GS SCORE

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GIST OF

ECONOMIC SURVEY

2019-20

VOL-1

CONTENT

CHAPTER 1

STATE OF THE ECONOMY IN 2020-21

WEALTH CREATION

The Invisible Hand Supported

The Economic Survey 2019-2020 has laid stress on wealth creation through the **'invisible hand of markets'** with the support of the **'hand of trust'**.

Invisible hand of markets

- The '**invisible hand of markets'** is Adam Smith's philosophy of wealth creation and economic development and it refers to the indirect or unintended benefits for society that result from the operations of a free market economy ("An Inquiry into the Nature and Causes of the Wealth of Nations").
- The Survey says that the traditional economic model was based on Adam Smith's '**invisible hand of markets'** and for this, it cites ancient texts from Kautilya's **Arthashastra** and Tamil saint and philosopher, Thiruvalluvar's **Thirukural**.
- The Survey says that the evidence since 1991 shows that the sectors that were liberalized grew significantly faster than those that remain closed. The open sectors like the Banking sector, cement, and steel, mutual funds have grown faster than the closed sectors like coal.
- The Survey says that the **benefits of wealth creation by the market forces** are sustainable:
  - Benefits accrue to several other stakeholders including employees, suppliers, government, etc.
  - Wealth creation by entrepreneurs correlates strongly with the foreign exchange revenues earned by the entrepreneurs' firms.
  - Wealth created by an entrepreneur helps the country's common citizens. Tax revenues enable Government spending on creating public goods and providing welfare benefits to the citizens.

Instruments for Wealth Creation

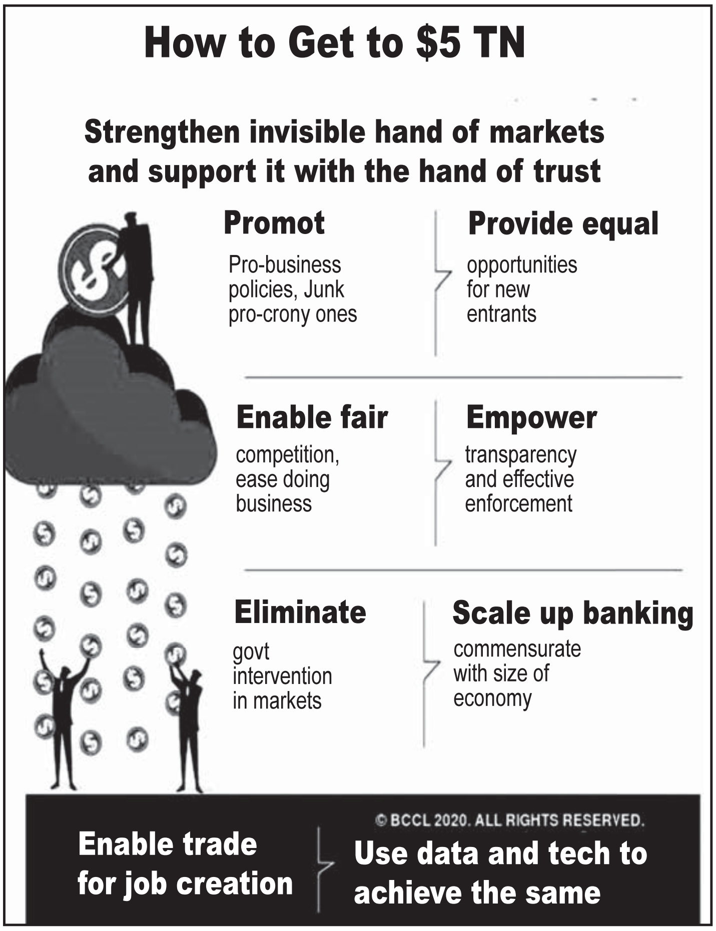
- **Equal opportunity for new entrants:**
  - New firm creation has gone up dramatically since 2014 in India. While the number of new firms grew at a cumulative annual growth rate of 3.8% from 2006-2014, the growth rate from 2014 to 2018 has been 12.2%. (World Bank Data)
  - As a result, from about 70,000 new firms created in 2014, the number has grown by about 80% to about 1,24,000 new firms in 2018. (World Bank Data)
  - Equal opportunity for new entrants in entrepreneurship enables efficient resource allocation and utilization,

facilitates job growth, promotes trade growth and consumer surplus through greater product variety, and increases the overall boundaries of economic activity.

- **Enable Fair Competition:**
  - **The Survey says that 'pro-crony' economy should be replaced by 'pro-business'** to correspond to an economy that enables fair competition for every economic participant.
  - India's aspiration to become a $5 trillion economy depends critically on promoting pro-business policies that provide equal opportunities for new entrants.
- **Ease of doing business:**
  - India made a substantial leap forward in The World Bank's Doing Business rankings from 142 in 2014 to 63 in 2019.
  - Yet, the pace of reforms in enabling ease of doing business needs to be enhanced so that India can be ranked within the top 50 economies on this metric. India continues to trail in parameters such as Ease of Starting Business, Registering Property, Paying Taxes, and Enforcing Contracts.
- **Eliminate policies that unnecessarily undermine markets through government intervention:**
  - The survey finds that by integrating "Assemble in India for the world" into Make in India, India can create INR 4 crores well-paid jobs by 2025 and INR 8 crores by 2030.
  - **Enable trade for job creation**
  - **Efficiently scale-up the banking sector to be proportionate to the size of the Indian economy.**

Hand of Trust

- Introducing the idea of "trust as a public good that gets enhanced with greater use", the Survey suggests that policies must empower transparency and effective enforcement using data and technology to enhance this public good.
- The Economic Survey has said "a feeling of suspicion and disrespect towards wealth creators is ill-advised," batting strongly — in one whole chapter — for India Inc which has been facing heat from enforcement agencies. It called for more pro-business measures to encourage wealth creation but cautioned against pro-crony policies that favour specific private interests.
- The Survey says that a market failure of trust happened around 2011-13 due to a few large **unscrupulous promoters.** This created large Non-Performing Assets (NPAs) in the banking system, especially for Public Sector Banks (PSBs).
- It said that while there is a case for government intervention when markets do not function properly, excessive intervention stifles economic freedom and creates 'deadweight loss'.



Hand of Trust

- In a market economy too, there is a need for the state to ensure a moral hand to support the invisible hand. Markets are liable to debase ethics in the pursuit of profits at all costs.

- The Survey introduces the idea of "trust as a public good that gets enhanced with greater use". Trust can be conceptualized as a public good with the characteristics of non-excludability, i.e., the citizens can enjoy its benefits at no explicit financial cost. Trust also has the characteristics of non-rival consumption, i.e., the marginal cost of supplying this public good to an extra citizen is zero.
- Adam Smith, who did not just advocate the "invisible hand", but equally the importance of "mutual sympathy" (i.e., trust). The same idea is reflected in the writings of Friedrich Hayek, who advocated not only economic freedom but also a set of general rules and social norms that applies evenly to everyone.
- It is also non-rejectable i.e., collective supply for all citizens means that it cannot be rejected. Unlike other public goods, trust grows with repeated use and therefore takes time to build. Lack of trust represents an externality where decision-makers are not responsible for some of the consequences of their actions.

Creative destruction

- Entrepreneurs introduce new products and technologies with an eye toward making themselves better off—the profit motive.
- New goods and services, new firms, and new industries compete with existing ones in the marketplace, taking customers by offering lower prices, better performance, new features, catchier styling, faster service, more convenient locations, higher status, more aggressive marketing, or more attractive packaging.
- In another seemingly contradictory aspect of creative destruction, the pursuit of self-interest ignites the progress that makes others better off.
- Producers survive by streamlining production with newer and better tools that make workers more productive.
- Companies that no longer deliver what consumers want at competitive prices lose customers and eventually wither and die.

Over time, societies that allow creative destruction to operate grow more productive and richer; their citizens see the benefits of new and better products, shorter workweeks, better jobs, and higher living standards.

- Herein lies the paradox of progress. A society cannot reap the rewards of creative destruction without accepting that some individuals might be worse off, not just in the short term, but perhaps forever.
- At the same time, attempts to soften the harsher aspects of creative destruction by trying to preserve jobs or protect industries will lead to stagnation and decline, short-circuiting the march of progress.
- Schumpeter's enduring term reminds us that capitalism's pain and gain are inextricably linked.
- The process of creating new industries does not go forward without sweeping away the preexisting order.

Application of creative destruction:

Equal opportunity for new entrants in entrepreneurship enables efficient resource allocation and utilization, facilitates job growth, promotes trade growth and consumer surplus through greater product variety, and increases the overall boundaries of economic activity.

A key dimension of opportunity pertains to that between new entrants and incumbents. While incumbents are likely to be powerful, influential, and have a voice that is heard in the corridors of power, new entrants are unlikely to possess these advantages. Yet, new entrants bring path-breaking ideas and innovation that not only help the economy directly but also indirectly by keeping the incumbents on their toes. Therefore, the vibrancy of economic opportunities is defined by the extent to which the economy enables fair competition, which corresponds to a "pro-business" economy. This is in contrast to the influence of incumbents in extracting rents from their incumbency and proximity to the corridors of power, which corresponds to the "pro-crony" economy. It is crucial in this taxonomy to relate the term "pro-business" to correspond to an economy that enables fair competition for every economic participant.

Conclusion

The theme around wealth creation and its role in the economy is notable as it stokes the spirit of entrepreneurship across rural and urban India. Hand of trust stresses on the governance and ethics to be the strong pillars on which industry can contribute to India's wealth story.

The survey posits that India's aspiration to become a $5 trillion economy depends critically on strengthening the invisible hand of markets and supporting it with the hand of trust. The invisible hand needs to be strengthened by promoting pro-business policies to:

- provide equal opportunities for new entrants, enable fair competition and ease doing business,
- eliminate policies that unnecessarily undermine markets through government intervention,
- enable trade for job creation, and
- efficiently scale upthe banking sector to be proportionate to the size of the Indian economy.

Introducing the idea of "trust as a public good that gets enhanced with greater use", the Survey suggests that policies must empower transparency and effective enforcement using data and technology to enhance this public good.

Practice Question

- **The Economic Survey 2019-20 says that wealth creation through the 'invisible hand' supported by the 'hand of trust' is sustainable for Indian economy. Analyse. Suggest some viable alternative mechanism to take off from the current slowdown.**
- **It is said that 'pro-crony' economy should be replaced by 'pro-business' economy for the realization of $5 trillion economy goal. In the light of the statement bring out a list of suggestions for wealth creation in the country amidst the new challenges.**

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CHAPTER 2

ENTREPRENEURSHIP AND WEALTH CREATION AT THE GRASSROOTS

Overview of the chapter

- The "Startup India" campaign of the Government of India recognizes entrepreneurship as an increasingly important strategy to fuel productivity growth and wealth creation in India.
- This chapter examines the content and drivers of entrepreneurial activity at the bottom of the administrative pyramid – over 500 districts in India.
- India ranks third in the number of new firms created.
- Data shows that new firm creation has gone up dramatically in India since 2014.
- New firm creation in services is significantly higher than that in manufacturing, infrastructure or agriculture.
- Entrepreneurship at the bottom of the administrative pyramid – a district – has a significant impact on wealth creation at the grassroots level.
- Birth of new firms is very heterogeneous across Indian districts and across sectors.
- Literacy and education in the district foster local entrepreneurship significantly.
- The eastern part of India has the lowest literacy rate of about 59.6 per cent according to the census of 2011. This is also the region in which new firm formation is the lowest.
- The level of local education and the quality of physical infrastructure in the district influence new firm creation significantly.

Other Major Outcomes

- Entrepreneurship as a strategy to fuel productivity growth and wealth creation.
- The birth of new firms in India is heterogeneous and dispersed across districts and sectors.
- Ease of Doing Business and flexible labour regulation enable new firm creation, especially in the manufacturing sector.
- The survey suggests enhancing the ease of doing business and implementing flexible labour laws can create maximum jobs in districts and thereby in the states.
- Literacy, education and physical infrastructure are the other policy levers that district and state administrations must focus on foster entrepreneurship.
- In general, the entrepreneurial intensity is significantly higher for the developed economies. It is also growing across all countries except Brazil, which has seen a significant decline from 2010 to 2018.

Entrepreneurship and GDP

- Entrepreneurs are seen as agents of change that accelerate innovation in the economy.
- On a per-capita basis, India has low rates of entrepreneurship in the formal economy.
- A large number of India's enterprises operate in the informal economy which is not captured in these data.
- It is clear that entrepreneurial activity has a significant positive impact on GDP.
- Though the peninsular states dominate entry of new firms, entrepreneurship is dispersed across India and is not restricted just to a few metropolitan cities.

Spatial Heterogeneity in Entrepreneurial Activity

- The impact of new firm entry is greatest in the Manufacturing and Services sectors.

- All regions demonstrate strong growth in entrepreneurial activity over time with the exception of the eastern states.
- The agriculture sector isnot geographically localized and seems to be distributed evenly across most districts in India.
- States in the highest quintile of relative entrepreneurial activity in the Agriculture sector are Manipur, Meghalaya, Madhya Pradesh, Assam, Tripura, and Orissa.
- North-Eastern states are more likely to be private enterprises in the food business such as organic produce farms and tea plantations.
- The majority of the establishments in Madhya Pradesh and Orissa are farmer producer companies.
- The manufacturing sector is highest in the regions of Gujarat, Meghalaya, Puducherry, Punjab and Rajasthan.
- States with inflexible labour laws such as West Bengal, Assam, Jharkhand, Kerala, and Bihar were classified in the lowest quintiles of entrepreneurial activity.
- Gujarat's labour reforms are viewed as pro-worker.
- Entrepreneurial activity in the Infrastructure sector is highest in the states of Jharkhand, Arunachal Pradesh, Himachal Pradesh, Mizoram, Jammu and Kashmir, and Biharhave been characterized by poor levels of extant infrastructure.

Determinants of Entrepreneurial Activity

- Following are the Major Determinants of Entrepreneurial Activity, which are limited to district level conditions:
  - Local population characteristics
  - District-level conditions
  - Agglomeration economies in the birth of new firms
- The focus is on two key sets of district-level attributes that drive the level of entrepreneurial activity in the district
  - **Social infrastructure**: Social infrastructure in a district largely relates to the general education levels in the district. Higher education levels in a district enable the development of better human capital that relates to an increased supply of ideas and entrepreneurs. Higher education also increases the supply of talent available to entrepreneurs for managing and growing their companies.
  - **Physical infrastructure**: It includes access to basic physical infrastructure in the district as well as physical connectivity that captures across-district infrastructure in most cases. The access to physical infrastructure in a district is measured using the proportion of villages in a district that is connected by tar roads and it correlates with access to other public goods like electricity, water/ sanitation facilities, and telecom services, which are fundamental to all businesses.

Practice Question

- **What are the major Determinants of Entrepreneurial Activity which are limited to district level conditions? Also, throw light on Social and physical infrastructure as major Determinants of Entrepreneurial Activity.**
- **India faces Spatial Heterogeneity in Entrepreneurial Activity. Critically Examine. Also, explain the relationship between Entrepreneurship and GDP.**

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CHAPTER 3

PRO-BUSINESS VERSUS PRO-CRONY

- **Terms**
  - **Cronyism:** It is the practice of partiality in awarding jobs and other advantages to friends or trusted colleagues, especially in politics and between politicians and supportive organizations.
  - **Dutch Disease:** It is an economic term for negative consequences. It is primarily associated with the new discovery or exploitation of a valuable natural resource and the unexpected repercussions that such a discovery can have on the overall economy of a nation.

