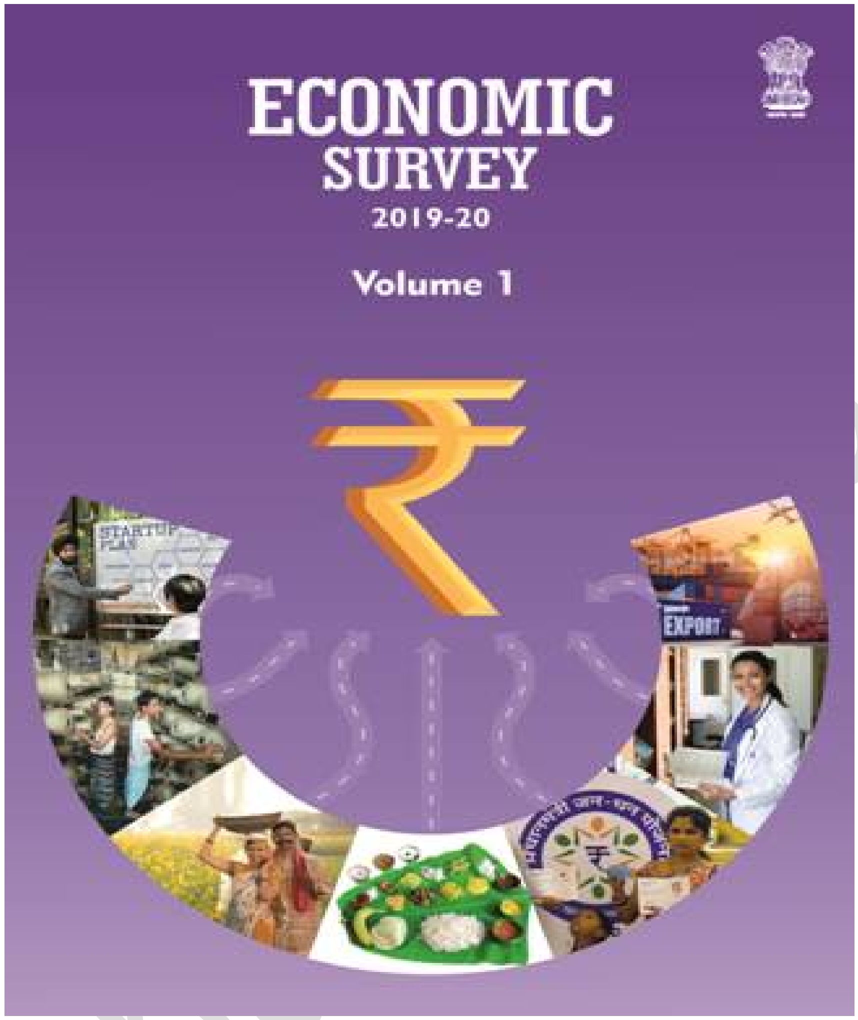

SUMMARY NOTES OF ECONOMIC SURVEY VOLUME-1

WITH RELEVANT TERMS EXPLAINED

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"HELLO" to ECONOMIC SURVEY

- ***Theme of Economic survey 2019-20 is wealth creation and the policy choices***.
- India having become the ***fifth largest economy*** in the world in 2019 and aspiring to be the ***third largest by 2025***.
- The Survey documents that ideas of wealth creation are rooted in India's old and rich tradition ranging from Kautilya's *Arthashastra* to Thiruvalluvar's *Thirukural*, which emphasizes ethical wealth creation as a noble human pursuit.
- The Survey's conceptualisation of wealth creation, thus, presents a synthesis of the old and the new, be it in the combination of ancient Indian tradition with contemporary evidence or in suggesting the use of FinTech for our Public Sector Banks.

FinTech:

What is FinTech?

- ***FinTech (Financial Technology) is an umbrella term coined in the recent past to denote technological innovation having a bearing on financial services.***
- FinTech is a broad term that requires definition and currently regulators are working on bringing out a common definition (As per RBI).
- According to Financial Stability Board (FSB), of the BIS (Bank for International Settlements), "FinTech is **technologically enabled financial innovation** that could result in new business models, applications, products etc with an associated effect on the provision of financial services and financial institutions/markets".
- ***It aims at encompassing wide variety of innovations in financial services enabled by technologies, regardless the type, size and regulatory status of the innovative firm***.

Its potential

- FinTech or digital innovations have emerged as a potentially transformative force in the financial markets.
- A recent FSB study highlighted some of the potential benefits of FinTech, including efficiency improvements, risk reduction and greater financial inclusion.
- Some of the major FinTech products and services currently used in the marketplace are ***Peer to Peer (P2P) lending platforms, crowd funding, block chain technology, distributed ledgers technology, Big Data, smart contracts, Robo advisors, E-aggregators, etc.***

- These FinTech products are currently used in international finance, which bring together the lenders and borrowers, seekers and providers of information, with or without a nodal intermediation agency.
- To counter the risk related to FinTech, ***Sandbox approach*** has been developed. FinTech sandbox can help innovators overcome the challenges related to it.
- The term sandbox is commonly used for the development of Web services. A sandbox acts as a layer between banks and their innovation initiatives and facilitates smooth collaboration between FinTech companies and incumbents (Traditional banks).
- Additionally, banks are relieved of the stress of dealing with multiple data requests (often the first step to solution development) as the sandbox serves as a ready reservoir of process-related information.
- Fintech has been used for many of the ***newest technological developments - from payment apps like BHIM UPI PayPal*** (*PYPL*) ***- Get Report or Venmo to even cryptocurrency.***

- Eliminating policies that undermine markets through government intervention even where it is not necessary; ***integrate "Assemble in India" into "Make In India"*** to focus on labour-intensive exports and thereby create jobs at large scale; efficiently scale up the banking sector to be proportionate to the size of the Indian economy and track the health of the shadow banking sector; use privatisation to foster efficiency.

Labour-intensive

What is labour-intensive?

- The term "labor intensive" refers to a process or industry ***that requires a large amount of labor to produce its goods or services***. The degree of labor intensity is typically measured in proportion to the amount of capital required to produce the goods or services: the higher the proportion of labor costs required, the more labor-intensive the business.
- A prime example of a labor-intensive industry is the agricultural industry. Other examples ***include restaurants, hotels, agriculture, and mining***.
- Less developed economies, as a whole, tend to be more labor-intensive. This situation is rather common because low income means that the economy or business cannot afford to invest in expensive capital.

In India's context

- <u>Total manufacturing employment in India has fallen significantly between 2011-12 and 2015-16 by 10 million in just four years (Annual Survey Labour Bureau data), especially in labour-intensive manufactures.</u>
- In India the labour intensive manufacturing sectors like ***food processing, tobacco, textiles, apparel, leather, wood and furniture, gems and jewellery*** have seen a decline since 2012.

<u>Shadow Banking</u>

What is shadow Banking?

- Shadow banking is a universal phenomenon, having a dynamic nature. In advanced and matured financial system , the form of shadow banking is more of risk transformation through securitization; while in the backward economies having financial market in a developing stage, the activities are more of supplementary to banking activities.
- However, in both the structures, shadow banking operates outside the regular banking system and financial intermediation activities are undertaken with less transparency and regulation than the conventional banking.
- In a sense, shadow banks are like icebergs - more deeply spread than what they seem to be. (As per RBI)
- The term 'shadow bank' was coined by ***Paul McCulley in 2007***, by and large, in the context of US non-bank financial institutions engaging in maturity transformations (use of short-term deposits to finance long-term loans).
- However, a formal definition of shadow banking was given by the Financial Stability Board, which defined 'shadow banking' as the ***"credit intermediation involving entities and activities (fully or partially) outside the regular banking system".***

What its Includes?

- Shadow banking activities, thus, ***include credit intermediation*** (any kind of lending activity where the saver does not lend directly to the borrower, and at least one intermediary is involved), ***and liquidity transformation*** (investing in illiquid assets while acquiring funding through more liquid liabilities) & ***maturity transformation*** (use of short-term liabilities to fund investment in long-term assets) that take place outside the regulated banking system.

Distinction between Shadow banks and commercial banks

- ***First,*** unlike commercial banks, which being a depository institutions and can create money, shadow banks cannot create money.
- ***Second,*** unlike the banks, which are comprehensively and tightly regulated, the regulation of shadow banks is not that extensive, and business operations lack transparency.
- ***Third,*** while commercial banks, by and large, derive funds through mobilization of public deposits, shadow banks raise funds, by and large, through market-based instruments such as commercial paper, debentures, or other structured credit instruments.
- ***Fourth,*** the liabilities of the shadow banks are not insured, while commercial banks' deposits, in general, enjoy Government guarantee to a limited extent.
- ***Fifth,*** in the times of distress, unlike banks, which have direct access to central bank liquidity, shadow banks do not have such recourse.
- *As RBI stated:* The type of entities which are called shadow banks elsewhere are known in India as the Non-Banking Finance Companies (NBFCs). Are they in fact shadow banks? ***No, because these institutions have been under the regulatory structure of the Reserve Bank of India, right from 1963.***
- To summarise, the shadow banks in India (i.e. the NBFCs) are of a different type; they have been under regulation for more than 50 years; they subserve the economy by playing a complimentary and supplementary role to mainstream banks and also in furthering financial inclusion. Yet, they do pose dangers, but of different variety; it primarily relates to consumer protection.
- In India, the crisis of the NBFCs that was triggered by the liquidity problems of IL&FS in 2018, has brought back the attention to shadow banking sector after the economic crisis of 2008.

SOURCE: RBI

Chapter 1- Wealth Creation: The Invisible Hand Supported by the Hand of Trust

- India returned back to these roots (wealth creation) post economic liberalisation in 1991. The exponential rise in India's GDP and GDP per capita post liberalisation coincides with wealth generation in the stock market. Sensex has not only grown after 1991 but has grown at an accelerating pace. Whereas crossing the first incremental 5000 points took over 13 years from its inception in 1986, the time taken to achieve each incremental milestone has substantially reduced over the years.

BSE Sensex

- ***Established in 1875, BSE (formerly known as Bombay Stock Exchange),*** is Asia's first & the Fastest Stock Exchange in world with median response speed of 6 microseconds and one of India's leading exchange groups. Popularly known as BSE, the bourse was ***established as 'The Native Share & Stock Brokers' Association' in 1875.***
- In 2017 BSE become the ***1st listed stock exchange of India***.
- ***S&P BSE SENSEX, first compiled in 1986***, was calculated on a 'Market Capitalization-Weighted' methodology of ***30 component stocks*** (30 well-established and financially sound companies listed on Bombay Stock Exchange, known as Blue chip companies) representing large, well-established and financially sound companies across key sectors.
- BSE has launched ***India INX, India's 1st international exchange,*** located at GIFT CITY IFSC in Ahmedabad.
- ***Indian Clearing Corporation Limited, a wholly owned subsidiary of BSE***, acts as the central counterparty to all trades executed on the BSE trading platform and provides full novation, guaranteeing the settlement of all bonafide trades executed.
- BSE has also launched ***BSE Sammaan***, the Corporate Social Responsibility (CSR) exchange, is a 1st of its kind initiative which aims to connect corporate with verified NGOs.
- BSE launches ***'chatbot', "Ask Motabhai",*** for faster, more convenient access to stock market information.

SOURCE: BSE website

- Note that the acceleration in the Sensex was not due to the base effect. In fact, the higher acceleration stemmed from higher cumulative annual growth rate (CAGR).

Base Effect

- The base effect refers to the impact of the rise in price level (i.e. last year's inflation) in the previous year over the corresponding rise in price levels in the current year (i.e., current inflation).
- The base effect is the distortion in a monthly inflation figure that results from abnormally high or low levels of inflation in the year-ago month.

- A base effect can make it difficult to accurately assess inflation levels over time. It diminishes over time if inflation levels are relatively constant.

SOURCE: Arthapedia and Investopedia

- Revenues earned in foreign exchange enable macroeconomic stability by enabling the country to pay for its imports and keeping the current account deficit at manageable levels.
- We correlate the wealth created by the entrepreneur with the direct taxes paid. Clearly, direct taxes underestimate the benefits accruing to the Government because it does not include the indirect taxes paid by the entrepreneur's firms, the direct taxes paid by the employees or the suppliers.
- *Arthashastra* as a treatise on economic policy was ***deeply influential in the functioning of the economy until the 12th century.***
- During much of India's economic dominance, the economy relied on the invisible hand of the market.

Invisible Hand of Market

What is Invisible hand?

- The unobservable market force that helps the demand and supply of goods in a free market to reach equilibrium automatically is the invisible hand.
- The phrase invisible hand was introduced by ***Adam Smith in his book 'The Wealth of Nations'***. He assumed that an economy can work well in a free market scenario where everyone will work for his/her own interest.
- In a free market scenario where there are no regulations or restrictions imposed by the government, if someone charges less, the customer will buy from him. Therefore, you have to lower your price or offer something better than your competitor.
- Whenever enough people demand something, it will be supplied by the market and everyone will be happy. The seller ends up getting the price and the buyer will get better goods at the desired price.

