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INVISIBLE HAND SUPPORTED BY HAND OF TRUST

In Wealth Creation

- Pro-Business versus Pro-Crony
- Jobs and Growth by Specializing to Exports in Network Products
- Targeting Ease of Doing Business in India
- Golden Jubilee of Bank Nationalisation : Taking Stock
- Financial Fragility in the NBFC Sector
- Thalinomics : The Economics of a Plate of Food in India





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DHYEYA IAS : AN INTRODUCTION



The guiding philosophy of the institute, throughout, has been creation of knowledge base. Dhyeya IAS inculcates human values and professional ethics in the students, which help them make decisions and create path that are good not only for them, but also for the society, for the nation, and for the world as whole. To fulfill its mission in new and powerful ways, each student is motivated to strive towards achieving excellence in every endeavor. It is done by making continuous improvements in curricula and pedagogical tools.

The rigorous syllabi not only instills in them, a passion for knowledge but also attempts to teach them how to apply that knowledge in real-life situations. The programmes lay emphasis on wellrounded personality development of the students and also in inculcating the values of honesty and integrity in them.

Vinay Kumar Singh CEO and Founder Dhyeya IAS



Dheya IAS is an institution that aims at the complete development of the student. Our faculty are handpicked and highly qualified to ensure that the students are given every possible support in all their academic endeavors. It is a multi-disciplinary institution which ensures that the students have ready access to a wide range of academic material.

Our brand of education has broad horizons as we believe in exposure. Our students are encouraged to widen their knowledge base and study beyond the confinements of the syllabus. We aim to lend a gentle guiding hand to make our students recognize their inner potential and grow on their own accord into stalwarts of tomorrow's society.

> **Q H Khan** Managing Director Dhyeya IAS

PERFECT 7 : AN INTRODUCTION



With immense pleasure and gratitude I want to inform you that the new version of 'Perfect-7', from the Dhyeya IAS, is coming with more information in a very attractive manner. Heartily congratulations to the editorial team. The 'Perfect-7' invites a wider readership in the Institute. The name and fame of an institute depends on the caliber and achievements of the students and teachers. The role of the teacher is to nurture the skills and talents of the students as a facilitator. This magazine is going to showcase the strength of our Institute. Let this be a forum to exhibit the potential of faculties, eminent writers, authors and students with their literary skills and innovative ideas.

Qurban Ali

Chief Editor Dhyeya IAS (Ex Editor- Rajya Sabha TV)



We have not only given the name 'Perfect 7' to our magazine, but also left no stone unturned to keep it 'near to perfect'. We all know that beginning of a task is most challenging as well as most important thing. So we met the same fate.

Publishing 'Perfect 7' provided us various challenges because from the beginning itself we kept our bar too high to ensure the quality. Right from the very first issue we had a daunting task to save aspirants from the 'overdose of information'. Focusing on civil services exams 'Perfect 7' embodies in itself rightful friend and guide in your preparation. This weapon is built to be precise yet comprehensive. It is not about bombardment of mindless facts rather an analysis of various facets of the issues, selected in a systematic manner. We adopted the 'Multi Filter' and 'Six Sigma' approach, in which a subject or an issue is selected after diligent discussion on various levels so that the questions in the examination could be covered with high probability.

Being a weekly magazine there is a constant challenge to provide qualitative study material in a time bound approach. It is our humble achievement that we feel proud to make delivered our promise of quality consistently without missing any issue since its inception.

The new 'avatar' of 'Perfect 7' is a result of your love and affection. We feel inspired to continue our efforts to deliver effective and valuable content in interesting manner. Our promise of quality has reached you in previous issues and more are yet to come.

> Ashutosh Singh Managing Editor Dhyeya IAS

Send us your suggestions, comments, views and feedback for guiding us towards continuous improvement & enhancement of 'Perfect 7' on

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Certificate awarded to

Dhyeya IAS represented by Mr. Vinay Singh

for their contribution in the field of education by

Shri Ram Naik Huu'hle Governor of Uttar Pradesh

on 27th June, 2015 at Lucknow

PREFACE

Dhyeya family feels honoured to present you 'Perfect 7' - a panacea for Current Affairs. 'Perfect7' is an outstanding compilation of current affairs topics as per the new pattern of Civil Service examination (CSE). It presents weekly analysis of information and issues (national and international) in the form of articles, news analysis, brain boosters, PIB highlights and graphical information, which helps to understand and retain the information comprehensively. Hence,'Perfect 7' will build in-depth understanding of various issues in different facets.

'Perfect7' is our genuine effort to provide correct, concise and concrete information, which helps students to crack the civil service examination. This magazine is the result of the efforts of the eminent scholars and the experts from different fields.

'Perfect 7' is surely a force multiplier in your effort and plugs the loopholes in the preparation.

We believe in environment of continuous improvement and learning. Your constructive suggestions and comments are always welcome, which could guide us in further revision of this magazine.

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SIDVIDIN IMPORTAINT ISSUDS

1. INVISIBLE HAND SUPPORTED BY HAND OF TRUST : IN WEALTH CREATION

Context

The overarching theme of the Economic Survey 2019-20 is creation of wealth over time and the implementation of policies that act as enablers in creation of this wealth. Wealth creation happens in an economy when the right policy choices are pursued. In fact, our traditional economic thinking has always emphasized enabling markets and eliminating obstacles to economic activity. At its core, policies seek to maximize social welfare under a set of resource constraint.

Background

The exponential rise in India's gross domestic product (GDP) and GDP per capita post liberalisation coincides with wealth generation in the stock market. Similarly, the evidence across various sectors of the economy illustrates the enormous benefits that accrue from enabling the invisible hand of the market. Indeed, the Survey showed clearly that sectors that were liberalized grew significantly faster than those that remain closed. The events in the financial sector during 2011-13 and the consequences that followed from the same illustrate the second pillar - the need for the hand of trust to support the invisible hand.

The survey pegs the GDP growth for FY21 between 6 - 6.5 per cent. The government expects a pick-up in economic activity in the second half of the fiscal on the back of improved foreign direct investment (FDI) flows, build-up of demand pressure, positive outlook for rural consumption, rebound of industrial activity, steady improvement in manufacturing, growth in merchandize exports, higher build-up of foreign exchange reserves and positive growth rate of goods and services tax (GST) revenue collection.

Importance of Wealth Creation

- The wealth created by an entrepreneur correlates strongly with raw materials procured by the entrepreneur's firms, which proxies the benefits that suppliers reap by supplying raw materials to the entrepreneur's firms.
- The wealth created bv an entrepreneur also correlates strongly with the capital expenditures made by the entrepreneur's firms, which proxies the benefits that manufacturers of capital equipment reap by supplying such equipment to the entrepreneur's firms.
- 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.
- The wealth creation by entrepreneurs correlates strongly with theforeign exchange revenues earned by the entrepreneurs' firms.

 The wealth created by an entreprencur helps the country's common citizens. Tax revenues enable government spending on creating public goods and providing welfare benefits to the citizens.

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Wealth Creation through the Invisible Hand of Markets

Wealth creation happens in an economy when the right policy choices are pursued. For instance, wealth creation and economic development in several advanced economies has been guided by Adam Smith's philosophy of the invisible hand.

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 under taking 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 Arabsto the west, and with China,



Japan and South-East Asia to the east. Much of this trade was carried out by large corporatized guilds akin to today's multinationals and were funded by temple-banks.

Arthashastra as a treatise on economic policy was deeply influential in the functioning of the economy until the 12th century (Olivelle, 2013). During much of India's economic dominance, the economy relied on the invisible hand of the market.

The evidence since 1991 shows that enabling the invisible hand of markets, i.e., increasing economic openness, has a huge impact in enhancing wealth both in the aggregate and within sectors. Sectors that were liberalized grew significantly faster than those that remain closed. 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. As competition expanded the banking choices available to citizens, the sector experienced strong growth.

The Instruments for Wealth Creation

- Enhancing efficiency is crucial for wealth creation.
- Equal opportunity for new entrants in entrepreneurship enables efficient resource allocation and utilization, facilitates job growth, promotes trade growth and consumer surplus through greater product variety, and increases the overall boundaries of economic activity.
- India's aspiration to become a \$5 trillion economy depends critically on promoting pro-business policies that provide equal opportunities for new entrants.
- The freedom to choose is best expressed in an economy through the market where buyers and

sellers come together and strike a bargain via a price mechanism. Where scarcity prevails and choice between one use of scarce resources and another must be made, the market offers the best mechanism to resolve the choice among competing opportunities. This principle is fundamental to a market economy. The command and control approach contends that the price of a good should be regulated. Our economy still has some of the regulatory relics of the pre-liberalisation era.

- Government interventions often times lead to unintended consequences such as price increases, when compared to markets that are unregulated. Unlike in command economies where prices are determined by the government, in a market economy, price of a good is determined by the interaction of the forces of supply and demand. Unshackling the economic freedom for markets augments wealth creation.
- Integrating "Assemble in India for the world" into "Make in India", India can create 4 crore wellpaid jobs by 2025 and 8 crore by 2030. Our trade policy must be an enabler because growth in exports provides a much-needed pathway for job creation in India. So there should be efficient allocation of resources to ensure their optimal use.
- The pace of reforms in enabling ease of doing business need to be enhanced so that India can be ranked within the top 50 economies on this metric. India continues to trail in parameters such as Ease of Starting Business, Registering Property, Paying Taxes, and Enforcing Contracts.
- An efficient financial sector is extremely crucial for enhancing efficiency in the economy. India's

banking sector is disproportionately under-developed given the size of its economy. 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.

 Privatization of Central Public Sector Enterprises (CPSEs).