This chapter deals with the benefits of Pro-Business policies. It also discuss the drawbacks of cronyism.

The Economic Survey 2020 noted that despite impressive progress in enabling competitive markets, pro-crony has destroyed value in the economy. It also pointed out that in order to become a $5 trillion economy, India must wean away from pro-crony policies. Pro-crony policies, in contrast to pro-business ones, erode wealth in the economy as cronyism fosters inefficiencies by 'inhibiting the process of creative destruction'. These policies may promote narrow business interests and hurt social welfare.

Pro-Business, Creative Destruction and Wealth Creation

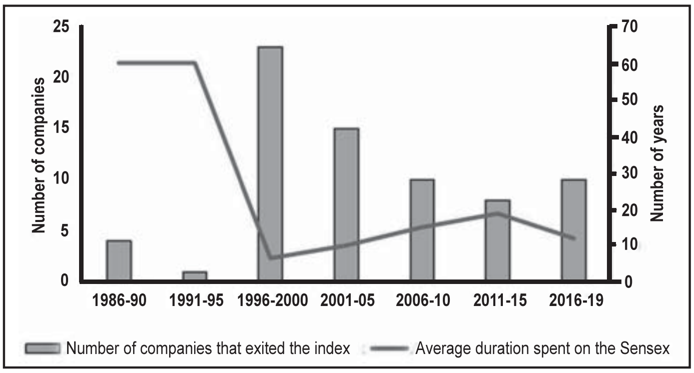
The liberalization of the Indian economy in 1991 enabled the forces of creative destruction, generating benefits. Post liberalization, there was an increase in market dynamism in the pro-business India of the post-liberalization period. After the market reforms of 1991, the Sensex has not only grown but has grown at an accelerating pace. It took over 13 years to cross 5000 points which wereachieved in 1999. The time taken to achieve each incremental milestone has substantially reduced over the years.

Composition of the Sensex and its evolution:

In the initial years of Sensex (during its inception), there was a lack of dynamism in the index that could be proved by looking at the firms that constituted the index. However, the years following 1991 liberalization saw the rapid emergence of new firms, new ideas, new technologies and new operating processes, causing a steep revision of the Sensex in 1996.

After 1996, the Sensex underwent more frequent revisions, owing to the more dynamic nature of a substantially more competitive Indian market.

Figure shows the number of firms that exited (moved out) the Sensex in each five-year period following 1986:



Pro-business policy, i.e., liberalization caused a spike in the number of firms churned in the years that immediately followed it, but the churn rate did not decline to pre-liberalization levels in later years. The figure also indicates the average duration a Sensex constituent remains on the index. Following the 1991 reforms, the average duration a firm spent on the index declined drastically. Currently, a firm is expected to remain on the index for only 12 years – one-fifth of the expected duration prior to the reforms.

Whether the churn illustrated above was beneficial to the Indian economy?

- The Sensex represents a process of **creative destruction** rather than spurious dynamism. The firm that displaced the incumbents on the Sensex brought with them new ideas, technologies and processes.
- New sectors like banks and financials entered the index for the first time, eroding the predominance of the manufacturing sector on the index, placing the services sector on the map for the first time, and reflecting the far-reaching changes that the Indian economy was witnessing in the wake of liberalization.
- Financials and information technology, which were virtually nonexistent in the Sensex of the early 1990s, are responsible for more than 50 percent of the market share of the Sensex today. With the entry of these new sectors, today's Sensex is far less concentrated than the Sensex of the 1980s and 1990s and mirrors the far lower sectoral concentration of the Indian economy as a whole.

Sensex being democratic in size and including different sectors

The prime mover of the economy has shifted from agriculture to services. Almost 60 percent of Indian GDP is attributable to the services sector. The number of Sensex firms in manufacturing has reduced while those in services have increased between 1988 and 2019. Today's Sensex is not only composed of a larger number of sectors but is also far more democratic in terms of the size of companies.

Is the dominance of financials and information technology in the Sensex, a cause of concern?

- **The economic survey explains this:**

  At first glance,thesetrends indicate a cause for concern: a potential case of more concentration or a reversal in creative destruction in the economy. However, this is not the case. The reasons are:

  - Firstly, the rising share in market capitalization has been accomplished by a rise in the number of companies rather than a rise in the size of incumbents, suggesting greater competition within these sectors.
  - Secondly, using the **Herfindahl Index** to analyse the degree of competition within the two sectors reveals an overall decline in concentration in both sectors. However, the IT sector has recently begun to show a slight increasing trend in the HerfindahlIndex, indicating that there is room to increase competition in the sector.

Three key insights emerge from the analysis above

- First, we can expect today's dominant firms to remain dominant for only one-fifth of the time that their liberalization counterparts did.
- Second, sectors once considered mainstays of the Indian economy are being displaced by new sectors bringing with them new technologies and products. The competitive advantage of entrenched firms is being rapidly challenged by new, smaller and more agile firms; every five years, roughly one in three firms in the Indian economy can expect to be challenged in a massive way by the forces of creative destruction.
- Finally, the difference between the sizes of the largest and smallest firms is rapidly shrinking, and consequently, monopoly power in the economy is declining and making way for more competitive markets. Consumers benefit from an increased variety of goods and services, lower prices and incessant improvement in the quality of existing products.

Difference between pro-business and pro-crony policy

Pro- Business	Pro-crony
Firms compete on a level playing field	Some incumbent firms may receive preferential treatment
Resource allocation in the economy isefficient	Resource allocation in the economy maynot be efficient
Citizens' welfare is maximized	Citizens' welfare may not be maximized

Benefits of creative destruction

- It brings new innovations into the market that serve people better than the old technologies they displace.
- It brings new firms into the markets, which compete with existing firms and lower prices for consumers.
- It brings dynamism to the marketplace that keeps firms on their toes, always on the lookout for the next big way to serve consumers.
- It has only one prerequisite a pro-business policy stance that fosters competitive, unfettered markets.

Pro-Crony and Wealth Destruction

Pro-crony policies, in contrast to pro-business ones, erode wealth in the economy as **cronyism** fosters inefficiencies by inhibiting the process of creative destruction.

- Prior to 2010, if the firm's promoters had "connections"(firms that may benefit from pro-crony policies), it clearly paid a firm and its shareholders.
- "Connected" firms outperformed the broad index of the stock market by 7 percentage points a year on average till 2010. This pre-2010outperformance of "connected" firms indicates the possible extent of rents extracted by these firms at society's expense.
- In contrast, the significant post-2010 under-performance – following the release of the CAG report – illustrates the fact that such "connected" firms were likely to have been inefficient ones

Pro-crony, when compared to pro-business, policies can create various indirect costs as well. When opportunities for crony rent-seeking exist, firms shift their focus away from growth through competition and innovation towards building political relationships, thus undermining the economy's capacity for wealth creation. Further, the rents sought by cronies are paid for by genuine businesses and citizens who are not receiving any preferential treatment. Such a transfer of wealth exacerbates income inequality in the economy, as crony firms leverage their connections to extract a larger share of existing wealth instead of expanding the available wealth.

Discretionary Allocation of Natural Resources Vis-À-Vis Allocation via Auctions

India has the fifth-largest coal reserves in the world behind the USA, Russia, China, and Australia. Coal is the most important indigenous source of energy for India; it meets more than half of India's energy requirements.

The EconomicSurvey explains in this chapter that how political connection used in gaining the allocation of resources affects the economy. It gives the example of coal mines allocation.

- Prior to 1993, no specific criteria for the allocation of captive mines existed. Amendments introduced to the Coal Mines (Nationalization) Act 1973 in June 1993 allowed private companies to carry out coal mining for captive use.
- In July 1992, a screening committee was set up under the chairmanship of the Secretary of Coal to consider applications made by various companies interested in captive mining and to allocate coal blocks for development.
- In August 2012, the CAG report on coal block allocations examined the effectiveness of the processes adopted in the allocation of coal blocks.On 24 September 2014, the Supreme Court of India cancelled 214 of the 218 allocations made by the Government of India over a span of 15 years.
- The Coal Mines (Special Provisions) Bill, 2014, and its subsequent rules were passed in December 2014, and

the Coal Mines (Special Provisions) Act, 2015, was included in the Indian mining legislative framework. The Act ensured that any future allocation of coal blocks would solely be through competitive auctions.

Riskless Returns: The Case of Willful Default

- Although the primary tenet of any investment is that high expected rewards come with high risk, many Indian firms have found a peculiar way to reap rewards without commensurate risk.
- Many firms enjoy profits in good times but often rely on the state or their financiers to bail them out in bad times. A particularly egregious form of such riskless return is the phenomenon of willful default.
- Willful default occurs when firms take loans, divert the proceeds out of the firm for the personal benefit of owners, default on loans and declare bankruptcy, thereby expropriating a range of stakeholders – lenders, minority shareholders, employees regulators, and state coffers.
- Every rupee lent to a willful defaulter constitutes an erosion of wealth. Money lent to a genuine business creates assets, which generate profit and employment.
- On the other hand, money lent to a firm that has no intention of investing the proceeds in ex-ante profitable projects is money wasted.
- Besides making cronies rich, it contributes nothing to the economy.

As of 2018, willful defaulters owed their respective lenders nearly 1.4 lakh crores.

Distinguishing characteristics of willful defaulters in India

- Willful defaulters tend to be more opaque than both non-defaulters and firms that default out of genuine distress.
- Promoters at the helm of willfully defaulting firms pledge, on average, almost 50 percent of their shareholding to lenders. In contrast, the corresponding figures for distress defaulters and non-defaulters are 30 percent and 11 percent respectively.
- Willful defaulters make large loans to related parties. The outstanding balance of loans given to related parties for distress defaulters and non-defaulters is negative, meaning that the average firm in the sample is a net recipient of loans from related parties. Willful defaulters, on the other hand, are net givers of loans. Peculiarly, they are net recipients of external loans and defaulters on these loans at the same time that they are net givers of loans to their related parties.

This is consistent with a theory of issuing debt only to siphon the proceeds out of the firm for the personal benefit of owners and their cronies.

Conclusion

While pro-business policies increase competition, correct market failures, or enforce business accountability, pro-crony policies hurt markets. Such policies may promote narrow business interests and may hurt social welfare because what crony businesses may want may be at odds with the same. For example, crony businesses ma lobby the government to limit competition in their industry, restrict imports of competing goods or reduce regulatory oversight. These initiatives enhance the lobbying group's income but undermine markets and reduce aggregate welfare. Thus, a pro-crony policy can inadvertently end up being hurtful to businesses in general.

Practice Question

- **What do you understand by Willfull default? Give the criteria to declare a borrower as willfull defaulter in India? How does it affect the borrower after being termed as willful default?**
- **Pro-crony policies erode wealth in the economy as cronyism fosters inefficiencies by inhibiting the process of creative destruction. Elucidate in context of the Indian economy.**

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CHAPTER 4

UNDERMINING MARKETS

WHEN GOVERNMENT INTERVENTION HURTS MORE THAN IT HELPS

- The Economic Survey gives an unapologetic defense of wealth creation. The survey stresses that many of the government interventions, although well-intended, over the years in sectors such as pharmaceuticals and agriculture have been counterproductive, and undermined the ability of the markets to support wealth creation and leads to outcomes opposite to those intended.
- **Economic freedom** enhances wealth creation by enabling efficient allocation of entrepreneurial resources and energy to productive activities, thereby promoting economic dynamism. According to two global indices, India still remains "mostly unfree" in terms of economic freedom.
    - India ranks 79thamong 162 countries with 108th rank in business regulation in the Index of Global Economic Freedom brought out bythe Fraser Institute.
    - In the Index of Economic Freedom developed by the Heritage Foundation, India was categorized as 'mostly unfree' with a score of 55.2 in 2019 ranking the Indian economy 129th among 186 countries, i.e., in the bottom 30 percent of countries.
- The low rank in economic freedom makes it evident that India chains opportunities for wealth creation by shackling economic freedom for its citizens. Excessive intervention, especially when markets can do the job of enhancing citizens' welfare perfectly well, stifles economic freedom.
- There are two types of intervention by the Government:
    - **Direct participation** as a market maker or as a buyer or supplier of goods and services. For example,banking, railways, civil aviation, etc.
    - **Indirect participation** through regulation, taxation, subsidy or other influence. For example,food and fertilizer subsidy, drug prices, etc.
- Any Government intervention affects the **dynamic interaction of supply and demand** in markets and consequently distorts market equilibrium.
- Government intervention in the market affects both consumer and producer welfare. The chance to create both producer and consumer welfare from goods sale get wasted due to price distortion and it leads to '**deadweight loss**' - income that is lost forever. Such interventions also establish **artificial prices** in the market for a good which promotes rent-seeking, corruption and low incentive to producers to invest further.
- There are four **anti-diluvian laws** used by the Government to intervene in the market, which eventually distorts it and hampers wealth creation.

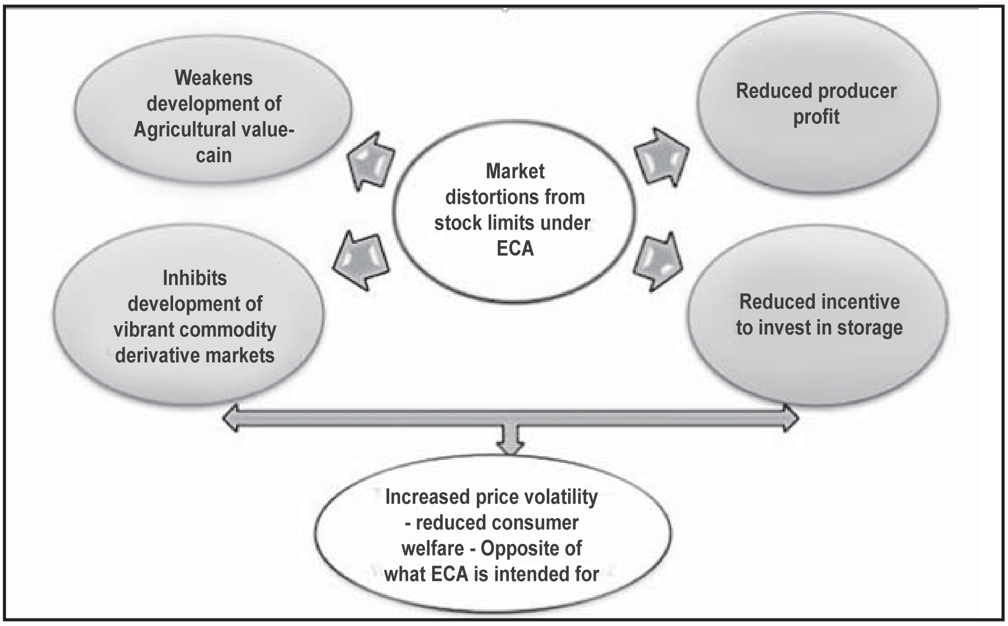
Essential Commodities Act, 1955

- Essential Commodities Act (ECA), 1955 was enacted to control the production, supply and distribution of, and trade and commerce in, certain goods considered as essential commodities.
- The Act itself does not lay out Rules and Regulations but allows the States to issue Control Orders related to dealer licensing, regulate stock limits, restrict the movement of goods and requirements of compulsory purchases under the system of the levyat the time when there is a rise in the price of any of these essential commodities.
- **Food and civil supply authorities in States execute the provisions of the Act.**
- The major commodity groups included in the Act are:

1. Petroleum and its products, including petrol, diesel, kerosene, Naphtha, solvents, etc.
2. Foodstuff, including edible oil and seeds, vanaspati, pulses, sugarcane and its products like Khansari and sugar, rice paddy
3. Raw Jute and jute textiles
4. Drugs- prices of essential drugs are still controlled by the DPCO
5. Fertilizers- the Fertiliser Control Order prescribes restrictions on transfer and stock of fertilizers apart from prices
6. Onion and Potato
7. Seeds of food crops, fruits, vegetables, cattle fodder, Jute and Cotton seeds

The purported aim of this Act is to ensure the affordability of essential commodities for the poor by restricting hoarding. It is overarching legislation regulating agricultural marketing and production.