SOURCE: Economic Times

- As far as half-a-century back, Spengler (1971) wrote that Kautilya postulated the role of prices in an economy. Kautilya averred, "The root of wealth is economic activity and lack of it brings material distress. In the absence of fruitful economic activity, both current prosperity and future growth are in danger of destruction. A king can achieve the desired objectives and abundance of riches by undertaking productive economic activity". Kautilya advocates economic freedom by asking the King to "remove all obstructions to economic activity".

- A key contributor to ancient India's prosperity was internal and external trade. Two major highways Uttarapatha (the Northern Road) and Dakshinapatha (the Southern Road) and its subsidiary roads connected the sub-continent. Meanwhile, ports along India's long coastline traded with Egypt, Rome, Greece, Persia and the Arabs to the west, and with China, Japan and South East Asia to the east (Sanyal, 2016). Much of this trade was carried out by large corporatized guilds akin to today's multinationals and were funded by temple-banks.

Uttarapatha and Dakshinapatha

- Trade has been a mainstay of prosperity across time and dynasties in Jambudwipa, situated as it is in the Indian Ocean littoral. The ***first mention in Sanskrit literature of trade routes or 'panihas' comes in the Prithvi Sukta of the Atharva Veda.***
- The two major trade routes of the subcontinent are the Uttarapath of the north and north-west and the Dakshinapath of the centre and south of the peninsula.
- The Uttarapath has been mentioned by name ***first in Panini's Ashtadhyayi where he lists the various kingdoms along the 'Uttarapathenahritam'.***
- The Uttarapath swept across north-west India, crossed the Indo-Gangetic plains and went up to the port of Tamralipti in the Bay of Bengal. ***Yaksha was the deity*** for traders along the Uttarapath and his large statues had been found on this route.
- Simultaneously another great trade route of India was *Dakshinapatha*.
- The term *Dakshinapatha* occurs in the sense of a trade route to the south. Buddhist literatures also note a number of merchants going from Pataliputra and Kausambi to Pratishthana on the Godavari.
- The ***Dakshinapath is also mentioned in the Arthashastra***. It went from Pataliputra and Kaushambi, to Vidisha, Ujjaini and Pratishthana. Manimekalai was the presiding goddess for the traders of this route.

Mathura, which was a major trade and commerce centre, located on the junction of Uttarapatha and Daksinapatha, was connected with Central Asia and China through a route which passed through Indraprastha (modern Delhi).

SOURCE: UNESCO

- This is not surprising as the market economy is based on the principle that optimal allocation of resources occurs when citizens are able to exercise free choice in the products or services they want.
- The growth in the cargo volumes in an open sector (small ports) was more than closed sector (large ports).
- Open sectors such as cement and steel also had more growth than a closed sector such as coal.
- Though the peninsular states dominate entry of new firms, entrepreneurship is dispersed across India and is not restricted just to a few metropolitan cities.
- The Sensex reached the 5,000 mark for the first time in 1999 from its base of 100 points in 1978. It was less than 1,000 points in early 1991 when India moved to a market economy from a command economy. Since then, the market capitalization-based index has seen unprecedented growth.

Market Economy

- ***A market economy is a system where the laws of supply and demand direct the production of goods and services.*** Supply includes natural resources, capital, and labor. Demand includes purchases by consumers, businesses, and the government.
- Businesses sell their wares at the highest price consumers will pay. At the same time, shoppers look for the lowest prices for the goods and services they want. Workers bid their services at the highest possible wages that their skills allow. Employers seek to get the best employees at the lowest possible price.
- ***Capitalism requires a market economy*** to set prices and distribute goods and services.
- ***Socialism and communism need a command economy*** to create a central plan that guides economic decisions.
- Market economies evolve from traditional economies. Most societies in the modern world have elements of all three types of economies. That makes them mixed economies.

SOURCE: US Economy and News

Command Economy

- ***A command economy is where a central government makes all economic decisions.*** Either the government or a collective owns the land and the means of production.
- It doesn't rely on the laws of supply and demand that operate in a market economy. A command economy also ignores the customs that guide a traditional economy.

- In recent years, many centrally planned economies began adding aspects of the market economy. The resultant mixed economy better achieves its goals.
- Here are examples of the most well-known countries with command economies: Belarus, China, Cuba, Iran, Libya, North Korea, Russia.
- In 2018, command economies like China, Russia, and Iran have shifted toward more economic freedom, while North Korea and Cuba still remain economically repressed.

SOURCE: Forbes and Investopedia

- India made a substantial leap forward in The World Bank's Doing Business ***rankings from 142 in 2014 to 63 in 2019***. The Doing Business 2020 report has recognized India as one of the ten economies that have improved the most.
- The Authorized Economic Operators Scheme has smoothed the process for registered electronics exporters/importers, much more needs to be done.

Authorized Economic Operators Scheme

- The Indian AEO is a programme under the ***aegis of the World Customs Organization (WCO) SAFE Framework of Standards*** to secure and facilitate Global Trade. The programme aims to enhance international supply chain security and facilitate movement of legitimate goods.
- ***The Central Board of Excise & Customs (CBEC)*** has released a draft scheme of Authorized Economic Operator (AEO) based on the World Customs Organisation's (WCO) SAFE Framework of Standards to secure and facilitate global trade.
- The SAFE Framework of Standards was adopted by the WCO, an organization of 178 Customs administrations, in 2005 to address growing concern among the Customs administrations about the threats posed to national as well as global security through the misuse of channels of import and export.

SOURCE: PIB and Directorate general of foreign trade website

- **The largest bank in the world—Industrial and Commercial Bank of China**—is nearly two times as big as the 5th or 6th largest bank, which are Japanese and American banks respectively.
- The shadow banking sector, which has grown significantly in India, accounts for a significant proportion of financial intermediation especially in those segments where the traditional banking sector is unable to penetrate.

- The index of "connected" firms - as defined and constructed by Ambit Capital consistently outperformed the BSE 500 index.

<u>The index of "connected" firms</u>

- ❖ It is basically politically connected firms. A study by Ambit Capital concludes that companies enjoying a political nexus seldom make handsome gains for investors.
- ❖ It says if a fund manager is mandated to deliver returns over a short time frame, staying away from politically linked stocks is a sure way to boost risk-adjusted returns.
- ❖ ***Its P-75 index***, a subset of BSE 500 stocks, conceptualized in 2009, comprises 75 companies whose core competitive advantage by its assessment is on account of 'political connectivity'.
- ❖ Companies that are regarded as being politically connected by Ambit Capital Pvt. Ltd have had a mixed correlation with the BSE-500 index over the past few years.

<u>BSE 500 index</u>

- ❖ The S&P BSE 500 index is designed to be a broad representation of the Indian market. Consisting of the top 500 companies listed at BSE Ltd., the index covers all major industries in the Indian economy.
- ❖ All constituents of largecap, midcap and smallcap indices will be eligible for inclusion in the S&P BSE 500 index.
- ❖ ***The index is operated by Asia Index*** -- an equal venture between S&P Dow Jones Indices limited liability company (LLC) and BSE.

SOURCE: Economic Times and BSE

- The Arthashastra literally means "The Treatise on Wealth" and it extensively discusses issues ranging from urban governance to tax administration and commerce. The book explicitly presents its intellectual framework right in the beginning by stating that good governance is based on the following branches of knowledge: ***<u>Varta (economic policy), Dandaneeti (law and enforcement), Anvikshiki (philosophical and ethical framework) and Trayi (cultural context).</u>***
- In June 2017, the Reserve Bank of India (RBI) identified twelve companies constituting 25 per cent of India's total Non-Performing Assets (NPAs). The market failure of trust percolated to a couple of major Non- Banking Financial Companies (NBFCs). As investors in Liquid Debt Mutual

Funds ran collectively to redeem their investments, it triggered panic across the entire gamut of NBFC-financiers, thereby causing a crisis in the NBFC sector.

Liquid Debt Mutual Funds

- Liquid funds are a category of debt mutual funds ***which invest in very short-term market instruments like treasury bills, government securities and call money***.
- According to SEBI's definition, liquid funds can invest in debt and money market securities with ***maturity of up to 91 days only.*** Assets invested are not tied up for a long time as liquid funds do not have a lock-in period.
- Return is not guaranteed as the performance of fund depends upon how the market performs unlike fixed deposits which are not dependent on the market. An investor looking for better returns prefers investing in a liquid fund over fixed deposit.

SOURCE: Economic Times

Central Repository of Information on large Corporates

- ***The Reserve Bank has created a CRILC of** commercial banks**,*** all India financial institutions and certain non-banking financial companies with multiple objectives, which, among others, include strengthening offsite supervision and early recognition of financial distress.
  Large cooperative banks to report all exposures of Rs 5 crore and more to the Central Repository of Information on Large Credits (CRILC).

SOURCE: RBI

"HELLO" to ECONOMIC SURVEY

- *World Bank's Data on Entrepreneurship, this chapter confirms that* ***India ranks third*** *in number of new firms created.*
- *The number of new firms in the formal sector grew at a compounded annual growth rate of 3.8 per cent from 2006-2014, the growth rate from 2014 to 2018 has been 12.2 per cent.*
- *New firm creation in services is significantly higher than that in manufacturing, infrastructure or agriculture.*
- *Entrepreneurship at the bottom of the administrative pyramid – a district – has a significant impact on wealth creation at the grassroot level. This impact of entrepreneurial activity on Gross District Domestic Product (GDDP) is maximal for the manufacturing and services sectors.*

Chapter 2. Entrepreneurship and Wealth Creation at the Grassroots

- Data relating to the physical and social infrastructure of a district is accumulated from the Socioeconomic High-resolution Rural-Urban Geographic Dataset on India (SHRUG) which comprises of a set of variables that describe the extent of socio-economic development in India.

SHRUG

What is SHRUG?

- The Socioeconomic High-resolution Rural-Urban Geographic Dataset on India (SHRUG) is a new administrative data source describing socioeconomic development in India.
- The first version of the SHRUG describes demographic, socioeconomic, firm and political outcomes at a high geographic resolution for the universe of Indian households and non-farm productive establishments, in both rural and urban India, from 1990-2013.
- It incorporates administrative data covering the universe of Indian households and non-farm economic establishments for every urban and rural location in India, as well as data from successive population censuses, satellite-derived measures of economic activity and forest cover, data on elections and politicians, and other administrative datasets available at the local level.

Why Important?

- Researchers working with geographic variation in India can thus benefit from linking to the SHRUG, and can benefit other researchers by making their data available to others through the SHRUG platform.
- The SHRUG is not only a static dataset but also a platform for future collaboration and data sharing between researchers working with large-scale data in India.
- The SHRUG is a compilation of diverse data sources, it allows for analysis of a wide range of research questions with minimal data merging costs.
- The SHRUG permits time series analysis of socioeconomic characteristics at the level of India's 8000 towns.

SOURCE: Harvard University paper and Newspaper

- Among other things, SHRUG contains variables that describe the demographic, socioeconomic, firm and political infrastructure of every district between 1990–2018 that it cumulates from a variety of data sources.
- For cross-country comparison, we use the Entrepreneurship World Bank's Ease of Doing Business (EODB) Entrepreneurship Data for all countries except the U.S. and the Business Formation Statistics of the U.S. Census Bureau for the U.S.

World Bank's EODB Entrepreneurship Data

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- The research presents data for 190 economies and aggregates information from 10 areas of business regulation:
  - Starting a Business
  - Dealing with Construction Permits
  - Getting Electricity
  - Registering Property
  - Getting Credit
  - Protecting Minority Investors
  - Paying Taxes
  - Trading across Borders
  - Enforcing Contracts
  - Resolving Insolvency

- The economies with the most notable improvement in Doing Business 2019 are Afghanistan, Djibouti, China, Azerbaijan, India, Togo, Kenya, Côte d'Ivoire, Turkey and Rwanda.

- The BRIC economies—Brazil, the Russian Federation, India and China—introduced a total of 21 reforms, with getting electricity and trading across borders the most common areas of improvement.
- New Zealand top the list and India Ranked 63rd (77th in 2019 report)

SOURCE: World Bank and Newspapers

- On a per-capita basis, India has low rates of entrepreneurship in the formal economy.

Informal economy

- In 1971, the term 'informal sector' was coined by British anthropologist Keith Hart. (World Bank)
- The informal economy thrives in a context of high unemployment, underemployment, poverty, gender inequality and precarious work. It plays a significant role in such circumstances, especially in income generation, because of the relative ease of entry and low requirements for education, skills, technology and capital.
- But most people enter the informal economy not by choice, but out of a need to survive and to have access to basic income-generating activities.
- The informal economy is marked by acute decent work deficits and a disproportionate share of the working poor.
- Despite high levels of economic growth during the past two decades, the informal economy in India still accounts for more than 80 per cent of non-agricultural employment.
- India has undertaken a number of initiatives to address informality, including targeted schemes for promotion of micro, small and medium enterprises and legislative measures such as the Unorganized Workers Social Security Act, Contract Labour (Abolition & Regulation) Act, and Workers' Welfare Boards.
- Close to 81% of all employed persons in India make a living by working in the informal sector, with only 6.5% in the formal sector and 0.8% in the household sector. Among the five South Asian countries, informalisation of labour is the highest in India and Nepal (90.7%), with Bangladesh (48.9%), Sri Lanka (60.6%) and Pakistan (77.6%) doing much better on this front. (As per ILO)

SOURCE: World Bank and ILO

- It is also growing across all countries except Brazil, which has seen a significant decline from 2010 to 2018.

