









www.iasscore.in

# CONTENT

<ul> <li>CHAPTER-1</li> <li>Shifting Gears: Pri</li> </ul>	ivate Investment04
<ul> <li>CHAPTER-2:</li> <li>Policy for Homo S Leveraging the Be</li> </ul>	Sapiens, not Homo Economicus: Phavioural Economics of "NUDGE"08
<ul> <li>CHAPTER-3:</li> <li>Nourishing Dwarf Roerienting Polici</li> </ul>	s to become Giants: es for MSME Growth16
<ul><li>CHAPTER-4:</li><li>Data "Of the Peop</li></ul>	ble, By the People, For the People"19
<ul> <li>CHAPTER-5:</li> <li>Ending Matsyanya</li> </ul>	aya: How to Ramp-up capacity in the Lower Judiciary22
<ul> <li>CHAPTER-6:</li> <li>How does Policy I</li> </ul>	Uncertainty affect Investment?26
<ul><li>CHAPTER-7:</li><li>India's Demograp</li></ul>	hy at 2040: Planning Public Good Provision for the 21 <sup>st</sup> Century29
<ul> <li>CHAPTER-8:</li> <li>From Swachh Bha An Analysis of the</li> </ul>	arat to Sundar Bharat via Swasth Bharat: A Swachh Bharat Mission
<ul> <li>CHAPTER-9:</li> <li>Enabling Inclusive</li> </ul>	e Growth through Affordable, Reliable & Sustainable Energy
<ul> <li>CHAPTER-10:</li> <li>Effective use of Terminal</li> </ul>	echnology for Welfare Schemes - Case of MGNREGS
<ul> <li>CHAPTER-11:</li> <li>Redesigning a Min</li> </ul>	nimum Wage System in India for Inclusive Growth43

## **SHIFTING GEARS**

## **PRIVATE INVESTMENT**

## Important terms

- **Traditional Growth Economics** looks at economy from perspective of equilibrium and assumes that as a central feature and desirable objective too. Whereas, an alternative approach can be there to look at economy from perspective of boom and bust phases. When economy is in boom phase it is because of a virtuous cycle and vice versa.
- Virtuous Cycle is said to be present, when improves in one economic indicator pushes others in a positive manner leading to an overall economic boom.
  - **Example:** India's virtuous cycle was 2003 to 2008. The average annual real growth during this period was 8.7%. This period was marked by increasing investment, both by the public and private sectors, rising domestic savings, fiscal consolidation, moderate inflation and low interest rates. There was an element of a virtuous cycle between all these factors: i.e. a lower fiscal deficit leading to lower interest rates and public borrowing, which left extra room for private investment. These domestic macroeconomic developments were also blessed by a global boom in growth, with increased trade, liquidity and financial flows.
- Vicious Cycle is said to be present when drastic fall in some economic indicators spread to entire economy and leads to confidence crisis along with decline in consumption.

It is a self-propagating disadvantageous situation in which a solution (specially the one that does not addresses the root cause) leads to another problem whose solution, in turn, leads back to the first problem in a more severe form.

### General Equilibrium Theory and Criticism

The very name of (traditional economic) models, general equilibrium, shows that they assume that the economy is basically in balance until an outside shock upsets it. They assume that you can understand the economy by studying a representative agent whose expectations and decisions are rational. This view is essentially linear, and the policy advice it generates is tailored to a linear system, where an action produces a fairly predictable reaction. Real life is not like that, we need a new approach to economics that isn't just about quantitative economics.

An economy that is in a constant state of dis-equilibrium needs a new approach to navigate. The earlier attempt to create five-year plans, largely using the equilibrium framework, failed because it was too prescriptive for an inherently unpredictable world. Therefore, navigating this uncertain world of dis-equilibrium requires three elements: (i) a clear vision; (ii) a general strategy to achieve the vision; and (iii) the flexibility and willingness to continuously recalibrate tactics in response to unanticipated situations.

### Behavioural Economics



As policymaking must keep real people as its focus, rather than the optimization focused robots that conventional economics assumes, the insights from behavioural economics need to be integrated into policymaking to foster productivity and economic growth.

### Dwarf Firms

Firms that are both small and older than ten years are categorized as dwarfs as these firms have continued to be stunted in their growth despite surviving for more than 10 years. Small firms that never grow beyond their small size, dominates the Indian economy and holds back job creation and productivity. Firms employing less than 100 workers are categorized as small and firms employing 100 or more workers as relatively large.

While dwarfs account for half of all the firms in organized manufacturing by number, their share in employment is only 13.3%. In fact, their share in NVA is a miniscule 4.7% despite them dominating half the economic landscape. In contrast, young, large firms (firms that have more than 100 employees and are not more than 10 years old) account for only 6.2% of firms by number but contribute a quarter of the employment and 38% of the NVA.

### **D** Growth Record in Last Five Years

During the last five years, India's economy has performed well. By opening up several pathways for trickle-down, the government has ensured that the benefits of growth and macroeconomic stability reach the bottom of the pyramid.

India became the sixth largest economy by sustaining growth rates higher than China, thereby earning the epaulette of being the fastest growing major economy in the world (Figure 1). Importantly, this pace of growth was sustained while re-establishing macro-economic stability.



### MACROECONOMIC STABILITY

- It includes the Fiscal deficit and Current Account Deficit and Inflation.
- Average inflation in these five years was less than half the inflation level of the preceding five years, matching the lowest levels attained in the country's post-independence history.
- The current account deficit (CAD) remained within manageable levels and foreign exchange reserves rose to all-time highs.

### ► MPC and Inflation

Monetary Policy Committee (MPC) was constituted in February, 2015 with the mandate to target a headline inflation of 4 percent, with a band of two percentage points on either side. The framework has been successful in containing inflation. Since April 2015, when the MPC was first convened, the monthly headline inflation has always remained within the band except for one month.

### Fiscal Deficit and FRBM Act

The Fiscal Responsibility and Budget Management (FRBM) Act of 2003, which got a new lease of life since 2016, determines the glide path for the ratio of GFD to GDP to reach an eventual target of 3 per cent. The ratio declined from 4.5 per cent in 2013-14 to 3.4 per cent in 2018-19.



### 

### ► Aadhaar

The promulgation of the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits, and Services) Act, 2016 was one such initiative that opened a major pathway to this trickle-down. By assigning a unique identification number to every individual, the government now has the ability to provide targeted support. Presently, Aadhaar coverage stands at more than 90 percent of the country's population.

### > Jan Dhan Yojana

Another pathway for the trickle-down is the Pradhan Mantri Jan Dhan Yojana (PMJDY), a financial inclusion initiative. Presently close to Rs. 1 lakh crore is deposited in more than 35 crore bank accounts opened under PMJDY. The JAM trinity has enabled cumulative transfers thus far of around Rs. 7.3 lakh crore.

### **D** Objectives of Next Five Years

India aims to grow into a USD 5 trillion economies by 2024-25, which will make India the third-largest economy in the world. Given 4% inflation, as the Monetary Policy Framework specified by the Government for the Reserve Bank of India, this requires real annual growth rate in GDP of 8 per cent.

To achieve the objective of becoming a US\$5 trillion economy by 2024-25, India needs to sustain a real GDP growth rate of 8%. International experience, especially from high-growth East Asian economies, suggests that such growth can only be sustained by a "virtuous cycle" of savings, investment and exports catalyzed and supported by a favourable demographic phase. Investment, especially private investment, is the "key driver" that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction and generates jobs.

When the economy is in a virtuous cycle, investment, productivity growth, job creation, demand and exports feed into each other and enable animal spirits in the economy to thrive. In contrast, when the economy is in a vicious cycle, moderation in these variables dampens each other and thereby dampens the animal spirits in the economy.

### EXPERIENCE OF EAST ASIA

In recent times, Chinese economic growth stands out for its explosive growth over a long period of four decades. Post war economic expansion in Western Europe led to high growth rates of its economies. During 1950-73, Japan's GDP growth rate frequently exceeded 10 per cent. Post-World War II, Hong Kong, Singapore, South Korea, and Taiwan successfully maintained a rapid growth rate of more than 7 per cent until 1980s.

With the rising GDP per capita, China's savings, investment and exports increased further. There is evidence for same relationships for saving and investment for four countries in East Asia (Thailand, Indonesia, Malaysia and South Korea), which witnessed high growth before the Asian Financial Crisis.

Their experience shows savings and growth are not only positively correlated, but their positive correlation is even stronger than that between growth and investment.

### INVESTMENT AND JOB CREATION

A general apprehension is that high investment rate will substitute labour. This thinking has led to much debate about labour-intensive versus capital-intensive modes of production. However, the Chinese experience illustrates how a country with the highest investment rates also created the most jobs. What matters most is whether or not investment enhances productivity and thereby international competitiveness.

## © CORRELATION BETWEEN GROWTH AND SAVINGS AND INVESTMENTS

Exports must form an integral part of the growth model because higher savings preclude domestic consumption as the driver of final demand. Similarly, job creation is driven by this virtuous cycle. While the claim is often made that investment displaces jobs, this remains true only when viewed within the silo of a specific activity. When examined across the entire value chain, capital investment fosters job creation as production of capital goods, research & development and supply chains generate jobs.

#### Saving Behaviour

Savings rate in China and other high-growth East Asian economies was driven significantly by change in its demographics from a predominantly young to an older population.



GISSCORE

Jobs that pay meaningful wages become crucial in driving savings rate in the economy. The "virtuous cycle" that we describe fosters job creation by exploiting the complementarity between capital and labour, on the one hand, and increase overall productivity and labour productivity, on the other hand.

### Investment Dynamics

The investment-led growth model implies a rapid expansion in the financial system by a factor of magnitude – both banks and capital markets. In turn, this runs up the risk that such a rapid expansion could be disrupted by a major financial crisis that derails the savings-investment dynamic.

As investment represents a forward-looking activity, investors eventually make their decisions to invest based on the risk adjusted return they expect. In other words, if two projects offer the same return but one of them is riskier, then investors c hoose the less risky project to invest. Therefore, systematically lowering the risks faced by investors in India is critical for the success of the investment-driven model for economic growth. Risk pertains to the possibilities of upside, when a project performs well, and downside, when the project fails. So, the implementation of the IBC is crucial in this regard as it puts into process a framework for reconfiguration of assets following business failure.

### CONCLUSION

In postulating the above growth model, the Survey departs from traditional Anglo-Saxon thinking by viewing the economy as being either in a virtuous or a vicious cycle, and thus never in equilibrium.

By presenting data as a public good, emphasizing legal reform, ensuring policy consistency, and encouraging behaviour change using principles of behavioural economics, the Survey aims to enable a self-sustaining virtuous cycle. Key ingredients include a focus on policies that nourish MSMEs to create more jobs and become more productive, reduce the cost of capital, and rationalise the risk-return trade-off for investments.

#### \*\*\*\*\*\*\*\*



• What India needs to do to achieve 8 percent growth in the coming years?



## POLICY FOR HOMO SAPIENS, NOT HOMO ECONOMICUS

## LEVERAGING THE BEHAVIOURAL ECONOMICS OF "NUDGE"

## • Purpose of Public Policy:

Public policy influences people to act in a socially desirable way, be it driving safely, conserving natural resources, educating children, respecting the human rights of fellow citizens or saving for retirement.

### • How does Public Policy work?

Some policies subtly influence by fostering the right incentives, while others mandate desired behavior or ban undesirable ones.

### • GRADING OF PUBLIC POLICY:

Public Policy can be graded on a spectrum capturing how strongly they influence (or coerce) behavior.

- On one extreme is, laissez faire, i.e. doing nothing and leaving individuals/ firms to chart their own course.
- Laissez faire works well when markets achieve socially desirable outcomes on their own. Where markets fail, laissez faire fails.
- For instance, individuals/firms in a free market would not restrain pollution.
- Public policy in the form of regulation mandates people to act in a socially desirable manner.
- Sandwiched between these extremes are policies that incentivize good behavior or dis-incentivize bad behavior, such as subsidies for renewable energy and taxes on tobacco.
- Recently, behavioral economists have discovered the efficacy of a new class of "nudge" policies that lie between laissez faire and incentives. Such policies leverage insights from human psychology to influence the choice architecture of people. Nudge policies gently steer people towards desirable behavior even while preserving their liberty to choose.

## ● FACTORS AFFECTING HUMAN CHOICES

- Adam Smith, in his book the 'Theory of Moral Sentiment', noted that a wide range of human choices are driven and limited by:
  - Our mental resources, i.e. cognitive ability, attention and motivation.
- **Behavioral economics** relies on the essential insight from human psychology that, real people do not always behave like robots, rational and unbiased individuals that form the basis of classical economic theory called "homo economicus" (Thaler, 2000).
  - To **homo economicus**, the choice architecture is irrelevant, as they will make the optimal choice irrespective of the way the choices are presented to them.