The Breakdown of Trust

In a market economy too, there is need for state to ensure a moral hand to support the invisible hand. Markets are liable to debase ethics in the pursuit of profits at all cost. Trust contributes positively to access of both formal and informal financing.

The Global Financial Crisis represented a glaring instance of the failure of trust in a market economy. Closer home, the events around 2011 paint a similar picture. The corruption perception index, which Transparency International tracks across countries, shows India at its lowest point in recent years in 2011. Since 2013, India has improved significantly on this index.

The phenomenon of trust deficit that developed in India during this period is also reflected in many other measures.

There are many reasons behind the breakdown of trust. Some of the reasons are:-

1. Large Corporations Willfully Defaulting on their Loans: The willful defaults are generally correlated with the use of related party transactions and the lack of disclosures. The phenomenon of credit boom and bust manifested during the unprecedented and disproportionate growth in corporate credit between September 2007 and September 2013. Generally the rates of default



were the highest with larger loans (above Rs. 100 crores).

- 2. Audit failures: Just as farmers burning the stubble create negative externalities for all citizens through the contaminated air, when a corporate intentionally misreports financial information, it harms investors by creating a negative externality of low trust for all domestic and international investors in the financials of firms in the economy. Lenders including other financial system intermediaries and economy at large suffer the negative externality created by the malpractices of a few. Relatedly, when a corporate willfully defaults on its loans, it harms its bank and creates negative externality to all other corporates as they get lesser supply of credit because of lack of trust.
- 3. Opportunistic Behaviour: Due to the opportunistic behaviour of a few unscrupulous promoters, all other firms bear the cost through a higher credit spread stemming from the greater risk. The freerider problem resulting in higher credit spread incentivises even more corporates to willfully default on their loan obligations.

Free Rider Problem

The free rider problem is the burden on a shared resource that is created by its use or overuse by people who aren't paying their fair share for it or aren't paying anything at all. The free rider problem is an issue in economics. It is considered an example of a market failure. That is, it is an inefficient distribution of goods or services that occurs when some individuals are allowed to consume more than their fair share of the shared resource or pay less than their fair share of the costs.

The common thread of opportunistic behaviour of a few unscrupulous promoters runs across both financial misreporting and willful defaults. In June 2017, the Reserve Bank of India (RBI)

identified twelve companies constituting 25 per cent of India's total Non-Performing Assets (NPAs).

- 4. Public Sector Banks and NPAs: Public Sector Banks have a much greater proportion of NPAs as compared to new private sector banks. In effect, willful defaulters have siphoned off tax-payers money. Similarly, there has been a market failure in the trust that auditors examine the accounting numbers of their clients reliably.
- 5. Crisis in NBFC Sector: 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.

Enabling Trust

Trust is a vital ingredient in the functioning of banking and financial markets. If there is high trust, economic activity can flourish despite the increased potential for opportunism. However, just because trust is functionally useful to an economy does not mean that it will necessarily arise.

The invisible hand of the market needs the supporting hand of trust. In this context, policy makers need to recognise that under-provisioning of public goods such as trust is often the result of lack of reward and recognition for good behaviour stemming purely from intrinsic motivation. When banks recognise corporates who pay their interest and principal in time in non-monetary ways, this enables the intrinsic motivation to get strengthened.

Following ways by which trust can be built by an invisible hand are:

1. Reducing Information Asymmetry: An important factor that increases the potential for opportunism in any economic exchange is information asymmetry. Such opportunism can be remedied increasingly through standardising enforcement systems and public databases. For instance, in the case of willful defaults pre-2014, inability to access relevant borrower data was a key driver of information asymmetry.

It can be argued that if the Indian economy had the data infrastructure such as CRILC (Central Repository of Information on large Corporates) during the in pre-2014 credit boom, the extent of systemic NPAs may have been lower. This information would have alerted lenders to limit exposures to corporates who have been tagged as NPA by another bank or NBFC. This information availability would have reduced NPAs in the entire banking system considerably because when a borrower defaults with one lender, other lenders can contractually tag their loan too as a default and therefore recall the loan.

The information sharing among lenders on NPAs was minimal as of 2014. While this information sharing was better among PSBs than NPBs, about a quarter of accounts that were declared as NPAs by other banks were classified as NPA in the bank's account. This proportion has increased dramatically to reach 95 per cent in just a few years. This has decreased the potential for opportunism and should enable greater trust in lending activities of financial institutions.

A related issue is the tagging of default as wilful or genuine. In the banking sector, informational availability issues has been solved by shared databases and



attribution problems between distressed defaulters and wilful defaulters have been solved by making the list of wilful defaulters public. Such naming and shaming of wilful defaulters has made such offenders subject to economic sanction in the form of downright unavailability of credit from the banking sector.

2. Enhancing Quality of Supervision: The government needs to support the hand of trust by being a good referee of the economy. The referee's job is to not just report but also detect opportunistic behaviour if people are not playing by the rules. Like wilful defaults, malpractices such as financial misreporting and market manipulation needs to be detected early because these are termites that eat away investor's faith in financial markets, diminishes portfolio investments and crowd-out important national investments. It scares away scrupulous and law-abiding market participants. To fittingly celebrate wealth creators who make wealth ethically, it is of utmost importance that our financial markets are fair and transparent.

The U.S. Federal Trade Commission has one employee for every two listed firms, while the Competition Commission of India has one employee for every 38 listed firms. Securities and Exchange Commission (SEC) has almost one employee for each listed company. In contrast, Securities and Exchange Board of India (SEBI) has one employee for six listed companies. In fact, in key divisions such as Corporate Finance, SEC has more than fifteen times as many employees as SEBI. This resource deficit needs to be reduced to strengthen government's role as a referee to ensure fair-play for all wealth creators. SEC and FTC extensively use Artificial Intelligence and Machine Learning to track and flag market malpractices while none of our regulators do so.

Therefore, significant enhancement in the quantity and quality of manpower in our regulators (CCI, RBI, SEBI, IBBI) together with significant investments in technology and analytics needs to be made.

Way Forward

India's aspiration to become a \$5 trillion economy depends critically on strengthening the invisible hand of markets and supporting it with the hand of trust. The invisible hand needs to be strengthened by promoting pro-business policies to (i) provide equal opportunities for new entrants, enable fair competition and ease doing business, (ii) eliminate policies that unnecessarily undermine markets through government intervention, (iii) enable trade for job creation, and (iv) efficiently scale up the banking sector to be proportionate to the size of the Indian economy. Introducing the idea of "trust as a public good that gets enhanced with greater use", it is suggested that policies must empower transparency and effective enforcement using data and technology to enhance this public good.

General Studies Paper- III

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

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2. PRO-BUSINESS VERSUS PRO-CRONY

Context

The Economic Survey 2019-20 said that India's aspiration to become a \$5 trillion economy depends critically on promoting "pro-business" policy that unleashes the power of competitive markets to generate wealth, on the one hand, and weaning away from "procrony" policy that may favour specific private interests, especially powerful incumbents, on the other hand.

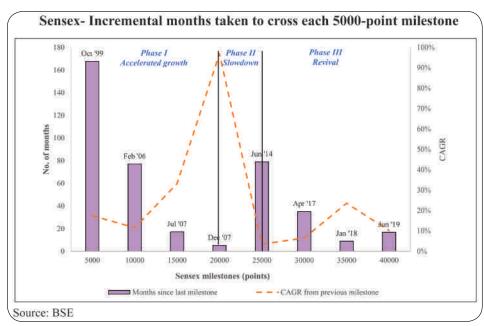
Introduction

India's aspiration to become a \$5 trillion economy depends critically on

promoting "pro-business" policy that unleashes the power of competitive markets to generate wealth, on the one hand, and weaning away from "pro-crony" policy that may favour specific private interests, especially powerful incumbents, on the other hand. Economic events since 1991 provide powerful evidence supporting this crucial distinction. The triumvirate of 'Pro-business Policies', 'Creative Destruction' and 'Wealth Creation' versus the adverse effects of 'Pro-Crony Policies' are rightly analysed by Economic Survey (2019-2020) from the changes in the 'Stock Market' which captures the pulse of the economy.

Pro-Business

The liberalization of the Indian economy in 1991 unleashed competitive markets. It enabled the forces of creative destruction, generating benefits that we still witness today. Using the lens of Indian equity markets as captured in the S&P BSE Sensex, we can clearly see an increase in market dynamism in the pro-business India of the postliberalization period.



The above figure reveals that 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.

Broadly, the growth of the Sensex as seen in the figure can be divided into three phases after 1999:

- Phase I from 1999 to 2007 saw acceleration in the growth of the Sensex, with each successive 5000-point mark taking lesser and lesser time to achieve.
- Phase II from 2007 to 2014 saw a slowdown in the index's growth. This phase coincides with the global slowdown in 2008 among other unfavourable events.
- Phase III began in 2014 and saw a revival in response to structural reforms and improvement in global liquidity. Strikingly, in this phase, the Sensex jumped from the 30,000 mark to the 40,000 mark in just two years.

As the Cumulative Abnormal Growth Rates (CAGR) shown in the above figure depict clearly, the acceleration in the Sensex was not due to the base effect. In fact, the higher acceleration stemmed from higher CAGR.

Creative Destruction

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

When creative destruction is fostered, sectors as a whole will always outperform individual companies within the sector in creating wealth and maximizing welfare. Therein lies the motivation for India to pursue pro-business, rather than procrony, growth.

Changing Composition of Sensex

The relationship between pro-business policy and creative destruction is mirrored in the composition of the Sensex over the years.

For the first ten years since the Sensex's inception in 1986, the firms that constituted the index barely changed. The constituents of the Sensex of 1997 were steadily churned out over the next decade, so that the Sensex of 2006 had barely half the firms from the Sensex of 1997.