- It is important to note that in contrast to the other countries, a large number of India's enterprises operate in the informal economy. (Not captured in survey)
- Survey notes that grassroots entrepreneurship is not just driven by necessity.
- Though the peninsular states dominate entry of new firms, entrepreneurship is dispersed across India and is not restricted just to a few metropolitan cities.
- ***Establishments in the North East*** are more likely to be private enterprises in the food business such as organic produce farms and tea plantations while a majority of the ***establishments in Madhya Pradesh and Orissa*** are farmer producer companies.
- Entrepreneurial activity in the Manufacturing sector is highest in the regions of Gujarat, Meghalaya, Puducherry, Punjab and Rajasthan.

Farmer Producer Companies

- A Farmer Producer Company is a hybrid between cooperative societies and private limited companies.
- The instrument of Farmer Producer Company (FPC), registered under Companies Act, is emerging as the most effective means of Farmer Producer Organization (FPO) to cater to the needs of farmers at the grass root level.
- A producer company is basically a corporate body registered as a Producer Company under Companies Act, 1956 (As amended in 2002). The same provisions have been retained for FPC after the amendment of Companies Act in 2013.
- FPCs, is to enhance production, productivity and profitability of agriculturists, especially small farmers in the country.
- On July 5, 2019, the Centre announced a plan to promote 10,000 new farmer producer companies over the next five years.
- The top four states, Maharashtra, Uttar Pradesh, Tamil Nadu and Madhya Pradesh, account for 50% of producer companies registered in India

SOURCE: NABARD and Newspaper

- Entrepreneurial activity in the Services sector is highest in the regions of Delhi, Mizoram, Uttar Pradesh, Kerala, Andaman and Nicobar, and Haryana.

- Entrepreneurial activity in the Infrastructure sector is highest in the states of Jharkhand, Arunachal Pradesh, Himachal Pradesh, Mizoram, Jammu and Kashmir and Bihar, some of which are characterized by poor levels of extant infrastructure.

Demographic dividend

- Since 2018, India's working-age population (people between 15 and 64 years of age) has grown larger than the dependant population — children aged 14 or below as well as people above 65 years of age.
- Many Asian economies — Japan, China, South Korea — were able to use this 'demographic dividend', defined by the United Nations Population Fund (UNFPA) as the growth potential that results from shifts in a population's age structure. This transition happens largely because of a decrease in the total fertility rate (TFR, which is the number of births per woman) after the increase in life expectancy gets stabilised.

- *According to **United Nations Population Fund (UNFPA)***, demographic dividend means, "the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older)".

  SOURCE: UNFPA and Newspaper

- # *Fostering Entrepreneurship* is published under Organisation for Economic Co-operation and Development (OECD)

"HELLO" to ECONOMIC SURVEY

- ***Every five years**, one-third of Sensex firms are churned out, reflecting the continuous influx of new firms, products and technologies into the economy.*

Chapter 3- **Pro-Business versus Pro-Crony**

- After the market reforms of 1991, Sensex has not only grown, but ***has grown at an accelerating pace.***
- Whereas crossing the first incremental 5000 points took over 13 years and was achieved in 1999, the time taken to achieve each incremental milestone has substantially reduced over the years.
- The growth of the Sensex can be divided into three phases after 1999.
    - ***Phase I from 1999 to 2007***- saw an acceleration in the growth of the Sensex
    - ***Phase II from 2007 to 2014***- saw a slowdown in the index's growth.
    - ***Phase III began in 2014***- saw a revival in response to structural reforms and improvement in global liquidity.

- ***Financials and information technology***, which were virtually non-existent in the Sensex of the early 1990s are ***responsible for more than 50 per cent*** of the market share of the Sensex today.
- ***India has followed an idiosyncratic growth pattern***, wherein the prime mover of the economy has ***shifted from agriculture to services***.
- ***Almost 60 per cent*** of Indian GDP is attributable to the ***services sector***.
- The number of Sensex firms in ***manufacturing has reduced*** while those in ***services has increased between 1988 and 2019***.
- The forces of creative destruction following liberalization in the Indian economy have led to the rise of new sectors such as financials and information technology.

Forces of creative destruction

- This refers to the process of how capitalism leads to a ***constantly changing structure of the economy.*** Old industries and firms, which are no longer profitable, close down enabling the resources (capital and labour) to move into more productive processes.

- Creative destruction means that the ***company closures and job losses are good for the long-term well-being of the economy.***
- It can be seen from both a negative and positive perspective.
- ***Joseph Schumpeter*** popularised the concept of creative destruction in '***Capitalism, Socialism and Democracy***' **(1942).**
- Examples of Creative Destruction: **Powered looms, Music industry, Netflix is one of the classical example of it, etc.**
- ***The problem of creative destruction: Structural unemployment, Regional unemployment, etc.***

SOURCE: Massachusetts Institute of Technology papers and Newspapers

- Using the Herfindahl Index to analyse degree of competition within the two sectors (IT & Finance) reveals an overall decline in concentration in both sectors.

Herfindahl Index

- **Herfindahl-Hirschman index (HHI)**, also called **HH index**, in economics and finance, a ***measure of the competitiveness of an industry*** in terms of the market concentration of its participants.
- HH index asses how a proposed or actual merger or acquisition would change or has changed the market concentration in a particular industry.
- ***HHI and concentration ratio (CR)*** are among the most commonly used market concentration measure.

SOURCE: BSE, USA Justice Dept and newspaper

- ***Pro-crony policy supports incumbent firms*** but does not necessarily foster competitive markets. On the other hand, ***policy that fosters competitive markets*** (hereafter pro-business policy) creates a level playing field for businesses to compete. It unleashes the powerful forces of creative destruction, which create wealth.
- Austrian economist and creator of the term, ***Joseph Schumpeter***, described creative destruction as a *"process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one."*

- ***Raghuram Rajan and Luigi Zingales*** stressed the need for "saving capitalism from the capitalists" in their eponymous book, referring to the dangers of regulatory capture by private interests (Rajan and Zingales 2003).
- ***India has the fifth largest coal reserves*** in the world behind USA, Russia, China, and Australia. Coal is the most important indigenous source of energy for India; ***it meets more than half of India's energy requirements.***
- Prior to 1993, no specific criteria for the allocation of captive mines existed.

  Captive Mines

  - The concept of captive mining means that some mines are allocated to the companies for its own need. ***A mine that produces coal or mineral for use by the same company.***
  - The captive mining concept was devised so that the Iron, Steel and Power producing units could get uninterrupted supply of coal.
  - Via this policy, government started giving coal blocks to companies for captive use.
  - The condition was that these companies could only use the coal for their own use such as in power projects, steel mills, etc. but the ***sale of coal in open market was not permitted.***
  - *Government (NDA) would discontinue the practice of offering mining rights for mineral resources, including coal, to companies for captive use.*
  - Instead, a ***new hybrid mining lease agreement*** would be framed under which companies would be free to use extracted mineral both for captive use of end use plants (power, steel, cement etc) and commercial sale in the open market.
  - For companies taking mines largely for captive use, ***50 per cent of production*** from those mines would be permitted to be sold in the open market under the new hybrid lease agreement.
  - In addition to extraction of main mineral, the ***hybrid model will also allow leaseholders to extract other minerals*** found in their mine lease area on payment of 10 per cent of the quoted revenue share for the main mineral.

  SOURCE: Economic Times, Down to Earth and other newspapers

- Amendments introduced to the Coal Mines (Nationalisation) Act 1973 in June 1993 allowed private companies to carry out coal mining for captive use.

- Many firms enjoy profits in good times but often rely on the state or their financiers to bail them out in bad times. A particularly egregious form of such riskless return is the phenomenon of wilful default.

wilful default

- Simply, default ***means non-payment of a loan availed by a borrower***. A willful defaulter is an entity or a person that has not paid the loan back despite the ability to repay it.
- As per the RBI regulations, willful default covers several broad areas: ***Deliberate non-payment of the dues despite adequate cash flow and good networth, Siphoning off of funds to the detriment of the defaulting unit, Assets and proceeds have been misutilised; Misrepresentation / falsification of records; Disposal / removal of securities without bank's knowledge; Fraudulent transactions by the borrower.***
- According to the RBI regulations, the identification of the wilful default should be made keeping in view the track record of the borrowers and *should not be decided on the basis of isolated transactions / incidents.*

SOURCE: RBI and Newspaper

- Wilful default occurs when firms take loans, divert the proceeds out of the firm for the personal benefit of owners, default on loans and declare bankruptcy, thereby expropriating a range of stakeholders.
- A firm could also be branded a wilful defaulter if it uses the funds for purposes other than what is sanctioned by the lender, siphons the money out to related parties or removes the assets used to secure the loan.
- The defaulters are spread across several sectors, with ***manufacturing firms constituting the largest share.***
- Promoters ***have no personal liability beyond*** their pledged shares, they care little when the pledged shares fall in value as any reduction in their wealth is offset by rents they have already extracted.

Pledged shares

- Pledging of shares is one of the options that the promoters of *companies use to secure loans to meet working capital requirement, personal needs and fund other ventures or acquisitions.*
- A promoter shareholding in a company is used as collateral to avail a loan. While pledging shares, ***promoters retain their ownership***.
- However, as the share price keeps fluctuating, the value of the collateral also changes.
- When the value of the shares pledged with a lender falls below a certain level, it ***triggers 'margin call'***, requiring the promoters to make up for the shortfall in the value of the collateral.
- India's securities market regulator, Sebi, has formulated certain rules and regulations on appropriate disclosure of such borrowings in the wake of the Satyam scam that broke in 2009.
- Shares of an Indian company held by ***the non-resident investor can be pledged in*** favour of an Indian bank in India.

SOURCE: SEBI, RBI and Newspaper

- Term "Missing Roads" is used in the survey to mention about the roads which were built on paper only under Pradhan Mantri Gram Sadak Yojana and they were never actually built or completed.

"HELLO" to ECONOMIC SURVEY

This chapter analyses four examples of anachronistic government interventions, though many more abound.

- *First, frequent and unpredictable imposition of blanket stock limits on commodities under Essential Commodities Act (ECA) neither brings down prices nor reduces price volatility.*
- *The Act is anachronistic as **it was passed in 1955** in an India worried about famines and shortages; it is irrelevant in today's India and must be jettisoned.*

Essential Commodities Act (ECA)

- The ***Act empowers the Central and state governments*** concurrently to control production, supply and distribution of certain commodities in view of rising prices.
- The measures that can be taken under the provision of the Act include, among others, licensing, distribution and imposing stock limits.
- The Drug Price Control Order (DPCO) and such other orders have been issued under the powers of the ECA.
- Generally the Centre specifies upper limits in the case of stock holding and states prescribe specific limits. However in case there is a difference between states and the Centre, the act specifies that the latter will prevail.
- ***Food and civil supply authorities*** execute the provisions of the Act.
- In case a state doesn't want to accept the Centre's suggestion on implementing any provision of the Act it can do so.

SOURCE: ECA Website and Newspaper

- *Second, the **regulation of prices of drugs through the DPCO 2013**, has led to increase in the price of a regulated pharmaceutical drug vis-à-vis that of a similar drug whose price is not regulated.*

- *Third, government policies in the foodgrain markets has led to the **emergence of Government as the largest procurer and hoarder of foodgrains** – adversely affecting competition in these markets.*
- *This has led to overflowing of buffer stocks with FCI, burgeoning food subsidy burden, divergence between demand and supply of cereals and acted as a disincentive towards crop diversification.*

crop diversification

- ❖ Area shifts and crop pattern changes can lead either to crop specialization or to crop diversification.
- ❖ The temporal and spatial diversification of crops through rotation, multiple cropping and/or intercropping contribute to low-input agronomic practices and resource-**efficient farming systems**, and constitute a key pillar of the **transition towards sustainable agri-food systems**.
- ❖ "Crop diversification has emerged an important alternative to ***attain the objectives of output growth, employment generation and natural resources sustainability*** in the developing countries.
- ❖ Crop diversification in India is *generally viewed as a shift from traditionally grown less remunerative cops to more remunerative crops.*
- ❖ The *First European Conference on Crop Diversification* took place from the 18th to 21st of September 2019 ***in Budapest, Hungary***.
- ❖ The conference explored how to achieve the full potential of cropping system diversification for improved productivity, delivery of ecosystem services and resource-efficient and sustainable value chains.
- ❖ The programme is aimed at improving soil health and to maintain equilibrium in the agri-ecosystem.
- ❖ Crop diversification and also the growing of large number of crops are practiced in rain fed lands to reduce the risk factor of crop failures due to drought or less rains.
- ❖ Crop diversification in the country is taking the ***form of increased areas under commercial crops*** including vegetables and fruits since independence. However, this has gained momentum in the last decade favouring increased area under vegetables and fruits and also to some extent on commercial crops like sugar cane, cotton and oilseeds crops specially soybean.

