are due for sowing in a fortnight. Wheat prices were already up due to low stocks and anticipated shortfall in 2015-16 output and have firmed up further as demonetization.
b. The vulnerability of the **small farmers** in agriculture is best exemplified by the predominance of marginal and small holdings in the country. Marginal and small holdings account for 85 per cent of the landholdings. Farmers failed to find buyers or due to dearth of cash ended up getting low prices.

• Effect on Self-Employment:

a. Most of the self-employed workers lose their employment during the months of cash crunch. They don't able to sell their products because of cash crunch and lack of digital transactions facilities.

Concerns:

• The drop in labour participation is in line with CMIE's observation that new investments have been falling. For a developing economy like India, a drop in labour participation rate is a sign of an economic slowdown.
• Unlike in developed countries where labour participation is falling because of structural (ageing) reasons, India is a growing economy with a young population.
• A slowdown hurts the younger new labour force. This is already evident. During January-April 2017, job losses were concentrated in the younger age brackets.

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Way Forward

The decline in the Labour Participation Ratio should be a matter of deep concern for the Indian economy. Persons may drop out of the labour force due to discouragement, the inability to find a job. In the meantime, they may take up part-time jobs to make ends meet or may be compelled to start a small business ("forced entrepreneurship") as a desperate move for their very survival.

A remedy for this dismal state of affairs will not be forthcoming until the government recognizes the reasons behind this phenomenon. Government should focus on ensuring growth, job creation and investment. The urgent need is to get the private sector to start investing. One way to avoid winds of deflation is to kick-start private investments.
There is a concerted attempt to improve ease of doing business, and technology is being used to deliver public services without leakages.

DEMONETISATION AND BLACK MONEY

Demonetization of the notes of higher denomination has also been one of the recent step of the Government to unearth black-money.

Demonetisation is a radical monetary step in which a currency unit is declared as an invalid legal tender. This is usually done whenever there is a change in the national currency of a nation.

On November 8, 2016 Prime Minister announced that Rs 500 and Rs 1000 denomination notes will become invalid and all notes in lower denomination of Rs 100, Rs 50, Rs 20, Rs 10, Rs 5, Rs 2 and Re 1 and all coins will continue to be a valid legal tender.

He also added that new notes of Rs 2,000 and Rs 500 will be introduced. There was also no change effected in any other form of currency exchange like cheque, Demand draft (DD), payments made through credit cards and debit cards.

Why the government has banned Rs 500 and Rs 1000 notes particularly?

• Some 68% of all transactions in the country are cash-based, and the Reserve Bank of India has estimated that the banned currency notes formed over 86% of all currency in circulation.

• As per the data provided by the RBI, there are 16.5 billion (45% of currency stock in 2014-15) '500 rupee' note and 6.7 billion (39% of currency stock in 2014-15) '1000 rupee' notes are in circulation at present. It has been pointed out that any economic cost in printing these notes is likely to outweigh in terms of benefit it would bring to India and Indian economy.

• In India, the rationale behind banning Rs 500 and Rs 1000 notes is that unaccounted money used in corruption or any deals takes place in the form of high-value notes of Rs 500 and Rs 1000 bills. These higher denomination notes are often found to be used for funding terrorism and corruption.

• The Financial Action Task Force (FATF), a global body that monitors the criminal use of the international financial system has observed that high-value currency units are often used in

• The Financial Action Task Force (FATF), a global body that monitors the criminal use of the international financial system has observed that high-value currency units are often used in money laundering schemes, racketeering, and drug and people trafficking.

• In addition, these notes constitute a huge percentage of money spent during general elections by political parties, candidates in India.

Impact of demonetisation on black money

• **Better tax compliance:** This move is likely to lead to better tax compliance, raise the Tax to GDP ratio and improved tax collection. This could lead to lower borrowing and better fiscal management. Also with lower cash transactions in the near term, inflation may see downtrend in the near term. Also with higher tax to GDP ratio, the government may also get enough headroom to reduce the income tax rates, which can lead to higher disposable income with people and can improve consumption demand in the medium to long term.

• **Real Estate Check:** Demonetisation is seen as a check on the real estate sector where prices get pushed up artificially, reducing the availability of affordable housing for the poor and the middle class. Claiming that removal of high denomination currency notes of Rs 1,000 and Rs 500 would lead to decline in real estate prices making affordable housing available to all.
At present, there is excessive use of cash in real estate sector due to large cash transactions in areas such as purchase of land and housing property. The real estate prices get pushed up artificially. This reduces the availability of affordable housing for the poor and middle class. So now, greater over-the-board transaction will lead to a decline in real estate prices making affordable housing available to all.

• **Parallel economy burst:** The move is expected to curb the parallel economy as the owners of black money will not be in a position to deposit the money with them in the banks. It is likely to temporarily stall the circulation of large volume of counterfeit currency and prevent funding for anti-social activities like smuggling, terrorism, espionage etc.
The Income Tax department will be benefited with the move, as there will be more specific data gathered in the process which could help in catching the defaulters.

• **Check Terror Funding:** It will put a stop to the neighbouring countries drug cartels and terrorists of supplying high value currency into India.

• **Check Fake notes:** The move will also reduce the flow of fake currency in Indian markets as data shows that most of the counterfeit currency in circulation exists in high-denomination notes of Rs 500 and Rs 1000.
According to the Reserve Bank of India's annual report published this year, more than 2.61 lakh counterfeit notes in the denomination of Rs 500 were detected by banks in the year 2015-2016 while another 1.43 lakh fake notes of Rs 1000 were detected. By value, counterfeit notes of Rs 500 and Rs 1000 accounted for more than 92% of all the fake currency detected by banks across the country.

• **SOFT MONEY surge – Online transactions and other modes of payment:** There is a massive surge in the online transactions and other modes of payment. E-wallets, digital transaction systems, e-banking, usage of plastic money are expected to see increase in demand. Eventually this should lead to strengthening of these systems and the concerned infrastructure.

Under the cash crunch situation in Banks, the role played by Automated Teller Machines infrastructure.

Under the cash crunch situation in Banks, the role played by Automated Teller Machines (ATMs) in dispensing cash is hugely important and their success in disbursing the cash effectively is, to a great extent, going to decide the fate of the demonetisation scheme. With the demonetisation move resulting in a drop in donations, some of the famous temples in Gujarat have started introducing e-wallets, ATMs with deposit facility and swipe machines to accept cashless donations.

Recent data

Number of Suspicious Transaction Reports filed by banks during 2016-17 has gone up from 61,361 in 2015-16 to 3,61,214; the increase during the same period for Financial Institutions is from 40,333 to 94,836 and for intermediaries registered with SEBI the increase is from 4,579 to 16,953.

Based on big data analytics, cash seizure by Income Tax Department has more than doubled in 2016-17 when compared to 2015-16; during search and seizure by the Department Rs.15,497 crore of undisclosed income has been admitted which is 38% higher than the undisclosed amount admitted during 2015-16; and undisclosed income detected during surveys in 2016-17 is Rs.13,716 crore which is 41% higher than the detection made in 2015-16.

Undisclosed income admitted and undisclosed income detected taken together amounts to Rs.29,213 crore; which is close to 18% of the amount involved in suspicious transactions. This process will gain momentum under "Operation Clean Money" launched on January 31, 2017.

The exercise to remove the anonymity with currency has further yielded results in the form of
• 56 lakh new individual tax payers filing their returns till August 5, 2017 which was the last date for filing return for this category; last year this number was about 22 lakh;
• Self-Assessment Tax (voluntary payment by tax payers at the time of filing return) paid by non-corporate tax payers increasing by 34.25% during April 1 to August 5 in 2017 when compared to the same period in 2016.

With increase in tax base and bringing back undisclosed income into the formal economy, the amount of Advance Tax paid by non-corporate tax payers during the current year has also increased by about 42% during 1st April to 5th August.

Further actions were taken under the law to stop operation of bank accounts of these struck off companies. Actions are also being taken for freezing their bank accounts and debarring their directors from being on board of any company. In the initial analysis of bank accounts of such companies following information has come out which are worth mentioning:

• Of 2.97 lakh struck off companies, information pertaining to 28,088 companies involving 49,910 bank accounts show that these companies have deposited and withdrawn Rs.10,200 crore from 9th November 2016 till the date of strike off from RoC;

• Many of these companies are found to have more than 100 bank accounts – one company even reaching a figure of 2,134 accounts;
Simultaneously, Income Tax Department has taken action against more than 1150 shell companies which were used as conduits by over 22,000 beneficiaries to launder more than Rs.13,300 crore.

Simultaneously, Income Tax Department has taken action against more than 1150 shell companies which were used as conduits by over 22,000 beneficiaries to launder more than Rs.13,300 crore.

Post demonetization, SEBI has introduced a Graded Surveillance Measure in stock exchanges. This measure has been introduced in over 800 securities by the exchanges.
Inactive and suspended companies many a time are used as harbours of manipulative minds. In order to ensure that such suspicious companies do not languish in the exchanges, over 450 such companies have been delisted and demat accounts of their promoters have been frozen; they have also been barred to be directors of listed companies. Around 800 companies listed on erstwhile regional exchanges are not traceable and a process has been initiated to declare them as vanishing companies. Demonetization appears to have led to acceleration in the financialisation of savings.

Criticisms

The decision to demonetize Rs 500 and Rs 1000 notes is misconceived and will not address the problem of black money for the following reasons:

• Demonetisation will only affect those who conduct transactions in cash, are not a part of the formal banking system or have not converted their cash into assets.

• Black money is generated through evasion of taxes on income from lawful activities and money generated from illegal activities. In the absence of steps to curb the generation of black money, demonetization is a futile exercise, as it proved to be in 1978.

• As per the Indian Statistical Institute, Kolkata study done on behalf of the National Investigation Agency (NIA), Rs 400 crores worth of fake currency is in circulation in the Indian economy. This is only .028% of Rs 14,180 billion worth currency demonetised in Rs 500 and Rs 1000 notes.

• Two of the most vulnerable sectors that have traditionally been exploited for parking crime proceeds and black money is the property, and gems and jewellery market. These sectors have also been used for the temporary investment of terror funds. Unless transactions are made transparent and reflect real market value, black money and terror funds will continue to find their way into these businesses.

• FICN can potentially be reintroduced into India after a break by Pakistan. In order to sustain action, the following are suggested:
a. Enhance detection measures at public sector banks which have lagged behind some of the private banks over the years.

b. Establish a forensic cell which monitors each case of counterfeit currency to better understand the technology being applied to counterfeit notes. This must contribute to future measures to enhance security against counterfeiting.

c. The involvement of Pakistan established through a Special Court judgement in 2014 should be built upon to enhance international diplomatic pressure.

Conclusion

Demonetization provides an opportunity to encourage a shift to a digital economy. This is an essential requirement to not only reduce corruption but also create an electronic trail for

Demonetization provides an opportunity to encourage a shift to a digital economy. This is an essential requirement to not only reduce corruption but also create an electronic trail for transactions. This will help bring transparency into the financial transactions of individuals and organizations thereby constraining corruption, criminal proceeds, money laundering and the finance of terrorism, which are all linked given the common channels employed for transferring funds. While demonetization is likely to encourage it, incentives by the government for payment of bills can further encourage people to take up plastic and e-money options. This is also likely to be enhanced by the forces of market economy which are already offering money back options.

Demonetisation is an important step in the fight against the finance of terrorism. However, it should neither be the first nor the last, if the interlinked threats of corruption, crime and the finance of terrorism have to be controlled. These must also not be addressed simply within departmental and ministerial silos. Instead, an all-of government approach is imperative if each of these challenges is to be met.

RATIONALE ANALYSIS OF DEMONETISATION

Economic growth slowed to 5.7 per cent in the first quarter of 2017-18 against 6.1 per cent in the preceding quarter. This was sharply below market expectations and came on the back of large-scale destocking undertaken by manufacturers ahead of the Goods and Services Tax rollout and the lingering impact of demonetization.

What does the latest data by CSO reveals?

The GDP recorded a growth of 7.9 per cent in April-June quarter last year. The April-June growth estimate, the lowest in at least five quarters, trended down on account of a sharp deceleration in manufacturing growth.

Trade, hotel, transport, communication and services related to broadcasting" witnessed a pickup by growing 11.1 per cent in April-June from 8.9 per cent last year, while growth in "public administration, defence and other services" (in Gross Value Added terms) was clocked at 9.5 per cent in April-June as against 8.6 per cent last year.

The Gross Value Added or GVA growth, which serves as a more closely watched estimate for quarterly growth, remained unchanged from the previous quarter at 5.6 per cent in April-June but fell sharply from the 7.6 per cent growth recorded in the April-June quarter last year.

Only three of eight sectors showed a pickup in GVA growth in April-June. Construction and financial services sectors recorded a slowdown with the GVA for "financial, insurance, real estate and professional services" sector growing at 6.4 per cent, down from 9.4 per cent last year.

GVA growth for the construction sector declined to 2.0 per cent in April-June from 3.1 per cent last year. GVA growth for "agricultural, forestry and fishing" declined marginally to 2.3 per cent from 2.5 per cent in the corresponding period last year, data showed.

Government view on demonetization

Finance Minister said that the demonetisation exercise had ended the "anonymity" around the money and identified it with its owner, enabling the government to bring it into the tax

Finance Minister said that the demonetisation exercise had ended the “anonymity” around the money and identified it with its owner, enabling the government to bring it into the tax net.

The RBI Annual Report reveals that almost all demonetised notes have been returned to the central bank.

According to statement demonetisation has not completely eradicated black money but kept a check on a large part of it. The result of demonetisation has been that more and more people will now be compelled to come into the tax net, a fact evident from both direct and indirect tax numbers.

What are some arguments which prove failure of demonitisation to remove Black Money?

Demonetisation carried out on the incorrect premise that black money means cash. It was thought that if cash was squeezed out, the black economy would be eliminated. But cash is only one component of black wealth: about 1% of it. It has now been confirmed that 98.8% of demonetised currency has come back to the Reserve Bank of India. Further, of the Rs.16,000 crore that is still out, most of it is accounted for. In brief, not even 0.01% of black money has been extinguished.

Black money is a result of black income generation. This is produced by various means which are not affected by the one-shot squeezing out of cash. Any black cash squeezed out by demonetisation would then quickly get regenerated. So, there is little impact of demonetisation on the black economy, on either wealth or incomes.

The government now argues that it is good that black money has been deposited in the banks because those depositing it can now be caught. But the government had tried to prevent people from depositing demonetized currency by changing rules during the 50-day period.

The government changed the goalpost earlier in November 2016 when it suggested that the real aim of demonetisation was a cashless society. Now it says that idle money has come into the system, the cash-to-GDP ratio will decline, the tax base will expand, and so on. But none of these required demonetisation and could and should have been implemented independently. Further, anticipating the failure of demonetisation in 2016 itself, the government started saying that demonetisation is only one of the many steps to tackle the black economy.