The lack of dynamism in the constitution of the index in its initial years was largely representative of the lack of dynamism in the Indian economy in general. However, the years following 1991 liberalization saw the rapid emergence of new firms, new ideas, new technologies and new operating processes, causing a steep revision of the Sensex in 1996. In 1996, half of the constituents of the index were replaced. After 1996, the Sensex underwent more frequent revisions, owing to the more dynamic nature of the now substantially more competitive Indian market.

Pro-business policy, i.e., liberalization caused a spike in the number of firms churned in the years that immediately followed it, but the churn rate did not decline to preliberalization levels in later years. Ten firms were churned out in the five years from 2006 to 2010, eight in 2011-15 and ten in 2016-19. Put differently, every five years, roughly one-third of the firms in the index are replaced.

A monopolist taking the place of another identical monopolist is hardly beneficial. However, in the Indian case, the Sensex does represent a process of creative destruction rather than spurious dynamism. The firms that displaced the incumbents on the Sensex brought with them new ideas, technologies and processes.

New sectors like banks and financials entered the index for the first time, eroding the predominance of the manufacturing sector on the index, placing the services sector on the map for the first time, and reflecting the far-reaching changes that the Indian economy was witnessing in the wake of liberalization. Financials and information technology, which were virtually 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. At first glance, this trend indicates a cause for concern: a potential case of more concentration or a reversal in creative destruction in the economy. However, a closer look reveals otherwise.

- The rising share in market capitalization has been accomplished by a rise in number of companies rather than a rise in size of incumbents, suggesting greater competition within these sectors.
- Using the to analyse degree of competition within the two sectors reveals an overall decline in concentration in both sectors.

The Herfindahl Index, also known as the Herfindahl-Hirschman Index (HHI). It is a common measure of market concentration and is used to determine market competitiveness, often pre- and post-M&A transactions. Regulators use the HHI Index using the 50 largest companies in a particular industry to determine if that industry should be considered competitive or as close to being a monopoly.

Three key insights emerge from the analysis above:

- We can expect today's dominant firms to remain dominant for only one-fifth of the time that their preliberalization counterparts did.
- Sectors once considered mainstays of the Indian economy are being displaced by new sectors bringing with them new technologies and products. The competitive

advantage of entrenched firms is being rapidly challenged by new, smaller and more agile firms; every five years.

3. The difference between the sizes of the largest and smallest firms is rapidly shrinking, and consequently monopoly power in the economy is declining and making way for more competitive markets.

Consumers benefit from an increased variety of goods and services, lower prices and incessant improvement in the quality of existing products.

Pro-Crony and Wealth Destruction

Pro-crony policies, in contrast to pro-business ones, erode wealth in the economy as cronyism fosters inefficiencies by inhibiting the process of creative destruction. Raghuram Rajan and Luigi Zingales stressed the need for "saving capitalism from the capitalists".

A company is connected with another company if either the same person has control of both companies (or that person and a person connected with him together have control of both companies), or if a group of two or more persons has control of each company and the group consists of the same persons. These also includes proxy companies and shell companies.

2010 the index of Prior to "connected" firms consistently outperformed the BSE 500 index as these firms systematically made more profits than would have been possible in a more competitive economy. In late 2010, the Comptroller and Auditor General's audit report on the 2G spectrum allocation named a list of private companies that benefitted from alleged collusions in the allocation of the 2G spectrum. The CAG report on the 2G allocations appears to have reversed the fortunes for "connected" firms. The "connected" index started to underperform the market starting 2011.

From 2007 to 2010, "connected" firms realized 7 percentage points higher returns than they would have in a more competitive market. Between 2007 and 2016, "connected" firms have earned, on average, 7.5 percentage points lower returns than the BSE 500 index per annum.

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

Example from India Regarding Political Clout and Preferential Allocation

Many businesses in India use their political clout to obtain preferential allocation of projects and resources from the government. One study examined bidding data on more than 88,000 rural roads built under the Pradhan Mantri Gram Sadak Yojana (PMGSY) and juxtapose this data with election results. The study finds that after election victories, contractors affiliated to the winning politician are more likely to be awarded road projects.

The authors used Census 2011 data at the village level to check whether roads listed as completed in the PMGSY monitoring data are also captured in the Census data. Several roads recorded as complete in PMGSY monitoring data are missing from the Census, suggesting that these roads were never actually built or completed. Around 26 per cent of roads listed as completed prior to the census in PMGSY data are missing from the 2011 Census data. Preferential allocation of roads increases the likelihood of such "missing" roads by as much as 86 per cent. The authors found that preferential allocation accounts for an additional 497 missing all-weather roads that would have served roughly 860,000 people. Clearly, PMGSY contracts that seem to have been politically influenced lead to suboptimal economic outcomes.



income inequality in the economy, as crony firms leverage their connections to extract a larger share of existing wealth instead of expanding the available wealth.

Political Connections and Rent Extraction: Global Evidence

Similar study in China found that political connections play a role in the allocation of bank loans to Chinese firms. They found that having the state as a minority owner helps firms obtain bank credit. Political connections especially benefit firms located in areas with a less developed banking sector. There is evidence that firms in China actively build political connections to alleviate the cost of market frictions. Firms facing severe market frictions are not as financially constrained as they would be expected to be; the key reason is that they possess strong political connections which alleviate these costs. Politically connected underwriters increase the likelihood of clients' IPO applications being approved by the Chinese Securities Regulatory Commission. Further, consistent with the rent-seeking argument, the post-IPO underperformance of such firms, indicating that minority shareholders' interests may be compromised.

Source: Economic Survey: 2019-2020

Crony businesses may lobby the government to limit competition in their industry, restrict imports of competing goods or reduce regulatory oversight. These initiatives enhance the lobbying group's income but undermine markets and reduce aggregate welfare. Thus, pro-crony policy can inadvertently end up being hurtful to businesses in general.

Willful Defaulters: Hidden Siphon

Three distinguishing characteristics of willful defaulters in India are:

- Willful defaulters tend to be more opaque than both non-defaulters and firms that default out of genuine distress (hereafter distress defaulters).
- Promoters at the helm of willfully defaulting firms pledge, on average, almost 50 per cent of their shareholding to lenders. In contrast, the corresponding figures for distress defaulters and nondefaulters are 30 per cent and 11 per cent respectively.
- Willful defaulters make large loans to related parties. This is consistent with a theory of issuing debt only to siphon the proceeds out of the firm for the personal benefit of owners and their cronies.

The cost of such willful default is borne by the common man. Public sector banks get their equity from taxes paid by the common man. When unscrupulous firms willfully default, it is the common man who loses. While most policy initiatives aim to redistribute wealth from the rich to the poor, willful default achieves the opposite.

Way Forward

While pro-business policies increase competition, correct market failures, or enforce business accountability, pro-crony policies hurt markets. Such policies may promote narrow business interests and may hurt social welfare because what crony businesses may want may be at odds with the same. Pro-business policies help firms to function effectively and thereby enable competitive markets. Making it easy to do business in a jurisdiction furthers the eventual goal of maximizing social welfare. Reforms aimed in this direction must continue.

General Studies Paper- III

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

Topic: Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth.

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3. JOBS AND GROWTH BY SPECIALIZING TO EXPORTS IN NETWORK PRODUCTS

Context

The 2019-20 Economic Survey suggested that by integrating 'Assemble in India for the world' into 'Make in India', India can raise its export market share to about 3.5 per cent by 2025 and 6 per cent by 2030. This will create 4 crore well-paid jobs by 2025 and 8 crore by 2030. By specialising in 'Network Products' (NP) and closely integrating with the global

value chains (GVCs), India can not only increase its wealth but also create jobs for the youth.

Examples of network products include computers, electronic selectrical equipment and telecom gear.

Background

Growth in exports provides a muchneeded pathway for job creation in India. For instance, in just the five year period 2001-2006, labour-intensive exports enabled China to create 70 million jobs for workers with primary education. 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.

Post the 1991 reforms, India's share in merchandise (goods) exports has grown at 13.2 per cent per annum



and our share in world exports has increased from 0.6 per cent in 1991 to 1.7 per cent in 2018. Yet, even by 2018, India's world market share remains paltry compared to 12.8 per cent for China. Further, merchandise exports as a percentage of gross domestic product (GDP) remained consistently lower for India compared to the world average by a significant margin 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.

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.

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 multinational corporations. By importing components and assembling them in China for the world, China created jobs at an unprecedented scale. Similarly, by integrating 'Assemble in India for the world' into 'Make in India', India can raise its export market share to about 3.5 per cent by 2025 and 6 per cent by 2030, which is highly feasible. In the process, India would create about 4 crore well-paid jobs by 2025 and about 8 crore by 2030.

Industries for India to Specialize for Job Creation

Given our comparative advantage in labour-intensive activities and the imperative of creating employment for a growing labour force, there are two groups of industries that hold the greatest potential for export growth and job creation.

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

In general, these products are not produced from start to finish within a given country; instead, countries specialize in particular tasks or stages of the good's production sequence. Within the production network, each country specializes in a particular fragment of the production process; this specialization is based on the country's comparative advantage. Labour abundant countries, like China, specialize in low skilled labourintensive stages of production such as assembly while the richer countries specialise in capital and skill-intensive stages such as R&D. Thus, the lead firms retain skill and knowledgeintensive stages of production in high-income headquarters (e.g., the U.S.A, E.U and Japan) but locate assembly related activities in low wage countries (e.g., China and Vietnam).