- However, real people respond to the choice architecture.
  - For example, a large fraction of individuals opt for the default choice, irrespective of their intrinsic preferences.
  - This is because individuals suffer from a cognitive bias called "anchoring bias", viz., once a default option is presented to them, they anchor on to it Anchoring bias, along with several others, drives a wedge between people's intrinsic preferences and the choices they eventually make.
- Individuals suffer from **tremendous inertia** when they have to make a choice, and hence, they tend to stick to the **default option** (Thaler and Sunstein 2008; Samson 2014).
- Therefore, the nearly costless acts of changing the default on an enrolment form harvests this inertia for people's own good. At the same time, this form of paternalism preserves people's right to choose as the choice architecture makes it easy for an individual to opt out of the scheme.
  - For example, studies have shown that enrolment rates in a healthcare or retirement savings plan improve dramatically if the plan is designed as an opt-in by default embedded with the option to opt-out, as opposed to voluntary enrolment by opting in.

### • INNOVATIVE GLOBAL BEHAVIORAL CHANGE INTERVENTIONS:

- Understanding the principles of behavioral economics, can bridge the gap between people's preferences and the choices they make, and thereby enable informed policymaking.
- Many governments, including the U.S., the U.K. and Australia, have set up dedicated units to use behavioral
  insights for effective policymaking. Innovative interventions across the world that utilize the principles of
  behavioral economics.

Table 1: Innovative Global Behaviour Change Interventions			
Sector	Problem	Intervention	Observations
Pension Policy (USA)	People tend to go with de- faults. When the default in a saving plan is no enrolment, most people do not enrol even when they want to.	Instead of employees check- ing a box to enrol in savings plans, employees check a box to not enrol; i.e. the default option is to be enrolled.	Automatic enrolment increased savings by up to 40 per cent (Beshears et. al, 2005).
Tax Compliance (UK)	People need reminders and positive reinforcement to sustain socially desirable be- haviour.	People were sent variations of text messages on how their taxes make a difference to public services.	People who owed most tax were also most responsive to messages asking them to pay. Compliance increased without increase in tax sur- veillance costs (UK Cabinet Office, Behavioural Insights Team, 2012).
Agriculture (Africa)	Inertia makes people pro- crastinate important, time- sensitive decisions even when they are aware of the consequences of delay.	To tackle farmers' procras- tination in buying fertilizer (possibly because of the hassle of traveling to town), home delivery of fertilizer early in the season was at- tempted.	Fertilizer use increased by 70 per cent (Duflo ct al., 2011). Early home delivery increased fertilizer use by 70 per cent. The effect was as much as a 50 per cent price subsidy would have accom- plished.
Savings (Philippines)	People save much less than they want to because of lack of adequate self- control in spending.	People were offered spe- cially designed savings accounts that locked up funds until a self-specified target was met.	Nearly 30 per cent of those who were offered the account adopted it. Saving balance increased by 81 per cent in a year (Ashraf et al. 2006).
Savings (Bolivia, Peru, Philippines)	People save much less than they want to because of inertia and lack of posi- tive reinforcement.	People were sent peri- odic and timely remind- ers about their self-deter- mined saving goals.	Reminders increased the amount saved by six per cent (Karlan ct al., 2010).



Education (Madagascar) Many parents under- estimate the returns to spending another year at school. They think school- ing is worthless unless the child is able to go all the way through high school. Many allow their children to drop out with even fewer years of schooling than they can afford.	Parents were informed about the average income gains from spending one more year in school for children from back- grounds like their own.	Information dissemina- tion increased children's test scores by 0.37 stand- ard deviations, particu- larly for those parents who had underestimated the return to education (Nguyen, 2008).
--	---	--

## 

### **>** Swachh Bharat Mission:

- SBM was launched on 2nd October, 2014 to achieve universal sanitation coverage.
- The principles of behavioral economics were applied in SBM. Measures of female literacy and early
  marriages of girls, which associate strongly with rigid social norms, correlate powerfully with access and
  usage of toilets across states. This shows that toilet access and usage can be suitably increased with
  behavioral nudges that push female literacy rates up and discourage early marriages of girls. In this
  respect, the BBBP scheme complements SBM strongly as factors related to gender empowerment are
  seen to be significantly correlated with toilet access and usage. This interplay can be effectively used to
  improve the efficacy of both the schemes.

### ► Beti Bachao, Beti Padhao

- BBBP Scheme was flagged from Panipat, Haryana, which had the worst child sex ratio at 834 among Indian states as compared with the national average of 919 (as per Census, 2011).
- One of the principles of behavioral economics is to adapt the message to match "mental models" of people. The symbolism captured by the choice of Panipat in Haryana helped significantly in matching the message to the relevant mental model. Also, International Women's Day was chosen to launch to reinforce the stress on gender empowerment and establish the social norm of 'girls are valuable'.
- BBBP has had an impact particularly on large states with very poor child sex ratios states that plausibly also needed the greatest pivot in their social norms.

Table: Use of clear messaging for schemes		
Name of the Scheme	Literal Meaning of the Name	Objective of the Scheme Cultural/Societal aspect used
Namami Gange	Namami Gange means 'I pray to Ganga' as the river Ganga is revered in our culture	To arrest the pollution of Ganga River and revive the river
POSHAN Abhiyan	Poshan means holistic nutrition	Multi-ministerial convergence mission to ensure a malnutrition free India by 2022.
Ujjwala	Means 'bright, clear'	To safeguard the health of women by provid- ing them with clean cooking fuel – LPG.
PM Mudra Yojana	Mudra means "currency, coins"	Provides loans upto 10 lakh to the non-cor- porate, non-farm small/micro enterprises.
Jan Dhan Yojana	Jan Dhan implies "money of the people"	Financial inclusion program to expand access to financial services.
Ayushman Bharat	Ayushman means "Being Blessed with long life"	Universal and affordable access to good qual- ity health care services.

### ► Use of clear messaging:



### • ASPIRATIONAL AGENDA FOR PATH-BREAKING CHANGE:

### Box 3: Citizen@75-Using Behavioral Economics to Avoid the Seven Social Sins

The destiny of a nation is shaped by its citizens. **India+@75** is envisaged as a 'New India' where every individual realizes his or her full potential and looks for opportunities to contribute rather than claim entitlements. A new spirit of independence needs to be imbibed from all extrinsic and intrinsic fetters to shape the future of India. **Mahatma Gandhi's Seven Social Sins**, published in **Young India** on October 22, 1925, provide deep insights into the role of social and political conditions shaping human behavior. Each of these is a statement of principle that can be interpreted and utilized for nudging people towards desirable behaviour.



### From BBBP to BADLAV

Using Behavioural Principles for BADLAV		
Principle	Applying the principle to BADLAV	
1. Make it easy to choose	<ul> <li>Simplify procedures to make it easier for women to, <i>inter alia</i>, report incidences of harassment and discrimination, to open bank accounts, to get government documents such as passports, visas etc.</li> </ul>	
2. Emphasize social norms	<ul> <li>Prominent women, including many female and male Hollywood and Bollywood stars, played an important role in raising the profile of the recent "Me too" movement, thereby contributing to changing the norm and illustrating that change in social norm is possible.</li> <li>Instead of highlighting the number of top companies that have few women on their boards, it is more effective to highlight how many do. Similarly, showing how prevalent and pervasive gender based violence is, runs the risk of normalising it; instead emphasising on how many people are not perpetrators or reinforcing injunctive norms against it can be more helpful in shaping correct norms towards gender equality.</li> </ul>	
	<ul> <li>Research shows that girls and women who observed female village chiefs exhibit behaviour that highlights them as equal to men. Villagers who had exposure to at least two female chiefs rated male and female leaders equally. Therefore, women village leaders must be advertised as role models as people can relate to proximate "others". Mass media must be utilised for regular efforts to change the social norm via <b>BADLAV</b>.</li> </ul>	



## ECONOMIC SURVEY 2018-19

3. Disclose out- comes	<ul> <li>Publishing gender rankings or audits in public domain, whether for numbers of women in legislatures, in political parties, in bureaucracy or on company boards, can prompt organisations to take action to avoid bad publicity or looking worse than their competitors. Mandating organisations to report the "Gender pay gap" can reinforce this trend.</li> </ul>
4. Reinforce repeat- edly	<ul> <li>Having multiple visually descriptive posters in every corridor of workplaces and public places regarding what constitutes sexual harassment at workplace can reinforce the norm of it not being acceptable. Similarly, regular TV advertisements that reinforce the positive norm of gender equality can help to reinforce repeatedly.</li> </ul>
5. Leverage loss aversion	<ul> <li>Evidence from field studies and experiments shows that among men and women of equal abilities, men often choose to compete twice as often as women. Reward structures can be modified to ameliorate the higher aversion of women to competition. For instance, application fees for women applicants in jobs can be waived. Removing demographic information from job applications can also help.</li> </ul>
6. Make mes- sages match mental models	<ul> <li>Women consistently tend to place more value on flexibility at workplace. Companies that offer flexibility as the default norm have many more women applicants and employees.</li> <li>Women are less likely to apply for jobs perceived as "male-labelled." Skill training and apprenticeship programmes can be redesigned with appropriately gendered wording to attract female applicants in male dominated professions.</li> <li>Stereotypes regarding innate ability linked to gender and/or race can impact standardized test performance. Gender stereotype threats (filling demographic information before tests) can influence test scores of girls and boys differentially. These insights are crucial for building gender and race sensitive curriculum and evaluation procedures in schools.</li> </ul>

## From Swachh and Ayushman Bharat to Sundar Bharat

Using behavioral principle for Sundar Bharat		
Principle	Applying the principle	
1. Leverage default rules	<ul> <li>Giving individuals default flu shot appointment time can increase influenza vaccination rates.</li> <li>Providing smart insurance plan defaults can significantly simplify health insurance choice.</li> </ul>	
2. Make it easy to choose	<ul> <li>Asking consumers the factors that are most important to them while choosing a health plan and restricting the plan to these factors can make choice easier and thereby enhance take-up of health insurance.</li> <li>Minor behavioural alterations in school and college canteen menus (giving interesting names to healthy options, putting them near the cash counter, making the process of buying unhealthy options more time taking) can increase uptake of nutritious food.</li> </ul>	
3. Emphasize social norms	<ul> <li>Adolescents often overestimate how much alcohol or drugs their peers take making heavier consumption to be perceived as a socially desirable behaviour. Campaigns focusing on number of people who don't drink or take drugs may be more effective.</li> <li>Youth may be more responsive to a drug prevention program after the death of a celebrity from drug overdose.</li> <li>Giving out messages in information campaigns such as "90 per cent of doctors agree that vaccines are safe" can significantly reduce public concern about childhood vaccine, establish the social norm that vaccinations are safe and enhance vaccination.</li> </ul>	



	• Presenting information on how many people in the neighbourhood have chosen to take up the health insurance plan and the benefits it has offered to families with similar disease in that area can increase enrolment rates.
4. Disclose outcomes	<ul> <li>Disclosing to people about the realized benefits of hand-washing and, or family planning practices experienced by other people in their community, can enable them to take up these healthy practices.</li> </ul>
5. Reinforce repeatedly	<ul> <li>Sending messages to patients that asked the patient to write down the day and time they planned to get their next vaccination can boost uptake of vaccines.</li> <li>Doctors asking patients coming to hospitals for a signed pledge or a verbal commitment, preferably in the presence of someone the signee respects, called "accountability partner" to take up Yoga and walks can encourage such healthy lifestyle practices. A monthly appreciation (joint coupon rewards) for following</li> </ul>
5. Remore repeatedly	<ul> <li>the pledge, after being certified by the "accountability partner", can sustain such behaviour.</li> <li>Many people suffering from critical diseases do not take their medicines regularly. Use of simple text messages &amp; pill bottles that light up if not opened at the right time can increase drug adherence. Delivering an appreciation certificate at the end of the month for following their prescription schedule can sustain adherence.</li> </ul>
6. Leverage loss aversion	<ul> <li>People often find it difficult to achieve goals like weight loss or ceasing to smoke. People voluntarily made to post bonds (deposit contracts) or lottery tickets on a website that will be returned to them if they achieve their goals, but are forfeited otherwise, can help them achieve these difficult goals.</li> </ul>
	<ul> <li>Control of diarrhoea suffers from a flawed mental model: the perception that the solution is to decrease the child's fluid intake and to keep the child 'dry', implying less use of Oral Rehydration Solution. Information campaigns on adoption of OR Scan overturn this flawed mental model.</li> </ul>
7. Make messages match mental models	<ul> <li>Message boards in public hospitals and medical advertisements on media must emphasize gains from smoke cessation and breastfeeding to foster preventive action. Similarly, messages for sexually transmitted diseases and breast cancer must focus on the loss to deter and encourage early diagnosis respectively.</li> </ul>
	• The Mother's Absolute Affection (MAA) Programme campaign leverages role of influencers (the relationship between mother-in-law and the daughter-in-law) and the idea of commitment devices ("Vaada" i.e., promise) to reinforce the idea of breastfeeding the child within one hour of birth. Cultural tailoring of health messages in this area can nudge them to adopt breastfeeding.