The government’s argument that cash coming back to the banks will enable it to catch the generators of black income, and there will be formalisation of the economy, does not hold. Much of the cash in the system is held by the tens of millions of businesses as working capital and by the more than 25 crore households that need it for their day-to-day transactions.

The big failure of demonetisation is that it was carried out without preparation and caused big losses to the unorganised sector.

Why there was a need for a Cost Benefit Analysis Of Demonetisation?

The RBI Annual Report reveals that almost all demonetised notes have been returned to the central bank. This number does not include the old notes with District Central Cooperative Banks for the short window when they were of demonetisationallowed to accept deposits. It

The RBI Annual Report reveals that almost all demonetised notes have been returned to the central bank. This number does not include the old notes with District Central Cooperative Banks for the short window when they were of demonetisationallowed to accept deposits. It also does not include the notes within Nepal. The shortfall of Rs 16,050 crore between the notes in circulation when the notes were demonetised and those that were returned, could therefore also be made up once these notes are returned to the RBI.

There is no doubt that those with holdings of unaccounted cash lost some of their wealth in the process of laundering it. To some extent, taxes were paid on it in the process of legitimising it. But in addition to that, illicit wealth was redistributed from black money holders to money launderers. Whether the money launderer was a company owner, a bank employee or a Jan Dhan account holder, there was now a new breed of criminals with wealth obtained from illegal means. The total reduction in black money was therefore much smaller than what might have been envisaged.

International evidence suggests that few countries address the problem of black money by demonetising their currencies. If the problem is large-scale crime, corruption, bribery, bureaucrat-politician nexus, rent seeking, tax evasion etc. the answer lies in reforming the criminal justice system, law and order, administrative reforms, bringing transparency in the functioning of the state and rationalisation and simplification of the tax system. In this context, the GST will be a far more effective mechanism to bring down tax evasion in indirect taxes considering the greater incentive for compliance that its design holds.

• Demonetisation had provided an opportunity to encourage a shift to a digital economy. This will help bring transparency into the financial transactions of individuals and organisations thereby constraining corruption, criminal proceeds, money laundering and the finance of terrorism, which are all linked given the common channels employed for transferring funds. While demonetisation is likely to encourage it, incentives by the government for payment of bills can further encourage people to take up plastic and e-money options. This is also likely to be enhanced by the forces of market economy which are already offering money back options.

Planning

10 November 2020 16:25

Post liberalisation

- [x] From central Planning to indicative planning
- [x] Relation between planning and markets for growth and
- [x] decentralized planning : 73rd and 74th Constitutional amendments.

GS3

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

Indicative Planning

09 February 2021 20:15

Planning

- Eisenhower: 'Plans are useless but planning is indispensable'
- Consciously directed activity with predetermined goals and predetermined means to carry them out
- 2 elements
  - Goals
  - Means
    - Policies - describe outlines of actions for fulfilment of plan goals
    - Instruments - quantitatively and qualitatively defined means of action; viz. Taxes, subsidies, wages, interest rates

Rationale

- Market failure, limitations of market mechanism
  - Failure to attain Pareto optimality
- Need for social justice
- Resource mobilisation and allocation more rational in planned economic system

DR Gadgil

- Refuted Laissez Faire
- Planning for economic development is undertaken presumably because the pace/ direction of development in absence of external intervention is not considered satisfactory

Features

- Indicative planning - mixed economy
- Physical planning
  - Allocation of resources in terms of men, material and power
  - Vis-a-vis financial planning -- allocation of financial resources
  - PC Mahalanobis, Pitambar Pant
- Social planning
  - community and government groups and organizations working together in collaboration to address critical social issues facing a community.
  - Aka community development/ community social planning

Functions

- Allocative
- Distributive
- Stabilisation

Objectives

- Economic growth
- Self reliance and self sufficiency
- Removal of unemployment
- Reduction in income inequalities
- Elimination of poverty
- Modernisation
- Inclusiveness and sustainability of growth

Mahbub ul-Haq

- We were taught to take care of our GNP, as this would take care of poverty. Let us reverse this and take care of poverty as this will take care of GNP.

Types

Democratic planning

- Planning by inducements
- Elements of material incentives -- associated with the market
- Not legally binding
- Merits
  - Reduction in imbalance -- extent of surpluses and shortages due to market forces
  - Flexibility -- possible to make adjustments in planning to incorporate changes in resources, tech, taste, etc
  - Product differentiation possible; avoids standardisation
- Demerits
  - Slow and uncertain
  - Applicable only in certain situations, in certain small tasks

Totalitarian planning

- Planning by direction
- Fulfilment of plan targets through orders and instructions

- -- production figures, fixed quotas, price controls, etc
- Merits
  - Precision and accuracy
  - Strategic implementation
- Demerits
  - Could lead to imbalances as multitude of forward and backward linkages can't always be effectively coordinated
  - Inflexible
  - Standardisation
  - Bureaucracy

Imperative planning
- Aka directive planning
- Plans what is desirable + ensures economy shaped acc to plan requirements
- Implementation is provided for along with its formulation
- Approaches
  - **Command** system
  - **Price** system - integrated price system

Imp < Comm, Price

Indicative planning
- Mixed economy, with a well thought out policy framework for monitoring and regulating the private sector
- Concerned with inducing what is desirable
- Expects economy to conform
- 3 approaches
  - **Forecasting** approach - agents provided w/ info -- forecasts/ projections to aid decision making
  - **Policy** approach - use monetary, fiscal policies to coordinate activities of govt, achievement of targets set for the whole economy
  - **Corporate** approach - envisages coordination at all levels

Indi ← Forecast, Policy, Corporate

Indicative Planning - Montek Singh Ahluwalia

Previous Approach
- Planning required not just for distributive goals, but also high rates of growth
- Capitalism on its own doesn't lead to growth -- individual entreprenuers do not have complete info
- Need for socialist style development via 'national planning coordination organisation'
- Approach
  - objectives specified as detailed sector wise output targets → Command approach of imperative planning
  - Models to match supply-demand
  - Imports heavily regulated
- High cost, low quality domestic production structure
- Extensive corruption associated with highly complex, discretionary import control system
- Inefficiency - bureaucratic decision making, multiple levels of accountability, deterred risk taking
- Failed to achieve moderate targets of 5% growth in early FYPs
- Hindu Rate of Growth - 3.5% - between 1960-80
- 1980s - followed East Asian example - gradual liberalisation - greater role of market; no dismantling only selective relaxation of existing fw of controls

Post 1991
- Greater liberalisation
- Gradual move to indicative planning
  - Defining broad national goals
  - Outlining broad steps to achieve these
- Examine broad areas of feasibility
  - Levels of domestic savings, investments
  - Financial structure
  - Investment climate
  - Nature of human and technological development
- Also tries to anticipate challenges arising from broad goals
  - Tackling rapid urbanisation that accompanies rapid gr
  - Resource generation for critical infra not provided by private sector
- No explicit controls; govt encourages flow of private sector investment in certain directions
  - Softer policy instruments -- access to easier credit, infra provision
- Policies developed through interaction with many stakeholders
  - Inter-ministerial interaction, rather than behemoth planning commission

NITI Aayog vs Planning Commission
- PC hiring - PM's discretion, no fixed criteria; NITI hiring focused on economic knowledge
- Issues w/ PC
  - Lack of accountability
  - Hijacking role of other central bodies like FC
  - Lack of specialisation
  - Roadblock in Federalism
  - Futility in modern economy

  - Hijacking role of other central bodies like FC
  - Lack of specialisation
  - Roadblock in Federalism
  - Futility in modern economy
  - Manmohan Singh - 'PC has outlived its utility and lost its relevance'
- NITI Aayog doesn't formulate central plans (Executive fn of PC taken away)
  - Govt as enabler rather than player
  - Minimum Government, Maximum Governance
- Responsible for monitoring, evaluating (Retained)
- No more lobbying by PC against slashing of plan expenditure by FinMin
- Abolition of distinction b/w plan and non-plan expenditure
- ? Unplanned schemes? → lack of coherence/ consistency ∵ NOT part of plan?
- Top down to bottom up approach
- Governing council - all CM + LG
- Objectives of NITI
  - Promotion of cooperative, competitive federalism
  - Assist centre in policymaking
  - serving as think tank for govt
- 2 hubs
  - Knowledge & Innovation Hub
  - Team India Hub
    - Samavesh - hub and spoke model to partner with knowledge & research institutions
- PC: FYPs
- NITI: 3 year Action Plan, 7 year Strategy, 15 year Vision -- only directive documents
  - More aligned with FC recommendations
  - Lays down goals and roles that each insti should play in attaining stated goals
  - Non-binding on govt, as doesn't need to be improved
- NITI encourages federalism and decentralisation (acc to 74th CAA)
- PC: micromanaging states, when focus should've been on perspective planning
- NITI only gives 'recommendations,' final decision on allocations rest with FinMin
  - Encourages accountability -- answerable in parliament
- Initiatives
  - NITI Lectures: Transforming India
  - Published State Forward - A compendium of Best Practices from Our States
  - Output-outcome framework, in collab with 68 ministries
  - National Conference on Good Practices in Social Sector Service Delivery
  - Separate topic on 'Data Management and Analysis' in the Annual Report 2016-17

Plan vs Non Plan expenditure
- Removed distinction in 12th FYP (2017)
  - Recommended by 2nd ARC, Rangarajan committee
- Advantages of removing distinction
  - Easier to link budgetary outlays to outcomes. Allocation to one project as a unit, outcome can be measured
  - Taboo that non-plan expenditure is unproductive leads to essential non-plan expenditure to suffer
    - Creation of govt posts, maintenance of road
    - Contractual govt staff under plan expenditure -- boosted at cost of permanent staff (!)
  - Projects not completed in time put under non-plan and neglected
  - International precedence: differentiation b/w revenue and capital, rather than plan vs non-plan

Strategy of Planning

- Harrod Domar Strategy
  - 1st FYP
  - Emphasised dual character of capital accumulation
    - Dd side role: increases national income
    - Ss side role: increases production capacity
  - Rate of economic growth depends on level of savings(s) and capital output ratio (k)
    - Rate = s/k
- Nehru Mahalanobis Strategy
  - 2 sector model - consumer goods sector and capital goods sector
  - Later expanded to 4 sector model; with subdivisions in consumer goods sector
  - Objective: become self reliant, overcome capital constraints
  - Emphasis: invest in heavy industry for rapid dvpment
  - 2nd FYP to 5th FYP, with modifications
  - Larger role for public sector
    - Private sector not mature enough to undertake the responsibility
    - Opening industries to private sector could lead to concentration of wealth in private hands
- LPG strategy
  - Move towards indicative planning
  - Planning thru inducement rather than imperative
  - End of license permit raj, opening of reserved sectors to private sector
  - Allowed FDI

- Export promotion policy to boost economic growth

FYPs

Abhijeet's notes

- 1st FYP (1951-56)
  - Main architect: KN Raj
  - highest priority to food crisis
  - Target: savings -
    - HD model - $\delta I / I = \delta Y / Y$ = Savings Rate x Marginal Efficiency of Capital
    - Marginal Efficiency of Capital = $\delta Y / \delta I$
    - Assumes investment led GDP growth
    - SR target: 5%; make it to 20% by 1967 (end of 3rd plan), maintain it till 1975
    - This would've helped achieve 5% GDP growth rate
  - Philosophy
    - Cause of backwardness - lack of capital accumulation, not lack of demand -- focus on I (Investment) Investment.
    - Lack of K Acc - b'cos lack of savings
    - Structural problems inhibiting savings to be invested
    - Agri is subject to DRS, industry is not; => ind can absorb surplus labour
    - __ more in abhijeet's notes
  - Main focus: agri, irrigation, power;
  - Achieved growth rate of 3.6% -- more than target
- 2nd and 3rd FYP (1956-61, 61-66)
  - Mahalanobis strategy
  - Self reliance in 3rd FYP
  - 6 pillars of NMP
    - High savings rate
    - Heavy industry bias
    - Protections policies
    - Public sector
    - Import substitution
    - Socialistic pattern of society
  - Based on Lewis, Nurkse's models
  - ? 3rd FYP -- Sukhamoy Chakraborty & John Sandy Model
    - For the 1st time, 'development of agri' was specifically incorporated as an objective of planning
    - Failed utterly - 2 wars, drought led famines
- 3 yr plan holiday - rolling plans (1966-69)
  - Equal priority to agri, allied sectors and industry
- 4th FYP (1969-74)
  - Ashok Rudra and Alon Manney Model
  - 2 main objectives
    - Growth with stability
    - Progressive achievement of self reliance
  - Removal of poverty
  - Growth with justice
- 5th & 6th FYP (1974-79, 80-85)
  - Removal of poverty
  - Self reliance
  - 5th FYP - Gandhian Model
- 7th FYP (1985-90)
  - ADLG Strategy -- Export Agricultural Development led Growth Strategy
  - Strong domestic linkages of agri with industry; both dd & ss side
  - High domestic multipliers for agri output
  - High rate of return to agri investment
  - Less import intensive investment in agri than industry
  - Uplifted rural population
- 8th FYP (1992-97)
  - New Economic Policy
  - Macroeconomic stabilisation
  - Structural adjustment programme
- 9th FYP (1997-02)
  - ELG strategy
- 10th FYP (2002-07)
  - Self employment
  - Resources and development
- 11th FYP (2007-12)
  - Comprehensive, faster, inclusive growth
- 12th FYP (2012-17)
  - Faster, sustainable and more inclusive growth
  - Dimensions of inclusiveness
    - Poverty reduction
    - Group equality -- for SC, ST, OBCs, etc
    - Regional balance

        - ~~Regional balance~~
        - Income inequality
        - Empowerment -- accountability, people's participation

Accomplishments of Indian Planning

- Initiation of process of growth
    - Avg 4.7% since 1951
- Development of infra
    - Railways
    - Irrigation potential - 1.5% in 1946 to 45% () still less than 50%
        - amount of area that can be irrigated in all seasons; associated w/ dams etc infra projects
    - Power generation - 2GW in 1951 to 328 GW (2015)
- Development of basic and capital goods industries
    - Mahalanobis strategy
        - Industrial machinery and machine tools
        - Electrical engg
        - Iron and steel industries
    - Private entreprenuers
        - No participation due to long gestation period
- Agrarian reforms and green revolution
    - Achieved self sufficiency in food
- Growth of the public sector
    - ~40% of investments during plan period made in public sector
    - Distinguished role of financial PSUs in financial inclusion, mobilisation of savings for investment