Specialization versus Diversification

Is India's lacklustre export performance caused by a lack of diversification in its export basket (extensive margin) or is it because of a lack of specialization (intensive margin)? China- India gap in world market share is almost fully driven by the effect of specialization. On the other hand, India is clearly catching up with China in terms of diversification across products and markets. Overall, high diversification combined with low specialization implies that India is spreading its exports thinly over many products and partners, leading to its lacklustre performance compared to China. The specialization effect can change, over the years, due to changes in the quantity and/or the prices of exported commodities. Therefore, it is of interest to further decompose the specialization effect into quantity and price effects. The bottom line is that if India wants to become a major exporter, it should specialize more in the areas of its comparative advantage and achieve significant quantity expansion.

Potential Gains in Employment and GDP

The policy of focusing on NP can create significant gains both in employment creation and GDP growth. Considering a scenario in which India follows the trajectory similar to that of China's initial period of export expansion. During the first ten years of its take off, China progressively increased its share in world exports of NP from 0.7 per cent in 1987 to 6.1 in 1998. What would be the impact on India's GDP and employment if the country mimics China's initial export growth performance - that is, assuming that India can increase its world export share for NP from the current level of 0.6 per cent to over 6 per cent by 2030?

Under the "business as usual scenario", the world exports of NP will increase from the current actual value of US\$5.6 trillion in 2018 to the projected value of US\$6.9 trillion in 2025 and US\$ 8.1 trillion in 2030. During this period, India's exports of NP is projected to increase from the current actual value of US\$32.3 billion in 2018 (accounting for 0.6 per cent of



world exports) to US\$ 248.2 billion in 2025 (3.6 per cent of world exports) and US\$ 490.7 billion in 2030 (6.1 per cent of world exports).

Domestic value added (DVA) from India's predicted exports is estimated at US\$ 166.5 billion in 2025 and US\$ 304.7 billion in 2030. Total number of jobs attributed to exports (direct employment in NP sector plus employment caused by NP sector's backward linkages with other sectors supplying inputs to the former) will go up from 4.4 million in 2020 to 14.3 million in 2025 and 25.5 million in 2030. Thus, based on the first-order effects of the scenario under consideration, it is possible to create 10 million additional export related jobs during the next five years and over 20 million jobs during the next ten years.

However, it is important to take into account the second-order effect of increased consumption by workers. The overall impact on jobs (first order plus second order effect) is much higher. Estimates suggest that, by raising India's share in world exports of NP to 3.6 per cent by 2025, it is possible to create 38.5 million additional jobs in the country during the next five years. Further, by raising this share to 6.1 per cent by 2030, it is possible to generate additional 82.2 million jobs during the next ten years. The total domestic value added (in basic prices) is likely to increase from US\$168 billion in 2020 to US\$1134.3 billion by 2030. Between 2019 and 2025, the incremental value added is US\$485.5 billion, which is one-quarter of the increase in GDP (in basic prices) required for making India a \$5 trillion economy by 2025.

Opportunities from US-China Trade War

The US–China trade war is causing major adjustments in GVCs and firms are now looking for alternative locations for their operations. Even before the trade war began, China's image as a low-cost location for final assembly of industrial products was rapidly changing due to labour shortages and increases in wages. These developments present India an unprecedented opportunity to chart a similar export trajectory as that pursued by China and create unparalleled job opportunities for its youth. As no other country can match China in the abundance of its labour, we must grab the space getting vacated in labour-intensive sectors.

Policy Pre-requisites for India

For a country to become an attractive location for assembly activities, it is imperative that import tariff rates for intermediate inputs are zero or negligible. It is also imperative to create an ecosystem that will result in realignment of India's specialization patterns towards labour-intensive processes and product lines. The ongoing reform measures to provide greater flexibility in the labour market should continue. A pro-active foreign direct investment (FDI) policy is also critical as MNEs are the leading vehicles for the country's entry into global production networks while local firms play a role as subcontractors and suppliers of intermediate inputs to MNEs. Assembly processes require not only trainable low-cost unskilled labour but also a lot of middle-level supervisory manpower. For example, when Apple employed 7,00,000 factory workers in China, it also employed 30,000 engineers on-site to supervise those workers.

Concerns

A low level of service link costs (costs related to transportation, communication, and other tasks involved in coordinating the activity in a given country with what is done in other countries) is a prerequisite for countries to strengthen their participation in GVCs. Supply disruptions in a given location due to shipping delays, power failure, political disturbances, labour disputes, etc. could disrupt the entire production chain. Policy measures should focus on reducing input tariffs, implementation of key factor market reforms, providing an enabling environment for the entry of lead firms into the country and reducing the service link costs.

There is low level of participation by India in GVCs. Despite being abundant in labour, the share of traditional unskilled labour-intensive industries in India's non-oil merchandise exports declined by almost one-half from 30.7 per cent in 2000 to 16.3 per cent in 2018. In fact, India's participation in GVCs has been low compared to the major exporting nations in East and Southeast Asia. In contrast, China's export composition shows a strong bias towards traditional labour-intensive industries and labour-intensive stages of production processes within capitalintensive industries (in particular, assembly of electronics and electrical machinery).

India's market penetration in highincome countries is perceptibly low, and has declined disproportionately during the recent decades, is not difficult to understand given the distorted pattern of its specialization. Developing countries, especially those with low level of participation in GVCs, find it extremely difficult to export capital intensive products to the quality/brand conscious markets in richer countries.

Way Forward

The experience of countries that have achieved rapid and sustained export growth suggests that India can reap rich dividends by adopting policies aimed at strengthening its involvement in the export market for NP. Given our vast manpower with relatively low skill, India's current strength lies primarily in assembly of NP. While the short to medium term objective is the large



scale expansion of assembly activities by making use of imported parts & components, giving a boost to domestic production of parts & components (upgrading within GVCs) should be the long term objective. Assembly is highly labour intensive, which can provide jobs for the masses, while domestic production of parts & components can create high skill jobs. A highly feasible target of raising India's export market share to about 3.5 per cent by 2025 and 6 per cent by 2030 would create about 38.5 million additional jobs in the country by 2025 and about 82 million additional jobs by 2030. The incremental value added in the economy from the target level of exports of network products would make up about one-quarter of the increase required for making India a \$5 trillion economy by 2025.

General Studies Paper- III

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

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4. TARGETING EASE OF DOING BUSINESS IN INDIA

Context

The Economic Survey 2019-20 holds a mirror to India's doing-business processes, while acknowledging that the country has made substantial gains in the World Bank's Ease of Doing Business rankings from 142 in 2014 to 63 in 2019.

Introduction

Ease of doing business is key to entrepreneurship, innovation and wealth creation.

India has made substantial gains in the World Bank's Doing Business rankings from 142 in 2014 to 63 in 2019. It has progressed on seven out of the 10 parameters. The Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC) top the list of reforms that have propelled India's rise in rankings.

However, India continues to trail in parameters such as Ease of Starting Business (rank 136), Registering Property (rank 154), Paying Taxes (rank 115), and Enforcing Contracts (rank 163).

As India leapfrogs towards a five trillion-dollar economy by 2024-25, simplifying and maintaining a business-friendly regulatory environment is essential. To ease the constraints and gaps in the regulatory processes involved in doing business, it is necessary to assess the country's progress vis-à-vis other leading economies on various parameters.

Global Comparisons

- The number of procedures required to set up a business in India, for example, has reduced from 13 to 10 over the past ten years. Today, it takes an average of 18 days to set up a business in India, down from 30 days in 2009. On the other hand, New Zealand has a seamless process of business incorporation which takes place through a single window via one agency. It just takes half-a-day with a single form and minimal cost to set up a business in New Zealand.
- Property registration takes nine procedures, at least 49 days, and 7.4-8.1 per cent of the property value to register one's property in India. Moreover, the number of procedures, time and cost has increased over the last 10 years. Meanwhile, New Zealand has only two procedures and a minimal cost of 0.1 per cent of the property value.
- In the case of paying taxes, even though the number of payments per year has significantly reduced in India from 59 to 12 over the last decade, time spent on this activity has not reduced much. While India

takes 250-254 hours per year to pay taxes, New Zealand spends just 140 hours a year. Interestingly, time spent to pay taxes in New Zealand has doubled from 2009 to 2019.

- Enforcing contracts is one parameter in which India's performance has been very poor over the years. While India takes 1,445 days to resolve an average dispute, New Zealand takes approximately one-seventh of it, i.e., 216 days.
- When compared to the performance of India's peer nations, namely China, Brazil, and Indonesia, on the same parameters, it can be seen that China fares much better than India on virtually all parameters.
- The comparisons with other nations is not so one-sided. An entrepreneur has to go through 10 procedures to set up a business in India taking 17-18 days to do so. On the other hand, Indonesia and Brazil require one extra process than India to open a business. While Indonesia takes four days less than India, Brazil takes almost the same time as India to do so. In fact, countries like Pakistan, Turkey and Sri Lanka (ranked 72, 77, and 85 respectively in Starting a Business parameter) have a less cumbersome process to start a business than India.



- Similarly, while India has five less procedures than Brazil (14) to register one's property, it takes much less time to do so in Brazil (31 days) than in India (49-68 days). Indonesia, on the other hand, has only six procedures and takes same time as Brazil to register property.
- In case of paying taxes, although Indonesia (26) has more than double the number of payments per year than India (10-12), its citizens spend far less time in paying them than India. Brazil seems to fare particularly poor in this segment.
- India's performance in contract enforcement is poor even when compared to India's peer nations. While it takes approximately four years to enforce acontract in India, Brazil and Indonesia spend 2.2 and 1.1 years, respectively to do so. With a rank of 163 out of 190 nations in Enforcing Contracts, only a few countries like Afghanistan, Mozambique, and Zimbabwe perform worse than India.

Starting a Business: Regulatory Hurdles

The services sector too faces many regulatory hurdles even for routine businesses. The bars and restaurants sector is an important source of employment and growth everywhere in the world. It is also a business that, by its nature, faces a high frequency of starting new businesses and shutting old ones.