- Agriculture is a seasonal activity, it is essential to store produce for the off-season to ensure smoothened availability of a product at stable prices throughout the year. Therefore, producers face an inherent tradeoff between building an inventory in the harvest season and drawing down inventory in the lean season.
- ECA interferes with this mechanism by disincentivizing investments in warehousing and storage facilities due to frequent and unpredictable imposition of stock limits.
- The Act does not distinguish between firms that genuinely need to holdstocks owing to the nature of their operations, and firms that might speculatively hoard stocks as stockholding limits apply to the entire agriculture supply chain, including wholesalers, food processing industries and retail food chains.
- The act reduces the effectiveness of free trade and the flow of commodities from surplus areas to markets with higher demand.
- The Act distorts markets by **increasing uncertainty and discouraging the entry of large private sector players into agricultural-marketing**. These market distortions further aggravate the price volatility in agricultural commodities- the opposite of what it is intended for. Example - the recent rise in onion prices.



The ECA was enacted at a time when speculative hoarding and black marketing was a threat as agricultural markets were fragmented and transport infrastructure was poorly developed. But the Act, while penalizing speculative hoarding, also ends up penalizing the much desirable consumption smoothing that storage provides. With the agricultural markets in India increasingly becoming more integrated and competitive, the utility of the Act is dubious and is incompatible with the development of an integrated competitive national market for food.

The anti-hoarding provisions of ECA discourage open reporting of stock holdings, storage capacities, trading and carry forward positions. There is no aggregated data of the total private storage capacity available in the country, which would enable policy makers to assess the impact of any production shocks on the prices.

The act discourages investment in modern methods of storage and in market intelligence, the lack of information on trades makes it harder for market participants to make accurate forecasts for the future. Supporting the development of commodity futures markets would help efficient discovery of market expected future prices, which can provide a better basis for private storage decisions and avoid 'volatility in prices. The development of effective forecasting mechanisms, stable trade policies, and increasing integration of agricultural markets can serve the purpose of stabilizing the prices of agricultural markets more efficiently than government fiat imposed through ECA.

The government should instead strengthen the **Price Stabilization Fund (PSF**), set up in 2014-15 to help regulate the price volatility of important agri-horticultural commodities like onion, potatoes, and pulses. It provides for maintaining a strategic buffer of the commodities like pulses and onions for subsequent calibrated release to moderate price volatility and discourage hoarding and unscrupulous speculation and discourage hoarding and unscrupulous speculation. For building such stock, the scheme promotes direct purchase from farmers/farmers' association at farm gate/Mandi. The PSF is utilized for granting interest-free advance of working capital to Central Agencies, State/UT Governments/Agencies to undertake market intervention operations. Apart from domestic procurement from farmers/wholesale mandis, import may also be undertaken with support from the Fund.

Drug Price Controls Under ECA

- In India, the Government has historically relied on price controls to regulate the prices of pharmaceutical drugs,to avoid poor households from falling into poverty, through the National Pharmaceutical Pricing Authority (NPPA) and Drug (Prices Control) Order (DPCO).
- Stock limits and price controls under the ECA lead to sub-optimal outcomes which are actually opposite to what the Act is mandated to achieve. The Act interferes with the functioning of the markets and provides incentives that are detrimental to wealth creation thereby adversely affecting both social welfare and economic development.
- ECA needs to be repealed and replaced by market-friendly interventions like price stabilization funds, Direct Benefit Transfers (DBT) of support to consumers, incentives to innovations, increasing market integration and smooth flow of goods and services.

Government intervention in grain markets

- The government controls input prices such as those of fertilizer, water, and electricity, sets output prices, undertakes storage and procurement through administrative machinery, and distributes cereals across the country through the PDS. This is done to achieve food security while ensuring remunerative prices to producers and safeguarding the interest of consumers by making supplies available at affordable prices.
- Food Corporation of India is mandated to purchase, store, move/transport, distribute and sell foodgrains and other foodstuffs.
  - The government has emerged as the single largest procurer and hoarder of foodgrains. It procures around 40-50 percent of the total market surplus of rice and wheat. This disincentivizes the private sector to undertake long-term investments in procurement, storage, and processing of these commodities
- Government procurement largely of Rice and Wheat supports the MSPs of farmers. MSPs are designed to be indicative prices for producers at the beginning of the sowing season and floor prices as an insurance mechanism for farmers from any fall in prices.
- The increasing trend in the prices has served to give a signal to farmers to opt for the crops which have an assured procurement system (Rice and Wheat).
- Market prices do not offer remunerative options for the farmers and MSPs have, in effect, become the maximum prices rather than the floor price – the opposite of the aim it is intended for.
- **The current mix of policies of assured procurement (at MSPs), storage (through a monopolist administrative government organization) and distribution under TPDS have contributed to building up a high-cost foodgrain economy.**
  - These policies have led to the burgeoning burden of food subsidy which largely covers the procurement cost of FCI (the difference between the MSP and the Central issue prices (CIP) of foodgrains under PDS) and distribution and carrying costs of FCI. Given fiscal strains affect the allocation of funds to capital expenditure.

- Investments are the crucial input to increase productivity, the increasing focus on subsidies is harming the growth of the agricultural sector in the long-run. This imbalance between subsidies and investments needs to be urgently corrected for sustainable growth in Indian agriculture and overall inclusive growth.

India has moved from being a food scarce country to a food surplus country with a substantial increase in production and has emerged as a net exporter of cereals. The Government policies of assured procurement and distribution gave the right incentives to increase production at that time. The current foodgrain economy is, however, riddled with various economic inefficiencies. These policies, therefore, need to move on now to incentivize diversification and environmentally sustainable production.

The farmers need to be empowered through direct investment subsidies and cash transfers, which are crop neutral and do not interfere with the cropping decisions of the farmer. through direct investment subsidies and cash transfers, which are crop neutral and do not interfere with the cropping decisions of the farmer.

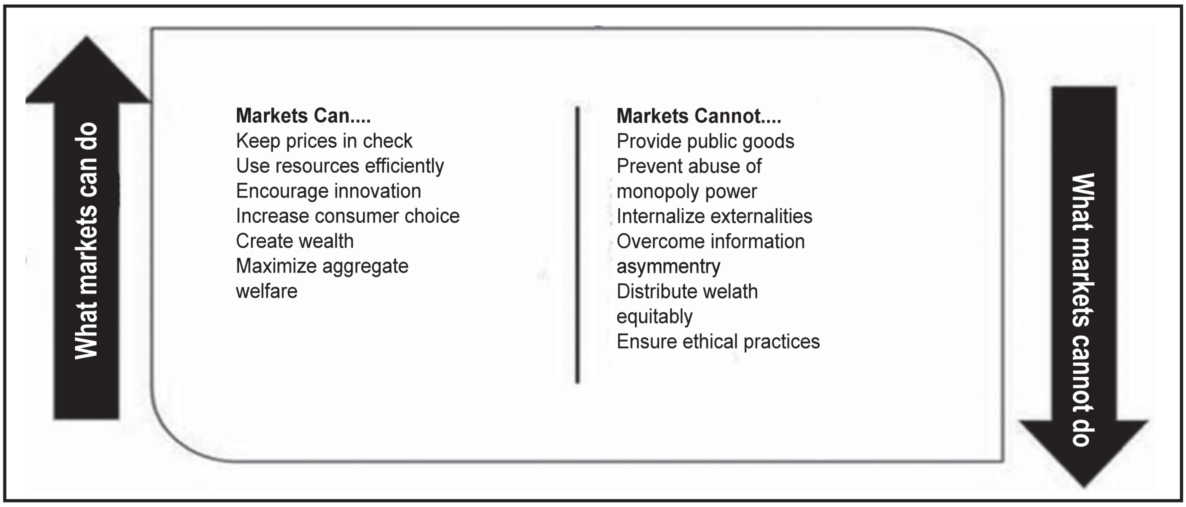
Internationally, there is a move towards conditional cash transfers (CCTs), aimed at tackling problems of food insecurity and poverty and for nudging people towards improved health and education levels. Therefore, the foodgrains policy needs to be dynamic and allow switching from physical handling and distribution of foodgrains to cash transfers/food coupons/ smart cards. At the macro level, agricultural marketing, trade (both domestic and foreign) and distribution policies need to be aligned so that farmers receive the correct signals for diversification into remunerative and sustainable production.

Debt waivers

- The phenomenon of granting debt waivers to farmers just before or after an election, to fulfill the promise made in the election manifesto, has become widespread after the large-scale farm debt waiver announced by the union government in 2008.Government intervention in credit markets, in the form of full or partial, conditional or unconditional, debt relief has become increasingly common at the state level in India.
- Proponents of debt waivers to farmers postulate that borrowers suffer from the problem of **"debt overhang"**. This refers to a situation where all current income gets used up in repaying the accumulated debt, leaving little incentives to invest either in physical or human capital.
  - Any incremental benefit of such investment in physical or human capital is likely to go to the lenders in the form of repayment of existing obligations and not the farmer. Farmers are unlikely to receive new funding, either equity or debt, as the ability of the borrower to repay additional loans or grow his/her business/ farm is in question.
  - A debt waiver helps the borrowers to come out of the debt trap as it cleans their balance sheet and reduces the burden of debt servicing. This clean-up of borrowers' balance sheet is likely to lead to both new investments as well as fresh fund rising as borrowers' repayment capacity increases even if there is no change in income.
- The survey examines the 2008 debt waiver offered by the Government of India.
  - It found that neither agricultural investment nor productivity increased after the waiver. Also, there was little impact on consumption as well.
- Debt waivers impact credit markets negatively as well. Debt relief can help as long as they are awarded under exceptional circumstances and remain unanticipated.
  - An anticipated waiver may lead to moral hazard and destroy the credit culture. Loan performance deteriorated the most in areas that were headed for election, indicating strategic default in anticipation of waiver.
  - The waiver led to increased loan defaults on future loans and no improvement in wages, productivity, or consumption.
  - It ends up reducing the formal credit flow to the very same farmers it intends to help.

An unconditional and blanket debt waiver is a bad idea. It does not achieve any meaningful real outcomes for the intended beneficiaries while the costs to the exchequer are significant. A waiver can at best be an **emergency medicine** to be given in **rare cases** after a thorough diagnosis and identification of illness and not a staple diet. In most cases, its side effects, the unintended consequences, far outweigh any plausible short term benefits.

Conclusion



Competitive markets are effective in allocating resources in an economy. However, while the concept of a completely efficient market is rare, the costs of Government intervention may outweigh the benefits when "market failures" – a term that economists use to denote situations where markets may not work very well in allocating resources – are not severe.

There are several areas in the Indian economy where the Government needlessly intervenes and undermines markets. It is wrong to arguethat there should be no Government intervention. Instead, interventions that were apt in a different economic setting, possibly because the "market failures" were severe then, may have lost their relevance in a transformed economy where the "market failures" are not severe For example, ECA 1955 owes its origin in times of shortage and inefficient linking of markets. With enhanced production and integration of markets, these Acts have become an instrument of coercion and inhibit the proper functioning of markets of these essential commodities.

Each department and ministry in the Government must systematically examine areas where the Government needlessly intervenes and undermines markets. Eliminating such instances of needless Government intervention will enable competitive markets and thereby spur investments and economic growth.

Practice Question

- **"Excessive intervention by the government stifles economic freedom "In the light of this statement explain how the Essential Commodities Act, 1955 affects the efficient development of the agricultural market in India.**
- **"Indian economy is replete with examples where Government intervenes even if there is no risk of market failure" Elaborate**

CHAPTER 5
CREATING JOBS & GROWTH BY SPECIALIZING TO EXPORTS IN NETWORK PRODUCTS

Total Overview of the chapter

- Survey says India has unprecedented opportunity to chart a China-like, labour-intensive, export trajectory.
- By integrating "Assemble in India for the world" into Make in India, India can:
  - Raise its export market share to about 3.5% by 2025 and 6% by 2030.
  - Create 4 crore well-paid jobs by 2025 and 8 crores by 2030.
- Exports of network products can provide one-quarter of the increase in value-added required for making India a $5 trillion economy by 2025.
- The survey suggests a strategy similar to the one used by China to grab this opportunity:
  - Specialization at large scale in labour-intensive sectors, especially network products.
  - A laser-like focus on enabling assembling operations at a mammoth scale in network products.
  - Export primarily to markets in rich countries.
  - Trade policy must be an enabler.
- Survey analyses the impact of India's trade agreements on overall trade balance:
  - India's exports increased by 13.4% for manufactured products and 10.9% for total merchandise.
  - Imports increased by 12.7% for manufactured products and 8.6 % for total merchandise.
  - India gained a 0.7% increase in trade surplus per year for manufactured products and 2.3% per year for total merchandise.

Other major outcomes

- The current environment for international trade presents India an unprecedented opportunity to chart a China-like, labour-intensive, export trajectory and thereby create unparalleled job opportunities for our burgeoning youth.
- By integrating **"Assemble in India for the world"** into **"Make in India"**, India can raise its export market share to about 3.5% by 2025 and 6% by 2030.
- One-quarter of the increase in value-added required for making India a $5 trillion economy by 2025 can come from exports of network products.
- China's remarkable export performance vis-à-vis India is driven primarily by deliberate specialization at large scale in labour-intensive sectors, especially "network products", where production occurs across Global Value Chains (GVCs) operated by multi-national corporations.
- China used this specialised strategy to export primarily to markets in rich countries.
- Growth in exports provides a much-needed pathway for job creation in India.
- The US-China trade war is causing major adjustments in Global Value Chains (GVCs) and firms are now looking for alternative locations for their operations.
- India must focus on a group of industries, referred to as "network products", where production processes are globally fragmented and controlled by leading Multi-National Enterprises (MNEs) within their "producer-driven" global production networks.
- Examples of network products include computers, electronic and electrical equipment, telecommunication equipment, road vehicles, etc.