Critical Analysis

- Lacked a policy framework
    - DR Gadgil
    - Aggregate behaviour as a laissez faire economy
    - Total neglect of human resources
- Absence of financial strategy
    - Reliance on physical planning
    - Assumed - what is physically possible is financially possible too
    - Forced to depend more and more on deficit financing
- Misplaced faith in investment
    - Primacy to rate of investment (eg Harrod model, etc)
    - Ignore skill, techniques, etc
    - Extensive (former) vs intensive (latter) growth
- Flaws in industrial strategy
    - SL Shetty - 1960-70 marked with structural retrogression
    - How?
        - Rapid growth of consumer goods industries
        - Catered to demands of richer section
        - Slower growth rate of basic and capital goods
        - => industrial deceleration
        - => delayed benefits, cost overruns in PSUs
- Neglect of employment strategy
    - Flawed assumption that production and employment are directly, uniquely related
    - Employment elasticity estimates show considerable decline
        - 0.52 during 1972-73 to 83
        - 0.29 1993-94 to 2004-05
        - 0.04 2004-05 to 2011-12
- Neglect of social justice
    - Failure of trickle down effect
    - 55.3% of Indian population suffers from Multi dimensional poverty
- Implementation failure
    - Prof Sukhamoy Chakraborty
    - 3 areas of lacking in planning authorities
        - D - data constraints, inefficiency in collection, precision
        - T - time lags in response - underlying situation changes in the meanwhile
        - C - little to no capacity in implementing agencies

Mahalanobis Model

Main emphasis on industrialisation (backdrop:)

- Unbalanced, industrially backward
- Productivity of labour highest in manufacturing industries
- Excessive pressure of population on land

Basic features

- Develop sound base for initiating 'long term growth'
- '**Big Push**' strategy (Rodan)
- High priority to industrialisation
    - India industrially backward
    - Productivity of labour highest in manufacturing
    - Excessive population pressure on land -> surplus labour -> other sectors
- Emphasis on development of capital goods industries
    - Reqd for accelerating pace of economic development
- Strategy of unbalanced growth
- Import substitution
    - Low risk as market exists
    - ~~Easier to impose tariffs~~
    - Tariff factories by foreigners = domestic prodn to avoid paying tariffs
    - Multiplier and accelerator processes
    - ToT improves, BoP rises => saves forex
    - Infant industry argument

Challenges

- Scarcity of essential commodities as massive resources diverted to capital goods industries
- Raising level of savings
    - Only 9% in that period
    - Low capital formation
    - 2 policy decisions
        - Surplus from development projects to be utilised for investment
        - Foreign capital to meet deficiency if needed
- BoP problem due to heavy imports
    - Led to long term foreign borrowing as development strategy
    - Limited export promotion efforts

Critical analysis

- ? Misusing the role of wage goods as capital
    - Vakil Brahmananda Model
    - Concealed saving potential existing as disguised unemployment could be realised
- Pre-occupation with self sufficiency
    - **IG Patel** - ELG strategy can serve the same purpose as growth in capital goods industries; yet ELG possibility not recognised
- Ignored current consumption needs -
    - eg agri: PL480 imports for meeting foodgrain requirements
- Trickle down effect didn't work
    - Had planned capital goods industries would aid other sectors; didn't happen
- Failure of Import substitution strategy
    - BoP worsened
    - Sluggish domestic growth
    - ICOR increased
    - ? Negative value added
- **GS Bhalla** - poor shape of economy due to low growth rate, lack of diversification, concentration of economic power
- **Mahbub ul-Haq** - people could not eat tractors.

Consequences/ failures

- Agriculture growth slowed down
- Employment issues
- Large trade deficits
- Net savings rate slumped
- Inflationary situation developed --~8.6% p.a.
- Plan holiday of 3 years

Self Sufficiency vs Self Reliance debate

- Self sufficiency
    - Country need not depend on other sources to fulfil needs of citizens and enterprises
    - Country **produces** all goods and services it requires without depending on others
- Self reliance
    - Country generates sufficient surplus to **buy** what it needs
    - Doesn't have to bank upon the loans and aid of foreign nations/ organisations
    - Allows import, provided it has capacity to pay for it

Considers **4 sector model** of economy

- Investment goods sector (K)
- Factory produced consumer goods sector (C1)
- Small household produced consumer goods sector (C2)
- Services producing sector (C3)

3 parameters
Also, own notes
anurag's notes

Planning & Markets for Growth

09 February 2021 20:15

Market and State

- Move towards indicative planning post 1991 not dismantling of planning, but recognition that good planning involves putting in place policies that enable economy to perform to its full potential
- Does NOT imply reliance on markets takes care of all objectives
  - Can't take care of distributional objective
  - Doesn't take care of market failures - warrant corrective action
- Still need suitable designed govt intervention at multiple levels

CH Hanumantha Rao
- "Capitalism has thus done a lot of introspection and has learnt a great deal from the socialist experiment."
- "Capitalism has been affected and modified more by the socialist experiment that socialism has learnt from the functioning of the market economies."

Pulin B Nayak
- The real issue is not whether to have market or the state. This is an empty dichotomy and no serious school of political economy would today credibly argue for only one or the other. The question is one of striking the right balance.

Causes of Govt Failure
- Political self interest
  - Populist measures
  - Misallocation of scarce resources
- Policy myopia
  - CN Vakil criticised patchwork policymaking
  - Quick fixes, ad-hoc approach, band aid measures
  - Eg. Farm loan waivers to fix agrarian crisis
  - ? 2021 - potential collapse of MFI (Micro Finance Institutions)
- Regulatory capture
  - Regulators can prevent ability of markets to operate freely
  - Eg. Anti Trust law, MRTP Act
- Govt intervention
  - Disincentives -- Laffer curve
  - Evasion
- Policy decisions based on imperfect information
  - Demonetisation?
- Law of unintended consequences
  - Govt policy will always lead to at least one reaction from either consumers or producers that are unanticipated or unintended
  - Eg. Bihar hooch tragedy 2016 due to liquor ban
- Crony capitalism
- Excessive bureaucracy
  - Principal-agent problem in PSUs
  - Over centralisation
- Moral hazard and attitudinal problems
  - Once elected 'chalta hai' attitude
  - Principal -agent problem -- moral hazard
- Policy paralysis

        - 4Cs - courts, CVC, CBI, CAG
    - Implementation failure argument
        - By Prof Sukhamoy Chakravorty
        - ? Planning authorities
            - Data constraint
            - Time lag
            - No capacity

Weak policy making
- Adherence to strict rules
    - Not necessarily leads to optimal public policy
- Abundant caution in decision making
    - 4 Cs - Court, CBI, CAG, CVC

Role of Planning in a Market economy
- Deciding priorities/ long term objectives
    - Limited resources
    - Govt can play a role in encouraging investment to flow in specific directions
- Highlight long term structural issues
    - Indicative planning specifically
    - Issues likely to arise out of growth priorities
    - Challenges posed -- preventive actions for them
- Role of facilitator -- enabling environment
    - Conducive policy envi; no bottlenecks
- Realigning priorities of public spending - from economic to social sectors
    - 11th FYP recognised deficiencies in social sector
    - Objectives in terms of inclusive growth
    - Traditional growth targets - education, health, social security, land reforms
    - 26 new indicators of social development targeted
- Planned pattern of investment
- Maintain regional balance in locating industries
- Market failures/ imperfections
    - Externalities, dualities of production
    - Planning -- 'second best' policy
- Counteract monopoly, concentration of wealth
- Protect interests of small scale producers and encourage entry of new entrepreneurs
- Encourage optimum scale of plants and advanced tech
- Coordination problem
    - Ministries
    - Govt & private sector!?
- Decentralised planning since 73rd, 74th CAA -- requirement of synergies among all these plans
    - Yojana Banao Abhiyan Jharkhand
- In context of globalisation/ integration with world economy
    - Planning problem: managing BoP arising from liberalisation of sectors
    - Anyway planning in terms of output useless in this case because if dd> production limit set by govt, liberalised sector can just import it

Amartya Sen & Jean Dreze on State vs Market

- Discredit the idea of conflict -- believe both are needed
- Cooperative action
    - Both prone to failures, need each other for correction

- Markets need legal provisions and justiciable property rights to function
- Govt role in initiating and facilitating market based eco gr
  - Eg E Asia
- Discussion of radical reforms to 'kick start' the Indian economy -- naive
  - Failures go beyond market incentives -- poverty, illiteracy, malnourishment
- Forms of state regulation will change
  - Permit raj initially
  - Regulation through devising norms and standards for products + efficiency esp in sectors with economies of scale, asymmetric information, externalities

Mixed economy Rationale

Economic

-

Non-economic

Generations of Economic Reforms in India

First Generation Economic Reforms

- 1991-2000
- Components
  - Promotion of private sector (liberalising policies)
    - De-reservation, de-licensing of industries
    - Abolition of MRTP limits
    - ? Abolition of compulsion of phased production & conversion of loans into shares
    - Simplifying environmental laws for establishment of industries
  - Public sector reforms
    - To make PSUs profitable, efficient -- corporatisation, disinvestment
  - External sector reforms
    - Abolition of quantitative restrictions on import
    - Switching to floating exchange rate
    - Full convertibility of capital account
    - Permission to foreign investment
  - Financial sector reforms
    - Banking, capital market, insurance, mutual funds, etc
    - ? (eg)
  - Tax reforms
    - Chelliah Committee 1992
    - Simplifying, broad basing, modernisation, checking evasion

Second Generation Reforms

- 2000-01 onwards
- Objectives
  - Strengthen foundations of rural economy growth - esp agri & allied activities
  - Nurture revolutionary potential of knowledge based industries - IT, biotech, pharma
  - Strengthen and modernise traditional industries - textiles, leather, agro-processing, SSI
  - Accord highest priority on HRD + other social sector programmes on edu, health; w/ special emphasis on poorest & weaker sections
  - Removal of infra bottlenecks in power, roads, railways, airways, port, telecom
  - Strengthen role in world economy through rapid growth of exports, enhancing higher foreign investment, prudent external debt mgmt
  - Credible framework on fiscal discipline
- Components
  - Factor marketing reforms

        - Credible framework on fiscal discipline
- Components
    - Factor marketing reforms
        - Dismantling of APM Administered Price Mechanism
            - APM production mostly under private sector; not sold on market principles - hindered profitability of manufacturers as well as sellers; demand supply gap
        - Still ongoing
    - Public sector reforms
        - Greater functional autonomy
        - freer leverage to capital market
        - international tie-ups
        - greenified ventures
        - strategic disinvestment
    - Reforms in govt & public institutions
        - From 'controller' to 'facilitator'
        - Administrative reforms
    - Legal sector reforms
        - Abolition of outdated & contradictory laws
        - Reforms in IPC & CrPC, labour laws, company laws
        - Legislation for new areas like cyber law
    - Reforms in critical areas
        - Infrastructure reforms - power, roads, telecom
        - Agri, agri extension
        - Education, health care
        - 2 segments
            - 1st similar to factor market reforms
            - 2nd broader dimension - corporate farming, R&D in agri, irrigation, inclusive education & healthcare
- Other important areas of emphasis
    - State's role in reforms
        - All new steps of the reform State govt led; Centre - supporting role
    - Fiscal consolidation
        - FRBM Act
    - Greater tax devolution to States
        - FC, PC both increased fiscal autonomy of states
        - 2007-08: 1st time states had a net revenue surplus in fiscal collections 2007-08
    - Social Sector
        - Increased allocations
        - Greater compliance to performance of development programs

More here: https://www.microeconomicsnotes.com/india/economic-reforms/economic-reforms-in-india-second-generation/1156

<u>Third Generation Reforms</u>

- Commits to fully functional PRI to take benefits of economic reforms + general development to grassroots level
- 10th FYP - 2002-07
- 'inclusive growth and development'

<u>Fourth Generation Reforms</u>

- Not an official generation of reforms in India
- Coined by experts - entails a fully IT enabled India
- 2 way connection b/w economic reforms & IT -- positive reinforcement

- Washington Consensus

Decentralised Planning

09 February 2021 20:16

Centralised planning

- Planning choices made by planning office
- Merits
    - __
- Demerits
    - Difficult calculations
    - Rigidity and bureaucracy
    - Inadequate control and information

Decentralised planning

- Associated with capitalist economies
- Market mechanism prevails
- Merits
    - __
- Demerits
    - Difficult to ensure compatibility b/w plan requirements and market actions
    - Adjustment difficulty due to uncertainty of market reactions
    - Not genuine planning
        - Decision making by market
        - No ex-ante coordination of decisions/ dd-ss

Decentralisation

Principles

From **2nd ARC, 6th Report**

- Principle of **subsidiarity**
- Clear **delineation** of functions
- **Democratic decentralisation** - actual devolution of functions from state level to local level
    - Effective empowerment of local bodies to frame regulations, take decisions, enforce will within legitimate sphere of action
    - Financial devolution, allowing untied funds used acc to needs; allow generation of own revenues
    - Abolition of provision for budget approvals from state legislature (in some instances)
    - Allow borrowing on their own merits from commercial banks
    - Exclusive routing of flow of funds for all public development schemes thru Panchayats
    - State govt shouldn't have power to cancel any resolutions passed by local bodies
- **Convergence**
    - Institutional convergence b/w RLBs and ULBs

From UNDAF Strategy on Decentralisation UN Development Action Framework

- Subsidiarity
    - Public responsibilities should be exercised by elected public authorities *closest to citizens*

- Provision of *adequate resources*
  - For transferred responsibilities
- Stability
  - Stable, predictable
  - Based on objective criteria and rules
  - Stability in financial autonomy
- Responsibility
  - Of local public authorities
  - Wrt competence, quality standards in provision of public services
- Economic efficiency criterion
  - Economies of scale in provision
- Capacity building at local level
  - Community capacity, infrastructural, administrative, demand side, rights based, etc/
- Gender equality & social upliftment/ inclusion
- Access to information
  - Promotion of IT, infra
- Convergence approach for social service delivery
  - Partnerships of accountability, coordination at all levels

Why?