## ► Think about Subsidy

Using Behavioural Principle for "Think about the Subsidy"		
Principle	Appling the principle	
1. Leverage default rules	• For campaigns like Give It Up, the default choice matters immensely. People have a strong tendency to go with the status quo. The default option can be modified so that households above a certain income threshold have to opt in to continue their subsidies with the default option being "opt out" of the subsidy. It is critical to ensure that people find it extremely easy - through only a text message, a phone-call or a few clicks - to opt in to continue their subsidy.	
2. Make it easy to choose	• For people who donate impulsively, reducing the friction between the moment when their intention to give up the subsidy appears and when they feel they can take action can make them more likely to give up the subsidy. Prepopulating fields of subsidy giving up forms can make it more likely that people will submit applications. Mobile phones and apps can also make impulsive giving up easier.	



3. Emphasize social norms	• Making people feel good about giving up subsidies can help establish the correct social norm. To discourage the middle-class and the comparatively rich people from enrolling for subsidies like kerosene, cooking gas etc., the government could, in its advertisements of the particular schemes, state that the scheme is intended to help the poor who make X per cent of the population and who earn less than Y per month.
	<ul> <li>Advertisements could suggest that by not enrolling, the rich are becoming contributors to eradication of extreme poverty from the country.</li> <li>Social networks could support live "Give it Up" events where participation is acknowledged with visual changes to people's online profiles.</li> <li>Creating quick outlets such as a simple phone app or physical kiosks for exercising our general intentions of donating small amounts can build the overall social norm of being charitable.</li> <li>Increasing visibility of donors can encourage giving up of subsidies, especially for people who think and donate based on their alignment with the causes they choose to support. Highlighting the noble act of giving in general using respected leaders in the world, and not just giving up a subsidy could increase the visibility of a more deliberate approach to giving.</li> </ul>
4. Disclose outcomes	<ul> <li>Displaying the names and photographs of people who give up subsidy on the website and while filling the form can bolster the act of giving it up.</li> </ul>
5. Reinforce repeat- edly	<ul> <li>Immediately and vividly showing givers the effect of them giving up the subsidy can make giving feel really good. Givers could view personal photos of the people benefitting from the subsidy or a video with a beneficiary saying thank you.</li> <li>During tax filing time, people could fill an extra field in the form about whether they would like to give up their subsidy (a form of tax payment) for the cause of the nation. Givers could sign up for personalized reminders to bring attention to their giving up objectives throughout the year.</li> </ul>
6. Leverage loss aversion	<ul> <li>Loss aversion can he used to explain why majority of LPG users have not given up their subsidy. This reinforces the policy of setting the subsidy schemes default to opt-out with a fairly easy-process to opt-in.</li> <li>Asking individuals to pledge a certain amount of subsidy when they feel most inspired, possibly when watching a social movie in the theatre, with then payment coming later can encourage giving. They can be prompted to set a giving goal in advance to track their progress.</li> </ul>
7. Match messages to mental models	<ul> <li>Behavioural techniques can help achieve desirable outcomes from subsidy programmes and in turn reduce the effective costs of subsidy.</li> <li>Sometimes individuals do not take up vaccinations because they either forget the location of the clinic or the time of appointment. Fiscal subsidies to make people take up vaccinations can be made more cost effective if such set of individuals are reminded more frequently about the time and location or encouraged to make a concrete plan about when and where they will get their vaccination.</li> </ul>

### ► Improving Tax Compliance

Table 8: Using Behavioural Principles to enhance tax compliance		
Principle	Applying the principle	
1. Leverage de- fault rules	<ul> <li>Automatic deduction of tax and directing all or portion of refunds into savings accounts can be used to encourage savings, including retirement savings.</li> <li>Sending messages to individuals suggesting that not declaring taxes is a deliberate and intentional choice on their part can help them overcome status quo bias and improve compliance.</li> </ul>	
2. Make it easy to choose	<ul> <li>Filing of tax forms even for zero payment of tax.</li> <li>Removing barriers to filing taxes procrastination, hassle of filling forms, or failing to understand the terms can improve compliance.</li> <li>Automated tax collection can make individuals pay less attention to tax collected (Salience effects).</li> </ul>	



3. Emphasize social norms	<ul> <li>Providing information about peer behavior can make taxpayers adjust their reported income. Message in the form of moral appeals to taxpayers regarding payment of taxes may have limited effects.</li> <li>Tax amnesties might reduce tax compliance of taxpayers perceive amnesties as unfair. Amnesties can decrease the government's credibility and the taxpayers intrinsic motivation to comply by setting the incorrect social norm.</li> </ul>
4. Disclose outcomes	<ul> <li>Public shaming of individuals who don't pay taxes can reduce non-compliance because of stigmatization effects.</li> <li>If cheaters feel that the probability of their detection has increased, voluntary disclosure programs for tax payments can increase tax evasion incidence as these programs may offer the possibility to avoid strict punishments.</li> </ul>
5. Reinforce repeatedly	• Repeatedly sending fairness driven and normative messages added to standard reminder letters that referred to the facts that (a) most people in your local community pay their taxes on time, and (b) the person concerned was in the very small minority who had not yet done so, can help reduce late tax payments.
6. Leverage loss aversion	<ul> <li>Tax withholding followed by refunds at the time of tax filing may increase tax compliance and total taxes paid. Taxpayers are more concerned about tax deduction claims when they owe additional tax (loss) at the time of filing than when they expect a refund (gain).</li> <li>Framing tax cuts; tax cuts presented as a bonus (gain) are more likely to be spent than tax cuts presented as a rebate (loss).</li> </ul>
7. Match mes- sages to mental models	<ul> <li>Reminding tax payers that public goods can only he provided in return for tax compliance (reciprocity appeal) can boost tax morale,</li> </ul>

### 

- First, the proposal to set up a behavioural economics unit in the NitiAayog must be immediately activated. Care, however, must be taken in setting up the unit as applying the principles of behavioural economics seems innocuously and misleadingly simple; after all, everyone can claim to be an expert in understanding human behaviour. However, as research in behavioural economics itself clearly highlights, there is a world of difference between anecdotes and averages. While insights gathered from careful research rely on averages, everyday experience is often driven by anecdotes. As anecdotes are more likely to represent outliers than averages, behavioural policymaking driven by anecdotal evidence can create more damage than good. Therefore, the temptation to appoint those who are not experts in this area must be avoided.
- Second, every program must go through a "behavioural economics" audit before its implementation. This audit may adhere to the principles of behavioural economics outlined above to conduct its audit. Such an audit and the modifications undertaken, therein, can significantly enhance the efficacy of the program. A simple application of this approach is in the Government communication that goes to citizens. For example, recent experience of the Department of Revenue showed that perceptions of "tax terrorism" often had more to do with the language employed in the communication than any Government action in reality. Therefore, by the mere act of altering the language, it may be possible to change the relationship between the Department and the taxpayer from adversarial to collaborative.
- Third, as several programs are administered by state governments, the behavioural economics team can work with various state governments not only to inform them about the potential benefits but also help them to improve the efficacy of the programs.

### **CONCLUSION:**

While social norms impact behaviour significantly in India, the power to employ behavioural change to alter these norms has not been adequately tapped. Implementing the agenda in this chapter would be a valuable step in this direction.

\*\*\*\*\*\*\*



## NOURISHING DWARFS TO BECOME GIANTS

## **REORIENTING POLICIES FOR MSME GROWTH**

### **n** Introduction:

- MSMEs that grow not only create greater profits for their promoters but also contribute to job creation and productivity in the economy. Our policies must, therefore, focus on enabling MSMEs to grow by unshackling them.
- Job creation in India, however, suffers from policies that foster dwarfs, i.e., small firms that never grow, instead of infant firms that have the potential to grow and become giants rapidly.
- While dwarfs, i.e., firms with less than 100 workers despite being more than ten years old, account for more than half of all organized firms in manufacturing by number, their contribution to employment is only 14 percent and to productivity is a mere 8 per cent. In contrast, large firms (more than 100 employees) account for three-quarters of such employment and close to 90 percent of productivity despite accounting for about 15 per cent by number.

## Cross-Sectional Comparison with USA and Mexico

- The average employment level for 40-year old enterprises in the U.S. was more than seven times that of the employment when the enterprise is newly set up. In contrast, the average employment level for 40-year old firms in India was only 40 per cent greater than the employment when the enterprise is newly set up. Thus, once they survive for forty years, the average 40-year old firm in the U.S. generates five times (=7/1.4) as much more employment than the average 40-year old Indian firm.
- Even Mexico does far better on this dimension than India. The average employment level for 40-year old firms in Mexico is double that of the employment when the enterprise is newly set up. Thus, once they survive for forty years, the average 40-year old firm in Mexico generates 40 per cent more (=2/1.4) employment than the average 40-year old Indian firm.

## The Role Of Policy In Fostering Dwarfism

### Impact of Labour Regulation

- India has a plethora of labour laws, regulations and rules, both at the centre and the state levels that govern the employee relationship. Each of these legislations exempts smaller firms from complying with these legislations.
- Table 1 shows the size thresholds applicable to each piece of labour regulation. For instance, the Industrial Disputes Act (IDA), 1947 (Chapter VB) mandates companies to get permission from the Government before retrenchment of employees. This restriction is, however, applicable only to firms with more than 100 employees. Thus, firms with less than 100 employees are exempt from the need to get permission from the Government before retrenching their employees. Given the transaction costs inherent in complying with such regulations, naturally a large majority of firms would prefer to be below the threshold of 100 employees.
- Thus, such labour legislation creates perverse incentives for firms to remain small. In this sense, labour legislation complements other benefits provided to small firms in providing such perverse incentives.



Table 1. Size based Limitations posed by Key Labour Legislations							
S.No.	Labour Acts	Applicability to Establishments					
1.	Industrial Disputes Act, 1947, Chapter V relating to strikes, lockouts, retrenchment, layoff	Employing 100 or more workers					
2.	Trade Union Act, 2001-Registration of trade unions	Membership of 10 per cent or 100 workmen whichever is less					
3.	Industrial Employment (Standing Orders) Act, 1946	100 or more workmen					
4.	Factories Act, 1948	10 or more workers with power and 20 or more workers without power					
5.	Contract Labour (Regulation & Abolition) Act, 1970	20 or more workers engaged as contract la- bour					
6.	The Minimum Wages Act, 1948	Employment in the schedule having more than 1000 workers in the State					
7.	Employees' State Insurance Act, 1948 - ESI Scheme	10 or more workers and employees monthly wage does not exceed Rs. 21000					
8.	Employees' Provident Fund & Miscellaneous Provisions Act, 1952	20 or more workers					

### > Impact of the labour law change in Rajasthan

- Studies have found that on average, plants in labour-intensive industries and in states that have transited towards more flexible labour markets, such as Uttar Pradesh or Gujarat, are 25.4 per cent more productive than their counterparts in states like West Bengal or Chhattisgarh that continue to have labour rigidities.
- The major reforms undertaken by the State of Rajasthan included the amendments in IDA, 1947, Factories Act, 1948, The Contract Labour (Regulation & Abolition) Act, 1970 and the Apprentices Act, 1961.

### > Impact of Small Scale Reservation

- The Small Scale Industries (SSI) reservation policy was introduced in 1967 to promote employment growth and income re-distribution. Given the predominance of dwarfs in the Indian economy and the low productivity and employment generation is crucial to examine the role of the SSI reservation policy.
- From 1997 to 2007, several product categories reserved for small-scale firms were eliminated in a phased manner.

Table 4. Incentives Available to Small Scale Firms (irrespective of their age)						
Scheme	Objective					
Priority Sector Lending	Direct and indirect finance at subsidized interest rates shall include all loans given to micro and small enterprises, irrespective of their age.					
Credit Guarantee Fund Scheme	This scheme makes available collateral-free credit to the micro and small enter- prises, irrespective of their age.					
Purchase Preference Policy	A group of items (Group IV) are reserved for exclusive purchase from small scale units, irrespective of their age. Group V items are to be purchased from MSMEs, irrespective of their age, up to 75 per cent of the requirement.					





Price Preference Policy	For selected items that are produced by both small scale and large scale units, price preference is provided to small firms, irrespective of their age. This price preference amounts to a 15 per cent premium over the lowest quotation of the large-scale units.		
Benefits in tendering	MSMEs, irrespective of their age, can avail benefits such as availability of tender sets free of cost, exemption from payment of earnest money deposit, exemption from payment of security deposit.		
Raw Material Assistance Scheme of National Small Industries Corporation (NSIC)	This scheme aims to help MSMEs, irrespective of their age, with financing the purchase of raw material (both indigenous and imported).		
Marketing Assistance Scheme	Provides assistance to MSMEs, irrespective of their age, for the following activi- ties: organization of exhibitions abroad, co-sponsoring of exhibitions organized by other organizations, organizing buyer-seller meets, intensive campaigns and marketing promotion activities.		
GST Composition scheme	Scheme allows MSME firms, irrespective of their age, to pay GST at a flat rate. The turnover limit for businesses availing of the GST composition scheme is set at Rs. 1.5 crore.		
Exemption under Central Excise law	Small scale units below a turnover of Rs. 4 crore, irrespective of their age, manu- facturing good specified in SSI are eligible for exemption.		