According to the National Restaurants Association of India (NRAI), a total of 36 approvals are required to open a restaurant in Bengaluru, Delhi requires 26, and Mumbai 22. Moreover, Delhi and Kolkata also require a 'Police Eating House License'. The number of documents needed to obtain this license from Delhi Police is 45 – far more than the number of documents required for a license to procure new arms and major fireworks, 19 and 12 respectively The number of licenses required to open a restaurant in India are significantly more than elsewhere. While China and Singapore require only four licenses, India requires several more mandatory licenses and approvals.

Moreover, in India, only the list of licenses and permissions can be obtained from a government portal or information center. On the other hand, in New Zealand, the website of Auckland Council (operated by a private third-party agency) has all detailed guides and stepwise procedures about permissions, fees and timeline to open a restaurant. The website is also equipped with ready-to-use business plan templates and comprehensive information on different businesses irrespective of the scale of business. The contrast reflects a difference in cost; in 2019 it takes 98-113.5 days and 2.8-5.4 per cent of the warehouse cost.

Achieving Scale Across Business

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

Compared to Bangladesh, China, and Vietnam, which have more than 80 per cent of market value of exports by large enterprises, India has 80 per cent by small enterprises. Moreover,

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

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

approach – government control versus curation/ partnership.

Construction Permits

When compared to the best in class-Hong Kong, which tops the World Bank rankings for ease of obtaining construction permits, Hong Kong takes just over two months to obtain a construction permit, while Delhi takes almost four months. Moreover, it takes 35 days to get water and sewer connection in Delhi.

Nonetheless, India has considerably improved the process to obtain construction permits over the last five years. Compared to 2014, when it took approximately 186 days and 28.2 per cent of the warehouse in India it can take 7-10 days to reach a port whereas in countries like China, Bangladesh and Vietnam it takes less than a day. Thus, the Indian supply chain ends up with a large number of small consignments clogging already inefficient logistics pathways. A comparison of turn-around time (i.e., order to deliver) is given in above table.

Trading Across Borders

The 'Trading Across Borders' indicator records the time and cost associated with the logistical process of exporting and importing goods. Globally, transportation by ports is the most favored followed by railways and then roads, whereas in India it is the opposite.



Trading across Borders- India vs Italy							
INDIA (RANK 68)	Hours Delhi Mumbai		Hours	ITALY (RANK 1)			
EXPORT 1: Border Compliance	54	50	0	EXPORT 1: Border Compliance			
2: Documentary Compliance	6	18	ì	2: Documentary Compliance			
IMPORT 1: Border Compliance	70	60	0	IMPORT 1: Border Compliance			
2: Documentary Compliance	18	22	ä.	2: Documentary Compliance			
INDIA (RANK 68)	Cost Delhi	(USS) Mumbai	Cost (U	S\$) ITALY (RANK 1)			
EXPORT 1: Border Compliance	195	231	0	EXPORT 1: Border Compliance			
2: Documentary Compliance	65	50	Ö	2: Documentary Compliance			
IMPORT 1: Border Compliance	260	273	0	IMPORT 1: Border Compliance			
2: Documentary Compliance	100	100	ö	2: Documentary Compliance			

Italy tops the EoDB rankings in Trading Across Borders. Table given below tabulates its comparison with India. While India takes 60-68 and 88-82 hours in border and documentary compliance for exports and imports respectively, Italy takes only one hour for each. Moreover, the cost of compliance is zero in Italy. In India, it costs US\$ 260-281 and US\$ 360-373 for exports and imports respectively.

Almost 70 per cent of the delays (both in exports and imports) occur on account of port or border handling processes which essentially pertain to procedural complexities (number and multiplicity of procedures required for trade), multiple documentations and involvement of multiple agencies for approvals and clearances. It is also observed that time delays and procedural inefficiencies end up pushing cost to trade.

While the government has already reduced procedural and documentation requirements considerably, increasing digitalization and seamlessly integrating multiple agencies onto a single digital platform can further reduce these procedural inefficiencies significantly and improve user experience substantially.

Way Forward

A holistic assessment and a sustained effort to ease business regulations and provide an environment for businesses to flourish would be a key structural reform that would enable India to grow at a sustained rate of 8-10 per cent per annum. This requires a nuts-and-bolts

Authorised Economic Operator (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 goods. AEO encompasses various players in the international supply chain.

Under this programme, an entity engaged in international trade is approved by Customs as compliant with supply chain security standards and granted AEO status. An entity with an AEO status is considered a 'secure' trader and a reliable trading partner.

AEO is a voluntary programme. It enables Indian Customs to enhance and streamline cargo security through close cooperation with the principle stakeholders of the international supply chain viz. importers, exporters, logistics providers, custodians or terminal operators, custom brokers and warehouse operators, who benefit from preferential treatment from customs authorities.

Anyone involved in the international supply chain that undertakes Customs related activity in India can apply for AEO status irrespective of size of the business.

approach of feedback loops, monitoring and continuous adjustment.

The simplification of the Ease of Doing Business landscape of individual sectors such as tourism or manufacturing, however, requires a more targeted approach that maps out the regulatory and process bottle-necks for each segment. Once the process map has been done, the correction can be done at the appropriate level of government - central, state or municipal.

General Studies Paper- III Topic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and

Topic: Inclusive growth and issues

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employment.

arising from it.

Licenses Required to Open a Restaurant						
Country	Market Size (US \$ billion)	No. of licenses	Nature of licenses			
India	61	12-16*	As detailed in Table 6			
Singapore	8.3	4	Food shop License Liquor License Importing Food License Halal Certificate			
China	815	4	Sanitation License Environment License Fire License Sales License			

Source: National Restaurants Association of India (NRAI).

Note: * These are just key licenses. In practice, each city requires several more approvals as mentioned in the text,



5. GOLDEN JUBILEE OF BANK NATIONALISATION: TAKING STOCK

Context

In 2019, India completed the 50th anniversary of bank nationalization. Therefore, economic survey 2019-20 observed 2019 as the golden jubilee year of bank nationalization.

Introduction

In 2019, India completed the 50th anniversary of the bank nationalization programme undertaken in 1969. The market structure of the banking sector has evolved in the 50 years since the 1969 nationalization.

As of March 2019, Public Sector Banks (PSBs) had Rs. 80 lakh crore in deposits, held Rs. 20 lakh crore in government bonds, and made loans and advances of Rs. 58 lakh crore, representing between 65 per cent and 70 per cent of the aggregates for all scheduled commercial banks operating in India. They also hold about Rs. 20 lakh crore of the government debt, a large part of it driven by the requirements for a minimum "statutory liquidity" ratio. PSBs thus continue to have a significant footprint today albeit with a market share that is less than the 91 per cent share after the 1980 nationalization.

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, Old Private Banks (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. The government exercises significant control over all aspects of PSB operations ranging from policies on recruitment and pay to investments and financing and bank governance including board and top management appointments. The majority ownership of the government and its writ on bank functioning also results in an implicit promise of the bailout of bank liabilities which is an implicit cost to the taxpayer. The majority ownership by the government also subjects PSB officers to scrutiny of their decisions by the central vigilance commission and the comptroller auditor general. With no real restrictions on what can be investigated and under what circumstances, officers of state-run banks are wary of taking risks in lending or in renegotiating bad debt, due to fears of harassment under the veil of vigilance investigations.

Bank-Economy Misfit

India's banks are disproportionately small compared to the size of its economy. 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. India has only one bank in the global top 100 and gets grouped on this characteristic with countries that are a fraction of its size: Finland (about 1/11th), Denmark (1/8th), Norway (1/7th), Austria (about 1/7th), and Belgium (about 1/6th). Countries like Sweden and Singapore, which are respectively about 1/6th and 1/8th the economic size of India, have thrice the number of global banks as India does. There is a disproportionate dwarfism of the Indian banks when compared to the size of the Indian economy. A fit of the number of banks in the global top 100 and the size of the economy shows clearly that India is a significant outlier on the negative side. 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.

A large economy needs an efficient banking sector to support its growth. Yet, credit growth among PSBs has declined significantly since 2013 and has also been anaemic since 2016. Even as 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. Survey clearly demonstrates, anaemic credit growth has impacted economic growth. 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.

Given India's demographics and the growth opportunities on hand, we need a thriving banking sector now. A vibrant banking system can support and unleash a multiplier effect and permanently alter India's growth trajectory in a positive way. Conversely, inefficient PSBs can severely handicap the country's ability to exploit the unique opportunities she can utilize today. The result could be a generational setback to the country's economic growth.

Weakening of Public Sector Banks

The 2019 performance statistics concerning PSBs are sobering. In 2019 public sector banks reported gross and net NPAs of Rs. 7.4 lakh crore and Rs. 4.4 lakh crore respectively, amounting to about 80 per cent of the NPAs of India's banking system. The gross



NPAs of PSBs amount to a significant 11.59 per cent of their gross advances, although a slightly encouraging trend is that the NPA ratio is below the 14.58 per cent ratio in 2018, raising hopes that the non-performing asset problem has peaked and is now coming down. Moreover, in 2019, PSBs suffered losses of Rs. 661 billion compared to profits of Rs. 421 billion of other scheduled commercial banks or profits of Rs. 390 billion of the NPBs. Besides the NPAs leading to losses, frauds are another source of concern in PSBs. The Reserve Bank of India (RBI)'s supervisory returns reveal that PSBs account for 92.9 per cent of the 5,835 cases of fraud and 85 per cent of the fraud amounts of about Rs. 41,000 crore reported in 2017-2018. Despite the past accomplishments of PSBs, of which plenty are noted, PSBs are clearly not efficient today.