- Efficient and accountable administration
  - More accessible, more sympathetic, quicker to respond to local needs
  - Close relationships b/w citizens and govt at local level fosters accountability; more difficult to hide corruption and incompetence
    - Eg. Social audit, Jan sunwai by MKSS in Raj
  - Cost reduction - more efficient use of resources
    - Eg SHGs
- Better method of local development
  - Wrt info availability & innovative solution
  - Local govt knows local needs better
  - Innovative and diverse forms of solutions for local problems
  - Makes development activities more sustainable by involving people directly affected
- Democracy and protection of liberty
  - Enhances citizen participation in decision making process
  - Builds a sense of community
  - Eg. Dongria Kondh environment referendum, Niyamgiri hills
- Protection of minorities, poorest of the poor
  - Sarvodaya
  - If minorities inhabit an area with a certain degree of self govt, decentralisation essentially grants them right to be free as a collective
  - Gandhi's concept of Village Republic

73rd Amendment Act, 1992

Part IX, Schedule XI

- DPSP - Art 40
- Issue

- Absence of regular elections
- High frequency of supersessions (change of leadership)
- Insufficient representation of weaker sections
- Inadequate devolution of powers
- Lack of financial resources

Salient Features

- Gram Sabha - village assembly consisting of all registered voters in area of the panchayat
- 3-tier system in every state
  - States with population < 20 lakh may have 2 tiers
- Direct election for all members at all 3 levels
  - Chairperson of panchayat - as state legislature determines
  - Chairperson of upper 2 tiers - indirect election from among elected members
- Reservation of seats at all 3 levels
  - SC/ST - in proportion to population in Panchayat area
  - Women - not less than 1/3rd of total no. Of seats (incl SC/ ST women) (Art 243D)
- Duration - 5 years
- State Election Commission
- Powers and Functions
  - As devolved by State Legislature (XI Schedule)
- Preparation of plans for economic development, social justice
- Implementation of schemes for economic development and social justice
  - 29 matters in XI Schedule
- Finances - as specified by State legislature
  - Authorisation to levy, collect, appropriate
  - Assignment of taxes, duties, tolls, fees to ta panchayat
  - Grants-in-aid to panchayats
  - Constitution of funds - crediting moneys of the panchayats
- State Finance Commissions
  - 15th FC: no funding after March 2024 if State FC not constituted by then
  - By Guv, every 5 years to review position of Panchayats
- PESA 1996
  - Gram Sabha in scheduled areas to manage natural resources, adjudicated internal disputes
  - To be consulted before land acquistion, giving away mining rights
  - Control over revenues from minor forest produce
  - Can enforce prohibition of certain intoxicants
  - Regulated moneylending
  - Higher panchayats can not take up any functions of panchayats in scheduled areas
  - Critique:
    - Revolutionary concept; practice hasn't brought much empowerment
    - Relevant state level acts not amended in many cases
    - Land acquistion provision regularly violated
  - Solutions:
    - Need to replace 'recommendation' with 'prior informed consent' wrt land acquisition, mineral rights
    - State laws contravening PESA must be declared null and void
    - Independent body to monitor progress under PESA

Inadequacies of Act

- Powers and functions of Gram Sabha not defined
- Actual devolution of powers left to state govt's discretion - very high bureaucratic control
- Rigid structure & one size fits all approach
- Direct election at all levels questionable
- No elaboration of expression 'institution of self govt'

Inadequacies of PRIs
- Infrequent meeting of Gram Sabha
- Composite Gram Sabha is convened in some states; defeats the purpose
- Harassment by block level officials
- Elected members behave more or less as contractors

Inadequacies of State Acts
- States view PRIs as 'delivery mechanism' and 'agent' rather than <u>institutions of self-governance</u>
- No autonomy to PRIs
- Political reluctance to give up control over implementation and funds
- Fragile finances of PRIs

Role
- SBM
- MGNREGA
- Mission Antyodaya
- Aspirational District Program
- Social empowerment
    - Women representation

Steps Taken
- Panchayat Empowerment and Accountability Incentive Scheme
    - 3F - Funds, Functions, Functionaries
    - Devolution Index
- Capacity building Programs for EWRs Elected Women Representatives
    - By MoW&CD
- Mission Antyodaya
    - MoRD
    - Convergence of program/ schemes with HH/GP as unit

<u>74th Amendment Act, 1992</u>

Salient Features
- 3 types of municipalities
    - Nagar panchayat - transitional areas
    - Municipal council - small urban area
    - Municipal corporation - large urban area
- Not a tiered structure, unlike PRIs
- No need of municipalities in industrial townships
- Direct election of all members
    - Chairperson - decided by State legislature
    - Division into wards for purpose of election
- Reservation
    - SC/ST - proportional to population

        - Women - atleast 1/3rd seats
        - Chairperson - to make decision on reservations wrt both
    - Duration - 5 yrs
    - State Election Commission
    - Powers and Functions
        - As devolved by State legislature
        - 18 matters in XII Schedule
        - Plan preparation - economic development and social justice
        - Implementation of schemes
    - Finances
        - Authorise a municipality to levy
        - Assign
        - Grants in aid
        - Constitution of funds
    - Finance commission
    - District Planning Committee
        - At state level to consolidate plans prepared by panchayats and municipalities
        - Cover areas overlapping b/w PRIs and ULBs - spatial planning, water sharing, use of resources
        - Composition defined by state legislature; must have 4/5 from among elected members of PRIs, ULBs

Issues

- Jlj

Recommendations from ARC Report on Urban Local Governance

- Need for common 3-tiered structure for ULBs across country
- Chairperson should be directly elected, become executive authority
    - Currently wide variations due to 74th CAA provisions
    - Many times merely ceremonial
- Better levy, collections for property tax, as major source of revenue for ULBs
- Abolish Octroi (levy on goods entering an area)
- Impose fines for violation of civic laws
- Leverage lands for revenue generation via competitive bidding (requires GIS mapping)
    - Current plan on monetisation of assets?
- Explore PPPs for urban public service delivery

2nd ARC, 6th Report

Weaknesses in 73rd, 74th amendments

- Local govt: state subject under Schedule VII
- Implementation of provisions depends on State Panchayati Raj enactments
- So far, most PRIs, ULBs simple treated as agents of state govt, rather than autonomous levels of governance
- Office of collector/ DM exists as an anachronistic appendage
- Umpteen parastatals created by states for specific functions -- water siupply, waste disposal, sanitation, etc -- impinge on functions of local bodies
- Over-structured, under-empowered organisations

Issues and Recommendations

- Provisions of Art 243G, 243W mostly considered advisory by most states; need to

strengthen these articles dealing with centralisation
    - Merit to making Legislative Councils mandatory - members elected by Local Bodies
    - Unified, directly elected, District Council instead of current scheme of separate DPCs, MPCs
- Elections
    - Further empowerment of SECs
    - Constituencies fixed acc to 2001 census; urban area populations have grown much faster => underrepresented in legislatures (redrawn in 2008)
- Functions of local govts
    - Clear delineation of responsibilities
    - Appropriate devolution of functions
    - SFCs must design transparent norms for devolution of funds based on indicators of backwardness, level of civic amenities, etc
- Capacity building
    - Streamlining accounting, auditing procedures
    - Use of ICT - single window service delivery

Issues w/ planning

29 May 2021 10:37

PLANNING IN INDIA - IAS gatewayy

06, Jun 2019

Mains Level

Topic Related

3.1 MEANING OF ECONOMIC PLANNING

- Economic planning refers to the path of actions in terms of policy measures to be followed in future, in pursuance of pre-determined objectives.

Planning Commission (now NITI Aayog) defines economic planning as the utilisation of country's resources for developmental activities in accordance with national priorities. It is a consciously and judiciously carried out process for optimum utilisation of existing resources in order to fulfil some well defined objectives.

Objectives of Planning

- The broad objectives to Five Years Plans in India are
  — A high rate of growth with a view to improve the standard of living.
  — Modernisation of economy in terms of adoption of new technologies and social outlook.

IMPORTANT DATES

- 1934 – Sir M.Visvesvaraya in his book Planned Economy of India advocated the necessity of planning in the country much before independence.
- 1944 – The Planning and Development Department was set up under the chairmanship of Sir Ardeshir Dalal.
- 1946 – The Interim government set up the Planning Advisory Board.
- 1947 – The Economic Programme Committee was set up under the chairmanship of Pandit Jawaharlal Nehru.
- 1950 – The Planning Commission was set up after independence.
- 1965 – The National Planning Council was established
- 2015 – The NITI Aayog replaces the Planning Commission.

— Economic self-reliance, meaning avoiding import which can be produced in India.
— Equity implying equitable distribution of wealth with social justice.
— Economic stability which means controlling inflation and unemployment.

3.2 STRATEGIES OF PLANNING

1. Harrod Domar Strategy

- The 1st Five Year Plan was based on this strategy. This strategy emphasised the role of capital accumulation's dual character, which on the one hand, increases the national income (demand side role) and on the other hand, increases the production capacity (supply side role).
- According to this growth model, the rate of economic growth in an economy is dependent on the level of savings and capital output ratio.
  Thus,
  Rate of growth (y) = Savings (s)/Capital output ratio (k)

Here, the capital output ratio, defined as change in capital divided by change in output measures the productivity of investment that takes place.

2. Nehru-Mahalanobis Strategy

- This strategy was based on the two sector model, that is, consumer good sector and capital good sector. The strategy emphasised investment in heavy industry to achieve industrialisation for rapid economic development. It was based on the Russian experience.
- The objective was to become self-reliant and overcome capital constraint. This strategy was adopted in the 2nd Five Year Plan and with minor modifications, up to the 5th Plan. It was a long-term strategy.

The Mahalanobis strategy called for larger role for public sector because of two reasons.
(i) Private Sector was not mature enough to undertake the responsibility.
(ii) It was feared that opening industries to private sectors could lead to concentration of wealth in private hands.

3. Gandhian Strategy

- It was enunciated by Acharya Shriman Narayan Agarwal in his 'Gandhian Plan' in 1944. The basic objective of the Gandhian Model is to raise the material as well as cultural level of the masses so as to provide a basic standard of life.
- It laid emphasis on scientific development of agriculture and rapid growth of cottage and village industries. Moreover, Gandhian Strategy emphasised on employment oriented planning rather than production oriented planning of Nehru.

4. LPG Strategy

- Liberalisation, Privatisation and Globalisation (LPG) strategy of planning was introduced by the Finance Minister, Dr Manmohan Singh under Narasimha Rao Government.
- The strategy ended the ''license-permit-raj'' and opened the hitherto areas reserved for the public sector to private sector. It allowed for foreign direct investment and followed an export promotion policy to boost economic growth. In all, it changed the nature of planning from centralised to ''indicative'', wherein planning was to play a facilitating role.
- It is also referred to as planning by inducement as against imperative planning.

3.3 HISTORY OF PLANNING IN INDIA

- First attempt to initiate economic planning in India was made by Sir M Visvesvarayya, a noted engineer and politician, in 1934, through his book, 'Planned Economy for India'.
- In 1938, National Planning Commission was set-up under the chairmanship of Jawaharlal Nehru by the Indian National Congress.
- Its recommendations could not be implemented because of the beginning of the World War II and changes in the Indian political situation.
- It stated that the objective of planning was to ensure an adequate standard of living for the masses. It emphasised on heavy industry and land reforms.
- In 1944, Bombay Plan was presented by 8 leading industrialists of Bombay including JRD Tata, GD Birla and others. It saw future progress based on textile and consumer industries and saw an important role for the state in post independent India.
- In 1944, 'Gandhian Plan' was given by Shriman Narayan Agarwal. It emphasised decentralisation, agricultural development, cottage industries etc.
- In 1945, People's Plan was given by MN Roy.
- In 1950, Sarvodaya Plan was given by Jai Prakash Narayan. A few points of this plan were accepted by the government.

Types of Economic Planning	
Classification	**Meaning/Characteristic**
Role of Government	
Imperative Planning Planning Inducement	• Also called directive/totalitarian/ authoritative planning or planning by direction/ command. • One central authority, which decides all aspects of planning. • Generally, practiced in socialist economies. • Also called indicative or 'market incentives' planning. • State regulates the private sector to achieve the set targets. • Persuasion rather than compulsion.
Extent of People's Participation	
Contralised Planning Decentralised Planning	• All economic decisions taken by the central authority. • Government formulates economic plans, determines objectives, sets targets and priorities. • Connected with capitalistic economies • Implemented through market mechanism • Empowers people as planning operates from bottom to top.
On the Basis of Time-Period	
Short-Term Plan Medium-Term Plan Long-Term Plan	• Also known as 'Controlling Plan'. • Encompasses the period of one year, therefore, also known as 'Annual Plan'. • Main objective-raise revenue, attain short-term economic target, bring price stability and remove BoP deficit. • Lasts for 3 to 7 years, but normally, it is made for 5 years. • Objective – raise per – capita income, raise level of employment, create self-sufficiency, reduce dependence over foreign aid and raise revenues through domestic sources and to remove regional and intra-regional disparity. • Lasts for 10 to 30 years • Also called 'Perspective Plan'. • Origin found in USSR's GOELRO Plan 1920-35. • Basic philosophy is to bring structural changes in the economy.
On the Basis of Resource Allocation	
Physical Planning	• Concerned with physical allocation of resources with the productive yield. • Aim is to bring physical balance between investment and output. • Concerned with real resources of the

Financial Planning	economy. • Aims at establishing equilibrium between demand and supply to avoid inflation and bring economic stability. • It tells the size of economy in monetary terms.
On the Basis of Flexibility/Rigidity	
Rolling Plan	• Concept given by Gunnar Myrdal. • Refers to the rolling of a plan at intervals of usually one year, so that it continues to be a plan of certain number of years. • It is usually medium-term plan.
Fixed Plan	• The contents of plan are fixed in relation to a fixed time period. • Contents-targets, priorities, strategies – changed only under severe unforeseen events.
Structural Planning	• Aims at bringing changes in socio-economic set-up of a country. • Attributed to USSR (1929), which abolished Landlord System, introduction of collective farming etc.
Functional Planning	• No changes brought in the existing socio-economic set-up and planning made in the context of existing institutions. • Followed in France, Germnay, UK etc.

3.1 PLANNING COMMISSION

- After independence in 1950, the Planning Commission was set-up under the chairmanship of Pt Jawaharlal Nehru. It was to formulate plans for the economic development of the country on the basis of the available physical, capital and human resources.
- The Planning Commission is essentially a non-political and non-constitutional advisory body, which makes recommendations to the government. It was set-up through an executive order of the Union Government on 15th March, 1950.

National Institution for Transforming India (NITI Aayog) Introduction of NITI Aayog

- NITI Aayog or National Institution for Transforming India Aayog is a policy 'think- tank' of government that replaces Planning Commission and aims to involve states in economic policy-making. It will be providing strategic and technical advice to the central and the State Governments. Prime Minister heads the Aayog as its Chairman.

New Structure under NITI Aayog

- NITI Aayog will be headed by the Prime Minister and will have a Governing Council, comprising Chief Ministers of states and Heads of all Union Territories. The Governing Council replaces the earlier National Development Council.
- In addition, there will also be a regional council comprising of Chief Ministers and Lieutenant Governors of Union Territories, which will be mandated to develop plans that are region specific.
- The Aayog will have 7 or 8 full time members and two well- known and accomplished part- time members, drawn from leading research organisations and major universities. Four Union Ministers, nominated by the Prime Minister, will also be included in ex-officio capacity

Parameter	NITI Aayog	Planning Commission
Financial clout	To be an advisory body or a think-tank. The powers to allocate funds might be vested in the Finance Ministry	Enjoyed the powers to allocate funds to ministries and State Governments.
Full-time members	The number of full-time members could be fewer than Planning Commission	The last Commission had eight full-time members
State's role	State Governments are expected to play a more significant role than they did in the Planning Commission	States' role was limited to the National Development Council and annual interaction during Plan meetings
Members secretary	To be known at the CEO and to be appointed by the Prime Minister	Secretaries or member secretaries were appointment through the usual process
Part-time members	To have a number of part-time members, depending on the need from time to time	Full Planning Commission had no provision for part-time members.

- On the PM's invitation, specialists across domains, will be invited to share knowledge and add value to the Planning process, making extensive use of technology in developing sustainable plans and programme implementation. The Prime Minister shall appoint a full time Chief Executive Officerwith a fixed tenure and may sanction a dedicated secretariat, if deemed necessary.