SOURCE: FAO, EU and newspaper

- ➢ *Fourth, analysis of debt waivers given by States/Centre shows that full waiver beneficiaries consume less, save less, invest less and are less productive after the waiver when compared to the partial beneficiaries.*
- ➢ *The chapter does not argue that there should be no Government intervention. Instead, interventions that were apt in a different economic setting may have lost their relevance in a transformed economy.*

Chapter 04- **Undermining Markets: When Government Intervention Hurts More Than It Helps**

- In the global indices of economic freedom, India ranks in the bottom half.
- ***The Index of Economic Freedom, which is brought out by the Heritage Foundation***, and the ***Global Economic Freedom Index, which is brought out by the Fraser Institute***, measure economic freedom as the freedom of choice enjoyed by individuals in acquiring and using economic goods and resources.
- In the component pertaining to ***"investment freedom",*** which *measures the ease of flow of investment capital both internally and across the country's borders,* India scores a low 40.0 on a scale of 0-100 ***(repressed)*** against the world average of 58.5.
- *In the Index of Economic Freedom, India was categorized as 'mostly unfree'* with a score of 55.2 in 2019 ranking the Indian economy ***129th among 186 countries***, i.e., in the bottom 30 per cent of countries.
- In the Index of Global Economic Freedom too, ***India ranks 79th among 162 countries with 108th rank in business regulation.***
- Government can affect markets either through ***direct participation (as a market maker or as a buyer or supplier of goods and services)***, or through ***indirect participation in private markets (for example, through regulation, taxation, subsidy or other influence).***
- Any Government intervention of the first kind, however, affects the dynamic interaction of supply and demand in markets and thereby determination of 'equilibrium' market prices.

'Equilibrium' market prices.

- Equilibrium is the state in which market ***supply and demand balance each other***, and as a result, prices become stable. Generally, an over-supply of goods or services causes prices to go down, which results in higher demand.
- The balancing effect of supply and demand results in a state of equilibrium.
- Economists like Adam Smith believed that a free market would trend towards equilibrium.

SOURCE: Investopedia

- ***When the price is too high,*** there is an excessive amount of the product for sale compared to what people want.
- ***When the price is too low,*** it causes consumers to want more of the product than producers have available.
- ***In both cases,*** serious welfare loss results because not enough of the good is sold. The wasted chance to create both producer and consumer welfare from such sales leads to 'deadweight loss' - income that is lost forever.

Deadweight loss

- A deadweight loss is ***a cost to society created by market inefficiency***, which occurs when supply and demand are out of equilibrium.

- Mainly used in economics, deadweight loss can be applied to any deficiency caused by an ***inefficient allocation of resources.***
- Price ceilings, such as *price controls and rent controls; price floors, such as minimum wage and living wage laws; and taxation* can all potentially create deadweight losses.
- With a reduced level of trade, the allocation of resources in a society may also become inefficient.
- Reasons for this also includes *taxes or subsidies, externalities and monopoly pricing.*
- It is the excess burden created due to loss of benefit to the participants in trade which are individuals as consumers, producers or the government.

SOURCE: Economic Times and Investopedia

ESSENTIAL COMMODITIES ACT (ECA), 1955

- The Essential Commodities Act (ECA), 1955 ***controls the production, supply and distribution of, and trade and commerce in***, certain goods such as vegetables, pulses, edible oils, sugar etc., which are treated as essential commodities.
- Under the Act, the *powers to implement the provisions of the Act are delegated to the States.*
- When the price of any of these essential commodities rises, the regulator can impose stockholding limits on the commodity, restrict movement of goods, and mandate compulsory purchases under the system of levy.
- *Food and civil supply authorities in States execute the provisions of the Act.*
- ***The purported aim of this Act is to ensure*** affordability of essential commodities for the poor by restricting hoarding.
- It is an overarching legislation ***regulating agricultural marketing and production.***
- The ECA, however, ***affects the efficient development of agricultural markets*** by creating market distortions.
- This ***reduces the effectiveness of free trade and flow of commodities*** from surplus areas to markets with higher demand.
- The ***Act distorts markets by increasing uncertainty*** and discouraging the entry of large private sector players into agricultural-marketing.
- These market distortions further aggravate the price volatility in agricultural commodities like previously happened with price of sugar, pulses and currently with onion.
- There are ***three harvesting seasons*** in India ***for the onion*** crop viz., *Kharif (October-December), Late Kharif (January-March) & Rabi (March- May). Due to heavy rains in August-September, 2019,* the kharif crop of onions was adversely affected leading to lower market arrivals and upward pressure on onion prices.
- Under the ECA, ***states are required to enforce the adherence*** to any stock limits specified under the Act.
- To help regulate the price volatility of important agri-horticultural commodities like onion, potatoes and pulses, a beginning was made by setting up of the Price Stabilization Fund (PSF) in 2014-15.

Price Stabilization Fund (PSF)

- Price Stabilisation Fund (PSF) refers to *any fund constituted for the purpose of containing extreme volatility in prices of selected commodities.*
- The amount in the fund is generally utilised for activities aimed at bringing down/up the high/low prices say for instance, procurement of such products and distribution of the same as and when required, so that prices remain in a range.
- Many countries use such dedicated funds for stabilisation of major petroleum product prices, particularly if they are importers.
- Some countries use such funds for stabilising not just commodity prices but a variety of key macroeconomic variables such as the exchange rate, benchmark stock indices etc.
- ***India first created*** a price stabilisation fund for some export oriented plantation crops in 2003, and this ceased to exist in 2013.
- PSF mechanism is apart from the Minimum Support Price (MSP) based initiatives already existing in the country for certain agricultural goods.
- Another parallel to PSF are the Consumer Federations (known commonly as Consumerfeds) which undertake distribution of consumer goods at reasonable and affordable rates.
- A Price Stabilization Fund of Rs. 500 Crore for agricultural commodities was announced in the ***Union Budget 2014-15*** with a view to mitigate volatility in the prices of agricultural produce.
- Accordingly, the Government of India, on 27 March 2015, approved the creation of a Price Stabilization Fund (PSF) with a corpus of Rs.500 crores as a ***Central Sector Scheme,*** to support market interventions for price control of perishable agri-horticultural commodities during 2014-15 to 2016-17.
- Initially the fund was proposed to be used for market interventions for onion and potato only and pulses were added subsequently.
- Procurement of these commodities will be undertaken directly from farmers or farmers' organizations at farm gate/mandi and made available at a more reasonable price to the consumers.
- ***Losses incurred,*** if any, in the operations will be ***shared between the Centre and the States.***
- The Price Stabilization Fund will be ***managed centrally by a Price Stabilization Fund Management Committee (PSFMC) which will approve all*** proposals from State Governments and Central Agencies.
- The PSF will be maintained as a ***Central Corpus Fund by Small Farmers Agribusiness Consortium (SFAC)***, a ***society promoted by Ministry of Agriculture*** for linking agriculture to private businesses and investments and technology.
- The Price Stabilization Fund (PSF) was set up under the Department of Agriculture, Cooperation & Famers Welfare (DAC&FW),Ministry of Agriculture.
- The PSF *scheme was transferred from DAC&FW to the Department of Consumer Affairs (DOCA) w.e.f. 1st April, 2016.*

SOURCES: Arthepedia and newspaper

- It provides for maintaining a strategic buffer of aforementioned commodities for subsequent calibrated release to moderate price volatility and discourage hoarding and unscrupulous speculation.
- This (PSF) needs to be strengthened further as ***it supplements the market forces rather than substitute them which the ECA does.***

DRUG PRICE CONTROLS UNDER ECA

- In India, the Government has historically relied on price controls to regulate the prices of pharmaceutical drugs through the ***National Pharmaceutical Pricing Authority (NPPA)*** *and Drug (Prices Control) Order (DPCO).*

National Pharmaceutical Pricing Authority (NPPA)

- National Pharmaceutical Pricing Authority (NPPA) was constituted vide Government of India Resolution dated 29th August, 1997 ***as an attached office of the Department of Pharmaceuticals (DoP), Ministry of Chemicals & Fertilizers***
- It is an ***independent Regulator*** for pricing of drugs which ensures availability and accessibility of medicines at affordable prices.
- *NPPA implements the National Pharmaceutical Pricing Policy 2012 and the Drugs (Prices Control) Orders issued by the Department of Pharmaceuticals (DoP).*
- NPPA administers ***'Pharma Sahi Dam' and 'Pharma Jan Samadhan'*** platforms for information on medicine prices and registering public grievances.
- NPPA is delegated with ***the powers to exercise the functions of the Central Governmen***t in respect of various paragraphs of the Drug Price Control Orders (DPCO) - DPCO, 1995 and now DPCO, 2013.

SOURCES: NPPA Website and Arthapedia

- *The Drugs Prices Control Order (DPCO) is an order issued under Sec. 3 of Essential Commodities Act (ECA), 1955* that seeks to regulate the prices of pharmaceutical drugs.
- The *National List of Essential Medicines (NLEM), prepared by Ministry of Health and Family Welfare*, is a list of medicines considered essential and high priority for India's health needs.
- ECA needs to be repealed and replaced by market friendly interventions like price stabilization funds, Direct Benefit Transfers (DBT) of support to consumers, incentives to innovations, increasing market integration and smooth flow of goods and services.

- *DPCO specified the price ceiling using the cost-based pricing method* in which the ceiling price was calculated as a multiple of the cost that it took producers to promote and distribute a pharmaceutical drug.
- *In 2013, for the first time, India transitioned from cost-based pricing to market-based pricing.* Under the market-based pricing method, the Government determines the ceiling prices as the maximum mark-up that a retailer can charge over the reference price.

Ceiling prices

- Price ceiling is a situation when the ***price charged is more than or less than the equilibrium price*** determined by market forces of demand and supply.
- It has been found that ***higher price ceilings are ineffective***. Price ceiling has been found to be of great importance in the house rent market.
- Government imposes a price ceiling to control the maximum prices that can be charged by suppliers for the commodity.
- This is done to make commodities affordable to the general public. However, *prolonged application of a price ceiling can lead to black marketing and unrest in the supply side.*

SOURCE: Economic Times

GOVERNMENT INTERVENTION IN GRAIN MARKETS

- ***The Food Corporation of India (FCI) was set up in 1965*** under the Food Corporations Act, 1964 with the *primary duty to purchase, store, move/transport, distribute and sell foodgrains and other foodstuffs.*
- *The main objectives of FCI are*
    - ***Procurement*** of foodgrains from farmers at Minimum Support Prices (MSP) announced by the Government;
    - ***Distribution*** of foodgrains to consumers through PDS, particularly the vulnerable sections of society at affordable prices; and
    - ***Maintenance*** of buffer stock of foodgrains for food security and price stability.
- The government, as the single largest buyer of rice and wheat, is virtually a monopsonist in the domestic grain market and is a dominant player crowding out private trade.
- These procurement operations largely support the MSPs that are designed to be indicative prices for producers at the beginning of the sowing season and floor prices as an insurance mechanism for farmers from any fall in prices.

Floor Price

- A price floor is the ***lowest legal price*** a commodity can be sold at.
- Price floors are used by the government to prevent prices from being too low.
- The ***most common price floor is the minimum wage***--the minimum price that can be paid for labor. Price floors are also used often in agriculture to try to protect farmers.
- For a price floor to be effective, it must be set above the equilibrium price.
- Price floor has been found to be of great importance in the ***labour-wage market***.
- This helps the government ensure higher wages and a good standard of living for the workers.
- But this has a flip side too. *Price floor leads to a lesser number of workers than in case of equilibrium wage.*

SOURCES: Economic Times and Business Standard

- Given the obligations under the *Targeted Public Distribution System (TPDS) earlier and now under the National Food Security Act (NFSA), 2013* that covers upto ***75 per cent of the rural population and 50 per cent of the urban population*** to receive subsidized foodgrains, Government has also emerged as the single largest hoarder of rice and wheat.
- These policies have led to burgeoning burden of food subsidy which largely covers the *procurement cost of FCI (difference between the MSP and the Central issue prices (CIP) of foodgrains under PDS)* and distribution and carrying costs of FCI.
- India has moved from being a food scarce country to a food surplus country with a substantial increase in production and has emerged as a ***net exporter of cereals.***

Examples of Successful Conditional Cash Transfer Schemes:

- ***Brazil: Bolsa Familia (2003)***
- ***Mexico: Oportuni dades (1997)***
- ***Philippines: Pantawid Pamilyang Pilipino Program (2007)***

Legislative changes required to reduce government intervention

- Competitive markets are effective in allocating resources in an economy.

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

- ***What markets can do***:
    - Keep prices in check
    - Use resources efficiently
    - Encourage innovation
    - Increase consumer choice
    - Create wealth
    - Maximize aggregate welfare
- ***What markets cannot do***
    - Provide public goods
    - Prevent abuse of monopoly power
    - Internalize externalities
    - Overcome information asymmetry
    - Distribute wealth equitably
    - Ensure ethical practices

"HELLO" to ECONOMIC SURVEY

- ***Exports of network products**, which is expected to equal $7 trillion worldwide in 2025, can contribute a quarter of the increase in value-added for the $5 trillion economy by 2025.*

- *China's remarkable export performance vis-à-vis India is **driven primarily by deliberate specialization at large scale in labour-intensive activities**, especially "network products", where production occurs across **Global Value Chains (GVCs)** operated by multi-national corporations.*

Global Value Chains

- International production, trade and investments are increasingly organised within so-called global value chains (GVCs) where the ***different stages of the production process are located across different countries.***
- Global value chains have become a dominant feature of world trade, ***encompassing developing, emerging, and developed economies.***
- The whole process of producing goods, ***from raw materials to finished products***, is increasingly carried out wherever the necessary skills and materials are available at competitive cost and quality.
- Similarly, trade in services is essential for the efficient functioning of GVCs, not only because services link activities across countries but also because they help companies to increase the value of their products.
- GVCs integrate the know-how of lead firms and suppliers of key components along stages of production and in multiple offshore locations. ***The international, inter-firm flow of know-how is the key distinguishing feature of GVCs.***
- GVCs are a powerful driver of productivity growth, job creation, and increased living standards.
- As per UNCTAD recent COVID-19 pandemic cost a $US50 billion decrease in exports across global value chains.