A plausible explanation for the NPA problems of PSBs is that in the Indian economy's growth phase between 2004 and 2011, PSBs grew their loan portfolios but this credit growth was of suspect quality. When the economy slowed, the banking system saw a dramatic increase in NPAs.

Data clearly shows that over 90 per cent of the cases of bank frauds based on the amount involved occurred in PSBs with private sector banks accounting for less than 8 per cent. A large majority (90.2 per cent) of these frauds related to advances. Therefore, the quality of screening and monitoring processes for corporate lending adopted by PSBs needs urgent attention.

The history of financial crises across the world shows that the effect of bad governance shows up only in bad times, never in good times. As the 2014 P. J. Nayak Committee report shows, the structural weaknesses in PSBs explains their poor performance.

Banking crises are due to some combination of unsustainable

macroeconomic policies, market failures, regulatory distortions, and government interference in the allocation of capital. Moreover, crises that are not resolved effectively and swiftly impose enormous costs on society.

Enhancing Efficiency of PSBs

The key drivers of India's growth prospects are:

- highly favourable demographics with 35 per cent of its population between 15 and 29 years of age;
- a modern and modernizing digital infrastructure that encompasses the "JAM" trinity of financial inclusion, the Aadhaar unique identification system, and a welldeveloped mobile phone network, and
- c. a uniform indirect taxation system (GST) to replace a fragmented, complex state-level system. India's growth path depends on how quickly and productively these growth levers are deployed using a well-developed financial system.

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, therefore, focused on following two ideas for enhancing the efficiency of PSBs that have hitherto not been explored:

- (I) Credit Analytics using Artificial Intelligence and Machine Learning; and
- (II) Creation of a Financial Technology (FinTech) Hub for PSBs: The Public Sector Banking Network (PSBN)

(I) Credit Analytics using Artificial Intelligence and Machine Learning

The geographic footprint of public sector banks is vast. PSBs, however,

need significant investments are in the capabilities to exploit the coming data-rich environment in India. Analytics based on market data are quite capable of providing accurate predictions of corporate distress. Variants of such approaches appear to hold promise for both consumer loans and commercial and industrial loans. 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. Leveraging the data requires new data, analytics, and modelling skills. Likewise, banks need to invest in credit recovery infrastructure. The adoption of these new technologies to exploit a data rich environment will require complementary investments such as specialist human capital with an orientation towards analytics. The barriers to such technologies are not insurmountable. While there are some instances in which PSBs have been lax, technology aversion does not seem to be an intrinsic characteristic of PSBs. For example, when credit bureaus were introduced in India, PSBs in the aggregate were relatively quick to adopt scoring for their new clients.

A large proportion of NPAs of Indian banks, especially PSBs, could have been prevented if data and analytics were employed in corporate lending. Data models show that the rates of default were the highest with larger loans (above INR 100 crores). Models demonstrate clearly the several leading indicators that data and analytics could have clearly highlighted about willful defaulters. There were easily quantifiable measures that a robust credit analytics platform could have easily picked up and provided warning signals.

Retail lending in India passed through a painful and steep learning curve after 2007- 2008. The NPAs in retail loans primarily impacted the unsecured loans originated by NPBs. While the size of the NPAs was insignificant from a systemic perspective, the sector took its learning from the same. As models has shown, the NPA levels across various retail products has been less than 5 per cent during 2016-19. The use of credit analytics and the resultant reduction in defaults offers important lessons that can be implemented in corporate lending in India. In fact, the use of data and credit analytics, such as consumer credit bureau data, has significantly enhanced growth in retail lending. India has now caught up the Organisation Economic Co-operation for and Development (OECD) economies in the proportion of population covered using credit bureau data.

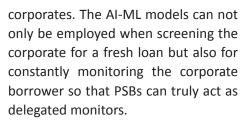
(II) Creation of a FinTech Hub for PSBs: The Public Sector Banking Network (PSBN)

PSBs were quick to adopt credit score by bureaus. Similarly, they need to embrace FinTech, which is revolutionising the global financial landscape. FinTech is forcing traditional banks to review their outdated business paradigms to come up with effective, low-cost, banking solutions. PSBs have the maximum to gain from FinTech as their use of even conventional information technology is not all-pervasive, except in the use of core banking solutions. As of now, PSBs employ technology mostly for MIS and reporting while most information processing on loans happens manually which causes inefficiency, frauds and loan defaults. FinTech has radically changed the way information is processed by banks. In corporate lending, for instance, a huge mass of quantitative data such as company financials and qualitative data such as company filings and analyst call reports are machine-analysed using both supervised and unsupervised learning algorithms. 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

Currently, PSBs face many challenges such as high operating costs, disjointed process flows from manual operations and subjective decision making. These challenges hinder PSB's ability to rigorously screen corporate borrowers ex-ante by evaluating the prospects of the potential borrowers and the value of the collateral that they may be posting. They also need to monitor the borrower ex-post along the whole duration of the lending relationship, enforcing possibly covenants capable of limiting losses in case of default. Using FinTech allows banks to better screen borrowers and set interest rates that better predict expost loan performances

PSB Network

As the government is the owner of all the PSBs, it can mandate the PSBs to share this data so that economies of scale can be utilized to make the necessary investments in undertaking analytics using Artificial Intelligence and Machine Learning (AI-ML). 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



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Way Forward

The Indian banking system is currently sub-scale compared to the size of the economy. A large economy needs an efficient banking sector to support its growth. Historically, in the last 50 years, the top-five economies have always been ably supported by their banks. Should India's banks play a role proportionate to its economic size, India should have six banks in the 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. Yet, on every performance parameter, PSBs are inefficient compared to their peer groups. The survey suggests use of FinTech across all banking functions and employee stock ownership across all levels to enhance efficiencies in PSBs. These will make PSBs more efficient so that they are able to adeptly support the nation in its march towards being a \$5 trillion economy. All these recommendations need to be seriously considered and a definite, time-bound plan of action drawn up. With the cleaning up of the banking system and the necessary legal framework such as the IBC, the banking system must focus on scaling up efficiently to support the economy.

General Studies Paper- III

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

Topic: Investment models.

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6. FINANCIAL FRAGILITY IN THE NBFC SECTOR

Context

2019-20. The Economic Survey has summarised the Non-Banking Financial Companies (NBFCs) crisis and suggested a dynamic 'Health Score' to give early warning signs when such crises is in the early stage of its development. It recounted how the NBFC fiasco unfolded, the important role played by liquid funds in financing these shadow banks, how defaults triggered widespread selling by mutual funds, and precipitated a full blown crisis.

Shadow Banking System

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 of Economic Survey 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). The NBFC sector is lightly regulated as compared to the traditional banking system consisting of public and private sector banks and other financial institutions. However, the regulation in NBFC sector has evolved over time with prudential norms discouraging deposit-taking by NBFC (Reserve Bank of India (RBI), 1998) and encouraging the entry of non-deposit-taking NBFCs (RBI, 2006). The combination of these two effects has led to a steady decline in the share of deposits and increase in wholesale funding in the funding sources of the NBFCs. The wholesale funding sources of the NBFCs comprise mainly of banks (primarily via term loans and rest through non-convertible debentures and commercial paper) and debt mutual funds (via non-convertible debentures and commercial paper).

Triggering Events: Leading to NBFCs Crisis

The liquidity crunch in the shadow banking system in India took shape in the wake of defaults on loan obligations by major NBFCs. Two subsidiaries of Infrastructure Leasing & Financial Services (IL&FS) defaulted on their payments in the period from June to September 2018, while Dewan Housing Finance Limited (DHFL) did so in the period from June to August 2019. Both these entities defaulted on non-convertible debentures and commercial paper obligations for amounts of approximately Rs. 1500-1700 crore.

In response to the defaults, mutual funds started selling off their investments in the NBFC sector to reduce exposure to stressed NBFCs. A case in point is DSP Mutual Fund selling DHFL commercial papers (CPs) worth Rs. 300 crore at a steep discount in September 2018. Panic-stricken investors in debt mutual funds started pulling out their investments in these funds rapidly. Coinciding with the news of payment defaults by IL&FS and DHFL being known to the wider market, the months of September 2018 and June 2019 saw the highest net outflows from LDMFs (Liquid Debt Mutual Funds) and money market funds.

On June 4, 2019, the net asset value of debt funds, which held debt instruments issued by the stressed NBFCs, fell by 53 per cent in one day when news about its default became public. The drop in net asset value was due to the twin effects of debt mutual funds writing off their investments in stressed NBFCs and asset sales at fire sale prices to meet unexpected high redemptions.

Resultant

The impact of these defaults was not limited to debt markets. There was a sharp decline in the equity prices of stressed NBFCs as equity market participants anticipated repayment troubles at these firms a few months in advance of actual defaults. Therefore. both debt and equity investors suffered a massive erosion in wealth due to the defaults. To get a sense of the quantum of losses, debt mutual funds with exposure to stressed NBFCs lost approximately Rs. 4000 crore after adjusting for recoveries in the aftermath of defaults. Debt mutual funds, facing increasing redemptions, were hesitant to finance the NBFC sector. This, in turn, led to the difficulty of NBFCs to raise funds, this phenomena is called 'Rollover Risk'. In other words, the frequent repricing exposes NBFCs to the risk of facing higher financing costs and, in the worst case, credit rationing, and all these risks combines are referred as Rollover Risk. The over-dependence on short-term wholesale funding exacerbates Rollover Risk. The key drivers of Rollover Risk are: Asset Liability Management (ALM) Risk, Interconnectedness Risk and Financial and Operating Resilience of an NBFC. These key drivers are explained in the next section of this article.