### > Incentivizing 'infant' firms rather than 'small' firms:

- **Sunset Clause for Incentives:** With appropriate grandfathering, every incentive for fostering growth should have a 'sunset' clause, say, for a period of five to seven years after which the firm should be able to sustain itself. The policy focus would thereby remain on infant firms.
- Focus on High Employment Elastic Sectors: The manufacture of rubber and plastic products, electronic and optical products, transport equipment, machinery, basic metals and fabricated metal products, chemicals and chemical products, textiles and leather & leather products, are the subsectors with highest employment elasticities. To step up the impact of economy growth on employment, the focus has to be on such high employment elastic sectors.
- Focus on Service Sectors with high Spillover Effects such as Tourism: Developing key tourist centres will have ripple effects on job creation in areas such as tour and safari guides, hotels, catering and housekeeping staff, shops at tourist spots etc. It is possible to identify 10 tourism spots in each of the larger 20 states and 5 spots in the 9 smaller states and build road and air connectivity in these tourist attractions, which would boost economic activity along the entire route and would also reduce the migration of the rural labour force who form a major proportion of the total labour force.

#### \*\*\*\*\*\*\*

## Practice Question

 MSMEs that grow not only create greater profits for their promoters but also contribute to job creation and productivity in the economy. Comment. Also, discuss the impact of labour regulation on MSMEs in India.

GSSCORE

## DATA "OF THE PEOPLE, BY THE PEOPLE, FOR THE PEOPLE"

## Important terms

### Types of Data on the basis of Privacy

- Intimate Data This is the data linked to an individual can range from such as their biometric details.
- Anonymized data Data that is not linked to a specific individual but is still available at an individual level of granularity, is called Anonymized data. It is critical in some areas such as medical research. For example – an anonymous survey.
- **Public Data** Data neither linked to an individual, nor at an individual level of granularity is known as public data, such as the census.

## • Why data is important?

The best part about data is that it is non-rivalrous, i.e, a particular data set can be used by any number of firms, so there will be no rivalry for this resource. Utilising the information embedded in the vast distinct datasets enables government to:

- Enhance ease of living for citizens
- Enable truly evidence-based policy
- Improve targeting in welfare schemes
- Uncover unmet needs
- Integrate fragmented markets
- Bring greater accountability in public services
- Generate greater citizen participation in governance

### **D** Characteristics of a Usable Data

- Common Identifiers The datasets should be organized such that they have common identifiers. This will
  allow easy merger of disparate datasets and will be extremely useful in obtaining the necessary richness
  required to design and implement welfare policies.
- Massive Scale of Data Data needs to cover a critical mass of individuals/firms so that comparisons and correlations can be assessed among individuals/firms to generate useful policy insights. For example, to gather price data on trades across various product markets and across the country, a very large number of producers and buyers need to log their transactions on a platform in real time.
- Long Time Series Data must have a long enough time-series so that dynamic effects can be studied and employed for policymaking. For instance, to undertake before-after evaluations to assess the effectiveness of policies, data that spans a long-enough time series is critical.
- Accurate Data Sets Without accurate data sets, no meaningful information can be extracted from the data.



## Data Collection Framework by India

The Government of India collects four distinct sets of data about people:

- **Administrative data** It constitutes Birth and death records, pensions, tax records, marriage records, etc. Government hold administrative data for mainly non-statistical purposes.
- **Survey data** It constitutes Census data, National Sample Survey data, etc. This data is gathered predominantly for statistical purposes. For example, the National Sample Survey Office conducts large-scale sample surveys across India on indicators of employment, education, nutrition, literacy etc.
- **Transactions data** It constitutes e-National Agriculture Market data, United Payments Interface data etc. This is a nascent category of data but is likely to grow as more people transition to cashless payment services.
- Institutional data It constitutes Public school data on pupils, public hospital data on patients, etc. Most such data are held locally, predominantly in paperbased form. This data can be digitized to enable aggregation at the regional or national level.



## The Economics of Data and Social Welfare

In the era of information explosion, the marginal cost of data has declined exponentially and the marginal benefit to society of using this data is higher than ever.

## ● HOW MARGINAL COST OF DATA IS DECREASING?

- **Increasing efficiency of data gathering** People produce data about themselves through online activities and store this data on public and private servers, every day.
- Falling prices of data storage The cost per gigabyte of storage has fallen from Rs. 61,050 in 1981 to less than Rs. 3.48 today.
- **Increasing skills and resources to process data rapidly** An increasing number of people are equipped with skills to handle large datasets because Data science has evolved as a distinct, well-funded field of study that is constantly innovating ways to put data to efficient use.

## ◎ INITIATIVES BY GOVERNMENT OF INDIA

- **Open Government Data Platform** It allows citizens to access a range of government data in machinereadable form in one place. The portal allows union ministries and departments to publish datasets, documents, services, tools and applications collected by them for public use.
- Samagra Vedika initiative of Telangana Government gives a flavour of the potential benefits of integrating datasets. The initiative links around twenty-five existing government datasets using a common identifier the name and address of an individual.
- Seeding of Aadhaar number across databases such as PAN database, bank accounts, mobile numbers is under the process.
- Local Government Directory, an application developed by the Ministry of Panchayati Raj is a comprehensive directory of all local administrative units, the platform maps each land region entity to a local Government body (like villages with their respective gram panchayats) and assigns location codes compliant with Census 2011.
- **Digitize India** This initiative is a solution to the tedious task of converting paper-based data into digital form. The initiative crowd-sources the data entry effort by presenting volunteering citizens with snippets of scanned documents, which they type into a data entry portal. Correct entries earn cash rewards for the contributor.





• **NREGAsoft** - It is a comprehensive e-governance system for the MGNREGA scheme. Accessible by a range of stakeholders, it captures the complete flow of all MGNREGA work at every level – from the centre all the way to the panchayat. In the spirit of citizens' right to information, the system makes available documents like muster rolls, registration application register, job card/employment register etc.

### INTERNATIONAL EXAMPLES

- **Transport for London (TfL)** releases a significant amount of data such as timetables, service status and disruption information in an open format for anyone to use, free of charge. Open travel data can support travel apps and real-time alerts to save time, reduce uncertainty and lower information costs.
- The Open-Government initiative by United States mandates federal government and public agencies to publish their data online for public use in machine-readable format.
- The city of **St. Petersburg, Florida,** recently created a citizen dashboard called St. Pete Stat, where citizens can view dynamically updated information about the performance of city departments, status of development projects.

## BENEFITS TO GOVERNMENT

- Being able to retrieve authentic data and documents instantly, governments can improve targeting in welfare schemes and subsidies by reducing both inclusion and exclusion errors.
- Datasets that utilise information across various datasets can also improve public service delivery. For example, cross-verification of the income tax return with the GST return can highlight possible tax evasion.
- The government can earn benefit from the private sector by levying a fee for access to datasets.

## • BENEFITS TO PRIVATE SECTOR

• Datasets may be sold to analytics agencies that process the data, generate insights, and sell the insights further to the corporate sector, which may in turn use these insights to predict demand, discover untapped markets or innovate new products.

### ● BENEFITS TO CITIZENS

- Citizens are the largest group of beneficiaries of the proposed data revolution. Consider the case of Digital Locker. Citizens no longer need to run from pillar to post to get "original" documents from the state such as their driving licence, Aadhaar card, PAN card, CBSE results, etc. These documents are critical in the life of every resident of India.
- Non-Banking Financial Company Account Aggregator (NBFC-AA) announced by RBI, simply enables citizens to demand their data from various financial institutions in a machine-readable format, so that it can be used by them meaningfully.

### WAY FORWARD

- **Integration of Data:** The government can deliver a better experience to the citizen by bringing disparate datasets scattered across various ministries together. If the information embedded in these datasets is utilised together, data offers potential to reduce targeting error in welfare schemes.
  - It should be noted that while any ministry should be able to view the complete database, a given ministry should be able to manipulate only those data fields for which it is responsible.
- **Privacy:** It is very important to consider the privacy implications and inherent fairness of data being used. It is to be noted that different type of data requires different level of privacy process. The key difference in dealing with these different types of data is the knowledge and consent of the data principal.
  - Citizens must be given the options to opt out of divulging data to the government, where possible.
  - Even if there is no viable private market choice of certain public services, the choice to share the individually linked data from such services should always be with the citizen.
- **Real Time Update:** Updating of data should happen in real time and in such a way that one ministry's engagement with the database does not affect other ministries' access.
- **PPP:** The government may also consider opening certain kinds of data to private players with all the necessary security safeguards.

\*\*\*\*\*\*\*





## **ENDING MATSYANYAYA**

## HOW TO RAMP UP CAPACITY IN THE LOWER JUDICIARY

## Important terms

### Matsaya Nyay

"The Matsya Nyaya," the law whereby the small fish becomes the prey of the big fish. Government, rulers and laws are necessary to prevent this natural law from operating in human society. Remove the government, remove the rulers and remove the laws, and human society will degenerate into a state of anarchy in which the stronger will destroy the weak.

### Case Clearance Rate (CCR)

- It is the ratio of the number of cases disposed of in a given year to the number of cases instituted in that year, expressed as a percentage.
- Clearance rate is mainly used to understand the efficiency of the system in proportion to the inflow of cases.

The biggest constraint to ease of doing business in India is the slow ability to enforce contracts and resolve pending disputes.

Nearly **3.5 crore cases** are **pending** in the judicial system. The problem is **concentrated in the district and subordinate courts.** 

### • Can the problem be resolved - quantitatively?

Yes. A case clearance rate of 100 per cent (i.e. zero accumulation) can be achieved with the addition of merely 2,279 judges in the lower courts and 93 in High Courts even without efficiency gains.

**Economic Survey (2017-18)** presented evidence of the **backlog of cases** that **weighs down** the Indian **judiciary**, economic **tribunals** and the **tax department**, thereby **constraining economic growth**.

The government resolved to improve the present regime by introducing the Insolvency and Bankruptcy Code.

### Adoption of the Goods and Services

**EODB, 2018:** India continues to lag on the indicator for enforcing contracts, climbing only one rank from 164 to **163 in the latest report of EODB**, 2018.

## • DISTRIBUTION OF PENDING CASES AMONG DIFFERENT LEVELS OF COURTS IN INDIA

- Supreme Court 0.16%
- High Courts 12.30%





• Subordinate Courts - 87.54%

The following section will provide the overview of the performance of District & Subordinate courts, using metrics that quantify different aspects of the litigant's experience. These include average age of cases, (both pending and disposed), the number of days between hearings, and the average amount of time spent on the life cycle of cases.

### 

The pendency of a case on a given date is the time since the date of filing.

- The distribution of pendency of both civil and criminal cases is more or less the same.
- More than 64 per cent of all cases are pending for more than one year.
- Odisha, Bihar, West Bengal, Uttar Pradesh and Gujarat have higher average pendency for both civil and criminal cases as compared to the national averages.
- Punjab and Delhi have the least average pendency of cases.
- Worst performing states are usually also the poorest.

### DISPOSAL

Disposal time is measured as the time span between the date of filing and the date when the decision is passed.

- 74.7 per cent of the civil cases and 86.5 per cent of the criminal cases are disposed within three years.
- Bihar, Odisha and West Bengal have higher average disposal time than the national average for both civil and criminal cases.
- Punjab and Delhi have the lowest average disposal time.

The average disposal time for civil and criminal cases in Indian D&S courts in 2018 was 4.4 fold and 6 fold higher respectively when compared with the average of Council of Europe members (2016).

This indicates that there is huge scope for improvement in the disposal time for Indian D&S courts.

### **Detailed Analysis Of The Effectiveness And Efficiency Of Courts**

### RELATIONSHIP BETWEEN THE INSTITUTION, DISPOSAL OF CASES, AND CCR AT ALL INDIA LEVEL:

While the number of cases instituted each year in D&S courts has gone up, so has the number of disposals. The CCR had increased from 86.1 per cent in 2015 to 90.5 per cent in 2017, but then declined to 88.7 per cent in 2018.

### 

CCR for civil and criminal cases in India was 94.76 per cent and 87.41 per cent respectively in 2018 while the COE members have already achieved the CCR above 100 per cent in 2016 for both civil and criminal cases.

The civil courts of UK's England and Wale fare poorly in comparison to India, the USA, and the COE average, with a clearance rate of just 62 per cent.

### • HOW COME IT IS ABOVE 100%:

The cases disposed off need not have been filed in the same year, as some proportion of them will typically be backlog from previous years.