SOURCE: World Bank, OECD, UNCTAD

Chapter 05- **Creating Jobs and Growth by Specializing to Exports in Network Products**

- In India, increased exports explain the conversion of about 800,000 jobs from *informal to formal between 1999 and 2011, representing 0.8 per cent of the labour force* (ILO report 2019).

- ***Our share*** in world exports has increased from *0.6 per cent in 1991 to 1.7 per cent in 2018.*

- Imports of merchandise have grown faster (at the rate of 14.9 per cent per annum during 1993-2018) than exports, ***resulting in increasing trade deficits.***

- On the other hand, ***exports of services generally grew faster than imports,*** providing some cushion to current account deficit.

What is CAD?

- CAD is the ***shortfall between*** the money flowing in on exports, and the money flowing out on imports.
- Current Account Deficit (or Surplus) measures the ***gap between the money received into and sent out of the country*** on the trade of goods and services and also the transfer of money from domestically owned factors of production abroad.
- Current Account Deficit is slightly ***different from Balance of Trade,*** which measures only the gap in earnings and expenditure on exports and imports of goods and services. Whereas, the current account also factors in the payments from domestic capital deployed overseas. For example, rental income from an Indian owning a house in the UK would be computed in Current Account, but not in Balance of Trade.

What constitutes CAD?

- The current account *constitutes net income, interest and dividends and transfers such as foreign aid, remittances, donations among others.* It is measured as a percentage of GDP.
    - Trade gap = Exports – Imports
    - Current Account = Trade gap + Net current transfers + Net income abroad
- A country with rising CAD shows that it has become uncompetitive, and investors are not willing to invest there. They may withdraw their investments.

- CAD exists due to a host of factors including existing exchange rate, consumer spending level, capital inflow, inflation level, and prevailing interest rate. For the Current Account Deficit in India, crude oil and gold imports are the primary reasons behind high CAD.
- The ***current account can also be expressed as the difference between*** national (both public and private) savings and investment.

SOURCE: Financial Express and IMF

- India must focus on a group of industries, referred to as ***"network products"***, *where production processes are globally fragmented and controlled by leading Multi-National Enterprises (MNEs) within their "producer driven" global production networks.*

- ***Examples of network products*** include ***computers, electronic and electrical equipment, telecommunication equipment, road vehicles etc.***

- ***China's remarkable export performance*** vis-à-vis India is driven primarily by deliberate specialization at large scale in labour-intensive activities, especially "network products", where production occurs across GVCs operated by multi-national corporations.

- The Survey examines the reasons for India's under-performance in exports vis-à-vis China.
    - China- India gap in world market share is almost fully driven by the effect of specialization.
    - If India wants to become a major exporter, it should specialize more in the areas of its comparative advantage and ***achieve significant quantity expansion.***
    - ***India's participation in GVCs has been low*** compared to the major exporting nations in East and Southeast Asia.
    - *Unskilled labour-intensive products account for a higher share in China's export basket compared to India's.*
    - Capital-intensive products account for a higher share in China's export basket than that of India's.

- NP accounts for about ***42 per cent of world manufactured exports***.

- ***Asia's share in world exports of NP increased*** phenomenally from about 37 per cent in 2000 to 51 per cent in 2018 while the shares of ***both Europe and America declined.***

- Among the major Asian countries, ***India and Indonesia are the only ones with a trade deficit in NP***

- Toyota, Mitsubishi, Suzuki, Nissan, and Mazda are ***major Japanese automobile manufacturers.***

- ***Hyundai was the first*** automobile MNE to establish a 100 per cent subsidiary in the country.

- ***India toppled Vietnam*** to become the ***second largest manufacturer of mobile phones*** globally following China in 2018 with a world share of 11 per cent.

- The pattern of entry, rise, survival, and relative decline of countries in the export market for NP is consistent with the ***"wild-geese flying model"*** *formulated by Japanese economist Kaname Akamatsu during the 1960s.*

- **The first Asian country** to enter the export market for NP ***was Japan*** followed by a number of East and Southeast Asian countries.

- ***India's Trade Agreements*** mentioned in survey include:

    - ***BIMSTEC- 2007 to 2018-*** Bangladesh, Bhutan (2004), India, Myanmar, Nepal (2004), Sri Lanka and Thailand. All other joined in 1997.

    - ***SAFTA- 2006 to 2018***- Afghanistan (2011), Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.

    - ***MERCOSUR- 2009 to 2018***- India (2009), Argentina, Brazil, Paraguay, Uruguay.

    - ***ASEAN- 2010 to 2018***- India (2010), Brunei Darussalam (1984), Cambodia (1999), Indonesia, Lao People's Democratic Republic (1997), Malaysia, Myanmar (1997), Philippines, Singapore, Thailand, Vietnam (1995)

❖ The *overall impact on India's exports to the partners*, with which the agreements have been signed, **is more than** the overall impact on imports. (+ve BOT with partner countries)

❖ Difference between the terms such as **PTA, CECA, RTA, CEPA, Customs Union, Common Market and Economic Union.**

- *Preferential Trade Agreement (PTA):* In a PTA, two or more partners agree to reduce tariffs on agreed number of tariff lines. The list of products on which the partners agree to reduce duty is called positive list. **India MERCOSUR PTA is such an example**. However, in general PTAs do not cover substantially all trade.

- Free Trade Agreement (FTA): In FTAs, tariffs on items covering substantial bilateral trade are eliminated between the partner countries; however, each maintains individual tariff structure for non-members. **India Sri Lanka FTA is an example**. The key difference between an FTA and a PTA is that while in a PTA there is a positive list of products on which duty is to be reduced; in an FTA there is a negative list on which duty is not reduced or eliminated. FTA as an instrument was adopted under GATT in 1979.

- *Comprehensive Economic Cooperation Agreement (CECA)* and Comprehensive Economic Partnership Agreement (CEPA): These terms describe agreements which consist of an **integrated package on goods, services and investment along with other areas including IPR, competition etc.** The India Korea CEPA is one such example and it covers a broad range of other areas like trade facilitation and customs cooperation, investment, competition, IPR etc.

- *Custom Union*: In a Customs union, partner countries may decide to **trade at zero duty among themselves**, however **they maintain common tariffs against rest of the world**. An example is Southern African Customs Union (**SACU**) amongst South Africa, Lesotho, Namibia, Botswana and Swaziland.

- *Common Market*: Integration provided by a Common market is one step deeper than that by a Customs Union. **A common market is a Customs Union with provisions to facilitate free movements of labour and capital, harmonize technical standards across members etc**. European Common Market is an example.

- *Economic Union*: Economic Union is a **Common Market extended through further harmonization of fiscal/monetary policies and shared executive, judicial & legislative institutions**. European Union (EU) is an example.

❖ **All free trade agreements fall under administrative domain of Ministry of Commerce and Industry, Govt. of India.**

SOURCE: Ministry of Commerce and Industry, GOI

➢ ***Semi-Knocked Down***: Products that are shipped in ***partially assembled stage*** in subassemblies. These types of products required minor assembling before use.

➢ Whereas, Products that are shipped ***completely un-assembled down*** to the component level for the purpose of nesting and space saving during shipment are ***called knocked Down***. These types of product require extensive assembling prior to use. These are common ***words used in packaging/ transportation sectors.***

"HELLO" to ECONOMIC SURVEY

- ***India has risen significantly*** *in the World Bank's Doing Business rankings in recent years, but there are categories where* ***it lags behind – Starting a Business, Registering Property, Paying Taxes and Enforcing Contracts.***

- India has made substantial gains in the ***World Bank's Doing Business*** ***rankings from 142 in 2014 to 63 in 2019.***

  World Bank's Doing Business- Please refer chapter 02 of Economic Survey Part 01

- It has ***progressed on seven out of the 10 parameters. The Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC) top the list of reforms*** that have propelled India's rise in rankings.
- The process ***flow for imports, ironically, is more efficient than that for exports.***

  Insolvency and Bankruptcy Code (IBC)- Please refer chapter 01 of Economic Survey part 02

Chapter 06- **Targeting Ease of Doing Business in India**

- ***Single biggest constraint*** to ease of doing business in India is its ***inability to enforce contracts and resolve disputes.***

- ***Most of the manufacturing units in India have small capacities*** and consequently low manufacturing efficiencies which are a ***disadvantage in the global supply chain.***

- ***Globally, transportation by ports is the most favored*** followed by railways and then roads, whereas in ***India it is the opposite.***

- ***Authorized Economic Operators scheme*** is being used to ***smoothen the process for registered exporters/ importers.***

  Authorized Economic Operators scheme- Please refer chapter 01 of Economic Survey Part 01

- The ***processes in Indian airports is vastly superior to those at sea ports*** for both imports and exports.

  Quality Council of India

- Quality Council of India is an ***autonomous body of Department of Industrial Policy and Promotion, Govt. of India.***
- It has been ***created jointly*** with Indian industry represented by ***Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) & Associated Chambers of Commerce and Industry (ASSOCHAM).***
- The Cabinet Committee set up Quality Council of India ***as a non-profit autonomous society registered under Societies Registration Act XXI of 1860*** to establish an accreditation structure in the country and to spread quality movement in India by undertaking a National Quality Campaign.
- ***The Mission of QCI is to lead nationwide quality movement in India*** by involving all stakeholders for emphasis on adherence to quality standards in all spheres of activities primarily for promoting and protecting interests of the nation and its citizens.
- The ***main objectives of QCI are (a) to establish and operate national accreditation structure (b) to monitor and administer the National Quality Campaign.***
- QCI ***operations are carried out by its constituent boards*** namely, ***National Accreditation Board for Certification Bodies (NABCB), National Accreditation Board for Education and Training (NABET), National Accreditation Board for Hospitals Healthcare Providers (NABH), National Board for Quality Promotion (NBQP) and National Accreditation Board for Testing and Calibration Laboratories (NABL).***

How QCI is different from Bureau of Indian Standards (BIS)?

- The Bureau of Indian Standards (BIS), the ***National Standards Body of India***, is a statutory body set up under the Bureau of Indian Standards Act, 1986.
- The Bureau is a body corporate and ***responsible for formulating National Standards.*** It comprises of members representing the Industry, Consumer Organizations, Scientific & Research Institutes and Professional Bodies, Technical Institutions, Central ministries, State Governments and Members of Parliament.

- Its ***main activities are***: Standards Formulation, Certification, Laboratory Testing, Calibration and Management, Standards Promotion and Training, International Cooperation in the field of Standards.
- Quality Council of India (QCI) is ***National Accreditation body.*** It is an autonomous ***body under Department of Industrial Policy and Promotion (DIPP)***.
- Its main activities are ***development and implement accreditation schemes*** through its constituent boards, promotion of quality, both national and international levels.

SOURCE: BIS Website

"HELLO" to ECONOMIC SURVEY

- *In 2019, India completed the **50th anniversary of bank nationalization.***

- *India's banking sector is disproportionately under-developed given the size of its economy. For instance, **India has only one bank in the global top 100.***

- *As **PSBs account for 70 per cent of the market share in Indian banking**, the onus of supporting the Indian economy and fostering its economic development falls on them.*

- *Previously, the **Narasimhan Committee (1991, 1997)**, **Rajan Committee (2007)** and **P J Nayak Committee (2014)** have provided several suggestions to enhance the efficiency of PSBs.*
- ***The survey suggests use of FinTech (Financial Technology)** across all banking functions and employee stock ownership across all levels to enhance efficiencies in PSBs.*

  FinTech (Financial Technology)- Please refer chapter 01 of Economic Survey part 01

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

  Insolvency and Bankruptcy Code (IBC)- Please refer chapter 01 of Economic Survey part 02

Chapter- 07- **Golden Jubilee of Bank Nationalisation: Taking Stock**

- In 2019, when Indian economy is the ***fifth largest in the world***, our highest ranked bank—***State Bank of India— is ranked a lowly 55th in the world*** and is the only bank to be ranked in the Global top 100.

- All the largest economies have proportionately large banks with ***China*** being an outlier on the positive side ***with 18 banks in the global top 100.***

- Even as New Private Banks (NPBs) grew credit at between 15 per cent and 29 per cent per year between 2010 and 2019, ***PSB credit growth essentially stalled to the single digits*** after 2014, ending up at a 4.03 per cent growth in 2019 compared 15 per cent to 28 per cent from 2010 to 2013.

- This needs to be remedied because the ***economy needs PSBs to perform to their fullest potential and support economic growth rather than pullback lending,*** which has a detrimental effect on growth and welfare.

- India becoming a $ 5 trillion economy ***will require at least eight Indian banks to be*** large enough ***to belong in the top 100 globally.***

- The ***market-to-book ratio***, which ***indicates the quality of a bank's governance***, is 0.8 as on 20th January, 2020 for PSBs while that of the average NPB is close to 4.