Risk and Resilience

- Risks from Liability Asset Management Mismatch: This risk arises in most financial institutions due to a mismatch in the duration of assets and liabilities. Liabilities are of much shorter duration than assets which tend to be of longer duration, especially loans given to the housing sector. This mismatch implies that an NBFC must maintain a minimum amount of cash or cash-equivalent assets to meet its short-term obligations. If cash flows from the long-term assets are inadequate to meet its immediate debt obligations, an NBFC can still repay its obligations by issuing fresh CP to avoid defaulting. However, such a refinancing strategy works well only when there are no asset side shocks or liability side shocks. During periods of stress, there may be a significant drop in periodic cash flows that would normally arise from an NBFC's long-term assets. This exacerbates Rollover Risk. NBFCs that maintain adequate cash buffers and do not have asset liability management problems are able to survive through the stress period as they can meet their obligations without having to tap the wholesale funding market. This implies that they have much lower Rollover Risk.
- Risks from Interconnectedness: Interconnectedness Risk is a measure of the transmission of systemic risk between an NBFC and the LDMF sector that arises from two factors.
 - LDMF sector, on average, holds concentrated positions in the CPs of a specific stressed NBFC, it may lead to a greater redemption risk from their own investors who fear rise in default probabilities due to deterioration of asset quality of the NBFC.

- LDMFs are subject to run risk or redemption risk from their investors if their cash holdings do not account for extreme tail events. Thus, low levels of cash holdings in the LDMF sector, on average, diminish the ability of the LDMF sector to absorb redemption pressures.
- **Financial and Operating Resilience:** 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 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). From 2015-16 onwards, large and medium-sized retail-NBFCs had lower operating resilience, measured by cash as a percentage of borrowings, as compared to HFCs and small-sized NBFCs.
- **Reliance on Short-Term Wholesale** ٠ Funding: As pointed out earlier, it is argued that the fundamental factor that influences Rollover Risk can be traced to the overdependence of the NBFC sector on the short-term wholesale funding market. First, greater short-term funding implies a greater exposure to repricing risk (direct channel). Second, both the key drivers of Rollover Risk, ALM Risk and the Interconnectedness Risk increase when short-term funding increases (indirect channel).

Health Score

Given the significant economic impact of the liquidity crisis on the domestic economy, it would be a fruitful exercise to investigate whether there were any early warning signs of stress in the NBFC sector.

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

Health Score of HFCs

Based on the relative contribution to Rollover Risk, the key drivers of Rollover Risk are combined for HFCs into a composite measure (Health Score). ALM Risk and Financial and Operating Resilience are the most important constituents of the Health Score of HFCs, as shown earlier in the Health Score schematic for the HFC sector. As discussed, Interconnectedness Risk was low for the HFC sector and, therefore, not a key driver of Rollover Risk for these firms.

Key Metrics affecting Health Scores of HFCs

- 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.





- 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).

Weights are assigned to each of the six metrics. The assigned weights are subjective, and the sum of the weights is 100 points. The Health Score can range from -100 to +100 with higher scores indicating lower Rollover Risk. A Health Score of 0 is a neutral score, not risky, but not too safe either. A benchmark of 50 is used, above which the individual HFC/Sector may be deemed to be sufficiently safe.

Health Score of Retail-NBFCs

Based on the relative contribution to rollover risk, the key drivers of rollover risk are combined for retail-NBFCs' to compute the health score. Interconnectedness risk between an NBFC and the LDMF sector and financial and operating resilience are the most important constituents of health score of retail-NBFCs. Interconnectedness risk and liquidity buffer levels in the LDMF sector are more prominent for retail – NBFCs, while ALM Risk is not that much prominent for this sector.

Key Metrics affecting Health Scores of Retail-NBFCs

- LDMF Sector Exposure to CP Issued by Retail-NBFCs: This is measured by the average of the ratio of commercial paper of the specific HFC/Retail-NBFC held by the LDMF sector and the total commercial paper holdings of the LDMF sector in the overall HFC/ Retail-NBFC sector.
- 2. Liquidity Buffer Levels in the LDMF Sector: This is measured by the

average proportion of highly liquid investments such as cash, G-secs etc., that are held by the LDMFs.

- **3.** Short-Term Volatile Capital: This is measured by CP as a percentage of borrowings of the Retail-NBFC.
- 4. 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.
- 5. Short-term Liquidity: This is measured by the percentage of cash to the total borrowings of the Retail- NBFC.
- 6. Provisioning Policy: This is measured by the difference between provision for bad loans made in any financial year and the gross non-performing assets (NPA) in the subsequent financial year.
- Capital Adequacy Ratio (CAR): This is the sum of Tier-I and Tier-II capital held by the Retail-NBFC as a percentage of Risk-Weighted Assets (RWA).

Policy Implications

Firms in the NBFC sector are susceptible to rollover risk when they rely too much on the on the short-term wholesale funding market for financing their investments in the real sector. The following policy initiatives can be employed to arrest financial fragility in the shadow banking system:

 Score methodology to detect early warning signals of impending rollover risk problems in individual NBFCs. Downtrends in the health score can be used to trigger greater monitoring of an NBFC. Furthermore, an analysis of the trends in the components of the health score can shed light on the appropriate corrective measures that should be applied to reverse the adverse trends.

- When faced with a dire liquidity crunch situation, as experienced recently, regulators can use the health score as a basis for optimally directing capital infusions to deserving NBFCs to ensure efficient allocation of scarce capital.
- The above analysis can also be used to set prudential thresholds on the extent of wholesale funding that can be permitted for firms in the shadow banking system. Such a norm would be consistent with macro-prudential regulations that are required to internalize the systemic risk concerns arising due to an individual NBFC's financing strategy. These norms could be counter-cyclically adjusted because the seeds of a liquidity crunch are sown during good times.

Way Forward

Liquidity crises in the NBFC sector shook the fundamentals of Indian economy. Though our economy is resilient to external economic shocks but the internal upheaval and risks are detrimental to the economic growth and trust in the financial markets.

In the Survey, the economists computed a health score by quantifying the rollover risk for a sample of HFCs and retail NBFCs, which are representative of their respective sectors.

Policy makers intending to revive the shadow banking channel of growth can use the analysis from health score to efficiently allocate liquidity enhancements across firms (with different health scores) in the NBFC sector, thereby arresting financial fragility in a capital-efficient manner.

General Studies Paper- III

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

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7. THALINOMICS: THE ECONOMICS OF A PLATE OF FOOD IN INDIA

Context

For the first time,"Thalinomics: The economics of a plate of food in India", was introduced in Economic Survey 2019-20. According to the survey, from 2006-07 to 2019-20, affordability of vegetarian Thalis improved 29 per cent, while affordability of non-vegetarian Thalis improved by 18 per cent.

Introduction

Thalinomics is an attempt to quantify what a common person pays for a Thali across India. Has a Thali become more or less affordable? Has inflation in the price of a Thali increased or decreased? Is the inflation the same for a vegetarian Thali as for a non-vegetarian one? Is the inflation in the price of a Thali different across different states and regions in India? Which components account for the changes in the price of a Thali – the cereals, vegetables, pulses or the cost of fuel required for its preparation?

As food is a necessity, a rapid rise in the price of a Thali has the most direct and conspicuous effect on the common man. Indeed, food and beverages constitute around 45.9 per cent in the Consumer Price Index-Combined. The most effective way, therefore, to communicate the trends in prices to the common man is through the cost incurred in putting together one complete, homemade meal – the Indian Thali.

Economics of Thali

Given its enormous diversity, India has very diverse cuisines with variety of food items, which is a delicious mix of variety of vegetables, cereals, fruits, and spices that grow across the country. Indian traditional diet has always been a healthy mix of vegetables and cereals along with fish, meat and eggs. Thali prices are constructed for 25 States/UTs taking into account the prices for cereals (rice or wheat), sabzi (vegetables plus other ingredients), dal (pulses with other ingredients) as well as the cost of fuel that goes into making a meal in a household. Two types of Thalis are analysed: a vegetarian Thali and a non-vegetarian one. A vegetarian Thali comprises of a serving of cereals, sabzi and dal and the non-vegetarian Thali comprises of cereals, sabzi and a non-vegetarian component. The evolution of prices of these two Thalis during the period from 2006-07 to October, 2019-20 is analysed.

Both across India and the four regions - North, South, East and West - survey found that the absolute prices of a vegetarian Thali have decreased since 2015-16 though it increased during 2019. This is owing to significant moderation in the prices of vegetables and dal from 2015-16 when compared to the previous trend of increasing prices. In fact, the increase in prices of both components has contributed to the increase in the Thali price during 2019-20 (April - October) as well. If the prices of a vegetarian Thali had followed the trend obtained till 2015-16, an average household comprising of five individuals would have had to spend Rs. 10887 more on average per year for eating minimum two healthy Thalis a day. In other words, after 2015-16, the average household gained Rs. 10887 per year on average from the moderation in Thali prices. Similarly, an average household that eats minimum two healthy non-vegetarian Thalis per day gained around Rs. 11787 on average during the same period. As another benchmark, survey examine an industrial worker's ability to pay for two Thalis a day for his/her household of five individuals.

Using this measure, it was found that the affordability of vegetarian Thalis has improved over the time period from 2006-07 to 2019-20 by 29 per cent and that for non-vegetarian Thalis by 18 per cent. Though nonvegetarian Thalis are costlier than the vegetarian Thalis, the gains and therefore the affordability stem from the trends prevailing in the respective Thali till 2015-16.

Construction of the Thali Prices

Two types of Thali were considered for the analysis: a vegetarian Thali and a non-vegetarian Thali. The quantities of constituents required for preparation of a Thali were based on the dietary guidelines prescribed for Indians (NIN, 2011).