## KEY ISSUES THAT NEED TO BE DEALT WITH IN ORDER TO MAKE THE JUDICIARY MORE EFFICIENT:

Achieve a 100 per cent clearance rate so that there is zero accumulation to the existing pendency. The backlog of cases already present in the system must be removed.

### ● THE INPUT-OUTPUT MODEL:

The survey estimates the number of additional lower court judges that would be needed to stop further accretion of pendency and clear the backlog.



### Case Study:

- The D&S courts received 1.5 crore additional cases in 2018 and had a backlog of 2.87 crore as on January 1, 2018.
- The number of cases disposed of in 2018 was 1.33 crore.
- Thus, the closing balance in end-2018 was 3.04 crore.
- There are currently 17,891 judges compared to the sanctioned strength of 22,750. On average, a judge disposes 746 cases.
- In order to reach 100 per cent CCR in 2018, the D&S courts needed 2,279 additional judges. This is within the sanctioned strength.

## ● APPLY THE SAME FRAMEWORK TO THE HIGHER COURT:

- As of June 2017, High Court judges were working at 62 per cent of their sanctioned strength.
- With a case clearance rate of 88 per cent, each judge achieved an average disposal rate of 2,348 cases per year.
- The backlog of cases as on June, 2018 was 44.40 lakh.
- In order to reach 100 per cent CCR, they needed just 93 additional judges.
- This is already within the present sanctioned strength for High Courts.
- With a high case clearance rate of 98 per cent, each **Supreme Court** judge disposes 1,415 cases per year on average.
- The backlog of cases as on October 2018 was 56,320. In order to reach 100 per cent CCR, the Supreme Court would have needed only one extra judge in 2018.
- To clear all backlog in the next five years, an additional eight judges are required. In May 2019, three additional judges were appointed to the Supreme Court raising their number to the full sanctioned strength of 31.
  - To clear backlog, the Supreme Court needs to increase its sanctioned strength by six.
  - To clear all backlogs in the next five years, the High Court's need a further 361 additional judges.
  - To clear all the backlog cases in District and Subordinate Courts in the next five years, further 8,152 judges are needed (above the sanctioned strength).

In order to optimally allocate additional D&S judges, there has to be critical analysis to common case types in both civil and criminal pendency.

## • LIFE CYCLE ANALYSIS:

The progress of a case through various stages reveals to a large extent where judicial delays occur and can aid policy formulation to reduce delays and backlog.

- Lower Courts Records Records and Proceedings stage: Civil cases spend an average of 398 days in this stage and 369 days in the 'Hearing' stage.
- This inefficiency consumes a significant proportion of a case's life, and is a major factor contributing to delays and backlog.
- As with civil cases, awaiting lower court records causes delays for criminal cases in which they spend the largest amount of time of 243 days, on average.
- The 'Evidence' stage and 'Framing of Charges' stages consume 235 and 231 days, respectively.

## HOW TO MAKE INDIAN COURTS MORE PRODUCTIVE:

- The backlog in lower courts can be cleared in five years at full sanctioned strength with an efficiency gain of 24.5 per cent. At current working strength, it would take an efficiency gain of 58 per cent.
- With full sanctioned strength, High Courts would need only 4.3 per cent increase in efficiency to clear the backlog although, given high vacancy rates, the required rate at current working strength is 68 per cent.
- The equivalent numbers for the Supreme Court are 18 per cent and 31 per cent respectively.

#### Few suggestions for enhancing productivity in the judiciary:

- Increase number of working days:
  - Supreme Court's official calendar for 2019 suggests that it would work 190 days. In contrast, the average is 232 working days for High Courts and 244 days for Subordinate courts.



24



#### • Establishment of Indian Courts and Tribunal Services:

- Most judicial reforms tend to focus only on the quality and quantity of judges, but a major problem lies with the quality of the administration of the courts system, particularly backend functions and processes.
- Courts require competent administration to ensure that processes are followed, documents are submitted and stored, facilities are maintained and human resources are managed. Court administration must support the judges in performing their core judicial function efficiently.
- In this context, it has been proposed to create a specialized service called **Indian Courts and Tribunal Services (ICTS)** that focuses on the **administrative aspects of the legal system.**
- The major roles to be played by ICTS would be: (i) provide administrative support functions needed by the judiciary; (ii) identify process inefficiencies and advise the judiciary on legal reforms; and (iii) implement the process re-engineering.
- The ICTS is not a unique model. Similar, court management services exist in other countries: Her Majesty's Court and Tribunals Services (UK), Administrative Office of US Courts (US), Court Administration Service (Canada).

#### • Deployment of Technology:

• **eCourts Mission Mode Project** is being rolled out in phases by the Ministry of Law and Justice. This has allowed the creation of the **National Judicial Data Grid** (NJDG). The system is already able to capture most cases, their status and progress.

### \*\*\*\*\*\*\*

## Practice Question

- What suggestions according to you can help in enhancing the productivity of the judiciary? Is there a need of drastic change in Judicial set up or there exists any probable pragmatic corrective mechanism? Analyze.
- The single biggest constraint to ease of doing business in India is the weak ability to enforce contracts and resolve disputes. What corrective measures have been suggested by the Economic Survey? How far is it pragmatic? Examine.



## HOW DOES POLICY UNCERTAINTY AFFECT INVESTMENT?

### **D** Economic policy uncertainty has correlations with:

- Macroeconomic environment
- Business conditions
- Other economic variables that affect investment

**Surges in economic policy uncertainty increase the cost of capital in the economy.** As a result, higher economic policy uncertainty lowers investment, especially because of the irreversibility of investment.

### **•** How can the policymakers reduce Uncertainty in Economic Policy?

#### The following action plans are recommended:

- **Predictable actions:** Provide forward guidance on the stance of policy, and reduce ambiguity/arbitrariness in policy implementation.
- Belief in "what gets measured gets acted upon": Economic policy uncertainty index must be tracked at the highest level on a quarterly basis.
- **Quality assurance** of processes in policy making must be implemented in Government via international quality certifications.

### Effect of Uncertainty/Ambiguity in Policy Making on the Investment climate in the Economy

A poorly drafted law that is riddled with ambiguities, amendments, clarifications and exemptions inevitably leads to conflicting interpretations and endless litigations. Such uncertainty can spook investors and spoil the investment climate in the economy.

### PREDICTABILITY OF POLICY ACTION

A nation that provides forward guidance on policy action, maintains broad consistency in actual policy with the forward guidance, reduces ambiguity and arbitrariness in policy implementation creates economic policy certainty. Investors may enjoy the certainty provided by such an environment and flock to invest in this environment.

## • IT IS CRITICAL TO UNDERSTAND THE DIFFERENCES BETWEEN RISK AND UNCERTAINTY

Both fundamentally affect economic activity. Risk can be quantified but uncertainty is inherently tough to measure. Policy making involves discretion and such discretion can generate uncertainty.

Among different sources of economic uncertainty, economic policy uncertainty matters significantly because this uncertainty refers to one that policymakers can control and thereby influence economic activity.

Economic policy uncertainty is difficult to quantify. There have been attempts at quantifying economic policy uncertainty.

A model given by Baker called an **Economic Policy Uncertainty (EPU) index** has gained global recognition. To measure economic policy uncertainty, the index is created by quantifying newspaper coverage of policy-



#### related economic uncertainty.

EPU index picks up the period of economic policy uncertainty, such as the taper tantrum of 2013, and correlates very well with other vulnerability indices like inflation volatility, stock market volatility, business sentiment index, and other macroeconomic vulnerability indices.

### DECISION TO INVEST AND EPU

- As investment is forward-looking, future expectations play a critical role in the decision to invest. Specifically, an investor invests in a project if the upfront costs are less than the present value of the expected rewards from the investment.
- As uncertainty influences these expectations, irrespective of its source, it affects the decision to invest. Projects that generate a return lower than this required return become unviable when uncertainty increases in the economy.

### 

• The index of economic policy uncertainty for India shows peaks in few months of 2011 and 2012, reflecting the policy paralysis during that period, which witnessed the problems of the **high twin deficits** and **high inflation**, thereby exacerbating macroeconomic vulnerability.

Twin deficits: Fiscal Deficit and Current Account Deficit

**Macroeconomic attributes:** Aggregate output or income, the unemployment rate, the inflation rate, and the interest rate.

- The index was also high in the second half of 2013 when the economy faced the episode of "taper tantrum" leading to volatile capital flows, depreciation of rupee vis-à-vis US dollar.
- Economic policy uncertainty in India moved closely in tandem with global uncertainty until 2014.
- It started diverging since early 2015 and seems to have completely decoupled in 2018.
- In recent times, while the economic policy uncertainty has been increasing across the world, including US, UK and China; India's economic policy uncertainty has been falling.
- Uncertainty seems to have stabilized at lower levels in case of India since last few years, which is noteworthy given the recent surge in global uncertainty, partly due to rising trade tensions between US and China, uncertainty about outcome of Brexit, slower world growth.
- Year 2018 saw sharp divergence of India's economic policy uncertainty index with that of global uncertainty index, which increased sharply. Global uncertainty index increased from 112 to 341 in the same year, whereas that of India remained below 100.
- The low economic policy uncertainty index for India in last one year points towards resilience of the economy even in times of global trade uncertainty.
- The continued resolution of the **twin balance sheet problem** following implementation of Insolvency and Bankruptcy Code 2016 and recapitalization of banks helped to promote investment.
- Twin balance sheet problem refers to the stress on balance sheets of banks due to non-performing assets (NPAs) or bad loans on the one hand, and heavily indebted corporate on the other.
- Focus on improvement in the business climate via measures to improve ease of doing business, clarity in the policy for FDI liberalization may have also helped in this regard by reducing economic policy uncertainty.
- The relationship of uncertainty in economic policy with investment may be through two channels. First is the direct relationship of economic policy uncertainty with investment growth and second is the relationship of EPU with other variables which in turn affect investment.

### RELATIONSHIP OF ECONOMIC POLICY UNCERTAINTY WITH INVESTMENT IN INDIA

- Economic policy uncertainty as measured by EPU index foreshadows a decline in economic growth, banking crisis.
- High uncertainty and deteriorating business confidence played a role in the investment slowdown in India.
- Both Foreign Direct Investment (FDI) flows and Foreign Institutional Investment (FII) flows are negatively correlated to EPU index, implying that not only the short term inflows, but also long term capital inflows



are affected by higher uncertainty in economic policy.

### 

- Cost of borrowing: Negatively associated with investment as they reflect higher input costs.
- The prices that producers get for their products: Rise in prices are expected to trigger greater investments as businesses find it profitable to do so as long as consumption demand is sufficiently strong to overcome the impact of inflation.

## Investment growth is positively correlated to wholesale price inflation, but negatively to consumer price inflation

- This may be due to the fact the producers would realize producer prices which are closer to wholesale prices upon selling any product, whereas consumers have to pay consumer prices and higher prices may dampen the demand.
- **Capacity utilization:** The utilization of capacity in any quarter is expected to have a positive relationship with investment growth in the following quarter, as excess unutilized capacity in the previous quarter may lower the need for new investment in the current quarter. Data shows a positive correlation between investment growth and capacity utilization in previous quarter.

**A note on FDI:** If the volatility of the exchange rate is higher, it may decrease the growth of foreign inflows. It is seen that the relationship between growth in FDI and volatility of exchange rate is weak suggesting that foreign investors in projects have other considerations as well.

On the other hand, a negative relationship, is seen between FII inflows and volatility of exchange rate. The negative relationship suggests that the portfolio investments which are generally short term investments are more affected by the volatility in exchange rate, as compared to FDI flows, which are generally for longer duration.

### HOW POLICYMAKERS WOULD REDUCE DOMESTIC ECONOMIC POLICY UNCERTAINTY:

- Top-level policymakers must ensure that their policy actions are predictable, provide forward guidance on the stance of policy, maintain broad consistency in actual policy with the forward guidance, and reduce ambiguity/arbitrariness in policy implementation.
- Economic policy uncertainty index must become an important index that policymakers at the highest level monitor on a quarterly basis.
- Government must encourage construction of economic policy uncertainty sub-indices to capture economic policy uncertainty stemming from fiscal policy, tax policy, monetary policy, trade policy, and banking policy. Tracking these sub-indices would enable monitoring and control over economic policy uncertainty.
- Quality assurance of processes in policy making, which reflect the adage of "Document what you do, but more critically do what you document!" must be implemented in the government.

## Practice Question

- According to Economic Survey 2018-19, Economic Policy Uncertainty has reduced significantly in India over the last decade. Substantiate.
- What is Economic Policy Uncertainty Index? Define the relationship of Economic Policy uncertainty with Investment in India.