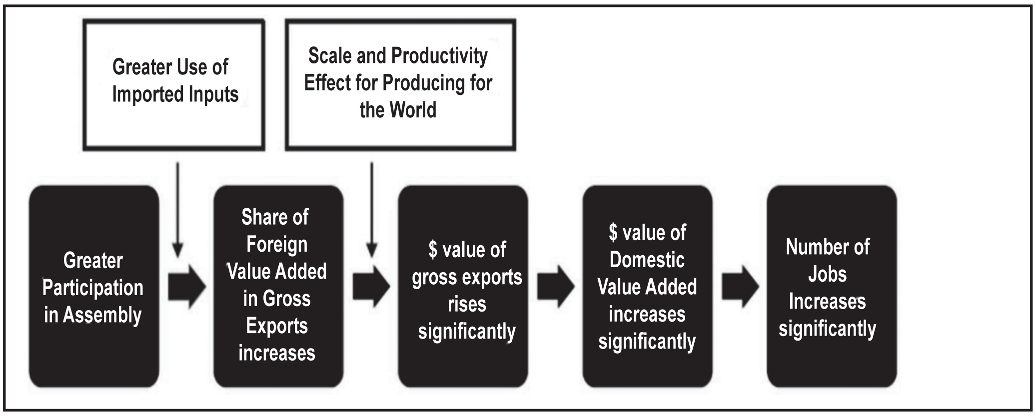
India's export underperformance vis-à-vis china

- India's lacklustre export performance caused by a lack of diversification in its export basket.
- Overall, high diversification combined with low specialization implies that India is spreading its exports thinly over many products and partners, leading to its lacklustre performance compared to China.
- If India wants to become a major exporter, it should specialize more in the areas of its comparative advantage and achieve significant quantity expansion.
- India's participation in GVCs has been low compared to the major exporting nations in East and Southeast Asia.
- In contrast, China's export composition shows a strong bias towards traditional labour-intensive industries and labour-intensive stages of production processes within capital-intensive industries.

Low Market Penetration in High-Income Countries

- The dominance of capital intensive products in the export basket along with a low level of participation in GVCs have resulted in a disproportionate shift in India's geographical direction of exports from traditional rich country markets to other destinations.
- Developing countries, especially those with low levels of participation in GVCs, find it extremely difficult to export capital intensive products to the quality/brand conscious markets in richer countries.
- On the other hand, Chinese products, irrespective of whether they are capital intensive or unskilled labour-intensive, are able to penetrate equally both in high income and low &middle-income countries.
- India has gained a competitive advantage in relatively low and middle-income country markets but at the cost of losing the much bigger markets in richer countries.
- A higher level of participation in GVCs implies that, for any given country, the share of foreign value-added in gross exports is higher than when most inputs are sourced locally.

The Conceptual Framework for Gains from "Assembling in India" as part of "Make in India"



Which industries should India specialize in for job creation?

- There exists a significant unexploited export potential in India's traditional unskilled labour-intensive industries such as textiles, clothing, footwear, and toys.
- The GVCs in these industries are controlled by "buyer-driven" networks wherein the lead firms that are based in developed countries concentrate on higher value-added activities such as design, branding and marketing.
- The physical production is carried out, through sub-contracting arrangements, by firms in developing countries.
- India has huge potential to emerge as a major hub for final assembly in a range of products, referred to as "network products".

- The GVCs in these industries are controlled by leading MNEs such as Apple, Samsung, Sony, etc. within "producer-driven" networks.
- These products are not produced from start to finish within a given country; instead, countries specialize in particular tasks or stages of the good's production sequence.
- Within the production network, each country specializes in a particular fragment of the production process; this specialization is based on the country's comparative advantage.
- Labour abundant countries, like China, specialize in low skilled labour-intensive stages of production such as assembly while the richer countries specialise in the capital and skill-intensive stages such as R&D.
- Thus, the lead firms retain skill and knowledge-intensive stages of production in high-income headquartersbut locate assembly related activities in low wage countries.

India in Comparison to East and Southeast Asia

- Even as India's export of NP increased from about US$2 billion in 2000 to US$32 billion in2018, its participation in this market remains minuscule compared to that of other Asian countries.
- In contrast, these products account for about one-half of the total national exports of China, Japan, and Korea.
- Among the major Asian countries, India and Indonesia are the only ones with a trade deficit in NP.
- India's import value of $68 billion in 2017 is higher than that of Thailand ($61billion) and the Philippines ($39 billion) even as the latter two countries record significantly higher levels of exports than India.

Are free trade agreements beneficial?

- An apprehension is that most of the FTAs that India had signed in the past had not worked in "India's favour."
- The agreements led to the worsening of India's trade deficit with the partner countries with which the agreements have been signed.
- This is the mercantilist way of evaluating the gains from trade. Basic trade theory teaches us that a country's gains from free trade arise from the fact that it leads to a more efficient allocation of a country's resources.
- Manufactured products from India haveclearly benefittedfrom eight out of the fourteen trade agreements considered here. These are MERCOSUR, ASEAN, Nepal, Singapore, Chile, Bhutan, Afghanistan and Japan.
- Four of the agreements (SAFTA, BIMSTEC, Thailand and Sri Lanka) had no effect on exports of manufactured products while the bilateral agreements with Korea and Japan exerted a negative effect.
- Turning to overall merchandise exports, only four trade agreements (MERCOSUR, Nepal, Singapore, and Chile) show a positive impact.
- The agreements that exerted a positive effect on India's imports include Japan, Korea and Chile for manufactured products and Japan, Korea, Chile, Singapore and Sri Lanka for overall merchandise imports.
- The exceptions are the bilateral agreements with Korea, Japan, and Sri Lanka, where the percentage increase in imports ishigher than that of exports.

Practice Question

- **With reference to Economic Survey which industries should India specialize in for job creation? Also, examine whether free trade agreements are beneficial for India or not?**

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CHAPTER

6

TARGETING EASE OF DOING BUSINESS IN INDIA

Overview:

- Ease of doing business is key to entrepreneurship, innovation and wealth creation. India has risen significantly in the World Bank's Doing Business rankings in recent years, but there are categories where it lags behind – Starting a Business, Registering Property, Paying Taxes and Enforcing Contracts.
- For example, registering property in Delhi and Mumbai takes 49 and 68 days respectively, while it takes 9 days in China and 3.5 days in New Zealand.
- Export competitiveness depends not only on the cost of production but also on the efficiency of logistics.
- For instance, a study found that an apparels consignment going from Delhi to Maine (U.S.) takes roughly 41 days, but 19 of these are spent within India due to delays in transportation, customs clearance, ground handling and loading at sea-ports.
- The process flow for imports, ironically, is more efficient than that for exports! In contrast, however, the imports and exports of electronics through Bengaluru airport werefound to be world-class. The processes of Indian airports should be adapted and replicated in sea-ports.

Introduction:

- As India leapfrogs towards a five trillion-dollar economy by 2024-25, simplifying and maintaining a business-friendly regulatory environment is essential.
- India has made substantial gains in the World Bank's Doing Business rankings from 142 in 2014 to 63 in 2019. It has progressed on seven out of the 10 parameters. The Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC) top the list of reforms that have propelled India's rise in rankings.
- However, India continues to trail in parameters such as Ease of Starting Business (rank 136), Registering Property (rank 154), Paying Taxes (rank 115), and Enforcing Contracts (rank 163). It takes roughly 58 days and costs on an average 7.8% of a property's value to register it, and 1,445 days for a company to resolve a commercial dispute through a local first-instance court.

Table: Capturing India's decade-long journey in the Doing Business Rankings

Parameters	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ease of starting a business	169	165	166	173	179	158	155	155	156	137	136
Dealing with construction permits	175	177	181	182	182	184	183	185	181	52	27
Getting electricity	-	-	98	105	111	137	70	26	29	24	22
Registering your perperty	93	94	97	94	92	121	138	138	154	166	154
Getting credit for your business	30	32	40	23	28	36	42	44	29	22	25
Protecting minority investors	41	44	43	49	34	7	8	13	4	7	13
Paying taxes	169	164	147	152	158	156	157	172	119	121	115

Trading across borders	94	100	109	127	132	126	133	143	146	80	68
Enforcing contracts	182	182	182	184	186	186	178	172	164	163	163
Resolving insol-vency	138	134	128	116	121	137	136	136	103	108	52
Overall Rank	**133**	**134**	**132**	**132**	**134**	**142**	**130**	**130**	**100**	**77**	**63**

Global Comparisons

Setting up a business:

- The number of procedures required to set up a business in India, for example, has reduced from 13 to 10 over the past ten years. Today, it takes an average of 18 days to set up a business in India, down from 30 days in 2009.
- On the other hand, New Zealand has a seamless process of business incorporation which takes place through a single-window via one agency. It just takes half-a-day with a single form and minimal cost to set up a business in New Zealand.

Property Registration:

- It takes nine procedures, at least 49 days, and 7.4-8.1% of the property value to register one's property in India. Moreover, the number of procedures, time and cost hasincreased over the last 10 years. Meanwhile, New Zealand has only two procedures and a minimal cost of 0.1% of the property value.

Paying Taxes:

- The number of payments per year has significantly reduced in India from 59 to 12 over the last decade, time spent on this activity has not reduced much.
- While India takes 250-254 hours per year to pay taxes, New Zealand spends just 140 hours a year. Interestingly, the time spent to pay taxes in New Zealand has doubled from 2009 to 2019.

Enforcing contracts:

- India takes 1,445 days to resolve an average dispute, New Zealand takes approximately one-seventh of it, i.e., 216 days.
- As mentioned in last year's survey, the single biggest constraint to ease of doing business in India is its inability to enforce contracts and resolve disputes.
- Given the potential economic and social multipliers of a well-functioning legal system, this may well be the best investment India can make.

Table: India v/s Peers on EODB Parameters (2019)				
Starting a Business				
Number of Procedures	10	4	11	11
Time – No. of days	17/18*	9	17	13
Cost (% of income per capita)	5.3/9.3*	1.1	4.2	5.7
Registering Your Property				
Number of Procedures	9	4	14	6
Time – No. of days	49/68*	9	31	31
Cost (% of peroperty value)	8.1/7.4*	9	31	31
Cost (% of property value)	8.1/7.4*	4.6	3.6	8.3
Paying Taxes				
Number of Payments	10/12*	7	10	26
Time (hours per year)	250/254*	138	1,501	191
Total tax payable (% of gross profits)	49.7#	59.2	65.1	30.1

Enforcing Contracts				
Time – No. of days	1,445	496	801	403
Cost (% of debt)	31	16.2	22	70.3
Overall Doing Business Rank	63	31	124	72

Source : World Banking Doing Business Report, 2020-02-13

Note : India numbers are for Delhi/Mumbai respectively, as these are the two centres covered by World Bank for India

: Before India reduced its Corporate tax rate from 30 to 25 per cent

- The comparisons with other nations arenot so one-sided. An entrepreneur has to go through 10 procedures to set up a business in India taking 17-18 days to do so. On the other hand, Indonesia and Brazil require one extra process than India to open a business.
- While Indonesia takes four days less than India, Brazil takes almost the same time as India to do so. In fact, countries like Pakistan, Turkey and Sri Lanka (ranked 72, 77, and 85 respectively in Starting a Business parameter) have a less cumbersome process to start a business than India.

Density of Legislation and Statutory Compliance Requirements in Manufacturing

- A major challenge most companies face is the complex architecture of the Indian governance framework including the density of legislation and statutory compliance requirements.
- For example, manufacturing units have to conform with 6,796 compliance items, which is a tedious and time-consuming task. It must be noted that this is not a comprehensive list and not every rule applies to every manufacturer.

Starting a Business: Regulatory Hurdles in Opening A Restaurant

- The bars and restaurants sector is an important source of employment and growth everywhere in the world. It is also a business that, by its nature, faces a high frequency of starting new businesses and shutting old ones.
- The number of licenses required to open a restaurant in India issignificantly more than elsewhere. While China and Singapore require only four licenses, India requires several more mandatory licenses and approvals
- In India, only the list of licenses and permissions can be obtained from a government portal or information centre. On the other hand, in New Zealand, the website of Auckland Council (operated by a private third-party agency) has all detailed guides and stepwise procedures about permissions, fees, and timeline to open a restaurant.
- The website is also equipped with ready-to-use business plan templates and comprehensive information on different businesses irrespective of the scale of business. The contrast reflects a difference in approach – government control versus curation/ partnership.
- **Case study:** According to the National Restaurants Association of India (NRAI), a total of 36 approvals are required to open a restaurant in Bengaluru, Delhi requires 26, and Mumbai 22. Moreover, Delhi and Kolkata also require a 'Police Eating House License'. The number of documents needed to obtain this license from Delhi Police is 45 – far more than the number of documents required for a license to procure new arms and major fireworks, 19 and 12 respectively.

Construction Permits

- Hong Kong, which tops the World Bank rankings for ease of obtaining construction permits, it can be seen that Hong Kong takes just over two months to obtain a construction permit, while Delhi takes almost four months. Moreover, it takes 35 days to get water and sewer connection in Delhi.
- It must be noted that India has considerably improved the process to obtain construction permits over the last five years, ascompared to 2014.

Achieving Scale Across Business

- Most of the manufacturing units in India have small capacities and consequently low manufacturing efficiencies which are a disadvantage in the global supply chain. Countries like Bangladesh, China, Vietnam are able to progress in the value chain by increasing their competitiveness in the international market by improving their delivery time and domestic production capacity.

- Compared to Bangladesh, China, and Vietnam, which have more than 80% of the market value of exports by large enterprises, India has 80% by small enterprises.

Table: Emerging Economies Comparison - Scale and Logistics				
	Bangladesh	China	India	Vietnam
Scale of Operations	80% large enterprises	80% or ore large enterprises	80% small enterprises	80% or more large enterprises
Turn Around Time (in Days) (from order to deliver)	50	31	63	46
Time Taken to reach port (in Days)	1	0.2	7-10	0.3

Source: High Level Advisory Group (HLAG) Report, 2019

Trading Across Borders

- The Trading Across Borders indicator records the time and cost associated with the logistical process of exporting and importing goods.
- Globally, transportation by ports is the most favoured followed by railways and then roads, whereas in India it is the opposite.
- Italy tops the EoDB rankings in Trading Across Borders. While India takes 60-68 and 88-82 hours in border and documentary compliance for exports and imports respectively, Italy takes only one hour for each.
- Moreover, the cost of compliance is zero in Italy. In India, it costs US$ 260-281 and US$ 360-373 for exports and imports respectively.
- It must be noted that almost 70% of the delays (both in exports and imports) occur on account of port or border handling processes which essentially pertain to procedural complexities.
- It is also observed that time delays and procedural inefficiencies end up pushing the cost to trade.
- The government has reduced procedural and documentation requirements considerably, increasing digitalization and seamlessly integrating multiple agencies onto a single digital platform can further reduce these procedural inefficiencies significantly and improve user experience substantially.