Vision and Objectives of NITI Aayog

- Based on the belief that strong states make a strong Centre, NITI Aayog is structured to promote cooperative federalism. The new body will build mechanisms to include need- based planning at the village level and aggregate the needs at higher levels of government.
- Policy planning will be long- term, with in-built mechanisms for course correction, based on emerging economic scenario. National security interests will be kept in focus, while formulating plans on economic and social development. Special focus will be on those sections of society that are at the risk of being left out of the development process.
- The planning process must encourage innovation, knowledge and entrepreneurial thinking and include close interaction with all stakeholders and research bodies, both in India and overseas and seek suggestions and opinion for a more pro-active and relevant policy
- Aiming to facilitate greater inter department and inter sector coordination and avoid bottlenecks in smoother policy implementation, the institution is to develop a knowledge-based repository of information and data, to enable all stakeholders to access the resource pool and help in developing best practices for sustainable and equitable development.
- Technology upgradation and capacity building will be encouraged to promote efficient implementation of programme initiatives.

Appointment

- The Prime Minister Narendra Modi appointed Indian- American economist Arvind Panagariya as the first Vice Chairman of the Niti Aayog an institution that came into being on 1st January and replaced the 65-year old Planning.
- The Commission-along with six members and three special invitees Economist Bibek Debroy and former Defence Research and Development Organisation Chief VK Saraswat were appointed as full-time members by the Prime Minister,

who was be the chairman of the body, according to a release issued on Monday. Union Ministers Rajnath Singh, Arun Jaitley, Suresh Prabhu and Radha Mohan Singh will be ex-officio members while Nitin Gadkari, Smriti Irani and Thawar Chand Gehlot will be special invitees to the institution that aims to embark on a “Bharatiya approach to development” of transform India.

Members

The various members of NITI Aayog are

- **Chairman** Prime Minister Narendra Modi
- **Vice Chairman** Aravind Panagariya
- **Ex-Officio Members** Rajnath Singh, Arun Jaitly, Suresh Prabhu and Radha Mohan Singh
- **Special Invitees** Nitin Gadkari, Smriti Zubin Irani and Thawar Chand Gehlot
- **Full-time Members** Economist Bibek Debroy, former DRDO chief K. Saraswat and Agriculture Expert Professor Ramesh Chand
- **Governing Council** All State Chief Ministers and Lt Governors
- **CEO** 1st Sindhushree Khullar 2nd Amithab Kant (from 1st Jan 2016)

National Development Council (NDC)

- The National Development Council (NDC) is neither a constitutional body nor a statutory body. Union Cabinet set-up NDC in 1952, through an executive order.
- National Development Council (NDC) is mainly concerned with approval of Five Year Plans. The NDC is headed by the Prime Minister and consists of the Central Ministers, Chief Ministers of the State and Lt Governors, Administrators of Union Territories and Members of the Planning
- The Secretary of the Planning Commission acts as the Secretary of the Council. From a strictly legal point of view, NDC is essentially an advisory body.

Functions of NDC

- To review the working of plan from time-to-time and to recommend such measures as are necessary for achieving the aims and targets articulated in the National Planes
- To review the social and economic policies affecting the development of the
- To ensure maximum cooperation of people in the planning and improvement of administrative capacity.
- To suggest programmes and schemes for the development of less developed and backward classes and
- To assess resources required for implementing plans and to suggest ways and means for raising national regions
- To prescribe guidelines for the formulation of National
- To consider National Plans as formulated by Planning Commission and to approve the same.

FIVE YEAR PLANS IN INDIA

- After independence, India launched a programme of Five Year Plans to make the optimum use of country’s available resources and to achieve rapid economic Development
- In India, development plans were formulated and carried out within the framework of the mixed Economy
- In India, economic planning was adopted in the form of Five Year Plans and was seen as a development tool on account of various reasons.
- The need for social justice as experience of the past five and-a- half decades suggests that in a free enterprise economy, economic gains do not necessarily trickle down and
- Judicious mobilisation and allocation of resources in the context of overall development programme in the light of the resource constraint in India

- So far, 12th Five Year Plans have been formulated since the year 12th Five year Plan (2012- 2017), came into force once it was approved by the NDC on 27th December, 2012.

Formulation of Five Year Plans

- The preparation of Five Year Plan starts with the formulation of an Approach Paper, outlining the macroeconomic dimensions, strategies and objectives of the plan.
- The Approach Paper is prepared by the Planning Commission after intensive consultations with individuals and organisations of all the State Chief Ministers.
- The Planning Commission then presents this Approach Paper to the National Development Council (NDC), for its consideration and approval. On approval by the NDC, the Approach Paper is circulated among the State Governments and the Central Ministers, based on, which they prepare their respective Five Year Plans.
- Thus, based on the parameters postulated in the NDC approved Approach Paper, the Central Ministries and the states prepare their respective plans, with the help of a large number of Steering Committees/Working Groups. These are composed of representatives of the concerned ministries, selected State governments, academicians, private sector, NGOs Based on the reports of these Steering Committees and Working Groups, the States and the Central Ministries come up with their proposals of detailed plans and programmes. The Planning Commission reviews these plans and programmes of the Central and State Plans and as a result, a detailed plan is evolved.
- In recent years, Planning Commission has also started taking views of the general public into consideration during plan formulation by asking for their views.
- In the light of above, the Five Year Plan document is prepared by the Planning Commission listing out the objectives and detailing out plan orientation, development perspective, macro economic / dimension, policy framework, financing and sectoral profiles. The Planning Commission then presents the final Plan document to the NDC for its consideration and approval.

Implementation of Five Year Plans

- The five Year Plan is implemented through Annual Plans, which is a detailed description of the allocation of resources between centre and states and for different sectoral activities in the government
- In particular, it involves allocation of budgetary resources and detailed consideration of public sector projects / programmes / The sanction of government expenditure is affected through Annual Budget, which is passed by the Parliament every year

BRIEF DESCRIPTION OF FIVE YEAR PLANS

PLAN	OBJECTIVES FACTS	ASSESSMENT
1st Plan (1951-56) (Harrod Domar Model	• Highest priority accorded to agriculture in view of large-import of foodgrain and inflation • Increasing the rate of investment from 5% to 7%. • 31% of total plan outlay on agriculture followed by transport and communication, social services, power and industry.	• Agriculture production increased dramatically. • National income went by 18% and per capital income by 11%. • Targeted growth rate was 2.1% and 1st Plan achieved 3.6%. • Price level was stable.

	communication, social services, power and industry. • Economist KN Raj was the architect.	
2nd Plan (1956-61)	• Rapid industrialization with particular emphasis on the development of basic and heavy industry, also called Nehru-Mahalanobis Plan. • To promote a socialistic pattern of society as envisaged at Avadi Summit of Indian National Congress in 1955. • To increase national income by 25%, expansion of employment and reduction of inequality. • To increase the rate of investment from 7% to 11% of GDP.	• Moderately successful, targeted growth rate was 4.5% but achieved 4.1%. • Durgapur (UK), Bhillai (USSR) and Rourkela. (W Germany) Steel plants set-up with foreign help. • Atomic Energy Commission came into being and TIFR was set-up. • Inflation and low agricultural production and Suez crisis.
3rd Plan (1961-66)	• Indian economy entered take off stage (WW Rostow). • Self-reliant and self-generating economy was the goal. • Priority to agriculture and development of basic industries. Tried to balance industry and agriculture. • To increase the national income by 30% and per-capita income by 17%. • Gadgil, Sukhmoy Chakravarty and Prof. Saddy were contributors.	• A failure because of worst famine (1965-66), in 100 years. • Indo-China (1962) and Indo-Pakistan (1965), conflict diverted the resources from development to defence. • Postponement of 4th Plan by 3 years. • Targeted growth 5.6% achieved growth 2.8%. • The situation created by Indo-Pakistan Conflict (1965 two successive years of severe drought, devaluation of currency by 57% general rise in prices and erosion of resources for plan delayed. • 4th Plan delayed because

		between 1966 to 1969 three Annual Plans were formulated.
Annual Plan	• Due to the unfortunate failure of the 3rd Plan, the production in various sectors of the economy became stagnant. During 1966, the Government of India declared the devaluation of rupee, with a view to increase the exports of the country. So, the 4th Plan was postponed and 3 Annual Plan were implemented. Some of the economists called this period, i.e., from 1966 to 1969, Plan Holiday.	
4th Plan (1969-74)	• Objective was growth with stability and progressive achievement of self-reliance. • Laid special emphasis on improving the condition of under privileged and weaker sections. • Food security was one of its main goal.	• First 2 years of the plan were successful with record foodgrain production on account of Green Revolution. • Adoption of import-substitution policy and export-promotion policy widened the industrial base.

		• Targeted growth 5.7% however, achieved growth 3.3%. • The plan was failure on account of runway inflation (due to 1972 oil crisis or supply shock); huge influx of refugees from Bangladesh post 1972 Indo-Pak War.
5th Plan (1974-78)	• Original approach to plan prepared by C Subramaniam, who proposed economic growth along with direct attack on poverty. • However, final draft prepared by DP Dhar with objectives of removal of poverty (Garibi Hatao) and attainment of self-reliance. • To step up domestic rate of saving. • Introduction of minimum needs programme.	• Targeted growth 4.4% and achieved growth 4.8%. • 5th Plan cost calculations based on 1971-72 prices proved to be wrong. • 5th Plan terminated 1 year before the plan period in March, 1978. • Brought to the fore, problem associated with coalition government making a mockery of formulation of Five Year Plan.
	Rolling Plan (Gunnar Myrdal) was broughtout by Janta Party Government under Morarji Desai in 1978.	

	The focus of the plan was enlargement of the employment potential in agriculture and allied activities to raise the income of the lowest income classes through minimum needs programme. Annual Plan period was 1979-80.	
6th Plan (1980-85)	• Removal of poverty through strengthening of infrastructure for both agriculture and industry. • The emphasis was laid on greater management, efficiency and monitoring of various schemes. • Involvement of people in formulating schemes of development at local level.	• Indian economy made an all round progress and most of the targets fixed by the plan was achieved. • Targeted growth 5.2%. • Achieved growth 5.4%.
7th Plan (1985-90)	• To accelerate foodgrains production. • To increase employment opportunities. • To raise productivity. • Outward looking strategy with gradual liberalization over of economy.	• Foodgrain production grew by 3.23% as compared to a long-term growth rate of 2.68% between 1967-68 and 1988-89. • The Indian economy finally crossed the barrier of the Hindu rate of

		growth of 3% given by professor Raj Krishna. • Average annual growth rate was 6.0% as against the targeted 5.0% and average of 3.5% in the previous plans. • It saw the beginning of liberalization of Indian economy.
Annual Plan	The 8th Plan could not take off due to fast changing political situations at the centre. Therefore, from 1990-92, Annual Plans were formulated.	
8th Plan (1992-1997)	• Process of fiscal reforms and economic reforms initiated by Narasimha Rao Government to prevent another major economic crisis. • To increase the average industrial growth rate to 7.5%. • To provide a new dynamism to the economy and improve. • Also called as Rao-Manmohan Singh Model.	• Higher economic growth rate of 6.8% achieved as against the targeted 5.6%. • Improvement in trade and current account deficit. • Significant reduction in fiscal deficit. • Agriculture growth and industrial growth increased. • Unshackled private sector and foreign

	• First Indicative Plan.	investment control was the prime reason for high growth. • Overall soci-economic development indicators low. • The growth became jobless and fruitless.
9th Plan (1997-2002)	• Growth with Social Justice and Equality. • Emphasis on Seven Basic Minimum Services (BMSs), which included safe drinking water universalisation of primary education, streamlining PDS among others. • Pursued the policy of fiscal consolidation. • Decentralisation of planning with greater reliance on states. • Ensuring food and nutritional security to all. • Empowerment of women, SC/STs/OBCs.	• Global economic slowdown and other factors led to revision of targeted growth rate from 7% to 6.5%, which too was not achieved. • The economy grew at 5.4% only. • Agriculture grew by 2.1% as against the target of 4.2% per annum.
10th Plan (2002-2007)	• The 10th Plan aimed at achieving 8.1% GDP growth assuming that	• Increase in GDP growth to 7.6% compared to 5.5% compared to 5.5%

12TH FIVE YEAR PLAN (2012-17)

- The approach paper of the 12thFive Year Plan is concerned with the **Faster, Sustainable and More Inclusive Growth**. In it, the challenge of urbanization has been identified as one of the key focus area. In the opinion of Planning Commission, the economy has gained in strength in many dimensions and is therefore, well placed to achieve faster, sustainable and more inclusive growth. Having achieved 9% growth during the Eleventh Plan, it is reasonable to aim at 8.0% growth for the Twelfth Plan.
- There are several imponderables, including considerable short- term uncertainties in the global economy and also formidable supply constraints in energy and some other sectors on the domestic front. While there are possible downsides to this scenario, we should aim at an average 8.2% GDP growth for the 12th Five Year Plan at this stage.
- In the Eleventh Plan, the achieved growth rate was 9%. As compared to the initial target of 9% and the revised target of 8.0%. The total plan size of Twelfth Plan is Rs.37.7 lakh crore, 13.7% more than the Eleventh Plan.
- At the energy front, Planning Commission acknowledged that energy strategy for the Twelfth Plan requires a large number of actions by different ministries in the Central Government plus action by State Governments in several areas.