Market-to-book ratio

- The Market to Book ratio (also called the Price to Book ratio), ***is a financial valuation metric*** used to evaluate a company's current market value relative to its book value.

- The market value is the current stock price of all outstanding shares (i.e. the price that the market believes the company is worth).

- The book value is the amount that would be left if the company liquidated all of its assets and repaid all of its liabilities.

- The book ***value equals the net assets of the company*** and comes from the Balance Sheet.

- In other words, the ratio is used to compare a business's net assets that are available in relation to the sales price of its stock.

- The balance sheet is one of the three fundamental financial statements. These statements are key to both financial modeling and accounting. The balance sheet displays the company's total assets, and how these assets are financed, through either debt or equity.

- ***Assets = Liabilities + Equity.***

SOURCE: CFI (Corporate Finance Institute)

- In 2019, every rupee of taxpayer money invested in PSBs, on average, lost 23 paise. In contrast, every rupee of investor money invested in "New Private Banks" (NPBs)—banks licensed after India's 1991 liberalization—on average gained 9.6 paise.

- A ***vibrant banking system can support and unleash a multiplier effect*** and permanently alter India's growth trajectory in a positive way.

Multiplier effect

- The multiplier effect refers to the ***proportional amount of increase in final income*** that results from an injection of spending.
- Alternatively, a ***multiplier effect can also work in reverse***, showing a proportional decrease in income when spending falls.

- Generally, economists are usually the most interested in how capital infusions positively affect income.

- Most economists believe that capital infusions of any kind, whether it be at the governmental or corporate level, will have a broad snowball effect on various aspects of economic activity.

- The multiplier effect can be seen in several different types of scenarios and used by a variety of different analysts when analyzing and estimating expectations for new capital investments.

- ***Multiplier (k) = Change in Real GDP (Y) / Change in Injections***

- This formula shows the ***relation between the increase in the earning of the nation due to the investments*** by the respective government or the corporates, if, there is a fixed pattern of expenditure from the additional income.

  SOURCE: Investopedia and Newspaper

BANKING STRUCTURE:

- ***Banking in India dates back to thousands of years***. Several of India's ancient texts including those in the Vedic period mention bank lending functions.

- ***The modern banking system in India has its roots in the colonial era*** starting in the 1800s.

- ***State Bank of India (SBI), was founded as Bank of Calcutta in 1806,*** took the name ***Imperial Bank of India in 1921*** and became ***state-owned in 1955***.

- The remaining PSBs in India were formed through ***two waves of nationalizations, one in 1969 and the other in 1980.***

- ***After the 1980 nationalization,*** PSBs had a 91 per cent share in the national banking market with the remaining 9 per cent held by "old private banks" (OPBs) that were not nationalized.

- As of March 2019, PSBs had ` ***80 lakh crore in deposits,*** held ` ***20 lakh crore in government bonds, and made loans and advances of ` 58 lakh crore,*** representing between 65 per cent and 70 per cent of the aggregates for all scheduled commercial banks operating in India.

- The decline in PSB market share has been ***largely absorbed by "new private banks" (NPBs)***, which were ***licensed in the early 1990s after a liberalization*** of licensing rules that earlier regulated bank entry.
- ***PSBs, OPBs, and NPBs are currently subject to similar banking regulations*** on virtually all aspects of their functioning including branching and ***priority sector lending***. *The key difference between the state-owned PSBs and private banks is that PSBs enjoy less strategic and operating freedom because of majority government ownership.*

Priority sector lending

- ***Priority Sector includes*** the following categories:

(i) Agriculture
(ii) Micro, Small and Medium Enterprises
(iii) Export Credit
(iv) Education
(v) Housing
(vi) Social Infrastructure
(vii) Renewable Energy
(viii) Others

- It is a way ***to provide higher priority to certain economic sector in our country***.

- Aim is to ***provide institutional credit*** to those sectors and segments for whom it is difficult to get credit.

- PSL ***comes under selective credit control of qualitative tools of the monetary policy of RBI.***

- Priority Sector Lending Certificates (PSLCs) are a mechanism to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall.

- This also ***incentivizes surplus banks as it allows them to sell their excess achievement*** over targets thereby enhancing lending to the categories under priority sector

SOURCE: RBI and Newspaper

BENEFITS OF NATIONALIZATION

- The ***allocations of banking resources to rural areas, agriculture, and priority sectors increased.***

- The number of <u>*rural bank branches increased ten-fold compared to a two-fold increase in urban and semi-urban areas.*</u>

- ***RBI's 4:1 formula*** where a bank was required to open ***4 rural branches to obtain a license*** to open an urban branch between years 1977 and 1991 led to significant reduction in poverty in financially less developed states but, differential impact on poverty seen during 1977-1991 cannot be attributed to this formula as well as nationalization.
- ***Return on Assets (ROA) of the best performing PSB*** has been ***lower than the ROA of the worst performing NPB. A similar***, albeit less stark, ***pattern is observed for the Return on Equity (ROE) as well.***

  <u>***Return on Assets (ROA) and Return on Equity (ROE)***</u>

  - Return on assets (ROA) is an ***indicator of how profitable a company is*** relative to its total assets.

  - ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage.

  - ROA is ***best used when comparing similar companies or comparing a company to its previous performance.***

  - Return on equity (ROE) is a ***ratio that provides investors with insight into how efficiently a company*** (or more specifically, its management team) is handling the money that shareholders have contributed to it.

  - In other words, ***ROE measures the profitability of a corporation*** in relation to stockholders' equity.

  - ***The higher the ROE, the more efficient a company's management is*** at generating income and growth from its equity financing.

  - ROE is ***often used to compare a company to its competitors and the overall market.*** The formula is especially beneficial when comparing firms of the same industry since it tends to give accurate indications of which companies are operating with greater financial efficiency and for the evaluation of nearly any company with primarily tangible rather than intangible assets.

- Shareholder equity is assets minus liabilities on a firm's balance sheet.

- *ROA takes into account a company's debt, unlike other metrics, such as Return on Equity (ROE).*

  SOURCE: Investopedia and Newspaper

ENHANCING EFFICIENCY OF PSBs: THE WAY FORWARD

- ***2014 P. J. Nayak Committee report shows, the structural weaknesses*** in PSBs explains their poor performance.

- India's growth opportunities today, which stem from a unique confluence of several positives, position PSBs well to utilise FinTech.
- ***One is*** India's demographic dividend. ***62 per cent of India's population is between 15 and 60 and a further 30 per cent of the population is under 15.*** Thus, India is poised to enjoy the benefits of a substantial working age population for a long period of time.

- ***The second force*** driving India's growth opportunities is the ***JAM "trinity,"*** viz., the ***PMJDY bank account*** programme, the ***Aadhaar unique identity*** programme, and the ***mobile phone infrastructure***, each of which has been implemented to cover practically the entire country.

- More important is that the ***inclusion is backed by state-of-art digital infrastructure***.

- The data that can be employed for credit analytics is available in both structured and unstructured form. ***Data in a structured form include credit information and credit scores based on loan grants and repayments held in the credit registries or credit bureaus.***

- The richer, though ***unstructured, micro-data is available in text, images, geo-tagged data, social network data, mobile apps,*** as well as other shallow or deep digital footprints of current and potential customers.

- ***Geo-tagging*** – the ***process of adding geographical identification*** such as latitude and longitude to photos, videos or other media – can help lenders keep track of the location of assets.

Geo-tagging

- Geotagging is the ***process of adding geographical information*** to various media in the form of metadata.

- The data usually ***consists of coordinates like latitude and longitude, but may even include bearing, altitude, distance and place names.***

- Geotagging is ***most commonly used for photographs and can help people get a lot of specific information*** about where the picture was taken or the exact location of a friend who logged on to a service.

- Geotagging location services can be used to find location-specific websites, news and other information.
- ***It is based on positions and coordinates*** and is often directly taken from a global positioning system (GPS).

- ***Chennai is going to be the first city in India to geographically map people with fever symptoms.*** The Greater Chennai Corporation has developed an app -- ***GCC Corona Monitoring*** -- that can map people having fever symptoms as well as people under home quarantine and areas where crowds gather and social distancing is not followed.

- The app can also geotag people under home quarantine.

  SOURCE: Technopedia and Newspaper

- Several government departments have already taken the lead in geo-tagging; the ***Ministry of Rural Development geo-tags MGNREGA assets and the Department of Land Resources geo-tags watershed projects.***

- Geo-tagging can also ***help verify the value of pledged land or property.***

- ***SWIFT India – the messaging platform that PNB used*** to transmit messages in the Nirav Modi case – recently announced a ***pilot blockchain effort*** that allows lenders to log invoices and e-bills submitted to them online, allowing other lenders to verify whether a trade they are looking to finance has already been funded or the underlying collateral already pledged. Such integrated data systems are essential to protect lenders.

- While these technologies are powerful, they carry an important risk, i.e., ***the risk of infringing upon the borrower's privacy and dignity.***

- Use of data and credit analytics, such as consumer credit bureau data, has significantly enhanced growth in retail lending.

- ***FinTech is forcing traditional banks to review*** their outdated business paradigms to come up with effective, low-cost, banking solutions.

- Tools such as ***Machine Learning (ML), Artificial Intelligence (AI) as well as Big Data and matching provide banks the ability*** to recognize patterns quickly by analysing vast datasets, an activity that would be virtually impossible for humans, even using conventional information technology.

- ***FinTech allows banks to better screen*** borrowers and set interest rates that better predict ex-post loan performances.

- The ***survey proposes establishment of a GSTN like entity, called PSBN*** (PSB Network), to use technology to screen and monitor borrowers comprehensively and at length.

- Apart from utilizing data from all PSBs, which would provide a significant information advantage, ***PSBN would utilize other Government sources and service*** providers to develop AI-ML ratings models for corporates.

- The AI-ML models can not only be employed when screening the corporate for a fresh loan but also for constantly monitoring the corporate borrower so that PSBs can truly act as delegated monitors.

"HELLO" to ECONOMIC SURVEY

- *This chapter highlights that **problems faced by the NBFCs stemmed from their over-dependence on short-term wholesale funding from the Liquid Debt Mutual Funds (LDMFs).***

  Liquid Debt Mutual Funds- Please refer chapter 01 of Economic Survey part 01

- *An **asset-side shock** not only **exacerbates the Asset Liability Management (ALM) problem** but also **makes investors in LDMFs jittery** and thereby leads to a redemption pressure that is akin to a "bank run."*

- *A **dynamic health index (Health Score)** is constructed that **captures these risks and can be used as an early warning system** to anticipate liquidity crisis in an NBFC. Policy makers can use this tool to monitor, regulate and avert financial fragility in the NBFC sector.*

Chapter 08- **Financial Fragility in the NBFC Sector**

- The liquidity crunch in the ***shadow banking system in India took shape in the wake of defaults*** on loan obligations by major ***Non-Banking Financial Companies (NBFCs)***.

  Shadow banking system- Please refer chapter 01 of Economic Survey part 01

  Non- Banking Financial Companies

  - A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

  NBFCs vs Banks

  - NBFC cannot accept demand deposits.

- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.
- An NBFC is not required to maintain Reserve Ratios (CRR, SLR etc.)
- AnNBFC cannot indulge Primarily in Agricultural, Industrial Activity, Sale-Purchase, Construction of Immovable Property.
- Foreign Investment allowed up to 100 %

Different types of NBFCs are as follows:

Asset Finance Company (AFC), Investment Company (IC), Loan Company (LC), Infrastructure Finance Company (IFC), Systemically Important Core Investment Company (CIC-ND-SI), Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC), Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI), Non-Banking Financial Company – Factors (NBFC-Factors), Mortgage Guarantee Companies (MGC), NBFC- Non-Operative Financial Holding Company (NOFHC).

SOURCE: RBI, PIB and newspapers

- ***These entities (NBFCs) defaulted on non-convertible debentures and commercial paper obligations***.

Non-convertible debentures

- Debentures ***are long-term financial instruments*** which acknowledge a debt obligation towards the issuer.
- ***Some debentures have a feature of convertibility into shares*** after a certain point of time at the discretion of the owner.
- ***The debentures which can't be converted into shares*** or equities are called non-convertible debentures (or NCDs).
- Non-convertible debentures are used as ***tools to raise long-term funds*** by companies through a public issue.
- To compensate for this drawback of non-convertibility, ***lenders are usually given a higher rate of return*** compared to convertible debentures.
- Besides, ***NCDs offer various other benefits to the owner*** such as high liquidity through stock market listing, tax exemptions at source and safety since they can be issued by companies which have a good credit rating as specified in the norms laid down by RBI for the issue of NCDs.

- In India, usually these have to be ***issued of a minimum maturity of 90 days.***

  SOURCE: Economic Times.

  Commercial paper

  - ***Commercial paper, also called CP, is a short-term debt instrument*** issued by companies to raise funds generally for a ***time period up to one year.*** It is an ***unsecured money market instrument*** issued in the form of a promissory note and was introduced in India for the ***first time in 1990.***

  - Companies that enjoy high ratings from rating agencies often use CPs to diversify their sources of short-term borrowings. This gives investors an additional instrument.

  - They are typically ***issued by large banks or corporations to cover short-term receivables*** and meet short-term financial obligations, such as funding for a new project.