Authorised Economic Operators (AEO)

- It is a programme under the aegis of the **World Customs Organization (WCO)SAFE Framework of Standards** to secure and facilitate global trade. The programme aims to enhance the international supply chain security and facilitate the movement of goods.
- Under this programme, an entity engaged in international trade is approved by Customs as compliant with supply chain security standards and granted AEO status. An entity with an AEO status is considered a 'secure' trader and a reliable trading partner. AEO is a voluntary programme.
- Anyone involved in the international supply chain that undertakes Customs related activity in India can apply for AEO status irrespective of the size of the business. These may include exporters, importers, logistics providers (for example, carriers, airlines, freight forwarders, etc.), custodians or terminal operators, customs house agents, and warehouse owners.
- Benefits include expedited clearance times, fewer examinations, improved security and communication between supply chain partners.
- Any legal entity that undertakes Customs related work can apply for the AEO Programme if they fulfil the following conditions:
  1. They have handled 25 Import or Export documents in the last Financial Year.
  2. They have had their business activity for the last three Financial Year (can be waived in deserving cases).
  3. The applicant must have been Financially Solvent for the last three financial years.
  4. The applicant must not be issued a show-cause notice involving 'fraud, forgery, outright smuggling, clandestine removal of excisable goods or cases where Service Tax has been collected from customers but not deposited to the Government during last three financial years.

CASE STUDIES OF INDIA'S PERFORMANCE IN LOGISTICS IN SPECIFIC SEGMENTS

- It takes five days to reach Jawaharlal Nehru Port Trust (JNPT). However, six processes in NhavaSheva can take up to 14 days.
- Three days are then used up in 'Custom Clearance', another three days in 'Stuffing Containers' and up to five days are taken up by 'queue for entry into the ship'.
- The ship leaves the port, the consignment travels for 19 days by the sea, reaching Houston, U.S. on day 38. Here, Customs take at most a day's time to clear the consignment, provided all paperwork and regulatory requirements are met. The consignment then reaches the buyer's warehouse in Maine within two days.
- In total 41 days taken by the consignment from the factory in Delhi to a warehouse in Maine, 19 days were spent in India, 19 days at sea and roughly three days in the United States.
- This is partly due to insufficient port infrastructure to handle the inflow of containers, narrow roads and poor strength bearing capacity of the roads at the port.
- The following were the outcomes:
  1. the inordinate delays in loading and customs processes in Indian sea-ports
  2. the processes for imports, ironically, are better than those for exports
  3. the large variance in process time means that exports are forced to account for the uncertainty by padding extra waiting time.
- It must be noted that the turnaround time of ships in India has been on a continuous decline, almost halving from 4.67 days in 2010-11 to 2.48 days in 2018-192.

Case Study Tracing Electronics Export consignment from Bangalore to Hong Kong:

Action	Export of Non-Authorised Economic Operators (AEO)	Export of Authorised Economic Operators (AEO)
Warehouse to Kempegowda Airport, Bangalore	3 hrs	3 hrs
Custom clearance Bangalore airport	7hrs	3 hrs
Air travels	5hrs	5hrs
Custom clearance at Hongkong airport	4 hrs	4 hrs
Transportation from airport to warehouse	3 hrs	3 hrs

The case study suggests the following conclusions:

- the processes in Indian airports arevastly superior to those at seaports for both imports and exports;
- AEO did significantly improve the process but it is reasonably smooth even for non-AEO operators importing/exporting electronics;
- Indian processes can beat international standards.

Conclusion

- The streamlining of the logistics process at sea-ports requires close coordination between the Logistics division of the Ministry of Commerce and Industry, the Central Board of Indirect Taxes and Customs, Ministry of Shipping and the different port authorities.
- The simplification of the Ease of Doing Business landscape of individual sectors such as tourism or manufacturing, however, requires a more targeted approach that maps out the regulatory and process bottlenecks for each segment.
- Once the process map has been done, the correction can be done at the appropriate level of government - central, state or municipal.

Practice Question

- **India's economic growth has not been very encouraging. What are the reasons for low economic growth? Upto what extent can improving the 'Ease of Doing Business' help in reviving the Indian economy?**
- **Briefly discussthe performance of India in different parameters of 'Ease of Doing Business'. How has the implementation of Goods and Services Tax (GST) helped India to improve upon the low performing parameters?**

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CHAPTER 7

GOLDEN JUBILEE OF BANK NATIONALISATION TAKING STOCK

- **"It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country." – Adam Smith**
- In 2019, India completed the 50th anniversary of bank nationalization. Thus, an objective assessment of PSBs is apposite.
- Since 1969, India has grown significantly to become the 5th largest economy in the world. Yet, India's banking sector is disproportionately under-developed given the size of its economy.
  - For instance, India has only one bank in the global top 100 – same as countries that are a fraction of its size: Finland (about 1/11th), Denmark (1/8th), Norway (1/7th), Austria (about 1/7th), and Belgium (about 1/6th). Countries like Sweden (1/6th) and Singapore (1/8th) have thrice the number of global banks.
  - Should India's banks play a role proportionate to its economic size, India should have six banks in the top 100.
  - The disproportionately lower penetration is not just because of our greater population. While the greater population does lower penetration of credit, such penetration is disproportionately lower in India when compared to our population.
- As PSBs account for 70% of the market share in Indian banking, the onus of supporting the Indian economy and fostering its economic development falls on them.
  - Similarly, India becoming a $ 5 trillion economy will require at least eight Indian banks to be large enough to belong in the top 100 globally.
  - Credit growth among PSBs has declined significantly since 2013 and has also been anaemic since 2016.
  - However, in 2019, PSBs' collective loss— largely due to bad loans—amounted to over INR 66,000 crores, an amount that could nearly double the nation's budgetary allocation for education. PSBs account for 85% of reported bank frauds while their gross non-performing assets (NPAs) equal INR 7.4 lakh crores which is more than 150% of the total infrastructure spend in 2019.
  - Even as New Private Banks (NPBs) grew credit at between 15% and 29% per year between 2010 and 2019, PSB credit growth essentially stalled to the single digits after 2014, ending up at a 4.03% growth in 2019 compared 15% to 28% from 2010 to 2013.
  - The scale of inefficiencies in PSBs can be estimated through the potential gain only from changes in the return on the taxpayer's investment in PSBs.

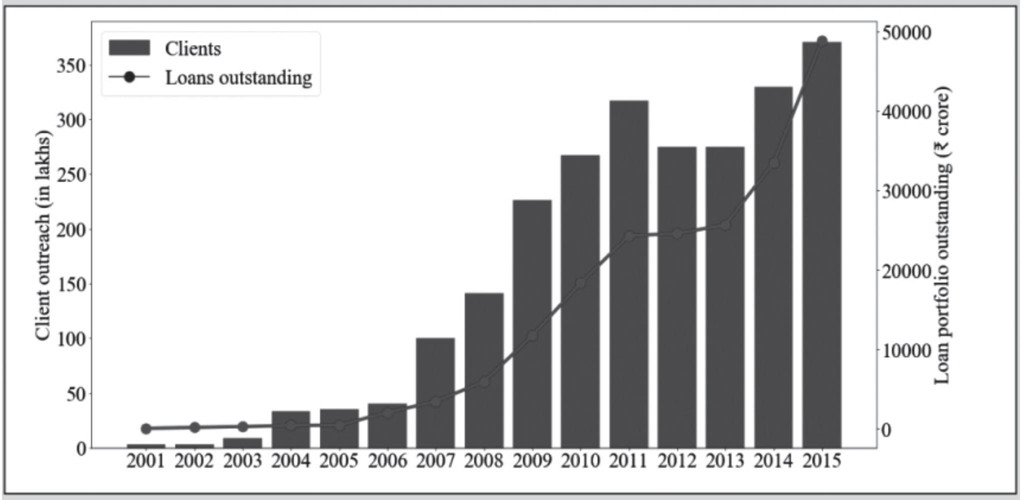
The return earned by an investor in an average NPB represents the benchmark that must be employed to estimate the losses that the taxpayer bears from her investment in PSBs.

India is at a **critical inflection point** in her **growth trajectory** due to a unique confluence of factors, which

1. a positive demographic dividend;
2. a modern digital infrastructure supported by the JAM "trinity" of near-100% financial inclusion, a biometrics-based unique identity system, and a mobile network structure, and
3. a de novo GST network with uniform, electronic indirect taxation system across India. These investments set the stage for a modern economy in which tens of crores of individuals and businesses are entering the formal financial system.

- **Microfinance Institutions:**
  - Most micro-finance institutions (MFIs) started as not-for-profit institutions. Post-2000, while their objective remained poverty alleviation via inclusive growth and financial inclusion, MFIs moved from purely pursuing social goals to the double bottom-line approach of achieving social and financial returns.
  - Some banks partnered with MFIs by lending to MFIs for on-lending the money to this segment and thereby fulfil their priority lending obligations.
  - The United Nation's declaration of Micro-finance year in 2005 highlighted the role of MFIs in poverty alleviation. Some MFIs have transformed themselves into banks as well.
  - Figure A shows the exponential growth in the impact that MFIs have had since 2000.
  - As of 2016, 97% of the borrowers were women with SC/ST and minorities accounting for around 30% and 29% of the borrowers. This shows that the loans that have been given by these MFIs primarily cater to the marginal sections of the society.
  - The micro-finance sector, especially given its transformation since 2000, provides a good illustration of how social goals can be achieved at scale using business models that are different from that of PSBs.

Figure A: Exponential growth in customer reach by MFIs



Source: The Bharat Microfinance Report 2012 and 2015

BANKING STRUCTURE: FROM NATIONALIZATION TILL TODAY

- India's largest PSB which is currently the55th largest bank globally, State Bank of India (SBI), was founded as Bank of Calcutta in 1806, took the name Imperial Bank of India in 1921 and became state-owned in 1955.
- The remaining PSBs in India were formed through two waves of nationalizations, onein 1969 and the other in 1980.
- After the1980 nationalization, PSBs had a 91%share in the national banking market.
- Presently, the decline in PSB market share has been largely absorbed by "new private banks" (NPBs), which were licensed in the early 1990s after the liberalization of licensing rules that earlier regulated bank entry.
- With no real restrictions on what can be investigated and under what circumstances, officers of state-run banks are wary of taking risks in lending or in renegotiating bad debt, due to fears of harassment under the veil of vigilance investigations.

Benefits of Nationalisation of Banks

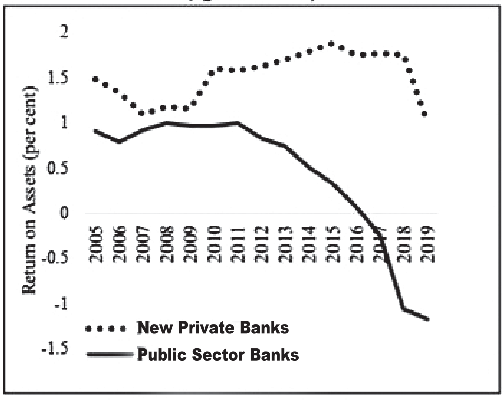
- The allocations of banking resources to rural areas, agriculture, and priority sectors increased.
- The number of rural bank branches increased ten-fold from about 1,443 in 1969 to 15,105in 1980 compared to a two-fold increase in urban and semi-urban areas from 5,248to 13,300 branches.

- Credit to rural are as increased from INR 115 crore to INR 3,000 crore, a twenty-fold increase and deposits in rural are as increased from INR 306 crore to INR 5,939crore, again a twenty-fold increase. Between1969 and 1980, credit to agriculture expanded forty-fold from INR 67 crore to INR 2,767 crore, reaching 13% of GDP from a starting point of 2 per cent.
- This growth represents a significant correction to the under supply of credit to farmers that drove nationalization. Both rural bank deposit mobilization and rural credit increased significantly after the1969 nationalization.
- Confounding effects are introduced by the policies pursued by RBI after nationalization.
- It's directed lending programmes set lending targets for priority sectors, using a complex mix of pricing formulas that determined the rates of interest to be charged by banks on different types of credit, in styles reminiscent of central planning rather than market economies.
- RBI used both formal means and moral suasion to persuade banks to achieve the targets it set.
- These tools carried special force given that banks were essentially operating in a marketplace sheltered from entry.

THE WEAKENING OF PUBLIC SECTOR BANKS

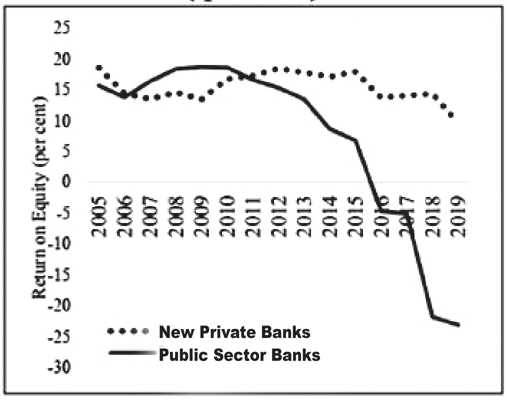
Trends over time that contrast PSBs and NPBs in a "difference-in-difference"sense reveal that the PSB weaknesses did not develop suddenly. Asset quality problems that have developed over a few years are at the root of the PSB performance slide.

Figure 8: Return on Assets of Banks (per cent)



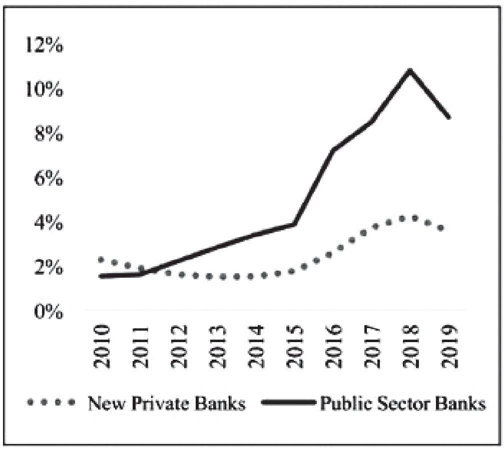
Source: RBI Data and Survey Calculations

Figure 9: Return on Equity of Banks (per cent)



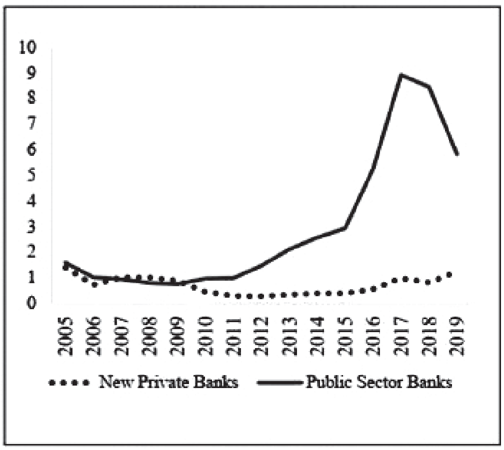
Source: RBI Data and Survey Calculations

Figure 10: Gross Non-Performing Assets to Advances (per cent)



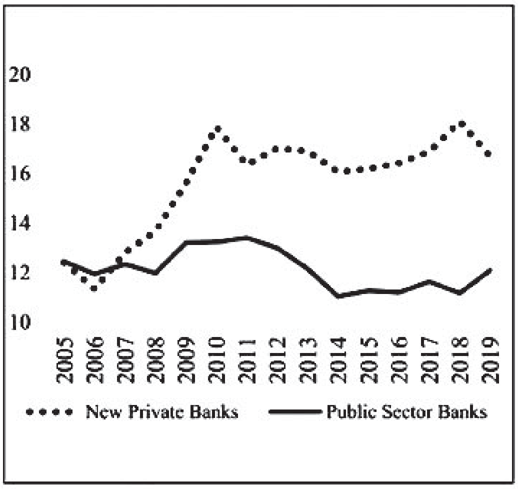
Source: RBI Data and Survey Calculations

Figure 11: Net Non-Performing Assets to Advances (per cent)



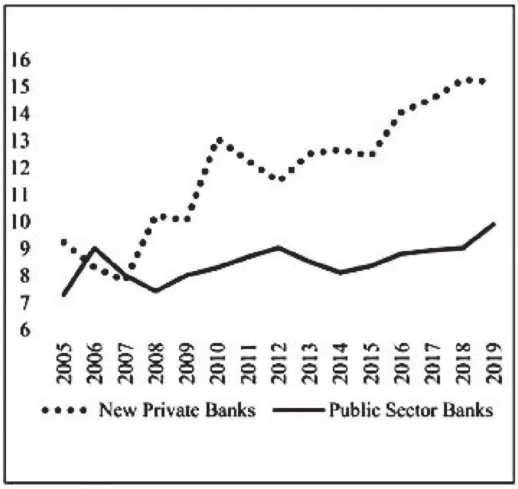
Source: RBI Data and Survey Calculations

Figure 12: Total Capital Adequacy Ratio (per cent)



Source: RBI Data and Survey Calculations

Figure 13: Tier-1 Capital Adequacy Ratio (per cent)



Source: RBI Data and Survey Calculations

- The 2014 P. J. Nayak Committee report shows that the structural weaknesses in the PSBs explain their poor performance.
- Poor banking sector performance inevitably stems from a set of known systemic factors.
- Banking crises are due to some combination of unsustainable macro economic policies, market failures, regulatory distortions, and government interference in the allocation of capital.
- Moreover, crises that are not resolved effectively and swiftly impose enormous costs on society.