Focus Areas

- The Planning Commission, as approach paper indicates, is going to target these 14 areas : Energy, transport, natural resources, rural transformation, manufacturing sector, health education and skill development, social and regional equity, urbanization, science and technology, services: tourism hospitality and construction, governance and innovation

Targets Under 12th Plan Economic Growth

- Real GDP Growth Rate of 0%. (A/c to April 2013)
- Agriculture Growth Rate of 4.0%.
- Manufacturing Growth Rate of 10.0%.
- Every state must have a higher average growth rate in the 12thPlan than achieved in the 11th Plan

Poverty and Employment

- Head-count ratio of consumption poverty to be reduced by 10 percentage points over the preceding estimates by the end of 12th Five Year Plan
- Generate 50 million new work opportunities in the non-farm sector and provide skill certification to equivalent numbers during the 12th Five Year Plan

Education

- Mean years of schooling to increase to 7 years by the end of 12th Five Year
- Enhance access to higher education by creating two million additional seats for each age cohort aligned to the skill needs of the Economy
- Eliminate gender and social gap in school enrolment (that is, between girls and boys and between SCs, STs, Muslims and the rest of the population) by the end of 12th Five Year Plan

Health

- Reduce IMR to 25 and MMR to 1 per 1000 livebirths and improve Child Sex Ratio (0-6 years), to 950 by the end of the 12th Five Year Reduce Total Fertility Rate to 1 by the end of 12th Five Year Plan.
- Reduce under-nutrition among children aged 0-3 years to half of the NFHS-3 levels by the end of 12th Five Year Plan

Infrastructure, Including Rural Infrastructure

- Increase investment in infrastructure as a percentage of GDP to 9% by the end of 12th Five Year Plan
- Increase the Gross Irrigated Area from 90 million hectare to 103 million hectare by the end of 12thFive Year Plan
- Provide electricity to all villages and reduce transmission and distribution losses to 20% by the end of 12th Five Year Plan
- Connect all villages with all weather roads by the end of 12thFive Year Plan
- Upgrade national and state highways to the minimum two- lane standard by the end of 12thFive Year Plan
- Complete Eastern and Western Dedicated Freight Corridors by the end of 12th Five Year plan
- Increase rural density to 70% by the end of 12th Five Year Plan
- Ensure 50% of rural population has access to 55 LPCD piped drinking water supply and 50% of Gram Panchayats, achieve the Nirmal Gram Status by the end of 12th Five Year Plan

Environment and Sustainability

- Increase green cover (as measured by satellite imagery) by 1 million hectare every year during the 12th Five Year Plan.
- Add 2 x 30000 MW of renewable energy capacity in the 12th Plan
- Reduce emission intensity of GDP in line with the target of 20% to 25% reduction by 2020 over 2005 Levels

Service Delivery

- Provide access to banking services to 90% Indian households by the end of

12th Five Year

- Major subsidies and welfare related beneficiary payments to be shifted to a direct cash transfer by the end of the 12th Plan, using the Aadhar platform with linked bank account

Alternative Scenarios During

12th Plan

- To illustrate the consequences of inaction on key growth promoting policies, the Planning Commission has undertaken a systematic process of ‘scenario planning’ based on diverse news and disciplines to understand the interplay of the principal forces, internal and external, shaping India’s Progress ’
- This analysis suggests three alternative scenarios of how India’s economy might develop titled, ‘Strong Inclusive Growth’, ‘Insufficient Action’ and ‘Policy Logjam’.

Indian Economy : Issues Related to Planning - Clear IAS

Last updated on December 2, 2017 by Alex Andrews George

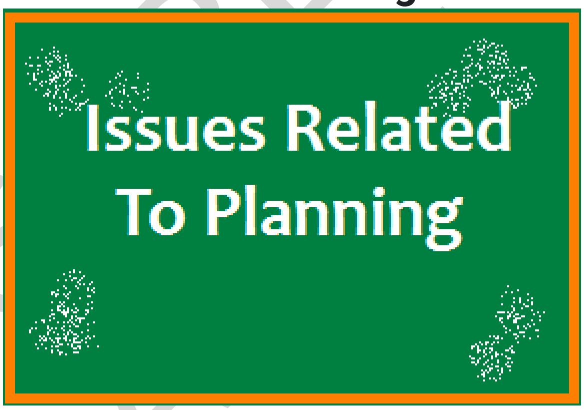
Indian Economy – Issues Related to Planning : Before understanding the issues related to planning, let us start with the broader domain – Indian Economy – first. What does the term economy mean? How is economy different from economics?

☺ **Definition of the term Economy :** The term ‘Economy’ in the present sense denotes the *economic system* of an *area*. Economic system comprises of production, distribution and consumption of good and services between two agents. A simpler definition of economy: The wealth and resources of a country or region, esp. in terms of the production and consumption of goods and services.

[Extra: Why learn Indian Economy? A person who know Indian Economy well is a person who knows the financial balance sheet of India – he knows about the resources of India, what is good for India, what are the problems of India, what is required to make India a developed nation, future of India and so on. Impressed?:-)]

Having done a brief overview of Indian Economy, let us focus on Planning.

Definition of Planning



Planning is the process of thinking about and organizing the activities required to achieve a **desired goal**. Planning involves the creation and maintenance of a **plan**. In the Indian economy context, the major plan we talk about is the Five Year Plan (FYP). The agency which formulates the FYP is Planning Commission which is chaired by Prime Minister of India.

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FYP are visionary plans for a 5 year period. Plan provisions for each year are implemented through the **budget**. Budget has provisions for planned expenditure, which focuses on yearly expenditure according to FYP documents.

Planning vs Forecasting

Forecasting can be described as predicting what the future *will* look like, whereas planning predicts what the future *should* look like.

Need for Planning in an Economy

Resources in a country are limited – be it natural resources or human resources. The **scarcity of resources** necessitates the need for proper management – at production, distribution and consumption ends.

Issues relating to planning, mobilization of resources, growth, development and employment.

For any country to grow and develop, proper mobilization and utilization of resources is necessary. Resources of a country include – natural resources and human resources. For proper mobilization of resources, prior planning will be of great help for a holistic approach.

Issues with planning

1. Planning is central. Decentralized planning is still in nascent stages.
2. Planning commission is not a constitutional body. It has hijacked the role of finance commission.
3. Often planning commission fails to understand ground realities. Eg: Unrealistic data on poverty line.
4. Centralized planning may not touch the peripheral areas.
5. Coalition politics affects planning.
6. Planning for 125 crore diverse population is not easy.
7. Limited resources and funds available.
8. Lack of visionary leadership and technological expertise.
9. Lack of proper monetary mechanism to check the implementation of the plan.

Issues to be addressed in planning

Apart from the primary objective of growth and optimum resource utilization, these areas should be addressed in a proper plan.

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

[Indian Economy: Issues related to planning is a topic mentioned in Civil Service Mains GS Paper 3. It can also turn helpful for Prelims and Interview]

Print PDF

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

Indian economy:

The phrase 'Economy' is associated with the economic system of an area. Economic system consists of production, distribution and consumption of good and services between two representatives.
Historically, in prehistoric period, till 1707 AD, the history of India started with the dawn of Indus Valley civilization which thrived between 3500 BC to 1800 BC. The economy of Indus civilization appears to have depended considerably on trade, which was enabled by technical developments in transport. Its inhabitants practiced agriculture, domesticated animals, made sharp tools and weapons from copper, bronze and tin and traded in terracotta pots, beads, gold and silver, coloured gem stones such as turquoise and lapis lazuli, metals, flints, seashells and pearls. They used to ship to reach Mesopotamia to do business of gold, copper and jewellery.
Around 600 BC, the Mahajanapadas imprinted punch-marked silver coins. The period was noticeable by rigorous trade activity and urban growth.
By 300 B.C., when Middle East was under the Greek Seleucid and Ptolemaic empires the Maurya Empire (c. 321 -185 BC) united most of the Indian subcontinent. The political harmony and military security permitted for a common economic system and improved trade and commerce, with increased agricultural efficiency. The kingdom spent substantial resources for building roads and maintaining them throughout India. The improved infrastructure joined with increased security, greater consistency in measurements, and increasing tradition of coins as currency to boost trade. In another 1500 years, India produced its classical peoples which generated wealth in vast amount. Between 1st and 17th centuries AD, India was projected to have had the biggest economy of the ancient and medieval world, controlling between one third and one fourth of the world's prosperity.
In the realm of the Mughal period (1526–1858 AD), India experienced unparalleled wealth in history. The gross domestic product of India in the 16th century was estimated at about 25.1% of the world economy. An evaluation of India's pre-colonial economy puts the annual revenue of Emperor Akbar's treasury in 1600 AD at £17.5 million (in contrast to the entire treasury of Great Britain two hundred years later in 1800 AD, which totalled £16 million). The gross domestic product of Mughal India in 1600 AD was assessed at about 24.3% of the world economy which was the second largest in the world. During this period, Mughal Empire had extended to include almost 90 per cent of South Asia, and imposed a uniform customs and tax-administration system.

British rule:

The British East India Company established and expanded its political power gradually in India from 1757. They used huge revenue generated by the provinces under its rule for buying Indian raw materials, spices and goods. Thus the continuous inflow of bullion that used to come into India on account of foreign trade stopped overall. The Colonial government used land income for conducting wars in India and Europe and there was less money for development of India. In short period of 80 years (1780-1860 AD) under Colonial rule, India's economy changed from an exporter of processed goods for which it received payment in bullion, to being an exporter of raw materials and a buyer of manufactured goods. More precisely, in the 1750s, generally fine cotton and silk was exported from India to markets in Europe, Asia, and Africa; by 1850s, raw materials, which primarily consisted of raw cotton, opium, and indigo, accounted for most of India's exports. The cruel exploitation under British colonial rule totally destroyed economy of India. At that time, populace of India became poor and they had to suffer from food scarcity, pervasive malnutrition and was largely uneducated.

Indian economy after independence:

In the period of 1950-1979, when India got independence from colonial rule, the process of transformation of the economy started. India went for centralized planning. The Five Year Plans which effectively changed. First five year plan for the development of Indian economy was implemented in 1952. India as an agricultural economy, investments were made to develop irrigation facilities, construction of dams and laying infrastructure. Policy makers put more emphasis in the establishment of modern industries, modern scientific and technological institutes, development of space and nuclear programmes. Though extreme efforts were made to enhance economy after independence, the country did not develop at rapid rate because there were lack of capital formation, cold war politics, defence expenditure, and increase in population and insufficient infrastructure. In the period of 1951 to 1979, the economy grew at an average rate of about 3.1 percent a year in constant prices, or at an annual rate of 1.0 percent per capita. During this period, industry growth was at an average rate of 4.5 percent a year, compared with an annual average of 3.0 percent for agriculture.

During 1980 to 1990, the rate of economic growth enhanced. From financial year 1980 to financial year 1989, the economy improved at an annual rate of 5.5 percent, or 3.3 percent on a per capita basis. Industry grew at an annual rate of 6.6 percent and agriculture at a rate of 3.6 percent. Major factor for development of economy was high rate of investment. Investment went from about 19 percent of GDP in the early 1970s to nearly 25 percent in the beginning of 1980s. Private savings had financed most of India's investment, but by the mid-1980s further growth in private savings was tough because they were already at quite a high level. Consequently, in the end of 1980s India relied gradually on borrowing from foreign sources. This trend led to a balance of payments crisis in 1990. In order to receive new loans, the government had no choice but to agree to further measures of economic liberalization. This promise to economic improvement was confirmed by the government that came to power in June 1991.

India has made significant growth in services sector and contributed for magnificent development in various spheres of science and technology over the years and currently it has strong network of S&T institutions, trained manpower and an innovative knowledge base. India has already become centre for manufacturing of small cars and engineering goods. India is one of the promising markets for food and agricultural products in the world. India is the world's third largest producer of food. Agriculture accounts for about 16.1% of India‟s GDP. India has developed as the major milk producing country, with annual milk production of over 100 million tonnes.

It can be appraised that the Indian government has made significant effort in last 50 years to develop the scientific and technical infrastructure of the country. In educational field, there are more than 250 universities, 1,500 research institutions and 10,428 higher education institutes. In India huge number of engineering graduates and another technical graduates trained in specific field have contributed a lot for enhancement of economy of India. The combination of state-of-the-art infrastructure and highly qualified manpower guarantees that India is poised to be the next Global R&D hub. This is gradually being observed in Industry as large multinational corporations including GE, Microsoft, and Bell Labs have opened there R&D Centres in India. More than 100 multinational companies, including Delphi, Eli Lilly, Hewlett-Packard, Heinz, Honeywell and Daimler Chrysler, have established (R&D) facilities in India in the past few years. This makes India second only to USA and ahead of other more established hubs, such as Japan, Israel and Western Europe, and China.

It is observed in present scenario that the Indian economy is rapidly growing economies in the world. The increasing income and savings levels, investment opportunities, huge domestic consumption and younger population will ensure growth for future. The main drivers of Indian economy are sectors like Information Technology, Telecommunications, ITES, Pharmaceuticals, Banking, Insurance, Light Engineering Goods, Auto Components, Textiles & Apparels, Steel, Machine Tools and Gems & Jewellery are sectors which are expected to grow at rapid pace world over creating demand for Indian products and services.

Planning:

Planning is the procedure of thinking about and organizing the actions required to realise a desired goal. Planning involves the formation and maintenance of a plan. Economic Planning is to make decision with respect to the use of resources. Economic Planning is a concept that is related to the long term plans of government to co-ordinate and develop the economy. Economic planning in India was stared in 1950. It is necessary for economic development of country.

Need for Planning in an Economy:

There is an immense need for economic planning as resources in a country are limited whether natural resources or human resources. The shortage of resources compels the need for proper management at production, distribution and consumption ends.

Issues relating to planning, mobilization of resources, growth, development and employment:

In order for huge growth of any nation, it is imperative that there must be proper mobilization and utilization of resources. Resources of nation include natural resources and human resources. For proper mobilization of resources, prior planning is of great help for a holistic approach.

Issues with planning:

1. Planning is central. Decentralized planning is still in promising stages.
2. Planning commission is not a constitutional body. It has hijacked the role of finance commission.
3. Often planning commission fails to comprehend ground realities. For example Unrealistic data on poverty line.
4. Centralized planning may not extend in the peripheral areas.
5. Alliance politics affects planning.
6. Planning for 125 crore diverse population is not easy.
7. Limited resources and funds available.
8. Lack of visionary leadership and technological expertise.
9. Lack of proper monetary mechanism to check the implementation of the plan.