GESSCORE



## **INDIA'S DEMOGRAPHY AT 2040**

## PLANNING PUBLIC GOOD PROVISION FOR THE 21<sup>st</sup> CENTURY

### **CONTEXT:**

India is set to witness a sharp slowdown in population growth in the next two decades. Although the country as a whole will enjoy the "demographic dividend" phase, some states will start transitioning to an ageing society by the 2030s. This chapter focuses on future projections of Indian demography, its implications, and strategies for policy formulations and implementation.

## Important terms

- **Total Fertility Rate (TFR):** Total fertility rate refers to the total number of children born or likely to be born to a woman of child-bearing age in her lifetime.
- **Replacement Level Fertility:** TFR of 2.1 children per woman is called the replacement level fertility, which is the average number of children a woman would need to have in order for the population to replace itself.
- **Cohort-component Methodology:** It is a methodology followed for population projections using certain components, such as assumptions for fertility, mortality, life expectancy and sex ratio at birth.
- **Life Expectancy at the Age of 60:** It is the average number of years a 60-year old person is expected to live in full health taking into account the impact of diseases and injuries.

### **n** Recent demographic trends

- Population growth in India has been slowing in recent decades from an annual growth rate of 2.5 per cent during 1971-81 to an estimated 1.3 per cent as of 2011-16. All major states have witnessed a marked deceleration in population growth during this period.
- Population is now growing below 1 per cent in the southern states as well as West Bengal, Punjab, Maharashtra, Odisha, Assam and Himachal Pradesh.
- A key driver of this trend has been the steady decline in India's total fertility rate (TFR) since the mid-1980s. India's TFR has been halved from 4.5 in 1984 to 2.3 as of 2016.



Annual Population Growth Rate in India (per cent)

Source : Census 2011, International Institute for Populaion Sciences (IIPS) estimates.



## **ECONOMIC SURVEY 2018-19**

India has reached the current TFR of 2.3 at a relatively low per capita income when compared to the experience
of major developed economies but similar to that of other Asian countries.

These developments suggest that India has entered the next stage of demographic transition with population growth set to slow markedly in the next two decades along with a significant increase in the share of working age population (the so-called "demographic dividend" phase).

### THE PROJECTED POPULATION AND AGE-STRUCTURE HAS SEVERAL IMPLICATIONS FOR:

- Provision of health care.
- Provision of old-age care.
- Provision of school facilities.
- Access to retirement related financial services.
- Public pension funding.
- Income tax revenues.
- Labour force and labour participation rates.
- Retirement age.

### 

Population and its age structure are projected at the national and state level up to 2041.

#### > Declining Fertility Rates:

#### National level:

- TFR at the national level will continue to decline rapidly and will lie below replacement level fertility at 1.8 as early as 2021 which is expected to stabilize thereafter for some time around 1.7.
- Such fertility levels are close to the TFR seen in countries such as China, Belgium, Netherlands and Brazil.

#### State level:

- The states which are already below replacement level fertility, including the southern states, West Bengal, Punjab, Maharashtra and Himachal Pradesh, are expected to see TFR decline further by 2021, reaching as low as 1.5-1.6 and stabilizing thereafter.
- By 2031, all states would see below replacement level fertility.



TFR in India

Source: Sample Registration System.

#### Factors responsible for declining fertility for females:

• Rising female education.

www.iasscore.in

30

- Postponement of marriage.
- Access to family planning methods.





• Continued decline in infant mortality.

### > Population Growth Trajectory:

### National level:

- India's population growth will continue to slow rapidly over the next two decades, growing less than 1 percent during 2021-31 and under 0.5 per cent during 2031-41.
- Such population growth rates would be close to the trend currently seen in countries such as Germany and France.

### State level:

- Trajectory of population and population growth will continue to vary across states. States ahead in the demographic transition will see a continued deceleration in population growth and reach near-zero growth rates by 2031-41.
- States lagging behind in the demographic transition will also witness a marked slowdown in population growth during 2021-41

### ► Changing Age Composition:

### National level:

- With TFR reaching low levels and longevity continuing to increase, India's population at the national level and in several states will begin ageing significantly in just a decade from now.
- The share of India's young, i.e. 0-19 years, population is projected to drop from as high as 41 per cent in 2011 to 25 per cent by 2041.
- The share of elderly, 60 years and above, population will continue to rise steadily, nearly doubling from 8.6 per cent in 2011 to 16 per cent by 2041.
- India's demographic dividend will peak around 2041, when the share of working-age, i.e. 20-59 years, population is expected to hit 59 per cent.
- India's age-structure by 2041 will resemble that of China and Thailand as seen during the current decade.

### State level:

- States ahead in the demographic transition, such as Himachal Pradesh, West Bengal, Maharashtra, Punjab and most of the southern states, would have less than one-fourth of the population under the age of 20 but about one-fifth or more population over the age of 59 by 2041.
- States in earlier stages of demographic transition, such as Bihar, Uttar Pradesh, Jharkhand, Chhattisgarh, Madhya Pradesh and Rajasthan, will see a significant decline in the share of young population.

### > Implications for Working-Age Population:

### National level:

- India's working-age population will continue to increase through 2041, rising by 96.5 million during 2021-31 and by 41.5 million during 2031-41.
- Depending on the trajectory of labour force participation during 2021-41, additional jobs will need to be created to keep pace with the projected annual increase in working-age population of 9.7 million during 2021-31 and 4.2 million during 2031-41.

### State level:

- The size of working-age population will start to decline in 11 out of the 22 major states during 2031-41, including in the southern states, Punjab, Maharashtra, West Bengal and Himachal Pradesh.
- Working-age population will continue to rise through 2041 in states lagging behind in the demographic transition, particularly Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan. With rising working-age population of these states could meet the labour deficiency in many of the ageing states.

## **D** Policy Implications of Ageing

### • ELEMENTARY SCHOOLS:

• As of 2016, population in the 5-14 age-groups, which roughly corresponds to the number of elementary schoolgoing children, has already begun declining in India and across all major states except Jammu & Kashmir.



## ECONOMIC SURVEY 2018-19

- Overall, the number of school-going children in India will decline by 18.4 per cent between 2021 and 2041. This will have very important social and economic consequences.
- Therefore in the light of the projected decline in elementary school-going children, the number of schools per capita will rise significantly in India across all major states even if no more schools are added.

## 

- The "optimal" school size varies widely according to terrain and urban clustering hence this sharp increase in number of elementary schools per capita needs to be carefully studied.
- Consolidate/merge elementary schools in order to keep them viable. Schools located within 1-3 kms radius of each other can be chosen for this purpose to ensure no significant change in access.
- Learn from the experiences of other major economies witnessing a decline in elementary school-going population, such as Japan, China, South Korea, Singapore and Canada, which have implemented policies to merge or close down schools.
- Shifting policy emphasis from quantity towards quality and efficiency of education.

### Health Care Facilities:

Access to health care is still a major challenge in India. If India's hospital facilities remain at current levels, rising population over the next two decades will sharply reduce the per capita availability of hospital beds in India across all major states.

#### What to do?

- Expand medical facilities in these states.
- For states in the advanced stage of demographic transition, the type of health care services will have to adapt towards greater provision of geriatric care.
- Need comprehensive and precise data that provides true quantity and quality of health care in country.

#### ► Retirement Age:

India's healthy life expectancy at the age of 60 has continually increased over the years for both men and women. It is still much lower than that for other major developed and emerging economies. Due to ageing population pressure on pension funding is increasing.

#### What to do?

- Raise the age pensionable retirement. Countries such as Germany, France and U.S. have increased the retirement age. In the U.K., for example, the state pension age will increase for both men and women to 66 by October 2020.
- Therefore given that life expectancy for both males and females in India is likely to continue rising, increasing the retirement age for both men and women going forward could be considered in line with the experience of other countries.
- This will be key to the viability of pension systems and would also help increase female labour force participation in the older age-groups.

### **CONCLUSION:**

As the demographic projections could help in effective policy formulations, it is important that working assumptions and projections are constantly revised in light of new evidence (especially in the age of big data) for areas such as urbanization, energy requirements, forest cover, water availability, climate change and other long-term factors that have a large impact on the socio-economic context in which government policy interventions play out.

## Practice Question

- Explain how India can solve the problem of ageing and its impact on socio-economic aspects of the country.
- Critically analyse the recent trends of India's demography.





## FROM SWACHH BHARAT TO SUNDAR BHARAT VIA SWASTH BHARAT

## AN ANALYSIS OF THE SWACHH BHARAT MISSION

- Lack of access to basic sanitation services continues to be a major problem in many parts of the world. In 2015, 2.3 billion people, globally, lacked basic sanitation services.
- Lack of sanitation has been recognized as a major problem in India. In fact, an unflattering national fact was that open defecation in India represented 60 per cent of open defecation globally. Poor sanitation costs India around 5.2 per cent of its GDP.
- The Swachh Bharat Mission (SBM) was launched as a multi-pronged approach to enhance the level of sanitation in the country. The focus under this mission has not just been on construction of toilets but also on effecting a behavioural change in the communities.
- The result has been substantial gains in health parameters as shown by various studies. The gains from a cleaner India are important inputs, directly as well as indirectly, for achieving broader economic development objectives.

## **n** Swachh Bharat Mission Gramin

Aim of India's Swachh Bharat (Clean India) Mission to enhance the quality of life by promoting cleanliness, hygiene and eliminating open defecation. The targets of the mission are to be met by 2 October, 2019, coinciding with the 150th birth anniversary of the Father of the Nation.

SBM adopts a multi-faceted approach including:

- Community participation
- **Flexibility in Choice**: SBM offers flexibility by building in a menu of options so that the poor/disadvantaged families can subsequently upgrade their toilets depending upon their requirements and their financial position.
- Capacity Building
- **Instil Behaviour change**: Incentivizing the performance of State-level institutions to implement activities for behavioural change among communities.
- **Broad-based Engagement**: SBM set up the Swachh Bharat Kosh to encourage Corporate Social Responsibility and accept contributions from private organizations, individuals and philanthropists.
- Use of Technology

Under SBM, an incentive of Rs. 12,000 is provided for construction of Individual Household Latrines (IHHL) to eligible beneficiaries in rural areas and covers for provision of water storage. The central share for the incentive provided for IHHLs is 60 per cent and the State share is 40 per cent. For North Eastern States, Jammu and Kashmir and Special Category States, the central share is 90 per cent and the State share is 10 per cent.

## COMPARISON ACROSS STATES FOR ODF STATUS (IN PER CENT)

• Most of the states have achieved the status of 100 per cent ODF coverage and only few states are yet to achieve their targets. Goa has the lowest ODF coverage declared followed by Odisha, Telangana and Bihar. West Bengal and Sikkim are very close to achieving 100 per cent ODF coverage.



- The National Annual Rural Sanitation Survey (NARSS) 2018-19, conducted by an Independent Verification Agency (IVA) has found that 93.1 per cent of households had access to toilets during the survey period.
- Further, 96.5 per cent of the households in rural India that had access to a toilet used them. The NARSS also re-confirmed the ODF status of 90.7 per cent of villages, which were previously declared and verified as ODF by various districts/ States.
- It is also interesting to note that 95.4 per cent of the villages surveyed were found to have minimal litter and minimal stagnant water.

## SOLID AND LIQUID WASTE MANAGEMENT

- Solid and Liquid Waste Management (SLWM) is another major component of SBM Mission. As scientific disposal of waste has a noticeable impact on social development, there is an urgent need for setting up the system for the efficient disposal of waste in various states, especially rural villages.
- In light of this, many states have undertaken various activities such as construction of waste collection centres, menstrual hygiene management activities, installation of bio-gas plants, construction of compost pits, installation of dustbins, system for collection, segregation and disposal of garbage, construction of drainage facility and leach pits and construction of soak pits and stabilization ponds.
- These activities require huge disbursement of funds from Central and State governments.

## 

- The success of SBM can be assessed from the gains that the actions under the scheme had on the various socio-economic outcomes of the rural populace. A direct impact of improved sanitation should manifest on the health indicators.
- Diarrhoea, a leading cause of death among the under-five children in India, accounted for around 11 per cent of deaths in 2013. Diarrhoea cases among children below 5 years in India have reduced significantly over the past 4 years
- There may be other factors like distribution of mosquito nets, fogging machines and construction of Gambusia fish hatcheries under the National Vector Borne Disease Control Programme and provision of safe drinking water, Oral rehydration solutions (ORS) and zinc, hand washing and personal hygiene under Integrated Action Plan for Prevention and Control of Pneumonia and Diarrhoea that have also played an important role in reduction of malaria and diarrhoea, but are not in the scope of this study.
- With improved sanitation and 100 per cent ODF, diarrhoea cases reduced significantly in many states like Gujarat, Tamil Nadu, West Bengal & Bihar. Similarly, improvements are evident in malaria, still births and low birth weight cases.