The onus of supporting the economy falls on the PSBs accounting for 70 % of the market share in Indian banking:

- PSBs are inefficient compared to their peer groups on every performance parameter.
- In 2019, investment for every rupee in PSBs, on average, led to the loss of 23 paise, while in NPBs it led to the gain of 9.6 paise.
- Credit growth in PSBs has been much lower than NPBs for the last several years.

ENHANCING EFFICIENCY OF PSBs: THE WAY FORWARD

- **The key drivers of India's growth prospects are now:**
  - Highly favourable demographics – with 35% of its population between 15 and 29 years of age;
  - A modern and modernizing digital infrastructure that encompasses the "JAM" trinity of financial inclusion, the Aadhaar Unique Identification System, and a well-developed mobile phone network, and
  - A uniform indirect taxation system (GST) tore place a fragmented, complex state-level system.
  - India's growth path depends on how quickly and productively these growth levers are deployed using a well-developed financial system.

Employee Stock Ownership Plan (ESOP) for PSBs' employees:

- To incentivize employees and align their interests with that of all shareholders of banks, bank employees should be given stakes through an employee stock ownership plan (ESOP) together with proportionate representation on boards proportionate to the blocks held by employees.
- Representation on boards proportionate to the blocks held by employees to in centivize employees and align their interests with that of all shareholders of banks.

  With the cleaning up of the banking system and the necessary legal framework such as the **Insolvency and Bankruptcy Code (IBC)**, the banking system must focus on scaling up efficiently to support the economy.

Practice Question

- **Analyse the creation of a Fintech hub in the quest of making Public Sector Banks more efficient.**
- **Highlight the causes of the weakening of public sector banks. Also, suggest some measures to improve their efficiency according to the recently released Economic Survey of India.**

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CHAPTER 8

FINANCIAL FRAGILITY IN THE NBFC SECTOR

- **NBFC:**

  Non-banking financial companies (NBFCs) are financial institutions that offer various banking services but do not have a banking license. They are primarily responsible for making investments but do not have the authority to accept deposits. NBFCs cannot form part of the payment and settlement system. This means that cannot issue cheques drawn on itself. The deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in the case of banks.

- **Housing Finance Company (HFC)**

  A Housing Finance Company is a company registered under the Companies Act which primarily transacts or has as one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly.

- **ILFS**

  Infrastructure Leasing & Financial Services Limited is an Indian infrastructure development and finance company (NBFC). It operates through more than 250 subsidiaries.

- **DHFC**

  DHFL is an HFC (a category of NBFC) that provides easy access to affordable Housing Finance to millions of lower– and middle–income families in semi-urban and rural India.

- **Securities**

  It is an interchangeable, negotiable financial instrument that holds some type of monetary value.Securities can be broadly categorized into two distinct types: equities and debts.

- **Mutual Fund**

  A mutual fund is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities. Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund.

- **Liquid Debt Mutual Funds (LDMF)**

  The LDMF sector is a primarysource of short-term wholesalefunds in the NBFC sector. This means that the NBFC sector is intricately interconnected with the LDMF sector.

- **Debt market and Equity market**

  The debt market, or bond market, is the arena in which investment in loans are bought and sold. There is no single physical exchange for bonds. Transactions are mostly made between brokers or large institutions, or by individual investors.

  The equity market, or the stock market, is the arena in which stocks are bought and sold. The term encompasses all of the marketplaces such as the New York Stock Exchange (NYSE), Bombay Stock Exchange, the NASDAQ, and the London Stock Exchange (LSE), and many others.

- **Liquidity crunch (limited/restricted flow of money)**

  Liquidity crunch in debt markets of ten leads to credit rationing. Credit rationing results when firms with robust financial and operating performance get access to credit while the less robust ones are denied credit. Firms with robust financial and operating performance can withstand a prolonged period of liquidity crunch if they choose not to raise funds from debt mutual funds.

- **Money Market**

  The money market is the trade of short-term debt investments. At the wholesale level, it involves large-volume trades between institutions and traders. At the retail level, an individual may invest in the money market by purchasing a money market mutual fund, buying a Treasury bill, or opening a money market account at a bank.

- **Provisioning Norms**

  Provisioning is a part of the RBI's prudential regulation norm. Under provisioning, banks have to set aside or provide funds to a prescribed percentage of their bad assets. The assets are classified by the RBI in terms of their duration of non-repayment.

- **Basel Norms**

  These norms provide banks with a common goal of financial stability and standards of banking regulation.

  The purpose of the Basel norms is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses. India has accepted Basel accords for the banking system. In fact, on a few parameters, the RBI has prescribed stringent norms as compared to the norms prescribed by BCBS (Basel Committee on Banking Supervision).

- **Bank Run**

  A bank run occurs when a large number of customers of a bank or other financial institution withdraw their deposits simultaneously over concerns of the bank's solvency. As more people withdraw their funds, the probability of default increases, prompting more people to withdraw their deposits.

- **Commercial Paper**

  Commercial Paper (CP) is an unsecured money market instrument issued in the form of a promissory note.

- **NPA**

  An asset be comes non-performing when it ceases to generate income for the bank. A 'non-performing asset' (NPA) has been defined as a credit facility in respect of which the interest and/ or installment of principal has remained 'past due' for a specified period of time.

- **Rollover risk**

  Financial institutions rely on short-term financing to fund long-term investments. This reliance on short-term funding causes an asset-liability management (ALM) problem because asset side shocks expose financial institutions to the risk of being unable to finance their business.

- **Asset liability management risk (ALM)**

  This risk arises in most financial institutions due to a mismatch in the duration of assets and liabilities. Liabilities are of much shorter duration than assets which tend to be of longer duration, especially loans given to the housing sector. This mismatch implies that an NBFC must maintain a minimum amount of cash or cash-equivalent assets to meet its short-term obligations.

- **Refinance**

  A refinance occurs when an individual or business revises the interest rate, payment schedule, and terms of a previous credit agreement.

- **Redemption**

  In finance, redemption describes the repayment of any money market fixed-income security at or before the asset's maturity date.

- **Risks involved in Investment**

  It refers to the chance an outcome or investment's actual gains will differ from an expected outcome or return. Risk includes the possibility of losing some or all of the original investment.

- **Retail Funding**

  A retail fund is an investment fund with capital primarily invested by individual investors. Mutual funds and exchange-traded funds (ETFs) are common types of retail funds that are intended for ordinary investors.

- **Wholesale Funding**

  Wholesale funding means that a financial institution receives deposits from sources outside of traditional consumer and retail deposits. These funds come from larger entities, such as governments or fellow financial institutions. Wholesale funding differs from retail funding in that the latter focuses heavily on small businesses like stores and restaurants.

- **Shadow banking**

  Shadow banking comprises a set of activities, markets, contracts and institutions that operate partially (or fully) outside the traditional commercial banking sector and are either lightly regulated or not regulated at all. A shadow banking system can be composed of a single entity that intermediates between end-suppliers and end-users of funds, or it could involve multiple entities forming a chain.

  NBFCs are considered as an important segment of the shadow banking system in India.

- **Capital Adequacy Ratio (CAR)**

  The capital adequacy ratio (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The capital adequacy ratio, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world.

A brief timeline of what happened

- From June to September 2018, two **subsidiaries** of **Infrastructure Leasing & Financial Services (IL&FS) defaulted** on their payment obligation.
- **Dewan Housing Finance Limited** (DHFL) **defaulted** on its payment obligation from June to August 2019.
- Both **IL&FS** and **DHFL are NBFC** and they **defaulted on non-convertible debentures and commercial paper obligations.**
- In response to the defaults**, mutual funds started selling off their investments** in the NBFC sector **to reduce exposure to stressed NBFCs**.

The impact of payment defaults was not limited to debt markets. There was a s**harp decline in the equity prices of stressed NBFC**s as equity market **participants anticipated repayment troubles** at these firms.

Hence, both **debt and equity investors suffered a massive erosion in wealth** due to these defaults.

Increasing redemption pressure prevented Debt mutual funds from refinancing the NBFC sector.

Redemption pressure faced by debt mutual funds is akin to a "bank run", which is a characteristic of any crisis in the financial sector. The redemption pressure gives rise to refinancing risk (rollover risk) for NBFCs, thereby affecting the real sector.

The extent of refinancing risk faced by NBFCs is fundamentally driven by their reliance on short-term wholesale funding.

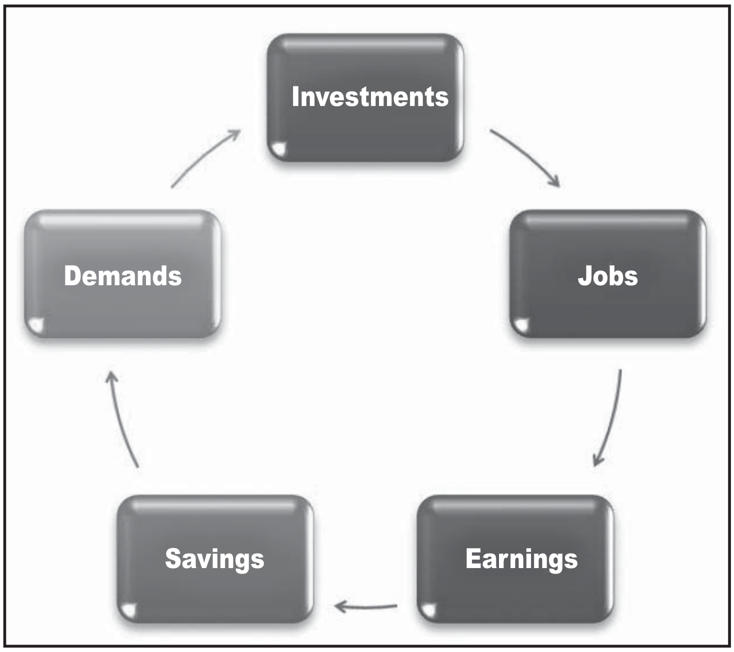
The wholesale funding sources of the NBFCs comprise mainly of banks (primarily via term loans and rest through non-convertible debentures and commercial paper) and debt mutual funds (via non-convertible debentures and commercial paper).

Since the banks were already facing NPAs, now with the NBFC sector facing refinance trouble, the overall credit growth in the Indian economy took a dip. This led to a decline in the GDP growth.

What's the relation between Credit growth, NBFC, and liquidity?

When banks and NBFC lend money, it is considered as Credit growth. This credit provides liquidity (flow of money) in the market. If it is easily available, the rate of interest to obtain this credit is low. This helps MSME and another low on capital entrepreneurs to scale up their investment.

If there is an investment in the economy, people get jobs. They earn, and hence there is an increase in demand for services and products like a new home loan, a car or holiday packages. A significant part of earning from job/work is also put to savings, which along with investment component is again put to productive use in the economy. Thus creating a virtuous cycle of investment – Jobs – earning – savings – demands – investments.



Since most of the banks are reeling under Basel norms and rising NPA, the lower spectrum of the economy was financed by NBFC. In the event of their failure, the opportunity of credit creation will take a hit. With no one left to give credit (money) to the investor at a cheaper rate of interest, the liquidity will not be easily available, thus impacting growth. And, that's the relationship which exists between credit growth, NBFCs, and liquidity.

What drives redemption (LDMF sector) and Rollover Risk problems (NBFC sector)?

- The magnitude of the ALM problem in the NBFC
- The interconnectedness of the NBFC with the LDMF sector
- The resilience of the NBFC as reflected in the strength of the balance sheet

These three risks work in tandem to cause Rollover Risk. At the time of refinancing their CP obligations, the NBFCs having stronger balance sheets are successful in rolling over CPs, albeit at a higher cost. Other NBFCs with weaker balance sheets face higher default probabilities and find it difficult to access the CP market at affordable rates or are unable to raise money at all, i.e., they are unable to avoid default.

Since NBFCs are that important, it gets crucial to predict their failure. This prediction exercise can be done by creating an Early Warning system that can help devise a Health Index for NBFCs.

This Health index will estimate thefinancial fragility of the NBFC sector and can predict the constraintson external financing (or refinancing risk)faced by NBFC firms.

Let's Learn about the Health Index

HealthScore of a stressed NBFC and the HFC sector will serve a critical role in predicting refinancing relatedstress (rollover risk) faced by the financial firms in advance.

It can serve as an important monitoring mechanism to prevent such problems in the future.

This index will range from-100to +100. A higher score will indicate higherfinancial stability of the firm/sector (lower Rollover Risk).

It will give information on thekey drivers of refinancing risks such as AssetLiability Management (ALM) problems, excess reliance on short-term wholesalefunding (Commercial Paper), and balancesheet strength of the NBFCs.

In fact, if we disaggregate these components and examine their trends, then it can shed light on how to regulate NBFCs.

Other than its utility as a leading indicator of stress in the NBFC sector, the Health Score can also be used by policymakers to allocate scarce capital to stressed NBFCs in an optimal way to alleviate a liquidity crisis.