Issues to be addressed in planning:

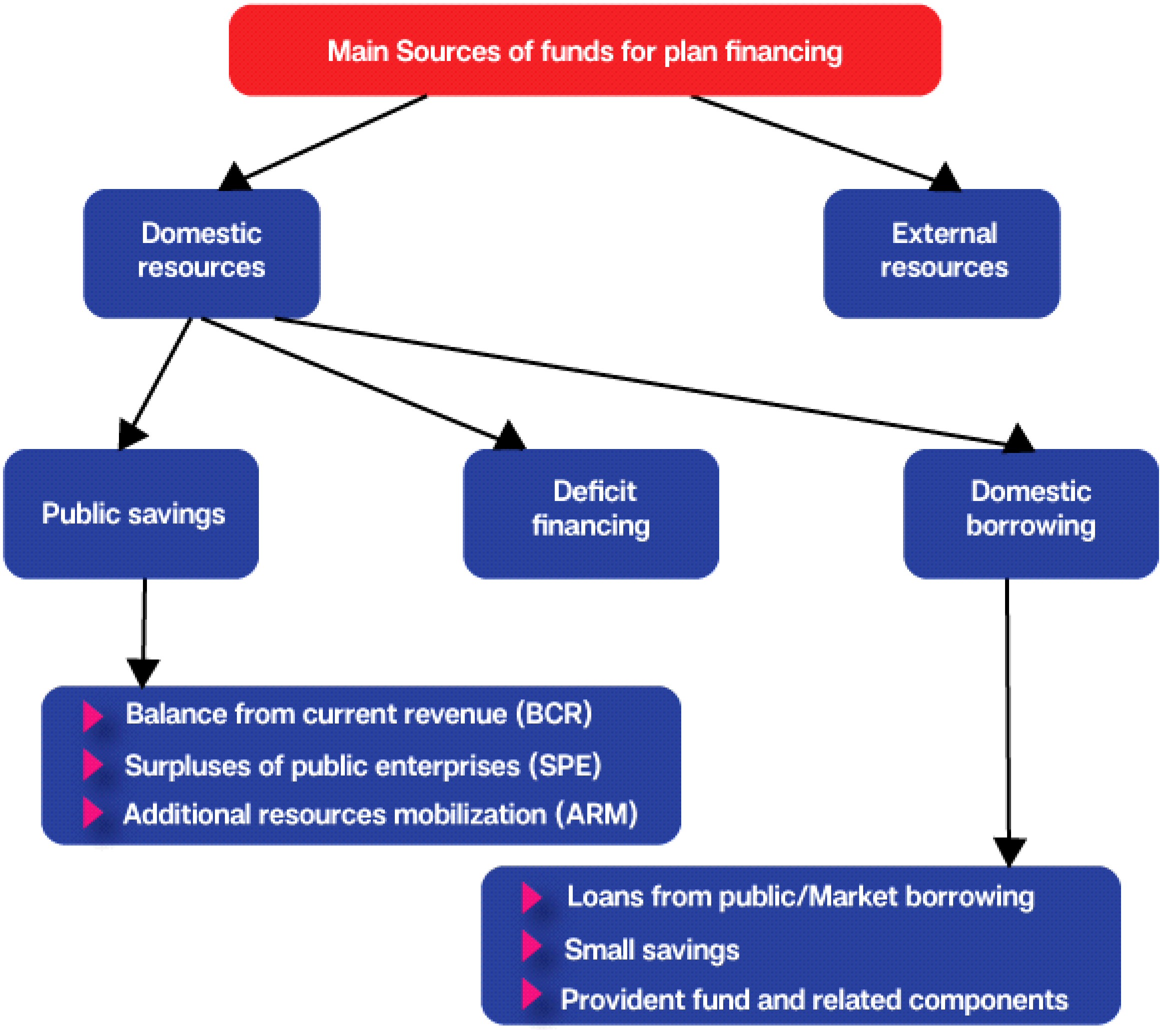
Besides, principal objective of growth and optimum resource utilization, these areas should be addressed in an appropriate plan.

1. Population growth.
2. Food production.
3. Health.
4. Vulnerable sections of the population.
5. Transport, communication and energy self-sufficiency.
6. Water conservation and air quality.
7. Trade and investment.
8. Peace, security and governance.

It is appraised that Economic planning assist in mobilizing and assigning the resources in desired manner. Major goal of planning is to reduce disparity, economic development, balanced regional growth, reconstruction. Each five year plan is intended to accomplish certain target. Five year plan constitute the steps toward the fulfilment of objectives of economic planning.

Mobilization of resources:

Mobilizing is the method of assembling and organizing things to use immediately or for a achieving a collective goal. The concept of mobilization of resources should be seen in the same perspective. Mobilization of resources means to release locked resources. Every country has economic resources within its territory known as domestic resources. But often they might not be available for collective use. The percentage of resources used when compared to the potential is often very low. For the development of nation, identification and mobilization of its resources is essential. It should be available for easy use and for central and state level planning.



So initial step is identification of resources. Types of Resources of India: There are several resources available in India.

1. Natural Resources such as Coal, Petroleum, Natural Gas, Water, Spectrum.
2. Human Resources like the labour force and intellectual ability of a nation.
3. Best utilization of these resources lead to generation of economic resources such as savings, investment capital, and tax. While mobilisation of resources is considered, the mobilisation of economic resources should also be studied.

Mobilization of Natural Resources:

India has sufficient reserves but due to policy bottlenecks, it is importing coal and iron. This is increasing our Current Account Deficit.

Mobilization of Human Resources: Human capital is deciding factor in the economic development. Indian economy is plagued with poor human resources. While the average population is traditional and lacks scientific knowledge, 33% of population is still illiterate. It retards economic progress in country (Gupta, 2008). Organizing human potential for ready use is essential for growth of India. In-fact, as country of

125 crore people, India now is observing more on its human resource potential. The demographic dividend is also in favour of India.
Mobilization of human resources emphasizes the need to empower human resources. Weaker sections such as women, children, SC, ST, OBC etc. should be brought into mainstream. There should be correct employment opportunities for human resources, and when there is lack of skill the job demands, there should be skill development programs. It is suggested to utilize the demographic dividend. India is currently forcing on its technologists, engineers, doctors and scientists. Government is making efforts to divert school dropouts to technical or vocational training program. The scheme has been formulated through private public partnership under which short term training modules will be conducted (Gupta, 2008).
Economist stressed that if nation needs to grow, more goods and services should be produced. The production can be done by government sector, private sector or in PPP mode. But for that, the economic resources of a country should be organised. In India, despite having good savings rate, domestic investment is less. Indians are investing in less productive assets like gold and consumer durable. For good economic development, India needs to invest in agriculture, manufacturing or services. In India, tax collected is very less. The tax base has to be broadened.
Four factor of production such as land, labour, capital and organization should come together. There should be an atmosphere for growth and investment. It can be said that organizations do not “suddenly emerge” but require the mobilization of resources.
In contemporary capitalistic society, these resources are more “free flowing” and are easier to mobilize than in more traditional societies. Many factors impact the development of the organization.
Initial Resource Mix: There are various resource needs in a starting organization (technology, labour, capital, organizational structure, societal support, legitimacy). But the accurate mix of resources are not always available. The most important resource of an organization is its people. More savings and more productive investment.
Taxation: India has organized tax structure with clearly defined authority between Central and State Governments and local bodies. Central Government levies taxes on income (except tax on agricultural income, which the State Governments can levy), customs duties, central excise and service tax. Value Added Tax (VAT), stamp duty, state excise, land revenue and profession tax are imposed by the State Governments. Local bodies are empowered to levy tax on properties and for utilities like water supply, drainage.
Indian taxation system undergone revolutionary reforms during the last decade. The tax rates have been rationalized and tax laws have been simplified resulting in better compliance, ease of tax payment and better enforcement. The procedure of rationalization of tax administration is continuing in India. Public revenue generation is for investment in social services and infrastructure. The private sector mobilizes the savings of households and firms through financial intermediaries, which allocate these resources for investment in productive activities.

Issues with mobilisation of resources:

Issues in mobilisation of resources include all those issues and problems underlined in mobilization of natural resources, human resources and financial resources. Low-income countries confronting prevalent poverty therefore mobilizing domestic resources is particularly challenging, which has led developing countries to rely on foreign aid, foreign direct investment, export earnings and other external resources. Nonetheless, there are compelling reasons to give much more emphasis to DRM. Greater reliance on DRM is important to raise economic growth, reduce poverty and

underpinning sustained development. High-growth economies typically save 20-30 per cent or more of their income in order to finance public and private investment.
DRM is potentially more consistent with domestic ownership than external resources.
Foreign aid consistently carries restrictions and conditionality.
FDI is mainly oriented to the commercial objectives of the investor, not the principal development priorities of the host country.
DRM is more foreseeable and less volatile than aid, export earnings, or FDI.

Indian Economy: Growth, Development and Employment:

In Indian economy where huge labour force is available, importance of an employment oriented growth is observable. Growth in economic terms relates to the increase in GDP (national income). GDP is the money value of goods and services produced in an economy.
Economic growth in India has generally unsuccessful to maintain balance between growth of productivity and occupation. During the first thirty years after embarking on the planned economic development, the economy grew at a comparatively low rate averaging about 3.5 per cent per annum. The problem basically lay in low rate of growth, only a higher rate of growth of GDP could have afforded sensibly high increase both in productivity and employment.
Economic growth has been increased after1980, and 1990 period. But it has been considered by the other kind of inequity. Most of it has been derived from increase in productivity and only a little from increase in employment. During 1980's, of the 5.5 per cent annual growth in GDP, 2 per cent was accounted for by growth of employment, and 3.5 per cent by growth of productivity. In 1990's, the 6 per cent growth achieved, contribution of employment was only 1.8 per cent with that of productivity rising to 4.2 per cent. When the national income escalates, perfectly it should result in development (qualitative feature such as health, education, employment).
Employment growth in India: Economists stated that economic growth of country create more opportunities for employment and employment generates further development. Generally, employment relates to the qualitative aspect of growth. If a country is on the growth path, it will create more employment opportunities and while there is no growth, people may lose jobs.
It is considered that employment has always highlighted as an element of development policy in India. The priority and attention have received changes in development plans from time to time and so have the approaches and strategies as well as policies and programmes for employment generation. During the past four decades since 1972-73, employment has grown at an average annual rate of two per cent in India when comprehensive information on employment and unemployment started, according to survey of the NSSO. This could be regarded as a significant record, as such an employment growth has not been recorded by many countries historically or in recent periods. In fact, most countries in general and developed countries in particular, have had very low employment growth currently. ILO data signified that most of them saw an increase of less than one per cent per annum in their employment during the 1990s.
According to financial analysts, India's significant record on employment growth has not been satisfactory in view of a faster growth of labour force. Additionally, there are a few disturbing features of employment growth in recent years. First, employment growth has slowed. Second, employment content of growth has shown a decline. Third, sectors with higher employment potential have registered comparatively slower progress. Fourth, agriculture, despite a sharp decline in its

importance in gross domestic product, continues to be the biggest employer as the non-agricultural sectors have not generated enough employment to affect a shift of workforce. Fifth, most of the employment growth has been contributed by the unorganised, informal sector which is characterised by poor incomes and conditions of work. Lastly, employment growth in the organised sector which seems to have picked up in recent years has been mostly in the types of casual and contract labour. Employment growth in the secondary sector include mining, manufacturing, electricity, water and gas, and construction, has been comparatively high during 1972-73 to 2009-10. It has dropped over the longer period with some fluctuations over the shorter periods, but has revealed a noteworthy increase during 1994-2005. Even during 2004-05/2009-10, when overall employment has virtually deteriorated, it has grown at around 3.5 per cent in the secondary sector. Employment growth in the tertiary or services sector has also been comparatively high but has constantly declined over the three periods of 10 years each since 1972-73. Growth of employment in the primary sector has been the lowest and showed decrement. Slow and declining growth of employment in agriculture is due to both of slow and declining rate of GDP growth and a drop in employment elasticity. In the secondary sector, a high employment growth despite moderate rates of GDP growth has been possible due to relatively high and rising employment elasticity. But in the tertiary sector, even a high GDP growth has not been able to maintain a high growth in employment due to a sharp decline in employment resistance.

It has been documented that employment performance of the rural areas has been better as compared to the urban areas in so far as the non-agricultural activities are concerned. Data revealed that employment in all non-agricultural activities together grew at 4.58 per cent per annum in rural areas and 4.08 per cent per annum in urban areas during 1972-73/1983. Growth rates for rural and urban areas were similar at 3.65 during 1994-2005. Only during 1983/93-94 urban growth rate was higher at 3.5 as compared to 3.2 for rural areas. During 2005-10, rural areas performed better than the urban areas in growth of non-agricultural employment. Generally, the pattern of employment growth in terms of rates of employment growth in different activities is found to be similar in rural and urban areas. Construction registered the fastest growth and the growth rate has increased over the years in both rural and urban areas. In the period of 1993-94/2004-05, employment growth in construction has been much higher at 8.3 per cent per annum in rural than in urban areas at 5.6 per cent. Growth in transport sector was in second position and trade third in employment growth in rural areas. In urban areas, trade has done better than transport, but both have registered high employment growth. The non-farm employment showed fast growth in employment in rural areas, even faster than in urban areas.

On average, growth rate of employment in the organised sector has been continuously declined during 1972-73 to 2004-05. It has stimulated characterization of growth in organised sector, particularly, in manufacturing, during the period 1981-82 to 2004-05 as 'jobless' (Kannan and Raveendran, 2009). Drop in employment during 2000-2005 has been faster in public sector than in the organised private sector.

Rate of employment growth in manufacturing sector as a whole including both organised and organised segments, has been reasonably high over the long period. Reports indicated that employment in manufacturing grew at 4.3 per cent per annum during 1972. The services sector is now the dominant part of the Indian economy accounting for about 59 per cent of Gross National Product. Its performance in employment generation has not been as remarkable as in its contribution to GDP. Employment in this sector has grown at an average of about 3.5 per cent per annum over a longer period of about 40 years, thus raising its share in total employment from around 15 per cent in 1972-73 to 26 per cent in 2009-10. During 2000-2010, employment in the services sector grew at a rate of 3.6 per cent per annum, as against the aggregate employment growth of 1.5 per cent. All activities in the sector, trade, transport and finance except community social and personal services, recorded over 2.5 per cent growth rate of employment.

Two service activities such as Information Technology (IT) and Tourism registered greater employment opportunities and these sectors have attracted special attention of policy makers. Information Technology Sector includes two main segments: information technology services (ITS) known as the software services and information technology enabled services (ITeS) also often referred to as business process outsourcing (BPO). It is witnessed that employment in IT sector has been growing speedily. It is also established that the progress has been particularly fast in the export segment of IT and within that in the information technology enabled services (ITeS), often denoted to as BPO.

Studies have shown that tourism sectors have large potential for growth and also with high employment potential. Income and employment generated by tourism are accounted for in such different activities as hotels and other accommodation units, restaurants, travel agents and tour operators, transport services, tourist resorts and complexes, entertainment facilities, shopping facilities including sales outlets for curios, handicrafts, souvenirs., conference and convention facilities, adventure and recreational sports facilities and guide services, which feature as sectors and subsectors in National Accounts Statistics.

Issues in India's growth, development and employment: Following are major issues in growth development and employment in India:

1. India's growth is decreasing.
2. India's growth is principally backed by service sector. There is sluggishness in the manufacturing sector.
3. Indian agriculture sector is still dependent on monsoon. Nearly 50 % of population dependent on agriculture which contributes only 14% of GDP.
4. In India there is a big issue related to investment. It is stated that for high growth of any nation, there should be investment in productive areas. There should also be supporting infrastructure. But India is lacking in these areas.
5. Due to external and internal factors, there is drop in foreign investment. This is broadening Current Account Deficit.
6. For providing welfare schemes, subsidies and defence expenditure, India is borrowing. The Fiscal Deficit of India is widening.
7. India's export sector is not developing with respect to the demands of import goods.
8. Growth is not entirely inclusive. There are still a significant portion of people below poverty line.