## IMPACT OF SBM: FEW INDEPENDENT STUDIES ......

- **The Sanitation Health Impact Assessmen**t study was conducted by Ministry of Drinking Water and Sanitation (MoDWS), to understand the impact of ODF status on the key child health and nutritional indicators in five states- Karnataka, Madhya Pradesh, Rajasthan, Uttar Pradesh and West Bengal.
  - Non-ODF districts were selected to ensure socio-cultural and regional similarity across geographies within the state.
  - Becoming ODF had a positive impact on the child health and nutrition, evident from the fact that the health and nutritional indicators of the children and mothers belonging to the ODF areas were comparatively better than their non-ODF counterparts.
- Another study, "Swachh Bharat Mission- Preliminary estimations of potential health impacts from increased sanitation coverage" conducted by World Health Organization (WHO) to estimate health gains based on the latest available evidence linking sanitation and mortality from diarrhoeal disease, showcased initial estimates of expected health gains from reduced diarrhoeal disease due to increased sanitation coverage with the SBM initiative.
- World Bank estimated the economic impacts of inadequate sanitation in India in the year 2006 showing an annual economic impact of Rs. 2.4 trillion (US\$ 53 billion), implying a per capita annual loss of Rs. 2,180 (US\$ 48) or 6.4 per cent of the GDP in the same year.
- A recent study conducted by UNICEF on behalf of MoDWS assessed the economic impacts (benefits) of SBM. The study focused on the household and community financial and economic benefits as well as costs of improved sanitation and hygiene.
  - The study found that on an average, every household in an open defecation free village saved about Rs. 50,000 per year on account of financial savings due to lower likelihood of disease from using a toilet and practicing hand washing and the value of time saved due to a closer toilet.



• In terms of the impact of SBM on the physical environment, a very recent study by UNICEF, in association with MoDWS indicates considerable impact on combating contamination of water, soil and food.

#### WAY FORWARD

- SBM has brought in a remarkable transformation and traceable benefits to the society as a whole. It is one of the largest cleanliness drives in the world. This mission acts as a driver for eliminating the gender disparity through the construction of gender-specific latrines in public areas such as schools, roads and parks. This public movement will have indirect positive impact on society by increasing the enrolment ratio of girls in schools and improving health standards.
- The mission mirrors the National Developmental priorities by focusing on the gender equality and women empowerment. Importantly, it is also aligned with the 2030 global sustainable development agenda and SDGs especially the SDG 6.2 – "By 2030, achieve access to adequate and equitable sanitation and hygiene for all, and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations".
- Yet, India's challenge is an enormous one. Construction of toilets is one part of the solution for a clean India. There are various facets for a clean India. The dream of clean India can only be realized by addressing these multiple facets – maintaining a culture of swachhata at public places beyond individual houses, cleaning water bodies, scientific waste management, dealing with plastic menace, controlling air pollution, etc
- To sustain the momentum created and behavioral change, a number of actions would have to be taken on a continuous basis such as motivation of "agents of change" at the ground level, impart training to field agents, appointment of sanitation.
- Going forward, SBM should focus on achieving 100 per cent disposal of solid and liquid waste. Currently, many states are not concentrating enough on this aspect which could pull us back to where we were a few years back.
- Scientific techniques for the safe and effective disposal of waste should be the next on the agenda for this mission.
- The cleaning of rivers should be an integral part of clean India, along with coordinated activities between Centre and States such as treatment of industrial effluence, drain bio-remediation, river surface cleaning, rural sanitation, river front development, afforestation and biodiversity conservation etc.
- As the resource requirements are large, there is a need to facilitate and sustain innovative financing mechanisms by exploring the suitability of various financial instruments in specific contexts and interventions. For example, micro-financing, concessional loans, corporate social responsibility and crowd funding align with local government financing. Private Partnership and Corporate Social Responsibility can ensure, in specific contexts, a smooth flow of funds for the procurement of various scientific technologies for waste disposal and awakening masses.
- SBM needs to incorporate environmental and water management issues for long term sustainability and improvements. The issues relating to water availability are expected to be exacerbated by the effects of climate change and incidence of extreme weather events. Investment in the toilet and sanitation infrastructure in future, therefore, demands incorporation of principles of sustainability, circular economy, and adoption of eco-friendly sanitation technologies.

### \*\*\*\*\*\*\*

## Practice Question

- Apart from financial resources, mindset change is the other major ingredient required for sustained progress in sanitation. Analyse in the light of Swachch Bharat Abhiyan.
- Swachh bharat has to be a mission of the people, by the people, facilitated by the government.
   Comment.
- Eliminating open defecation is just one aspect of Swachch Bharat Mission. Discuss holistic approach required to make SBM a success.



## ENABLING INCLUSIVE GROWTH THROUGH AFFORDABLE, RELIABLE & SUSTAINABLE ENERGY

## Important terms

 Energy Poverty: Energy poverty is a lack of access to modern energy services. These services are defined as household access to electricity and clean cooking facilities (e.g. fuels and stoves that do not cause air pollution in houses). Access to energy is a prerequisite of human development.

## Enabling Inclusive Growth through Affordable, Reliable and Sustainable Energy

## ● INDIA'S ECONOMIC DEVELOPMENT AND ROLE OF ENERGY IN IT

- India has a per-capita energy consumption of only about one-third of the global average. Within this consumption, access to clean fuel is unevenly distributed spatially in rural vis-à-vis urban areas and socio-economically when seen across income groups.
- India, therefore, needs to *quadruple its per-capita energy consumption to meet the rising aspirations of its citizens.* This will also enable India to achieve the human development status of an upper-middle-income country.

## ● ENERGY FOR PROSPERITY

- Industrialization and economic development go hand in hand. The present day developed countries pursued a path of energy-intensive industrial growth to reach the standards of living witnessed by them today.
- India's per capita energy consumption equals **0.6 tonnes of oil equivalent (toe)** as compared to the global per capita average of 1.8 toe.
- India's per capita primary energy consumption lags that of the upper-middle-income countries by a considerable margin.
- This has been reflected in India's growth and standard of living in India. India's *human development index* (*HDI*) value is still only above the average of 0.638.
- It needs to take wider approach towards its energy economy to increase its HDI to 0.8.

## ● RELATIONSHIP BETWEEN ENERGY EFFICIENCY AND ECONOMIC DEVELOPMENT

- *Energy intensity of India's GDP has been declining in the recent past*, which is reflective of increases in the efficiency of energy use.
- However, India cannot become an upper-middle-income country without:
- Rapidly raising its share of the global energy consumption commensurate with its share of the global population, and





ECONOMIC SURVEY 2018-19

- Ensuring universal access to adequate modern commercial energy at affordable prices.
- Access to energy is important not just in its own right but also due to its linkages with other social indicators. The Sustainable Development Goal (SDG) No.7 on *Affordable and Clean Energy* is closely related to all other SDGs.
- This is highlighted by the strong relationship between *Human Development Index (HDI) and Per capita energy consumption.*
- At low levels of energy consumption, increases in per capita energy consumption leads to considerable increases in human development.
- A country with 100 Gigajoules of per capita energy consumption has, on an average, HDI of around 0.8 which is considered to be very high human development.
- India had a per capita energy consumption of 24 Gigajoules and a HDI of 0.64 in 2017, i.e., medium human development.
- India would have to quadruple its per capita energy consumption to reach a HDI of 0.8 and enter the group of countries with high human development.

### 

- > Disparity in access to energy in India
  - There is wide disparity between urban and rural areas in access to energy. A large proportion of the
    population especially in rural areas relies on non-commercial biomass such as firewood and dung cakes
    for their cooking/heating needs, thereby exacerbating health concerns due to poor indoor air quality.
  - While the share of *Liquefied Petroleum Gas (LPG)* as a cooking fuel has increased over the years, the share of households reporting it to be as the primary source of energy for cooking has been low in the rural areas when compared with the urban areas.
  - This indicated that the problem of energy poverty has been more pervasive than income poverty. The access to clean cooking fuel has increased considerably in the recent years, especially through the efforts of the Government of India such as the Ujjwala scheme.
  - As per IEA-1(2018), in 2017, 53 per cent of the population in India did not have access to clean cooking when compared with 68 per cent in 2010.

#### > Government's steps to ensure energy access

- **Pradhan Mantri Ujjwala Yojna** was launched in 2016, with the aim to safeguard the health of women and children by providing them with clean cooking fuel.
- As on 5 March, 2019, 24.39 crore LPG consumers have joined the scheme. LPG consumers, who join the **PAHAL scheme**, will get the LPG cylinders at non- subsidized price and receive LPG subsidy (as per their entitlement) directly into their bank accounts.
- **PAHAL** has been recognized by the "Guinness Book of World Record" as the World's Largest Direct Benefit Scheme.

### ● ENERGY EFFICIENCY

- The primary energy intensity of India's GDP has followed a falling trend over the years. India's primary energy intensity of GDP has fallen from 0.0004 toe in 1990 to 0.0002 toe in 2017.
- The institutional and legal framework in the country for energy efficiency has been strengthened through the **Energy Conservation Act** in 2001, which created the **Bureau of Energy Efficiency (BEE)**.
- The overall size of the energy efficiency market in India is estimated to be US\$ 22.81 billion. Realizing the potential, Government of India with BEE in the lead undertook a number of schemes for promoting energy efficiency in various sectors across India.

### > Performance of Energy efficiency programs

- The implementation of various energy efficiency programmes has witnessed exceptional performance in terms of reducing energy consumption thereby *leading to lower greenhouse gas (GHG) emissions* and cost savings.
- According to a BEE study, overall, this saving has resulted in *total cost savings worth Rs. 53,000 crore* (*approximately*) *in 2017-18* and contributed in reducing 108.28 Million tonnes of CO2 emission.



## ECONOMIC SURVEY 2018-19

• The contribution is largely from three major programmes – PAT, UJALA and Standard & Labelling. The overall electricity savings due to energy efficiency measures is 7.21 per cent of the net electricity consumption in 2017-18, total thermal energy saved is 2.7 per cent of the net thermal energy consumption and 2.0 per cent of the net energy supply.

## **◎ SUSTAINABILITY OF ENERGY GENERATION**

- Coal remains the largest source of electricity generation mix globally, with 38 per cent market share in 2018 (IEA, 2019).
- Almost 60 per cent of India's installed capacity is in thermal power out of which the main component is the coal based thermal power plants.
- India's Nationally Determined Contribution (NDC) under the Paris Agreement states that India will achieve 40 per cent installed capacity of power from non-fossil fuels by 2030.
- While there has been tremendous increase in the renewable energy capacity, fossil fuels, especially coal, would continue to remain an important source of energy.

### > Potential of growth of Renewable Energy in India

- Union Budget 2018-19 announced zero import duty on components used in making solar panels to give a boost to domestic solar panel manufacturers.
- Government has also offered various *financial incentives for off-grid and decentralized renewable energy systems and devices for meeting energy needs for cooking, lighting and productive purposes.*
- In this regard, India has been undertaking one of the world's largest renewable energy expansion programmes in the world. The share of renewable energy is progressively increasing in the Indian electricity mix.
- Now globally India stands 4th in wind power, 5th in solar power and 5th in renewable power installed capacity. The cumulative renewable power installed capacity (excluding hydro above 25 MW) has more than doubled from 35 GW on 31 March 2014 to 78 GW on 31 March 2019.

### Solar power

- The initial target of the National Solar Mission up to the year 2022, was to install 20 GW solar power, which was further enhanced to 100 GW in early 2015. The *solar power installed capacity has increased around 1000 times from 25 MW* as on 31 March, 2011 to 28.18 GW as on 31 March, 2019.
- In order to facilitate smooth integration of increasing share of renewables into the national grid, *Green Energy Corridor project* continues to be in operation. Eleven Renewable Energy Management Centres are already at different stages of installation.
- Kisan Urja Suraksha Evam Utthaan Mahabhiyan (KUSUM) scheme has been launched for providing financial and water security to farmers and for de-dieselization of the farm sector. The scheme envisages around 2.75 million solar pumps and, on a pilot basis, 1 GW decentralized solar power plants in uncultivable lands of farmers to enhance income of farmers.

### > Small Hydro-electricity Plants

- India has great potential for hydro power generation. However, the utilisation of hydro power for meeting the power generation needs have been limited. *India has a hydro potential of around* 145,320 MW, out of which 45,400 MW have been utilised.
- To encourage the hydro sector, a new *Hydro Policy* has been approved.

## ◎ INDIA'S POTENTIAL TO DEPLOY ELECTRIC VEHICLES

- Given the large import dependence of the country for petroleum products, it is imperative that there be a shift of focus to alternative fuels to support our mobility in a sustainable manner.
- A "National Electric Mobility Mission Plan 2020 (NEMMP)" was conceived with an objective to achieve sales of 60-70 lakh units of total EVs by 2020. In 2015, the Faster Adoption and Manufacturing of Electric vehicles (FAME) scheme was launched to fast-track the goals of NEMMP with an outlay of Rs. 795 crore.
- **FAME India Phase II** has been launched, with effect from 1 April 2019, with a total outlay of Rs. 10,000 crore over the period of three years. Emphasis in this phase is on electrification of public transportation.
- Apart from it many EV policies have been announced by different states in India. *Currently, the market share of electric cars is only 0.06 per cent when compared to 2 per cent in China and 39 per cent in Norway.* One of the most concerning fact is that there is lesser acceptance of EVs in India. Sale of EVs in India is half of that of China.