Key Metrics affecting Health Scores

- **Short-Term Volatile Capital**: This is measured by CP as a percentage of borrowings of the NBFC.
- **Asset Quality**: This is measured by the ratio of retail loans to the overall loan portfolio.
- **Short-term Liquidity**: This is measured by the percentage of cash to the total borrowings.
- **Provisioning Policy**: This is measured by the difference between provision for bad loans made in any financial year and the gross non-performing assets (NPA) in the subsequent financial year.
- **Capital Adequacy Ratio (CAR)**: This is the sum of Tier-I and Tier-II capital held by the NBFC as a percentage of Risk-Weighted Assets (RWA).
- **Liquidity Buffer levels in the LDMF Sector**: This is measured by the average proportion of highly liquid investments such as cash, G-Securities, etc., that are held by the LDMFs.
- **Operating Expense Ratio (Opex Ratio)**: This is measured by the operating expenses in a financial year divided by the average of the loans outstanding in the current financial year-end and previous financial year-end. Opex Ratio is an indicator of the efficiency of a Retail-NBFC.

Concluding remarks

This chapter has analyzedfirms in the NBFC sector which are susceptible torollover risk when they rely too much on the short-term wholesale funding market for financing their investments. The following policy initiatives can beemployed to arrest financial fragility in theshadow banking system:

- Regulators can employ the Health Score methodology presented in this analysis to detect early warning signals of impending rollover risk problems in individual NBFCs.
- Downtrends in the Health Score can be used to trigger greater monitoring of an NBFC.
- An analysis of the trends in the components of the Health Score can shed light on the appropriate corrective measures that should be applied to reverse the adverse trends.
- When faced with a dire liquidity crunch situation, regulators can use the Health Score as a basis for optimally directing capital infusions to deserving NBFCs to ensure efficient allocation of scarce capital.
- This analysis can also be used to set prudential thresholds on the extent of wholesale funding that can be permitted for firms in the shadow banking system.

Practice Question

- **Briefly describe the challenges pertaining to the NBFC sector as illustrated by the Economic Survey. Analyze if there is a need for re-orientation in their business plan.**
- **While describing the Health Score/index as devised by Economic Survey for NBFC, analyze its usefulness in arresting financial fragility.**

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CHAPTER 9

PRIVATIZATION AND WEALTH CREATION

Introduction

As per Margaret Thatcher –

"Free enterprise has enabled the creative and the acquisitive urges of man to be given expression in a way which benefits all members of society. Let free enterprise fight back now, not for itself, but for all those who believe in freedom."

In November 2019, India launched its biggest privatization drive in more than a decade. An "in-principle" approval was accorded to reduce the government of India's paid-up share capital below 51% in select Central Public Sector Enterprises (CPSEs). Among the selected CPSEs, strategic disinvestment of the Government's share holding of 53.29% in Bharat Petroleum Corporation Ltd (BPCL) was approved. This recent approval of strategic disinvestment in Bharat Petroleum Corporation Limited (BPCL) led to an increase in value of shareholders' equity of BPCL by INR 33,000 crore when compared to its peer Hindustan Petroleum Corporation Limited (HPCL) and this reflects an increase in the overall value from anticipated gains from consequent improvements in the efficiency of BPCL when compared to HPCL which will continue to be under Government control. This chapter, therefore, examines the realized efficiency gains from privatization in the Indian context.

Evolution of Disinvestment Policy in India

The liberalization reforms undertaken in 1991 ushered in an increased demand for privatization/ disinvestment of PSUs.

- In the initial phase, this was done through the sale of a minority stake in bundles through auction. This was followed by a separate sale for each company in the following years, a method popularly adopted till 1999-2000.
- India adopted strategic sale as a policy measure in 1999-2000 with the sale of a substantial portion of government shareholding in identified Central PSEs (CPSEs) up to 50% or more, along with transfer of management control. This was started with the sale of 74 % of the Government's equity in Modern Food Industries Limited (MFIL).
- Thereafter, 12 PSUs (including four subsidiaries of PSUs), and 17 hotels of Indian Tourism Development Corporation (ITDC) were sold to private investors along with transfer of management control by the Government.
- Another major shift in disinvestment policy was made in 2004-05 when it was decided that the government may "dilute its equity and raise resources to meet the social needs of the people", a distinct departure from strategic sales.
- Department of Investment and Public Asset Management (DIPAM) has laid down comprehensive guidelines on "Capital Restructuring of CPSEs" in May 2016 by addressing various aspects, such as payment of dividends, buyback of shares, issues of bonus shares and splitting of shares.

The Government has been following an active policy on disinvestment in CPSEs through the various modes:

- Disinvestment through minority stake sale in listed CPSEs to achieve minimum public share holding norms of 25%. While pursuing disinvestment of CPSEs, the Government will retain majority share holding, i.e., at least 51% and management control of the Public Sector Undertakings.

- Listing of CPSEs to facilitate people's ownership and improve the efficiency of companies through accountability to their stakeholders.
- Strategic Disinvestment.
- Buy-back of shares by large PSUs having a huge surplus.
- Merger and acquisitions among PSUs in the same sector.
- Launch of exchange-traded funds (ETFs) - an equity instrument that tracks a particular index. The CPSE ETF is made up of equity investments in India's major public sector companies like ONGC, REC, Coal India, Container Corp, Oil India, Power Finance, GAIL, BEL, EIL, Indian Oil and NTPC.
- Monetization of selected assets of CPSEs to improve their balance sheet/reduce their debts and to meet part of their capital expenditure requirements.

NITI Aayog has been mandated to identify PSUs for strategic disinvestment. For this purpose, NITI Aayog has classified PSUs into "high priority" and "low priority", based on:

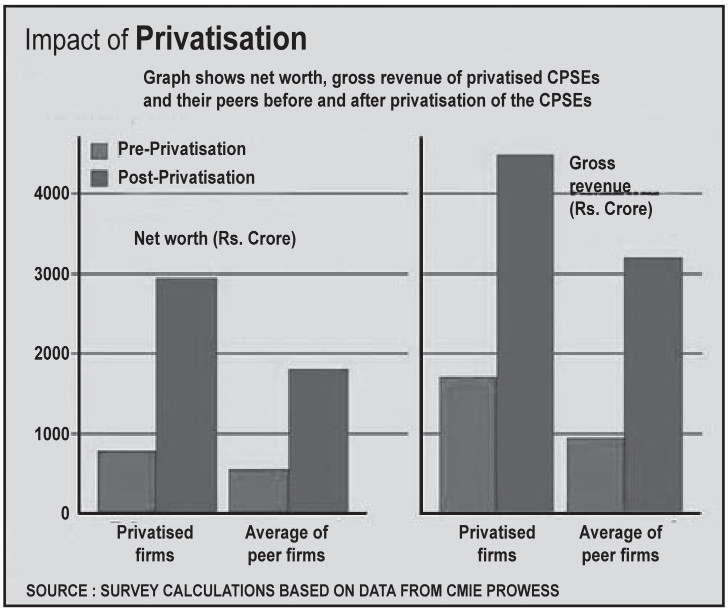
- National Security
- Sovereign functions at arm's length, and
- Market Imperfections, and
- Public Purpose.

The PSUs falling under "low priority" are covered for strategic disinvestment. To facilitate quick decision making, powers to decide the following have been delegated to an Alternative Mechanism in all the cases of Strategic Disinvestment of CPSEs where Cabinet Committee on Economic Affairs (CCEA) has given 'in principle' approval for strategic disinvestment:

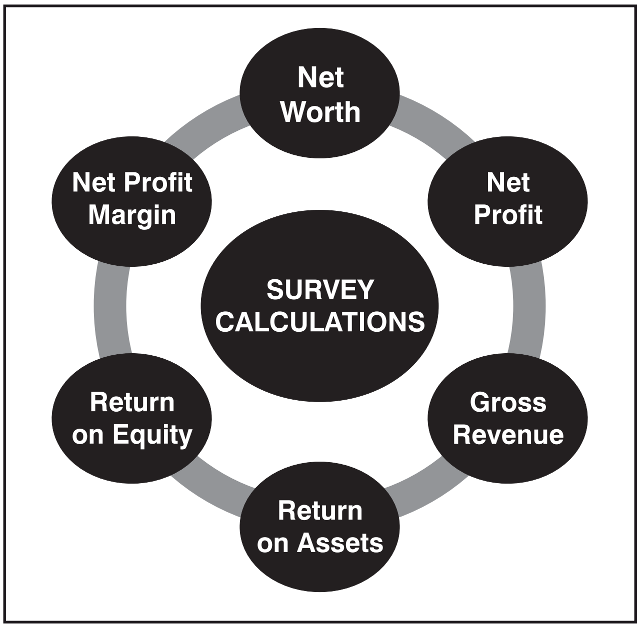
- The quantum of shares to be transacted, mode of sale and final pricing of the transaction or lay down the principles/ guidelines for such pricing; and the selection of strategic partner/ buyer; terms and conditions of sale; and
- To decide on the proposals of Core Group of Disinvestment (CGD) with regard to the timing, price, terms & conditions of sale, and any other related issue to the transaction.

On November 20, 2019, the government announced that full management control will be ceded to buyers of Bharat Petroleum Corporation Ltd. (BPCL), Shipping Corporation of India (SCI) and Container Corporation of India Ltd (CONCOR). On January 8, 2020, strategic disinvestment was approved for Minerals & Metals Trading Corporation Limited (MMTC), National Mineral Development Corporation (NMDC), MECON and Bharat Heavy Electricals Ltd. (BHEL).

IMPACT OF PRIVATIZATION: A FIRM LEVEL ANALYSIS



- To assess the impact of strategic disinvestment/privatization on performance of select CPSEs before and after privatization, 11 CPSEs are studied, that had undergone strategic disinvestment from 1999-2000 to 2003-04 for which data is available both before and after privatization.
- Enable careful comparison using a **difference-in-difference methodology**, these CPSEs have been compared with their peers in the same industry group.
- The Survey has aggressively pitched for divestment in PSUs by proposing a separate corporate entity wherein the government's stake can be transferred and divested over a period of time.
- The performance of privatized firms, after controlling for other confounding factors using the difference in the performance of peer firms over the same period, improves significantly the following privatization.
- Further, the survey has said privatized entities have performed better than their peers in terms of net worth, profit, return on equity and sales, among others.



i. Net Worth: The net worth of a company is what it owes its equity shareholders. This consists of equity capital put in by shareholders, profits generated and retained as reserves by the company.

- The net worth of privatized firms increased from INR 700 crores before privatization to INR 2992 crore after privatization.
- Significant improvement in financial health and increased wealth creation for the shareholders.
- Difference-in-difference (DiD) analysis attributes an increase of INR 1040.38 crores in net worth due to privatization.

ii. Net Profit: Increase in net profit indicates greater realizations from the company after incurring all the operational expenses.

- The net profit of privatized firms increased from INR 100 crores before privatization to INR 555 after privatization compared to the peer firms.
- DiD analysis attributes an increase of INR 300.27 crore in net profit due to privatization.

iii. Gross Revenue: The gross revenue of privatized firms increased from INR 1560 crore to before privatization to INR 4653 crores after privatization, signalling an increase in income from sales of goods and other non-financial activities.

- DiD analysis attributes an increase of INR 827.65 crore in gross revenue due to privatization.

iv. Return on Assets: ROA captures the ratio of profits after taxes (PAT) to the total average assets of the company, expressed in percentage terms.

- ROA for the privatized firms has turned around from (-) 1.04% to 2.27% surpassing the peer firms which indicate that privatized firms have been able to use their resources more productively.
- DiD analysis attributes an increase of 5.04% in ROA due to privatization.

v. **Return on Equity**: Return on equity (ROE) is profit after tax (PAT) as a percentage of average net worth.
  - The ROE of privatized firms increased from 9.6% before privatization to 18.3% after privatization, reflecting an increase in a firm's efficiency at generating profits from every unit of shareholders' equity.
  - DiD analysis attributes an increase of 0.89 per cent in ROE due to privatization.

vi. **Net Profit Margin:**A Net profit margin of a company is PAT as a percentage of total income.
  - The net profit margin of privatized firms increased from (-)3.24% before privatization to 0.65% after privatization, reflecting that out of a rupee that is generated as income, the share of after-tax profit in the income increases.
  - DiD analysis attributes an increase of 15.26% in net profit margin due to privatization.

Way Forward

- Aggressive disinvestment, preferably through the route of strategic sale, should be utilized to bring in higher profitability, promote efficiency, and increase competitiveness and to promote professionalism in management in CPSEs.
- The focus of the strategic disinvestment needs to be to exit from the non-strategic business and directed towards optimizing the economic potential of these CPSEs.
- This would, in turn, unlock capital for use elsewhere, especially in public infrastructures, like roads, power transmission lines, sewage systems, irrigation systems, railways and urban infrastructure.
- Provisions of DIPAM and disinvestment in various CPSEs need to be taken up aggressively to facilitate the creation of fiscal space and improve the efficient allocation of public resources.
- The Government can transfer its stake in the listed CPSEs to a separate corporate entity and this entity should be managed by an independent board that would mandate to divest the Government stakes in these CPSEs over a period of time.
- This will lend professionalism and autonomy to the disinvestment programme which, in turn, would improve the economic performance of the CPSEs.

Conclusion

The aim of any privatization or disinvestment programme should, therefore, be the maximisation of the Government's equity stake value. Hence, the analysis clearly affirms that disinvestment (through the strategic sale) of CPSEs unlocks their potential of these enterprises to create wealth evinced by the improved performance after privatization.

Practice Question

- **The government's plan of selling Bharat Petroleum Corporation (BPCL), Container Corporation of India (Concorp) and Air India are unlikely to conclude by March 2020, which might result in missing the disinvestment target by a wide margin. Critically Examine.**
- **Economic Survey of 2019-2020 has one chapter dedicated to Privatization and wealth creation. In context of the above statement, discuss in brief what will be the impact of Privatization of Central Public sector enterprises. How can it improve the economic performance of the CPSEs?**

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CHAPTER 10

IS INDIA'S GDP GROWTH RATE OVERSTATED? NO!

- **Investment catalyses the economy into a virtuous cycle:**The Economic Survey of 2018-19 laid out the role of investment, especially private investment, in driving demand, creating capacity, increasing labour productivity, introducing new technology, allowing creative destruction, and generating employment.
- Recent initiatives taken to foster investment in the economy:
  - Relaxing FDI norms
  - Cutting corporate tax rates
  - Containing inflation
  - Accelerating infrastructure creation
  - Improving the ease of doing business
  - Reforming taxation.
- **Growth rate, a driver of investment:**The growth rate of the economy is a pre-eminent driver of investment decisions.
  - To achieve the objective of becoming a USD 5 trillion economy by 2025, a strong investment climate is critical.
  - The growth rate of a country's GDP also informs several critical policy initiatives.
- **Uncertainty about growth rate:** Uncertainty about the country's GDP growth and its magnitude can affect investment.
  - Uncertainty about growth rate stems from the Base Year revision of the GDP Series from 2004-05 to 2011-12.
  - The revisions done in 30 January 2015 is in line with the System of National Accounts (SNA) 2008 of the United Nations.
- **The methodology undertaken to ward off any uncertainty**: Indian GDP growth rates are compared to those of other countries.
  - Assessment is made of Indian GDP growth rate if base year revision was not done.
  - This estimate is compared to the actual growth rate to infer any incorrectness.
  - This is assessed through Difference-in-difference (DID) model.
- **No evidence of misestimation is found**: Correct statistical and econometric analysis suggests no evidence of misestimation of India's GDP growth.
  - **Context:**Former CEA Arvind Subramanian had said India's GDP growth rate was overestimated,by around 2.5 percentage points, between 2011-12 and 2016-17, due to methodology change for calculating GDP.
  - **The Economic Survey counters former CEA's charge.**

> **Difference-in-difference (DID) model**:The economic survey uses DID model, which is an econometric technique that attempts to mimic an experimental research design by studying the differential effect of a quasi-experiment such as a GDP methodology change.