Challenges of employment:

Unemployment is matter of sizeable debate in the academic and policy research. It is well recognized that every country wants to attain full employment for its growing population. However, unemployment rates are still worrying in developing countries. Unemployment is the major macroeconomic variable and it is directly related to the GDP of the country. Unemployment leads to inflation and retarded growth. The major factors that augment unemployment are economic crisis. There are many issues with employment. The average salary and per-capita income of Indians are very low. In the Indian job market, middle to senior level specialists are in great demand in industries, with employers seeking strong management skills and some international exposure. The problem of unemployment in developing countries differ from industrialized countries. The issue of unemployment in developed country is just social problem where as in developing countries like India it arise from shortage of

capital formation. Major aspect of employment in India is low return of work. Indian government has introduced many programs to counter problem of unemployment but magnitude of problem could not be reduced (Purna Nand Pande, 1998).
To summarise, India has been a significant part of world economy. It took initiative in the early 1990s towards economic liberalization which altered the nature of integration with world and shaped global perception of India. Today, international communities are enthusiastic to work with India and develop relationship of mutual benefit and interdependence. IMF report noted that Indian economy is continuing to reap the rewards of more than 15 years reform. There are numerous issues related to Indian economic planning population explosion, low level technology or low standard of living (Gupta, 2008). There is a need to mobilize country's natural and human resources to enhance economic development. It is documented in studies that despite of effective planning since many decades, India continues to exhibit underdeveloped economy. Though it had progressed in many areas but country has to make efforts to reach the standard of developed countries.

04 November 2021 22:06

Changes that have Taken Place in the Indian Economy after 1951

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The following points highlight the changes that have taken place in the Indian economy after 1951. The changes are grouped into: 1. Quantitative Changes 2. Qualitative Changes.

1. Quantitative Changes:

i. Rising trend of National Income and per Capita Income:

Economic growth of any country is measured by the increase in national and per capita output.

During the plan period, national income of the country has certainly gone up. In 1950-51, net national product at factor cost or national income (at 1999-2000 prices) stood at Rs. 2,06,493 crore. It rose to Rs. 27,60,325 crore in 2007-08 (at 1999- 2000 prices).

This means that between 1950-51 and 2007-08 national income grew at the compound rate of 4.7 percent per annum.

Compared to the pre-independence figure, this is really remarkable. However, the performance of the Indian economy in this direction in the 1980s, 1990s was certainly praiseworthy since it recorded a growth rate of more than 6 p.c. p.a. GDP growth rate in the 2000s is unprecedented.

It rose from 5.8 p.c. in 2001-02 to 9.2 p.c. in 2006-07. If the present trend continues, the country will be able to achieve a double digit growth rate within one or two years.

However, the better measure of economic development is the per capita income. Per capita NNP rose to Rs 24,256 in 2007- 08 (at 1999-2000 prices) as against Rs 6,122 of 1950-51 at 1999-2000 prices. This means that during this period, compound annual growth rate of net per capita income rose by 2.5 p.c. p.a.

Historically, it exhibits a better growth rate. Yet, it is inadequate compared to the needs of the country. The only encouraging aspect is that it shows a rising trend.

ii. Increase in Agricultural and Industrial Output:

Over the plan period, Indian economy experienced a higher growth rate in agriculture as well as in industry. Pre-plan period recorded an agricultural growth rate of 0.3 p.c. while the plan period showed a growth rate of 2.66 p.a. Performance of the industrial sector is certainly a better one.

During the plan period, 1950-2007, the overall achievement in this sector is more than 4.8 p.c. Trend growth of India's exports shows Indian agricultural and industry on the move.

2. Qualitative Changes or Structural Changes:

During the plan period, not only economic growth picked up, but also economic development i.e., 'growth plus change' occurred in India. This amounts to saying that the Indian economy witnessed structural changes.

By economic structure we mean interrelationship among the different productive sectors i.e., agriculture and allied activities (known as the primary sector), manufacturing and industries (called the secondary sector), and trade and services (or the tertiary sector).

At a low level of economic development, one finds predominance of the primary sector. The predominance of any sector can be viewed from the sectoral composition of national income and occupational structure. When, in an economy, primary sector is considered as the predominant one then it means that the contribution of this sector towards national income is the largest.

Not only this, the bulk of the population derives their livelihood from this sector.

On the other hand, in the sectoral composition of national income as well as in the occupational pattern, the importance of the secondary and tertiary sectors gets reduced. As economic development proceeds, the interrelationships among these sectors undergo a change.

As economic development takes place, the primary sector (from the standpoint of sectoral composition of national income and occupational pattern) loses its importance and secondary as well as tertiary sectors gain in importance. Thus, structural changes indicate economic development. This is what Colin Clark hypothesized.

We will see whether structural changes have taken place in India during the Plan Period:

i. Sectoral Composition of National Income:

In 1950-51, the contribution of the primary sector towards India's gross domestic product or GDP was nearly 55.9 p.c., while it was 14.9 p.c. for the secondary sector- Since then there has been a steady decline in the share of the primary sector in GDP and it declined to 19.4 p.c. in 2007-08.

On the other hand, over the plan period, as the industrial sector expanded, its contribution to GDP has been on the rise and it rose to 25 p.c. in 2007-08.

Along with the growth of the secondary sector, the services sector also registered a higher growth rate. In 2007-08, its contribution was 55.7 p.c. Thus, it is clear that as economic development took place during the last five decades of planning, the primary sector lost its pre-eminence, as against 29.2 p.c. in 1950. This, of course, is a sign of economic development.

One can make a better analysis of structural changes if the entire period is divided in the following sub-periods, as shown in Table 12.3:

The GDP growth rate between 1950-51 and 1979-80 came to be known as 'Hindu rate of Growth' of 3.5 p.c. p.a. But this long-term trend has been broken and in 2006-07 GDP growth rate went past 9 p.c. p.a. along with the rising growth trend of especially service sector and then industry sector. But primary sector's performance is rather unsatisfactory in the current year.

It is clear that despite the green revolution in agriculture, the share of the primary sector to GDP has been continuously declining. However, between 1980-81 and 1991-92, primary sector displayed a better growth rate. Variation in the performance of agriculture is always worth noticing.

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In the last three or four years, because of good monsoon, agricultural growth rate was remarkable, but in the year 2007-08, its performance has slackened in a larger degree. Further, the secondary and tertiary sectors are continuously growing at a double rate than that of the primary sector during the first decades. In the subsequent periods, the tertiary sector outstripped the growth of the secondary sector.

Unfortunately, between 1990-91 and 2007-08, there has been a fall in the growth of the secondary sector from 25.2 p.c. to 24.9 p.c. Thus, the pattern of structural changes

that has taken place in India has deviated from developed economies.
Present growth trend is dominated by the services sector. Very aptly, it is called service-led growth. But what we see in India is the 'excess growth of the service sector'. Possibly, India may display a new paradigm of development.
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Another important aspect of sectoral composition of national income is the contribution of the public sector towards GDP. As time progresses, the contribution of this sector rises. In 1970-71, the public sector contributed 14.9 p.c. towards GDP, but it rose to 24 p.c. in 2001-02.
However, following the introduction of new economic policy in 1991, the contribution of public sector enterprises towards GDP is on the decline. Their share in GDP at market prices declined from 11.68 p.c. in 2004-05 to 11.12 p.c. in 2005-06.
Finally, one can notice a structural change by studying the contribution of the commodity sector and non-commodity or service sector in net national product. Between 1950-51 and 1976- 77, the rate of growth of the services sector (4.90 p.c.) was satisfactory as compared to the growth of the commodity sector (2.90 p.c.).
Furthermore, between 1980-81 and 1995-96, growth rate of the commodity sector came to 5.30 p.c., while that of the services sector rose to 6.50 p.c. Same story has been repeated for the period 1991 -2008.
Expansion of the tertiary sector is tantamount to modernisation. Yet, we must say that the growth of the services sector at the expense of the commodity sector is undesirable. Though sectoral composition of national income itself indicates economic development, the growth of the service sector at the cost of the commodity sector reflects some sort of 'structural retrogression'.

ii. Occupational Pattern:

In the light of structural change, one finds India's occupational structure as a static one. But we know that as economic development takes place, occupational structure also undergoes a change. The Clark- Fisher thesis says that, in an expanding economy, employment situation shifts more and more in favour of secondary and tertiary sectors.
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That is to say, the number of people engaged in the primary sector tend to decline while it tends to rise in the other two sectors.
This sort of change in the occupational structure indicates economic development. But, considering the development of the Indian economy in the last six decades, recently one finds some favourable change in the occupational structure of India. Throughout the 20th century, the percentage of people engaged in agriculture has not fallen appreciably.
Even in 2001, 57 p.c. of the total population were engaged in the primary sector, compared to 72.1 p.c. in 1951.
On the other hand, between 1951 and 1981, percentage of population engaged in the secondary sector increased marginally from 10.6 p.c. to 13.5 p.c. but it declined to 12.7 p.c. in 1991 and then rose to 17.5 p.c. in 2001. The only sector that showed a steady rise in employment is the tertiary sector. It rose from 17.3 p.c. in 1951 to 25.8 p.c. in 2000. This is shown in Table 12.4.
Thus, it is clear that the occupational pattern is not only a static one but also an unbalanced one. In view of this, V. K. R. V. Rao commented that India's occupational structure exhibits 'structural retrogression.' This, of course, is not a healthy sign and it explains underdevelopment.
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The reasons behind such static occupational structure are:
(i) Massive rise in population, and
(ii) Inadequate growth of both industries and services sector. Only in recent year (2004-05), there has been a drop in the number of people dependent on agriculture. It is around 52 p.c.

iii. Development of Basic and Heavy Industries:

Immediately after independence, India's industrial structure was devoid of any heavy and basic industries. In other words, India's industrial structure at that time tilted heavily in favour of consumer goods industries. But under the impact of planning, especially the Second Five Year Plan (1956-1961), industrial structure had been diversified and newer and newer types of industries had been set up. This symbolizes economic development.

iv. Economic and Social Capital Formation:

By social capital we mean transport, irrigation, power, education, health, etc. Building up of social capital is one of the prerequisites of economic development. Infrastructural development helps quicker economic development. So, social capital formation is equivalent to economic development. During the plan period, we have made rapid strides in respect of construction of railway lines, irrigation, power, health and sanitation, education, etc.

Conclusion:

If all these are considered as criteria for development, then we must say that the Indian economy has witnessed enormous changes which are not only synonymous with development but also help the process of development.

Despite these, black spots of underdevelopment are still prominent. At the same time, it is true that we have been able to come out of the 'low level equilibrium trap' engineered by the British Raj. Signs of development are positive in nature.
Thus, we find both the pictures of development and underdevelopment. It exhibits thus pictures of contrast. The British economist Joan Robinson once remarked about India that whatever could be said about it, so could the opposite. Anyway, Indian economy can be labeled as an 'underdeveloped-developing economy.'

From <https://www.economicsdiscussion.net/indian-economy/changes-that-have-taken-place-in-the-indian-economy-after-1951/14150>

SDGs

02 November 2021 14:46

SDG	Stats/ Reports	Schemes	Case Studies
1 - No Poverty			
2 - Zero Hunger			
3 - Good heath and well-being			
4 - Quality Education			
5 - Gender Equality			
6 - Clean Water and Sanitation			
7 - Affordable and Clean Energy			
8 - Decent Work and Economic Growth			
9 - Industry, Innovation and Infra			
10 - Reduced Inequalities			
11 - Sustainable Cities & Communities			
12 - Responsible Consumption & Production			
13 - Climate Action			
14 - Life Below Water			
15 - Life on Land			
16 - Peace, Justice & Strong Institutions			
17 - Partnership for the Goals			

Corruption

08 June 2021 20:29

e-Governance

Definition

- Application of ICT in govt services to improve efficiency of communication & G2G, G2B, G2C transactions
- [Council of Europe] use of electronic technologies in three areas of public action
  - Relations b/w public authority and civil society
  - Electronic Democracy: Functioning of public authorities at all stages of the democratic process
  - Electronic public service delivery

Why?

- Complex governance
- Increasing citizens' expectations from the govt
- Reduced cost
- Increased transparency, accountability
- Real time governance w/ expanded reach
- Improved service delivery - better access to info, quality services to citizens

Internal benefits	External benefits
Avoid duplication Reduce txn costs Simplify bureaucratic procedures Greater efficiency Greater coordination and communication Enhanced transparency Info sharing b/w agencies Security of info mgmt	Faster service delivery Greater efficacy Increased flexibility of service use Innovation in service delivery Greater participation Greater citizen empowerment Citizen participation

Connotations

- e-Administration:
  - Modernise the state
  - Creation of data repositories for MIS Mgmt Info System
  - Computerisation of records
- e-Services:
- e-Governance: use ICT to improve ability of govt to address needs of society
  - Includes publishing of policy and program related info to transact w/ citizens
  - extends
- e-Democracy:

Objectives

- Better service delivery to citizens
- Ushering in transparency and accountability
- Empowering people through information
- Improve efficiency within government (Centre-states/ inter-state)
- Improve interface w/ business & industry

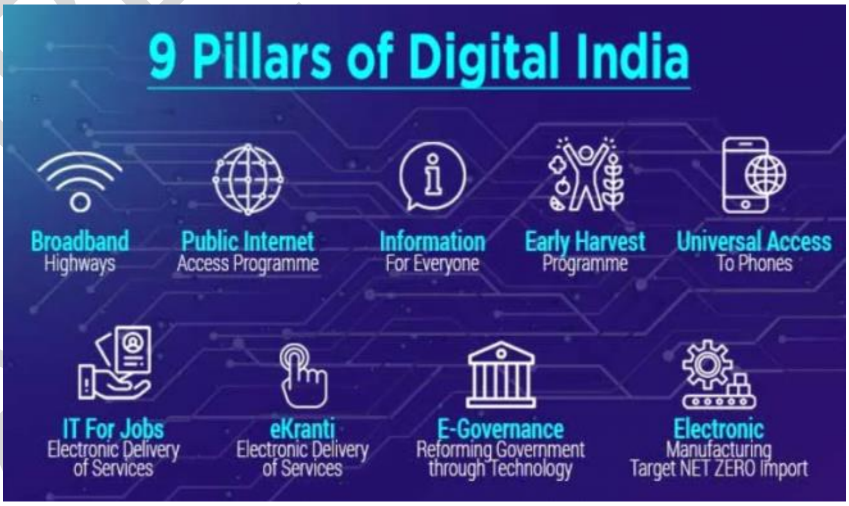
4 pillars: people, process, technology, resurces

Types of interaction
- G2G - Govt to Govt
- G2C - Govt to Citizen
- G2B - Govt to Business
- G2E - Govt to employees

Initiatives in India
- Bhoomi project (Karnataka)
- KHAJANE (Karnataka)
- e-Seva (Andhra)
- E-Courts
- E-District
- MCA21
- E-Office

Challenges

Economic	Social	Technical
Cost Reusability Maintainability Portability	Accessibility Usability Use of local languages Awareness Digital divide Privacy and security	Interoperability Security Privacy Authentication

Digital India
- Umbrella program
- Preparing India for a knowledge based transformation
- Launched by Meity
- 9 pillars
  - 

Initiatives under Digital India
- MyGov
- DigiLocker
- E-Hospital Online Registration Framework ORF
- National Scholarships Portal
- DARPAN

- PRAGATI - Pro-Active Governance and Timely Implementation
- CSC 2.0
- Mobile Seva
- Jeevan Pramaan
- NCoG National Centre of Geo-informatics
- NeGP National e-Governance Plan
- E-Kranti

signi

Crony Capitalism

Elitist Bias

Dj;;