  - CPs have a ***minimum maturity of seven days and a maximum of up to one year from the date of issue.*** However, the maturity date of the instrument should typically not go beyond the date up to which the credit rating of the issuer is valid.

  - They can be issued in denominations of Rs 5 lakh or multiples thereof.

  - Since such instruments are ***not backed by collateral***, only firms with high ratings from a recognised credit rating agency can sell such commercial papers at a reasonable price. CPs are ***usually sold at a discount to their face value,*** and carry higher interest rates than bonds.

- Fire Sale Price
  - A fire sale consists of ***selling goods or assets at heavily discounted prices***.

  - Fire sale originally referred to the discount sale of goods that were damaged by fire.

  - Now it more ***commonly refers to any sale where the seller is in financial distress.***

  - In the context of the financial markets, a fire sale refers to a ***situation where securities are trading well below their intrinsic value, such as during prolonged bear markets.***

- An ***index is developed to estimate the financial fragility of the NBFC sector*** and it was found that it ***can predict the constraints on external financing*** (or refinancing risk) faced by NBFC firms.

- ***This index is called as the Health Score***, which ***ranges between -100 to +100*** with higher scores indicating higher financial stability of the firm/sector. A ***benchmark of 50 is used***, above which the individual HFC/Sector may be deemed to be ***sufficiently safe.***

- ***The Health Score employs information*** on the key drivers of refinancing risk such as ***Asset Liability Management (ALM) problems, excess reliance on short-term wholesale funding (Commercial Paper) and balance sheet strength of the NBFCs.***

  Asset Liability Management (ALM)

  - Asset Liability Management (ALM) can be defined as a ***mechanism to address the risk faced by a bank due to a mismatch between assets and liabilities*** either due to liquidity or changes in interest rates. Liquidity is an institution's ability to meet its liabilities either by borrowing or converting assets.

  - Apart from liquidity, a bank may also have a ***mismatch due to changes in interest rates*** as banks typically tend to borrow short term (fixed or floating) and lend long term (fixed or floating).

  - It is the ***process of managing the use of assets and cash flows to reduce the firm's risk of loss from not paying a liability on time.***

  - Well-managed assets and liabilities increase business profits. The asset/liability management process is ***typically applied to bank loan portfolios and pension plans***. It also involves the economic value of equity.

  SOURCE: Oracle White Paper and Investopedia

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

- Redemption pressure faced by debt mutual funds is akin to a ***"bank run", which is a characteristic of any crisis in the financial sector.***

  Bank run

  - A bank run occurs when ***many customers withdraw all their money simultaneously*** from their deposit accounts with a banking institution for fear that the institution is, or might become, insolvent.

- The situation takes place in fractional reserve banking systems where banks only maintain a small portion of their assets as cash.

- As ***more customers withdraw*** their money, there is a likelihood of default, and this will ***trigger more withdrawals*** to a point where the bank runs out of cash.

- An uncontrolled bank run can lead to bankruptcy, and when multiple banks are involved, it creates an industry-wide panic that ***can lead to economic recession.***

- A bank run ***occurs due to customer panic rather than actual insolvency*** on the part of the bank.

  SOURCE: Corporate Finance Institute

- ***The frequent repricing exposes NBFCs*** to the risk of facing higher financing costs and, in the worst case, ***credit rationing.*** Such refinancing ***risks are referred as Rollover Risk.***

Credit rationing

- A credit rating is a ***quantified assessment of the creditworthiness of a borrower*** in general terms or with respect to a particular debt or financial obligation.

- A credit rating ***can be assigned to any entity*** that seeks to borrow money—an individual, corporation, state or provincial authority, or sovereign government.

- Credit Rationing in India is ***done by RBI***

  SOURCE: Newspaper and Investopedia

- ***Rollover risk, initially*** contained within a few NBFCs may rapidly spillover and affect the entire NBFC sector (systemic risk within the NBFC sector).

- At the most fundamental level, ***the root cause of the liquidity crisis in the NBFC sector can be traced to the over-dependence of NBFCs on the short-term wholesale funding market.***

DIFFERENCES BETWEEN HFCs AND RETAIL-NBFCs

- ***First, HFCs hold much longer duration assets*** (housing loans, developer loans etc.,) as compared to ***Retail-NBFCs, which hold medium-term assets*** (auto, consumer durables, gold loans, etc.,).

- ***Second, Retail-NBFCs rely much more on the short-term wholesale funding*** market as compared to HFCs. Thus, ***HFCs are less exposed to interconnectedness risk, as compared to Retail-NBFCs.***

- ALM risk arises if the ***future contractual cash inflows from loan assets are not enough to meet the future contractual cash outflows from debt obligations.***

- ***Liquidity crunch in debt markets often leads to credit rationing.*** *Credit rationing results when firms with robust financial and operating performance get access to credit while the less robust ones are denied credit.*

- ***Firms with robust financial*** and operating performance can withstand a prolonged period of liquidity crunch if they choose not to raise funds from debt mutual funds.

- ***Measures of financial resilience of NBFCs are commercial paper (CP) as a percentage of borrowings, Capital Adequacy Ratio (CAR) and provisioning policy.***

- ***While measures of operating resilience are cash as a percentage of borrowings, loan quality and operating expense ratio (Opex Ratio).***

Terms explained in Economic survey

1. **ALM Profile -** ALM Profile is measured by the ***difference between assets and liabilities*** in each cash flow bucket normalized by the total assets of the HFC.

2. **Short-Term Volatile Capital –** This is measured by CP as a ***percentage of borrowings of the HFC.***

3. **Asset Quality -** This is measured by the ***ratio of retail loans to the overall loan*** portfolio of the HFC.

4. **Short-term Liquidity –** This is measured by the ***percentage of cash to the total borrowings*** of the HFC.

5. **Provisioning Policy –** This is measured by the ***difference between*** provision for bad loans made in any financial year and the gross non-performing assets (NPA) in the subsequent financial year.

6. **Capital Adequacy Ratio (CAR) –** This is the ***sum of Tier-I and Tier-II capital*** held by the HFC as a percentage of Risk-Weighted Assets (RWA).

7. **Operating Expense Ratio (Opex Ratio)** – This is measured by the ***operating expenses in a financial year divided by the average of the loans outstanding*** in the current

financial year end and previous financial year end. Opex Ratio is an indicator of efficiency of a Retail-NBFC.

Shadow Banking System as explained by Economic survey

- Shadow banking comprises a set of activities, markets, contracts and institutions that operate partially (or fully) ***outside the traditional commercial banking sector*** and are either lightly regulated or not regulated at all.

- A shadow banking system can be composed of a single entity that intermediates between end-suppliers and end-users of funds, or it could involve multiple entities forming a chain.

- Shadow banks ***do not have explicit access to central bank liquidity***. The shadow banking system is highly levered with risky and illiquid assets while its liabilities disposed to "bank runs".

- The focus in this chapter is on three important segments of the shadow banking system in India, namely, ***Non-Banking Housing Finance Companies (HFCs), Retail Non-Banking Financial Companies (Retail-NBFCs) and Liquid Debt Mutual Funds (LDMFs).***

“HELLO” to ECONOMIC SURVEY

- *This chapter, therefore, **examines the realized efficiency gains from privatization** in the Indian context.*

- *It analyses the before-after performance of 11 CPSEs that had **undergone strategic disinvestment** from 1999-2000 to 2003-04.*

Strategic disinvestment

- Strategic disinvestment ***is transferring the ownership and control*** of a public sector entity to some other entity (mostly to a private sector entity).

- Unlike the simple disinvestment, strategic ***sale implies some sort of privatization.***

- According to the government, strategic disinvestment would imply the sale of a substantial portion of the Government shareholding of a central public sector enterprises (CPSE) of ***upto 50%, or such higher percentage*** as the competent authority may determine, along with ***transfer of management control***.

SOURCE: Newspaper and DIPAM website

Chapter 09- Privatization and Wealth Creation

- In November, 2019, India launched its biggest privatization drive in more than a decade. An “in-principle” approval was accorded to ***reduce Government of India’s paid-up share capital below 51 per cent*** in select Central Public Sector Enterprises (CPSEs).

- Strategic disinvestment is guided by the **basic economic principle that Government should discontinue its engagement in manufacturing/producing goods and services** in sectors where competitive markets have come of age.

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

- India ***adopted strategic sale as a policy measure in 1999-2000*** with sale of substantial portion of Government shareholding in identified Central PSEs (CPSEs) up to 50 per cent or more, along with transfer of management control.

- This was ***started with the sale of 74 per cent of the Government's equity in Modern Food Industries Limited (MFIL).***

- Another ***major shift*** in disinvestment policy was ***made in 2004-05*** when it was decided that the ***government may "dilute its equity and raise resources to meet the social needs of the people", a distinct departure from strategic sales.***

- ***Department of Investment and Public Asset Management (DIPAM) has laid down comprehensive guidelines on "Capital Restructuring of CPSEs".***

  Department of Investment and Public Asset Management (DIPAM)

  - The Department of Disinvestment was set up as a separate Department on 10th December, 1999 and was later renamed as Ministry of Disinvestment form 6th September, 2001.
  - From 27th May, 2004, the Department of Disinvestment is one of the Departments under the Ministry of Finance.
  - The Department of Disinvestment has been renamed as Department of Investment and Public Asset Management (DIPAM) from 14th April, 2016.
  - List CPSEs on stock exchanges to promote people's ownership through public participation and improving efficiencies of CPSEs through accountability to its shareholders.

  SOURCE: Business Standard and DIPAM website

- The Government has been following an active policy on ***disinvestment in CPSEs through the various modes:***
  - ***Disinvestment through minority stake sale*** in listed CPSEs to achieve minimum public shareholding norms of 25 per cent.
  - ***Listing of CPSEs to facilitate people's ownership*** and improve the efficiency of companies through accountability to its stake holders
  - ***Strategic Disinvestment;***
  - ***Buy-back of shares*** by large PSUs having huge surplus;

Buy-back of shares

- Buy-Back is a ***corporate action in which a company buys back its shares from the existing shareholders*** usually at a price higher than market price. When it buys back, the number of shares outstanding in the market reduces.
- ***The reasons for buy-back:***
- ***To improve*** earnings per share;
- ***To improve*** return on capital, return on net worth and to enhance the long-term shareholder value;
- ***To provide*** an additional exit route to shareholders when shares are under valued or are thinly traded;
- ***To enhance*** consolidation of stake in the company;
- ***To prevent*** unwelcome takeover bids;
- ***To return*** surplus cash to shareholders;
- ***To achieve*** optimum capital structure;
- ***To support*** share price during periods of sluggish market conditions;
- ***To service*** the equity more efficiently.

SOURCE: BSE INDIA website

- ***Merger and acquisitions*** among PSUs in the same sector;

- ***Launch of exchange traded funds (ETFs)*** - an equity instrument that tracks a particular index.

Exchange traded funds (ETFs)

- Exchange-traded funds were ***invented for small investors.*** Like index funds, which they resembled, ETFs weren't meant to produce world-beating returns but ***to mirror the performance of a broad group of securities .***
- An exchange-traded fund (ETF) is a ***type of security that involves a collection of securities***—such as stocks—that often tracks an underlying index, although they can invest in any number of industry sectors or use various strategies.
- ETFs are in many ways similar to mutual funds; however, ***they are listed on exchanges*** and ETF shares trade throughout the day just like ordinary stock.

- Like a Mutual Fund, an ***ETF is a pool or basket of investments.*** However, ***ETF's many times have lower expenses then a similar mutual fund*** in that there are no loads and the operating expenses are often lower.

  SOURCE: Bloomberg, Forbes and newspapers

- ***Monetization of select assets of CPSEs*** to improve their balance sheet/reduce their debts and to meet part of their capital expenditure requirements.

- ***NITI Aayog*** has been ***mandated to identify PSUs for strategic disinvestment.***

- For this purpose, ***NITI Aayog has classified PSUs into "high priority" and "low priority", based on*** (a) ***National Security*** (b) ***Sovereign functions at arm's length,*** and (c) ***Market Imperfections and Public Purpose.***

- ***On November 20, 2019***, the government announced that ***full management control*** will be ceded to buyers of ***Bharat Petroleum Corporation Ltd. (BPCL), Shipping Corporation of India (SCI) and Container Corporation of India Ltd (CONCOR).***

- ***On January 8, 2020, strategic disinvestment was approved for Minerals & Metals Trading Corporation Limited (MMTC), National Mineral Development Corporation (NMDC), MECON and Bharat Heavy Electricals Ltd. (BHEL).***

- Of the ***30 CPSEs that were privatised from 1999-2000 to 2003-04, 18 were subsidiaries of India Tourism Development Corporation (ITDC) and 1 was a subsidiary of Hotel Corporation of India (HCI).***

- Difference-in-differences (DiD)
  - Difference-in-differences (DiD) is a ***statistical technique*** used to estimate the ***effect of a specific intervention or treatment*** (such as a passage of law, enactment of policy, or large-scale program implementation).

  - The technique ***compares the changes in outcomes over time between a population that is affected by the specific intervention (the treatment group) and a population that is not (the control group).***

- DiD is typically ***used to mitigate the possibility of any extraneous factors*** affecting the estimated impact of an intervention. This is accomplished by differencing the estimated impact of the treatment on the outcome in the treatment group as compared to the control group.