### **CONCLUSION:**

While increasing access to energy is important, it is also imperative that this comes at much lower costs to the environment. Renewable energy sources are a strategic national resource. Harnessing these resources is a part of India's vision to achieve social equity and energy transition with energy security, a stronger economy, and climate change mitigation. It can only happen when India consumes and produces in a sustainable way by adopting renewable sources of energy like Solar, wind, hydroelectricity, tidal and geothermal energy, and consumes sustainable by adopting technologies like EVs, solar pumps etc. This will enable India to achieve multiple Sustainable Development Goals such as **Climate Action (Goal 13), Responsible Production and Consumption (Goal 12) and Affordable Clean Energy (Goal 7)**.

\*\*\*\*\*\*\*\*



• Discuss the role of energy in determining GDP growth of a nation. Examine it with reference to energy poverty in India and its quest to enter the club of upper middle income group.



## EFFECTIVE USE OF TECHNOLOGY FOR WELFARE SCHEMES - CASE OF MGNREGS

### **n** Introduction:

- The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which was enacted through an Act of Parliament in 2005, was operationalized through the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) with effect from February 2, 2006. The objective of the legislation is to enhance the livelihood security of poor households in rural areas.
- The programme was reviewed in 2015 and the government initiated major reforms using technology and emphasised on bringing in more transparency and accountability, robust planning and creation of durable productive assets.
- Delays in payments can materially drive genuinely distressed farmers away from MGNREGS and improvements in the targeting of MGNREGS to genuine beneficiaries can increase the demand for work from distressed workers, thereby effectively realising the objective of the programme.
- A person undergoing economic distress needs immediate and certain liquidity. Working for uncertain promised wages, which are likely to be realised with a substantial lag, presents an unattractive proposition for a person in distress as delayed payments effectively imply zero wages in adverse times. Consistent with this thesis, this chapter highlights the benefits of careful targeting of Government programmes by use of technology.

## • Use of Technology in Implementation of MGNREGS

- Linking the Aadhaar Number to an active bank account has been the key to implementing income transfers. In 2015, the Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched to ensure universal access to banking facilities with at least one basic banking account for every household.
- PMJDY addressed the issue of banking the unbanked population in the country and Aadhaar provided a credible identity source to whoever wanted to open a bank account.
- The JAM trinity enabled the roll-out of DBT by streamlining the validation/verification of beneficiaries as well as the process for release of funds. This ensured timely transfer of funds to the right beneficiary and enabled effective targeting under welfare schemes.

## National electronic Fund Management System (NeFMS)

- In order to streamline the system of fund flow and to ensure timely payment of wages, NeFMS was implemented in the year 2016. Under the system, the Central Government directly credits the wages of the MGNREGS workers, on a real time basis, to a specific bank account opened by the State Governments.
- This initiated the implementation of DBT in the Scheme. As a result of this initiative, the e-payment under MGNREGS has increased from 77.34 per cent in FY 2014-15 to 99 per cent in FY 2018-19.

## • Aadhar Linked Payments (ALP)

• ALP could speed up the wage payment cycle in the following two ways. First, due to stringent biometric requirements, an Aadhaar linked account is unlikely to belong to a 'ghost' beneficiary. Hence, Government officials require less time to verify and audit claims from such accounts. Second, the Central Government, which ultimately foots the bill for the program, can transfer wages directly to the bank accounts of the beneficiaries, thereby cutting the bureaucratic red tape.



www.iasscore.in

## **n** Impact of DBT on Effectiveness of MGNREGS

### • COVERAGE:

- Muster rolls are a form of an attendance register. Higher number of filled muster rolls represent higher worker turnout on site after implementation of DBT indicating that more people are reporting for work.
- Total person days and total person days of vulnerable sections (women, SCs and STs) is also higher in the post DBT years as compared to pre-DBT years indicating that employment generated is higher post implementation of DBT.

### • TIMELY PAYMENT OF WAGES:

• The proportion of total amount of wage payments that were received with a lag of more than 90 days before and after the implementation of ALP, the delay in payments reduced by almost one third from 35 per cent to less than 10 percent in the post-ALP period. Thus, implementation of ALP has positively impacted the flow of payments under the scheme.

### DEMAND FOR MGNREGS WORK

- There has been an increase in amount disbursed to bank accounts post implementation of ALP and a decline in delayed payments, it is expected that there will be an increase in demand for work under the programme in distressed areas.
- Before the implementation of ALP, the rural poor treated MGNREGS as an option to earn additional income during good times rather than a shock absorber during bad times.
- The change post ALP implementation suggests that reduction in the delay of payments has an immediate positive effect on the demand for work in distressed times.

### ● SUPPLY OF MGNREGS WORK

- It can be inferred that the increased state capacity to implement anti-poverty programmes brought about by ALP can potentially bridge the demand supply gap in MGNREGS.
- With reliable data, it is possible that the Central and State governments will be able to effectively monitor the implementation of MGNREGS and nudge the officials to provide jobs wherever and whenever they are needed the most.

### WORK DONE UNDER MGNREGS

• The actual work done under MGNREGS also increased significantly in blocks affected by drought due to the use of ALP. This increase was more than double the increase in blocks that were unaffected by drought.

### IMPACT ON VULNERABLE SECTIONS OF THE SOCIETY

- As economic shocks affect vulnerable sections of society (women, persons with disability, SCs and STs) the most, there are concerns that they might not be able to adapt easily to the use of technology under DBT and hence may get excluded.
- But the findings shows, after implementation of ALP, women, SC and ST workforce increased under MGNREGS during times of economic distress.

### WAY FORWARD:

- DBT through Electronic Fund Management Systems in MGNREGS has streamlined the fund flow process and helped in better targeting, reduction in delay in payments to beneficiaries, minimized leakages and above all led to substantial saving of funds. More importantly, it has enabled MGNREGS to be effective in alleviating distress of workers.
- The above analysis has the following policy implications:
  - Probable Indicator of distress
  - Expansion of 'works' under MGNREGS
  - Up-skilling the MGNREGS Workers
  - Expanding use of JAM to other Welfare Schemes
  - Use of Digital Infrastructure for micro-benefits



## Practice Question

- Use of technology in streamlining MGNREGS has helped increased its efficacy. Substantiate this Statement.
- DBT enabled MGNREGS has helped to alleviate distress of workers. In the light of above statement, highlight the benefits of careful and effective targeting of government welfare programmes.



## REDESIGNING A MINIMUM WAGE SYSTEM IN INDIA FOR INCLUSIVE GROWTH

### • Minimum wage system in India:

The Indian Minimum Wage System has been quite a debated and dynamic issue.

- India was one of the first developing countries to introduce minimum wages with the enactment of the Minimum Wages Act way back in 1948. The Act protects both regular and casual workers.
- Minimum wage rates are set both by the Central and the State governments for employees working in selected 'scheduled' employment.

### **n** National level minimum wage:

• The idea of a national level minimum wage has been debated since the enactment of the Minimum Wages Act in India. The main argument against a national minimum wage has been the existence of wide disparities in economic development and large variations in cost of living between regions and states.

### **D** Complex minimum wage system in India:

• Over the last 70 years, the minimum wage system in India has expanded and has become complex.



*Note:* Figures on the horizontal axis indicates the number of scheduled employments notified under the Minimum Wage Act by the Central Government and all the States/Union Territories.

**Source:** The data pertaining to the scheduled employments and minimum wage rates notified by the State/Central Government have been collated from the latest minimum wage notifications issued by the respective Governments. These notifications have been issued at different points of time ranging from December 2014 to April 2019.



## ECONOMIC SURVEY 2018-19

- The *first set of complexities* arises from issues relating to its coverage. Today, there are nearly 429 scheduled employments and 1,915 scheduled job categories for unskilled workers. This massive expansion in job categories and wage rates has led to major variations not only across states but also within states.
- A second set of complexities arises from the lack of uniform criteria for fixing the minimum wage rate. In some states or in specific scheduled employments, minimum wages are linked to the cost of living; through a variable dearness allowance (VDA) whereas other states do not include the VDA component. All this affects the level and variation of wage rates that can be observed across and within States.
- The *third set of complexities* arises from the fact that Minimum Wages Act does not cover all wage workers. One in every three wage workers in India has fallen through the crack and is not protected by the minimum wage law (ILO, 2018). Some major vulnerable categories – such as domestic workers – are presently covered only in 18 States and Union Territories. Further, the revision of minimum wage rates has often been delayed.

## Reflection of gender discrimination through minimum wage provisions:

- While the Minimum Wages Act does not discriminate between women and men, an analysis of minimum wages for different occupations shows persistence of systematic bias. For instance, women dominate in the category of domestic workers while men dominate in the category of security guards.
- While both these occupations fall within the category of unskilled workers, the minimum wage rate for domestic workers within a state is consistently lower than that for the minimum wage rates for security guards.

### Impact of minimum wages:

### • IMPACT ON WAGE LEVELS:

• Minimum wage in India does not operate as a conventional floor wage to protect the lowest paid workers. Nevertheless, the study shows the presence of a "lighthouse effect", i.e., the minimum wage acts as a benchmark that pulls up wages in the low-paid and informal sector by enhancing the bargaining power of vulnerable workers.

### ● IMPACT ON WAGE INEQUALITY:

• Well-designed and effective implementation of minimum wages will strengthen the trend towards decreasing wage inequality especially at lower levels. This becomes all the more significant as women constitute the majority of the bottom rungs of the wage distribution. This also shows how compliance of the statute is imperative for increasing welfare.

#### **BOX 2: MINIMUM WAGE SYSTEM IN BRICS**

BRICS countries have varied systems in terms of coverage, degree of tripartite consultation, criteria for setting the **minimum** wage and adjustment procedure. However, in all these countries, **minimum** wages are explicitly embedded within a larger wage policy aimed at balancing needs of the workers with overall economic factors

Table 3: Minimum Wage System in BRICS countries							
	Brazil	China	Russia	South Africa	India		
Coverage	National minimum wage, covering all workers. Regions can also define minimum wages above the national level.	Minimum wage rates are established by province.	Regional minimum wages that coexist with a national minimum wage. The regional minimum wages are fixed above the federal rate.	A national minimum wage was approved in 2018, covering all groups of wage earners.	Minimum wages are limited to Scheduled Employments, different skills & occupations.		



### WAY FORWARD:

### • SIMPLIFICATION AND RATIONALISATION:

• Rationalisation of minimum wages as proposed under the **Code on Wages Bill** needs to be supported. This code amalgamates the **Minimum Wages Act**, **1948**, the **Payment of Wages Act**, **1936**, the **Payment of Bonus Act**, **1965** and the **Equal Remuneration Act**, **1976** into a single piece of legislation. The definition of wage in the new legislation should subsume the present situation of 12 different definitions of wages in differen Labour Acts.

## • SETTING A NATIONAL FLOOR LEVEL MINIMUM WAGE:

- Central Government should notify a "national floor minimum wage" that can vary across the five geographical regions.
- Thereafter, states can fix the minimum wages, which shall not be less than the "floor wage." This would bring some uniformity in the minimum wages across country and would make all states almost equally attractive from the point of view of labour cost for investment as well as reduce distress migration.

### • CRITERIA FOR SETTING MINIMUM WAGE:

• Further, the Code on Wages Bill should consider fixing minimum wages based on either of the two factors viz; (i) the skill category, i.e unskilled, semi-skilled, skilled and highly skilled; and (ii) the geographical region, or else both. This key change would substantially reduce the number of minimum wages in the country. For instance, Madhya Pradesh has notified minimum wages based on just four skill levels of unskilled, semiskilled, skilled and highly skilled across occupations and regions. The state has just four basic minimum wages for the four skill categories.

### • COVERAGE:

• The proposed Code on Wages Bill should extend applicability of minimum wages to all employments/ workers in all sectors and should cover both the organized as well as the unorganized sector.

### • **REGULAR ADJUSTMENT:**

• A mechanism should be developed to adjust minimum wages regularly and more frequently, similar to countries like Montenegro, Nicaragua, Netherlands, Uruguay, and Costa Rica, where the minimum wage adjustment takes place every six months .

## • ROLE OF TECHNOLOGY:

• Technology can help in overcoming this behavioural bias by making information available in a simple and clear manner.

### • GRIEVANCE REDRESSAL:

• There should be an easy to remember toll-free number for anybody to register his/her grievance on non-payments of the statutory minimum wages.

## $\blacksquare$ Practice Question -

Despite India's outstanding growth in the last two decades, low pay and wage inequality remain serious obstacles towards achieving inclusive growth. Discuss.

\*\*\*\*\*\*\*