- **In fact, models that misestimate India's GDP growth, also misestimate the GDP growth of other countries too**:

- Models that incorrectly overestimate India's GDP growth by over 2.77%,also misestimate GDP growth over the same time period for 51 other countriesout of 95 countries in the sample.
- Several advanced economies such as the UK, Germany and Singapore turn out to have their GDPs misestimated when the econometric model is incompletely specified.
- **Conclusion**: Concerns of a misestimated Indian GDP are unsubstantiated by the data and are thus unfounded.

Practice Question

- **Investment catalyses the economy into a virtuous cycle. Elaborate.**
- **Growth rate is a driver of investment. Discuss some recent initiatives taken to foster investment in the economy.**

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CHAPTER 11

THALINOMICS

THE ECONOMICS OF A PLATE OF FOOD IN INDIA

Introduction

- Thalinomics is the economics of a plate of food in India.
- It is an attempt to quantify what a common person pays for a Thali across India. Has a Thali become more or less affordable? Has inflation in the price of a Thali increased or decreased?
- Is the inflation the same for a vegetarian Thali as for a non-vegetarian?
- Is the inflation in the price of a Thali different across different states and regions in India?
- Which components account for the changes in the price of a Thali – the cereals, vegetables, pulses or the cost of fuel required for its preparation?
- The evolution of prices of vegetarian and non-vegetarian thalis during the period from 2006-07 to October 2019-20 is analysed.
- Prices data from the Consumer Price Index for Industrial Workers for around 80 centres in 25 States/UTs from April 2006 to October 2019 have been used for the analysis.

Major Findings

- Both across India and the four regions– North, South, East, and West –it was found that the absolute prices of a vegetarian Thali have decreased since 2015-16 though it increased during 2019.
- This is due to significant moderation in the prices of vegetables and dal from 2015-16 when compared to the previous trend of increasing prices.
- In fact, the increase in prices of both components has contributed to the increase in the Thali price during 2019-20 (April - October) as well.
- It was found that the affordability of vegetarian Thalis has improved over the time period from 2006-07 to 2019-20 by 29% and that for non-vegetarian Thalis by 18%.

Thali Prices

- In 2015-2016, due to many reform measures that were introduced during the period of analysis to enhance the productivity of the agricultural sector as well as efficiency and effectiveness of agricultural markets for better and more transparent price discovery, there was a slowdown in the prices of Thalis at the All-India level.

Regional Variation

- India, being a diverse country, it is important to look at the regional variation in the price trends. States in India have therefore been divided into four regions based on geographic location.
- With the exception of the Northern Region and Eastern Region in 2016-17 in the case of vegetarian Thali. The highest gain in any year was in the Southern region for a vegetarian Thali in 2018-19 of around 12% of the annual earnings of a worker.

Affordability of Thalis

- It is important to see is how have the earnings of the individual changed during the same period of time compared to the prices of a Thali.

- In order to do this, we need to look at what share of his/her daily wages does a worker require to acquire two Thalis a day for his/her household members.
- It was observed that the affordability of Thalis has increased over the years.
- In terms of vegetarian Thali, it is found that an individual who would have spent around 70% of his/her daily wage on two Thalis for a household of five in 2006- 07 is able to afford the same number of Thalis from around 50% of his daily wage in 2019-20 (April to October).
- Similarly, the affordability of non-vegetarian Thalis has also increased with the share of wages required decreasing from around 93% to around 79% between 2006-07 and 2019-20 (April to October).

Thali Inflation

- Thali inflation (year-on-year growth in Thali prices), which remained elevated during the initial part of the period of our analysis, has shown a significant reduction.
- An increase in the rate of inflation in vegetarian and non-vegetarian Thalis during 2019-20 is a temporary phenomenon that should revert back as has happened in earlier years.
- It is observed that inflation has been declining over time in all components. While inflation in cereals has been declining at a steady rate throughout the period, the fall in inflation has accelerated in all other components except Sabzi.
- Across regions and States, a similar trend is seen in inflation with overall Thali inflation showing a downward trend.
- Over the last year, the rate of inflation for Dal, Sabzi and non-vegetarian components hasincreased.

Some Major Initiatives for Enhancing Productivity of Agriculture and Efficiency of Agricultural Markets

Sl. No.	Name of Scheme	Description
1.	Pradhan mantra An-nadata Aay SamraksHan Abhiyan (PM-AASHA)	PM-AASHA, launched in 2018, covers three sub-scheme i.e. Price Support Scheme (PSS), Price Deficiency Payment Scheme (PDPS) and pilot of Private Procurement & Stockist Scheme (PDPS). Under PSS, physical procurement of pulses, oilseeds and Copra is done by Central Nodal Agencies with proactive role of State governments. PDPS covers all oil seeds for which MSP is notified. Under this, direct payment of the difference between the MSP and the selling/ modal price is made to pre-registered farmers selling his produce in the notified market yard through a transparent auction process.
2.	Pradhan mantra Krishi Sinchayee Yojana (PM-KSY) – Per Drop More Crop	PMKSY was implemented in the year 2015-16. It focuses on enhancing water use efficiency through expansion of cultivable area under assured irrigation, improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies, enhance recharge of aquifers and introduce sustainable water conservation practices.
3.	Pradhan mantra Fasal Bima Yojana (PMFBY)	PMFBY was introduced in 2015-16 to provide better insurance coverage for agricultural crops and thereby mitigate risk. A total of 69.9 lakh farmers have benefited from PMFBY The scheme aims to provide comprehensive insurance coverage to farmers.
4.	Soil Health Card	Soil Health Card scheme was introduced in the year 2014-15 to assist State Governments to issue soil health cards to all farmers in the country. Soil health card provides farmers information on the nutrient status of their soil along with recommendation on appropriate dosage of nutrients to be used for their soil conditions.
5.	E-National Agricultural market (e-NAM)	e-NAM is an online trading platform for agricultural commodities for transparent price discovery. So far, 585 wholesale regulated markets in 16 States and 2 UTs have connected to e-NAM.

6.	National Food Security Mission (NFSM)	National Food Security Mission has been implemented since 2007-08. It was redesigned in 2014-15 to increase the production of rice, wheat, pulses and coarse cereals.
7.	National Food Security Act (NFSA)	The National Food Security Act was enacted in July, 2013 and rolled out in 2014. The Act legally entitles 67 per cent of the population (75 per cent in rural areas and 50 per cent in urban areas) to receive highly subsidized food grains. Under the Act, food grain is allocated @ 5 kg per person per month for priority households category and @ 35 kg per family per month for AAY families at highly subsidized prices of! Rs. 1/-, Rs. 21- and Rs. 3/- per kg for nutri-cereals, wheat and rice respectively. Coverage under the Act is based on the population figures of Census, 2011. The Act is being implemented in all 36 States/UTs and covers about 81.35 core persons.

Variability of Thali Prices

- It is seen that over the years, there is no specific trend in the variability of Thali prices at the All-India level across months over the years
- Similarly, in cases of variability across regions and across states, over time, there are no specific trends in the variability patterns.

Conclusion

- Food is not just an end in itself but also an essential ingredient in the growth of human capital and therefore important for national wealth creation. ‘Zero Hunger’ has been agreed upon by nations of the world as a Sustainable Development Goal (SDG).
- This goal (SDG 2) is directly related to other SDGs such as Goal 1 (No poverty), Goal 4 (Quality Education), Goal 5 (Gender equality), Goal 12 (Responsible consumption and production), Goal 13 (Climate Action) and Goal 15 (Life on Land).

Practice Question

- **“As food is a necessity, a rapid rise in the price of a Thali has the most direct and conspicuous effect on the common man”. Comment.**

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GS SCORE

An Institute for Civil Services

IAS PRELIMS 2020

PRELIMS TEST SERIES

BATCH: 10 - PT MAXIMA

DAILY TEST

Total 63 Tests: 10 NCERT + 29 Sub Sectional + 6 Sectional + 5 Current Affair + 10 Mock Test + 3 CSAT

STARTS 1 MARCH 2020

TEST SCHEDULE

Test No.	Date	Subject	Subject	Topics Covered
Polity (01 March to 08 March, 2020)				
Test 1	1 March, 2020	Polity 1	NCERT	Fundamentals (NCERT 11th & 12th)
Test 2	2 March, 2020	Polity 2	NCERT	Fundamentals (NCERT 11th & 12th)
Test 3	3 March, 2020	Polity 3	Sub-Sectional	Constitutional Development + Preamble + Union Territories + Citizenship
Test 4	4 March, 2020	Polity 4	Sub-Sectional	FR + DPSP + FD + Other Constitutional Provisions such as Emergency Provisions etc.
Test 5	5 March, 2020	Polity 5	Sub-Sectional	Executive + Legislature + Judiciary - 1
Test 6	6 March, 2020	Polity 6	Sub-Sectional	Executive + Legislature + Judiciary - 2
Test 7	7 March, 2020	Polity 7	Sub-Sectional	Governance + Socio Economic Development + Reforms + Bills + Welfare Schemes + Policies
Test 8	8 March, 2020	Polity 8	Sectional	Polity & Governance
Economy (12 March to 18 March, 2020)				
Test 9	12 March, 2020	Economy 1	NCERT	Fundamentals (NCERT 11th & 12th)
Test 10	13 March, 2020	Economy 2	NCERT	Fundamentals (NCERT 11th & 12th)
Test 11	14 March, 2020	Economy 3	Sub-Sectional	Basic Concepts of National Income
Test 12	15 March, 2020	Economy 4	Sub-Sectional	Budgeting + Fiscal and Monetary Policy Agricultural and Industrial Policy
Test 13	16 March, 2020	Economy 5	Sub-Sectional	External Sector + International Institutes
Test 14	17 March, 2020	Economy 6	Sub-Sectional	Money, Banking Financial Market and Other Provisions
Test 15	18 March, 2020	Economy 7	Sectional	Indian Economy
Environment (21 March to 27 March, 2020)				
Test 16	21 March, 2020	Environment 1	NCERT	Fundamentals of Environment (NCERT Biology 12th - Ch. 10 to 16)
Test 17	22 March, 2020	Environment 2	Sub-Sectional	Environment and Ecology
Test 18	23 March, 2020	Environment 3	Sub-Sectional	Biodiversity
Test 19	24 March, 2020	Environment 4	Sub-Sectional	Environmental Pollution and Management
Test 20	25 March, 2020	Environment 5	Sub-Sectional	Climate Change + Global Warming
Test 21	26 March, 2020	Environment 6	Sub-Sectional	Environmental Governance
Test 22	27 March, 2020	Environment 7	Sectional	Environment and Ecolog

Test No	Date	Subject	Subject	Topics Covered
HISTORY & CULTURE (30 March to 07 April, 2020)				
Test 23	30 March, 2020	History 1	NCERT	Fundamentals (Ancient +Medieval) (NCERT Old + New 11th & 12th)
Test 24	31 March, 2020	History 2	NCERT	Fundamentals (Modern) (NCERT Old + New 11th & 12th)
Test 25	1 April, 2020	Culture 3	Sub-Sectional	Visual Arts + Performing Arts
Test 26	2 April, 2020	Culture 4	Sub-Sectional	Religions + Languages + Literature + Institutions
Test 27	3 April, 2020	History 5	Sub-Sectional	Ancient India
Test 28	4 April, 2020	History 6	Sub-Sectional	Medieval India
Test 29	5 April, 2020	History 7	Sub-Sectional	Modern India (1757 – 1885)
Test 30	6 April, 2020	History 8	Sub-Sectional	Modern India (1885 – 1947)
Test 31	7 April, 2020	History 9	Sectional	History and Culture of India
GEOGRAPHY (10 April to 18 April, 2020)				
Test 32	10 April, 2020	Geography 1	NCERT	Fundamentals World Geography (NCERT 11th & 12th)
Test 33	11 April, 2020	Geography 2	NCERT	Fundamentals Indian Geography (NCERT 11th & 12th)
Test 34	12 April, 2020	Geography 3	Sub-Sectional	Geomorphology + Indian Physiography
Test 35	13 April, 2020	Geography 4	Sub-Sectional	Climatology + Indian Climate
Test 36	14 April, 2020	Geography 5	Sub-Sectional	Oceanography + Biogeography
Test 37	15 April, 2020	Geography 6	Sub-Sectional	Demography + Human Geography + Census
Test 38	16 April, 2020	Geography 7	Sub-Sectional	Economic Activities + Agriculture + Minerals + Energy
Test 39	17 April, 2020	Geography 8	Sub-Sectional	Industry + Transport + Trade + Communication
Test 40	18 April, 2020	Geography 9	Sectional	Geography of India and World
SCIENCE & TECHNOLOGY (21 April to 25 April, 2020)				
Test 41	21 April, 2020	Science & Tech 1		NCERTBiology + Everyday Science + + Institutions + Award
Test 42	22 April, 2020	Science & Tech 2		Sub-SectionalBiotechnology + Health + Nuclear tech
Test 43	23 April, 2020	Science & Tech 3		Sub-SectionalSpace + Defence
Test 44	24 April, 2020	Science & Tech 4		Sub-SectionalIT + Telecom + IPR + Nanotech + Robotics
Test 45	25 April, 2020	Science & Tech 5		SectionalScience and Technology
CSAT (28 April to 30 April, 2020)				
Test 46	28 April, 2020	CSAT-1	Sectional	Reasoning
Test 47	29 April, 2020	CSAT-2	Sectional	General Mental Ability
Test 48	30 April, 2020	CSAT-3	Sectional	Reading Comprehension
CURRENT AFFAIRS (03 May to 07 May, 2020)				
Test 49	3 May, 2020	Current Affairs-1		Current AffairsJune + July + August 2019
Test 50	4 May, 2020	Current Affairs-2		Current AffairsSeptember + October, 2019
Test 51	5 May, 2020	Current Affairs-3		Current AffairsNov + Dec 2019 + Jan, 2020
Test 52	6 May, 2020	Current Affairs-4		Current AffairsFeb + March + April, 2020
Test 53	7 May, 2020	Current Affairs-5		Current AffairsEconomy Survey + Budget + Indian Year Book 2020

FULL MOCK TESTS (08 May to 19 May, 2020)

Test No.	Date	Test
Test 54	8 May, 2020	MOCK 1PAPER 1 & 2
Test 55	9 May, 2020	MOCK 2PAPER 1 & 2
Test 56	12 May, 2020	MOCK 3PAPER 1 & 2
Test 57	13 May, 2020	MOCK 4PAPER 1 & 2
Test 58	14 May, 2020	MOCK 5PAPER 1 & 2
Test 59	15 May, 2020	MOCK 6PAPER 1 & 2
Test 60	16 May, 2020	MOCK 7PAPER 1 & 2
Test 61	17 May, 2020	MOCK 8PAPER 1 & 2
Test 62	18 May, 2020	MOCK 9PAPER 1 & 2
Test 63	19 May, 2020	MOCK 10PAPER 1 & 2