- The analysis in this chapter clearly affirms that disinvestment improves firm performance and overall productivity, and unlocks their potential to create wealth.

➢ Aggressive disinvestment, ***preferably through the route of strategic sale***, should be utilized to bring in higher profitability, promote efficiency, increase competitiveness and to promote professionalism in management in CPSEs.

Terms Explained in Economic Survey

1. Net worth: The net worth of a company is what it owes its equity shareholders.

2. Net Profit: This is the net profit of the company after tax.

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

4. Return on equity (ROE): Return on equity (ROE) is profit after tax (PAT) as percentage of average net worth.

5. Net profit margin: Net profit margin of a company is PAT as percentage of total income.

"HELLO" to ECONOMIC SURVEY

- *The granular evidence shows that a **10 per cent increase in new firm creation** increases district-level GDP growth by 1.8 per cent.*

- *Granular evidence on new firm creation shows that new **firm creation in the Service sector is far greater** than that in manufacturing, infrastructure or agriculture.*

Chapter 10- **Is India's GDP Growth Overstated? No!**

- The Economic Survey of 2018-19 laid out the ***role of investment***, especially private investment, ***in driving demand, creating capacity, increasing labour productivity, introducing new technology, allowing creative destruction, and generating employment.***

  ***Creative destruction**- Please refer Chapter 03 of Economic Survey part 01*

- The ***Base Year*** of the GDP Series was ***revised from 2004-05 to 2011-12*** and released on 30 January, 2015 ***after adaptation of the sources and methods in line with the System of National Accounts (SNA) 2008 of the United Nations.***

- The ***methodology*** of compilation of macro aggregates was ***finalized by the Advisory Committee on National Accounts Statistics (ACNAS).***

  Advisory Committee on National Accounts Statistics (ACNAS)

  - The ***exercise of base year revision*** of national accounts is ***guided by the ACNAS*** comprising experts from the central and state government, academia, the Reserve Bank of India (RBI) and other domain specific experts.

  - While selecting a new base year, ***several activities***, including new surveys, are to be planned and carried out to have the latest data for use in the revised base year.

  - As per the ***United Nations System of National Accounts (UN SNA)-2008***, the member ***countries are required to revise the base year of their macro-economic indicators like GDP, Gross Value Added Index of Industrial Production, and Consumer Price Index.***

  - In addition, ***India has subscribed*** to the ***Special Data Dissemination Standard (SDDS) of the International Monetary Fund (IMF)*** and an Advance Release Calendar is decided for release of (GDP) estimates.

- ❖ Advisory Committee on National Accounts Statistics ***(ACNAS) has recommended*** to the ministry of statistics and programme implementation ***to consider 2020-21 as the next base year of National Accounts*** in view of the structural reforms in the economy.

  SOURCE: MoSPI,and Newspaper

- ➢ For the purpose of global standardization and comparability, ***countries follow the SNA evolved in the UN after elaborate consultation.*** The ***SNA 2008 is the latest version*** of the international statistical standard for the national accounts, adopted by the United Nations Statistical Commission (UNSC) in 2009 and is an update of the earlier 1993 SNA.

- ➢ ***Cross-country data is gathered from the World Bank's World Development Indicators (WDI) database.*** The sample exclude oil exporters1, countries with population less than 1 million, and war-torn and politically fragile countries.

- ➢ India has very ***high informal sector employment*** and a large proportion of ***youth (individuals aged 15-24)*** that is not in employment, education or training. ***Agriculture contributes disproportionately to India's employment whereas services contributes disproportionately to GDP.***

  Informal sector

  - ❖ A majority ***of workers in the world are informally employed*** and contribute to economic and social development through market and non-market activities that are not protected, regulated, well-recognised or valued.

  - ❖ The informal economy refers to ***companies that are engaged in legitimate business activities*** but don't fully comply with tax, labor market obligations, or product market regulations.

  - ❖ These are not outright criminal enterprises, such as drug cartels, mafias, prostitution rings, and illegal gambling operations but they do pose a severe threat to a country's economic viability.

  - ❖ Close ***to 81% of all employed persons in India make a living by working in the informal*** sector, with only ***6.5% in the formal sector*** and ***0.8% in the household sector*** (ILO).

  - ❖ Among the five South Asian countries, informalisation of labour is the highest in India and Nepal ***(90.7%), with Bangladesh (48.9%), Sri Lanka (60.6%) and Pakistan (77.6%)*** doing much better on this front (ILO).

  - ❖ The scheme, which is called ***Shram Yogi Mandhan,*** offers labourers in informal sector a form of social security.

- All workers in the informal sector that ***earn less than ₹15,000 a month.*** Around 100 million people are expexted to benefit from the scheme.

- ***Workers above the age of 60*** will now receive a monthly ***pension of Rs 3000/-***
- Along with the amount given by the worker in the pension chart, ***an equal amount will be contributed by the central government.*** The pension amount will be given after they reach the age of 60.
- Applicants, ***who join the scheme at the age of 18 years***, will have to make monthly ***contributions of Rs. 55*** till they attain the age of 60 years.
- Comes under ***Ministry of Labour and Employment***

SOURCE: OECD, McKinsey Report, ILO and Newspaper

- ***Coal rents as defined by World Bank*** are the ***difference between the value of both hard and soft coal production at world prices and their total costs of production.*** It represents a ***measure of natural resource contribution to GDP.***

- India has made ***impressive improvements in several social development indicators,*** such as access to nutrition and electricity, that might explain the higher growth rate in Indian GDP in the post-change period.

- ***28-member Standing Committee on Economic Statistics (SCES)*** headed by India's former Chief Statistician ***Pronab Sen.*** It will review and develop the country's surveys on employment, industry and services sector amid criticism of official statistics.

"HELLO" to ECONOMIC SURVEY

- *Using the **dietary guidelines for Indians (National Institute of Nutrition) NIN, 2011)**, the price of Thalis are constructed. Price data from the **Consumer Price Index for Industrial Workers** for around 80 centres in 25 States/UTs from April 2006 to October 2019 is used.*

- *Both across India and the four regions – North, South, East and West – it is found that the absolute prices of a vegetarian Thali have decreased significantly since 2015-16 though the price has increased in 2019.*

National Institute of Nutrition

- National Institute of Nutrition ***(NIN) was founded by Sir Robert McCarrison*** in the year ***1918 as 'Beri-Beri' Enquiry Unit*** in a single room laboratory at the Pasteur Institute, Coonoor, Tamil Nadu.

- Within a short span of seven years, this unit ***blossomed into a "Deficiency Disease Enquiry" and later in 1928, emerged as full-fledged "Nutrition Research Laboratories" (NRL) with Dr. McCarrison as its first Director.***

- It was shifted ***to Hyderabad in 1958***. At the time of its golden jubilee in ***1969, it was renamed as National Institute of Nutrition (NIN).***

- The ***following centres also started functioning at NIN in later years:***
  - ***Food And Drug Toxicology Research Centre (FDTRC) in 1971***
  - ***National Nutrition Monitoring Bureau (NNMB)in 1972***

- ***Public Health and Nutrition is a research division in Indian Council of Medical Research***

SOURCE: ICMR-NIN Website

Chapter 11- **Thalinomics: The Economics of a Plate of Food in India**

- Through the chapter on the ***"Behavioural Economics of Nudge"***, the Economic Survey 2018-19 made a humble attempt to understand humans as humans, not self-interested automatons, so that a common person can relate to his/her idiosyncrasies and use that easy prism to understand behavioural change as an instrument of economic policy.

Behavioural Economics of Nudge

- A nudge, as we will use the term, is any aspect of the choice architecture that ***alters people's behavior in a predictable way*** without forbidding any options or significantly changing their economic incentives.

- Behavioural economics is a method of economic analysis that ***applies psychological insights into human behaviour*** to explain economic decision-making

- In reality, decisions made by people often deviate from the various theories of classical economics. Drawing on the psychology of human behaviour, behavioural economics ***provides insights to 'nudge' people towards desirable behaviour.***

- The US academic ***Richard Thaler has won the Nobel prize in economics in 2017*** for his pioneering work in this field.

- A ***key principle of behavioural economics is that while people's behaviour is influenced significantly by social norms,*** understanding the drivers of these social norms can enable change.

- In India, where **social and religious norms** play such a dominant role in influencing behaviour; ***behavioural economics can, therefore, provide a valuable instrument*** for change.
- According to Nudge theory- ***People need reminders and positive reinforcement*** to sustain socially desirable behaviour.

  SOURCE: Newspaper

- ***Food and beverages constitute around 45.9 per cent in the Consumer Price Index-Combined.***

- Thalis were constructed using average monthly price data (used for preparation of ***Consumer Price Index-Industrial Workers*** (CPI-IW)) for the period April 2006 to October 2019 ***from Labour Bureau, Government of India.***

Consumer Price Index-Industrial Workers

- The Consumer Price Index Numbers for Industrial Workers on base 1960=100 (old series) was compiled for Industrial Workers relating to factories, mines and plantations.

- But for the new series of Index Numbers on base 1982=100, ***the coverage of the Industrial Workers were increased to seven sectors viz. (a) factories, (b) mines, (c)***

plantations, (d) railways, (e) public motor transport undertakings, (f) electricity generation and distribution establishments, and (g) ports and docks.

- A ***Working Class Family*** is defined as one where one of the members worked as ***manual worker in one of the 7 sectors as listed above and which derived one half or more of its income through manual work.***

- CPI (IW) is ***currently calculated at base 2001=100*** for 78 centres.

- In pursuance of the recommendation of ***Rau Court of enquiry***, the work of compilation and maintenance was taken over by government in 1943.

- ***Since 1958-59,*** the compilation of CPI(IW) has been ***started by Labour Bureau*** ,an attached office under Ministry of Labour & Employment.

SOURCE: Labour Bureau website and Arthapedia

Some Major Initiatives for Enhancing Productivity of Agriculture and Efficiency of Agricultural Markets (as mentioned in Survey)

<u>Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA)</u>

- PM-AASHA***, launched in 2018***, ***covers three sub-scheme i.e. Price Support Scheme (PSS), Price Deficiency Payment Scheme (PDPS) and pilot of Private Procurement & Stockist Scheme (PDPS).***
- ***Under PSS***, physical procurement of pulses, oilseeds and Copra is done by Central Nodal Agencies with proactive role of State governments.
- ***PDPS covers*** all oilseeds for which MSP is notified. Under this, direct payment of the ***difference between the MSP and the selling/modal price*** is made to pre-registered farmers selling his produce in the notified market yard through a transparent auction process.

<u>Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) - Per Drop More Crop</u>

- PMKSY was ***implemented in the year 2015-16.***
- It focuses on ***enhancing water use efficiency*** through expansion of cultivable area under assured irrigation, improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies, enhance recharge of aquifers and introduce sustainable water conservation practices.

Pradhan Mantri Fasal Bima Yojana (PMFBY)

- PMFBY was ***introduced in 2015-16 to provide better insurance coverage for agricultural crops*** and thereby mitigate risk.
- A total of 69.9 lakh farmers have benefited from PMFBY. The scheme aims to provide ***comprehensive insurance*** coverage to farmers.

Soil Health Card

- Soil Health Card scheme was ***introduced in the year 2014- 15 to assist State Governments to issue soil health cards to all farmers in the country.***
- Soil health card ***provides farmers information*** on the nutrient status of their soil along with recommendation on appropriate dosage of nutrients to be used for their soil conditions.

e-National Agricultural Market (e-NAM)

- ***e-NAM is an online trading platform for agricultural commodities*** for transparent price discovery.
- So far, 585 wholesale regulated markets in ***16 States and 2 UTs have connected to e-NAM.***

National Food Security Mission (NFSM)

- National Food Security Mission has been ***implemented since 2007-08.*** It was redesigned in 2014-15 to ***increase the production of rice, wheat, pulses and coarse cereals.***

National Food Security Act (NFSA)

- The National Food Security Act was ***enacted in July, 2013 and rolled out in 2014.***
- The Act legally ***entitles 67 per cent of the population (75 per cent in rural areas and 50 per cent in urban areas)*** to receive highly subsidized food grains. Under the Act, food grain is allocated @ 5 kg per person per month for priority households category and @ 35 kg per family per month for AAY families at highly subsidized ***prices of ` 1/-, ` 2/- and ` 3/- per kg*** for nutri-cereals, wheat and rice respectively.

- Coverage under the Act is based on the population figures of Census, 2011. The Act is being implemented in all 36 States/UTs and covers about 81.35 core persons.

- In 2019-20 (April-October, 2019), ***the most affordable Thali was in Jharkhand;*** two vegetarian Thalis for a household of five in Jharkhand required about 25 per cent of a worker's daily wage. Non-vegetarian Thali was also most affordable in Jharkhand.

- In the case of non-vegetarian Thali, affordability has increased during this period in all states ***except Bihar and Maharashtra,*** where it has shown a marginal decline.

- ***'Zero Hunger'*** has been agreed upon by nations of the world as a ***Sustainable Development Goal (SDG).*** This goal ***(SDG 2)*** is ***directly related*** to other SDGs such as ***Goal 1 (No poverty)***, ***Goal 4 (Quality Education), Goal 5 (Gender equality), Goal 12 (Responsible consumption and production), Goal 13 (Climate action) and Goal 15 (Life on Land).***