Vegetarian Thali consists of a serving of cereals (300 grams), vegetables (150 grams) and pulses (60 grams). Two cereals have been taken: rice and wheat. Potato, onion, tomato have been taken as the staple vegetables and brinjal, cabbage, cauliflower and lady's finger have been taken as the additional vegetables, broadly covering all the seasons, pan-India availability and general consumption. For dals, arhar, gram dal, masur dal, moong dal and urad dal have been taken. Other commodities include spices and condiments used in preparation of the vegetable and dal recipes. Mustard oil, groundnut oil, and coconut oil have been taken, depending on the statewise differences in the type of oil used for cooking.

For non-vegetarian dish, prices of eggs, fish (fresh) and goat meat have been taken, which are generally consumed across regions as well as religions. In the case of non-vegetarian Thali, dal is replaced by non-vegetarian component (60 grams); rest of the components remain unchanged. For fuel, cooking gas prices as well as firewood prices have been taken for which the data is available consistently.



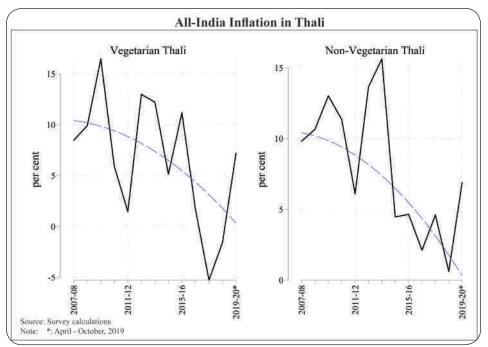
The weights from the Consumer Expenditure Survey are used along with the prices data to arrive at the weighted prices of the main components. 'Other ingredients' weightage is based on standardised recipes used to prepare the Thalis.

Thali Inflation

The increase in the rate of inflation in vegetarian and non-vegetarian Thalis during 2019-20 is a temporary phenomenon that should revert back as has happened in earlier years. In the case of vegetarian Thali, inflation at the All-India level fell from the significantly high level, attained in 2015-16, to below zero level in the subsequent years. In the case of non-vegetarian Thali, inflation fell drastically after 2013-14. It is observed that inflation has been declining over time in all components. While inflation in cereals have been declining at a steady rate throughout the period, the fall in inflation has accelerated in all other components except Sabzi. Across regions and States, a similar trend is seen in inflation with overall Thali inflation showing a downward trend. Over the last year, the rate of inflation for Dal, Sabzi and nonvegetarian components have increased.

Affordability and Variability of Thalis

- The affordability of Thalis has increased over the years. In terms of vegetarian Thali, it is found that, an individual who would have spent around 70 per cent of his/ her daily wage on two Thalis for a household of five in 2006-07 is able to afford same number of Thalis from around 50 per cent of his daily wage in 2019-20 (April to October).
- Similarly, the affordability of non-vegetarian Thalis has also increased with the share of wages required decreasing from around 93 per cent to around 79 per cent between 2006-07 and 2019-20 (April to October).



- 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. Nonvegetarian Thali was also most affordable in Jharkhand.
- Comparing between 2006-07 and 2019-20 (April-October), vegetarian Thali has become more affordable in all states under consideration. 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.
- It is seen that over the years, there is no specific trend in the variability of Thali prices at the All-India level across months over the years. Similarly, in cases of variability across regions and across states, over time, there are no specific trends in the variability patterns.

Conclusion

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

It is found that at the all-India level as well as regional levels, moderation in prices of vegetarian Thali have been witnessed since 2015-16 though Thali prices have increased this year. This is owing to the sharp downward turn in the prices of vegetables and dal in contrast to the previous trend of increasing prices. In terms of the inflation in Thali prices and all the components, for the said period there had been a distinct declining trend under review. Affordability of Thalis vis-à-vis a day's pay of a worker has improved over time indicating improved welfare of thecommon person.

General Studies Paper- III Topic: Inclusive growth and issues arising from it.

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1. Invisible Hand Supported by Hand of Trust : In Wealth Creation

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Q. Discuss how invisible hand supported by hand of trust will help in wealth creation in the Indian economy.

Hints:

- The overarching theme of the Economic Survey 2019-20 is creation of wealth over time and the implementation of policies that act as enablers in creation of this wealth. Wealth creation happens in an economy when the right policy choices are pursued.
- Wealth creation happens in an economy when the right policy choices are pursued. For instance, wealth creation and economic development in several advanced economies has been guided by Adam Smith's philosophy of the invisible hand.
- The evidence since 1991 shows that enabling the invisible hand of markets, i.e., increasing economic openness, has a huge impact in enhancing wealth both in the aggregate and within sectors. Sectors that were liberalized grew significantly faster than those that remain closed. 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. As competition expanded the banking choices available to citizens, the sector experienced strong growth.
- The invisible hand needs to be strengthened by promoting pro-business policies to (i) provide equal opportunities for new entrants, enable fair competition and ease doing business, (ii) eliminate policies that unnecessarily undermine markets through government intervention, (iii) enable trade for job creation, and (iv) efficiently scale up the banking sector to be proportionate to the size of the Indian economy. Introducing the idea of "trust as a public good that gets enhanced with greater use", it is suggested that policies must empower transparency and effective enforcement using data and technology to enhance this public good.

### 2. Pro-Business versus Pro-Crony

Q. Pro-business policies increase competition, correct market failures, and enforce business accountability, while pro-crony policies hurt markets. Explain.

Hints:

- The Economic Survey 2019-20 said that India's aspiration to become a \$5 trillion economy depends critically on promoting "pro-business" policy that unleashes the power of competitive markets to generate wealth, on the one hand, and weaning away from "pro-crony" policy that may favour specific private interests, especially powerful incumbents, on the other hand.
- Pro-crony policies, in contrast to pro-business ones, erode wealth in the economy as cronyism fosters inefficiencies by inhibiting the process of creative destruction. Raghuram Rajan and Luigi Zingales stressed the need for "saving capitalism from the capitalists". A company is connected with another company if either the same person has control of both companies (or that person and a person connected with him together have control of both companies), or if a group of two or more persons has control of each company and the group consists of the same persons. These also includes proxy companies and shell companies.
- Crony businesses may lobby the government to limit competition in their industry, restrict imports of competing goods or reduce regulatory oversight. These initiatives enhance the lobbying group's income but undermine markets and reduce aggregate welfare. Thus, pro-crony policy can inadvertently end up being hurtful to businesses in general.
- While pro-business policies increase competition, correct market failures, or enforce business accountability, pro-crony policies hurt markets. Such policies may promote narrow business interests and may hurt social welfare because what crony businesses may want may be at odds with the same. Pro-business policies help firms to function effectively and thereby enable competitive markets.



### 3. Jobs and Growth by Specializing to Exports in Network Products

Q. The Economic Survey 2019-20 has suggested the integration of 'Assemble in India for the world' into 'Make in India'. What does it mean for Indian economy in terms of job creation? Explain.

#### Hints:

- The Economic Survey 2019-20 suggested that by integrating 'Assemble in India for the world' into 'Make in India', India can raise its export market share to about 3.5 per cent by 2025 and 6 per cent by 2030. This will create 4 crore well-paid jobs by 2025 and 8 crore by 2030. By specialising in 'Network Products' (NP) and closely integrating with the global value chains (GVCs), India can not only increase its wealth but also create jobs for the youth. Examples of network products include computers, electronic selectrical equipment and telecom gear.
- 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. By importing components and assembling them in China for the world, China created jobs at an unprecedented scale.
- The US-China trade war is causing major adjustments in GVCs and firms are now looking for alternative locations for their operations. Even before the trade war began, China's image as a low-cost location for final assembly of industrial products was rapidly changing due to labour shortages and increases in wages. These developments present India an unprecedented opportunity to chart a similar export trajectory as that pursued by China and create unparalleled job opportunities for its youth.
- The experience of countries that have achieved rapid and sustained export growth suggests that India can reap rich dividends by adopting policies aimed at strengthening its involvement in the export market for NP. Given our vast manpower with relatively low skill, India's current strength lies primarily in assembly of NP. While the short to medium term objective is the large scale expansion of assembly activities by making use of imported parts & components, giving a boost to domestic production of parts & components (upgrading within GVCs) should be the long term objective. Assembly is highly labour intensive, which can provide jobs for the masses, while domestic production of parts & components can create high skill jobs.

### 4. Targeting Ease of Doing Business in India

Q. As India leapfrogs towards a five trillion-dollar economy by 2024-25, simplifying and maintaining a business-friendly regulatory environment is essential. Discuss it in the light of India's journey on ease of doing business.

#### Hints:

- The Economic Survey 2019-20 holds a mirror to India's doing-business processes, while acknowledging that the country has made substantial gains in the World Bank's Ease of Doing Business rankings from 142 in 2014 to 63 in 2019.
- India has made substantial gains in the World Bank's Doing Business rankings from 142 in 2014 to 63 in 2019. It has progressed on seven out of the 10 parameters. The Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC) top the list of reforms that have propelled India's rise in rankings. However, India continues to trail in parameters such as Ease of Starting Business (rank 136), Registering Property (rank 154), Paying Taxes (rank 115), and Enforcing Contracts (rank 163).
- As India leapfrogs towards a five trillion-dollar economy by 2024-25, simplifying and maintaining a businessfriendly regulatory environment is essential. To ease the constraints and gaps in the regulatory processes involved in doing business, it is necessary to assess the country's progress vis-à-vis other leading economies on various parameters.
- A holistic assessment and a sustained effort to ease business regulations and provide an environment for businesses to flourish would be a key structural reform that would enable India to grow at a sustained rate of 8-10 per cent per annum. This requires a nuts-andbolts approach of feedback loops, monitoring and continuous adjustment.

### 5. Golden Jubilee of Bank Nationalisation: Taking Stock

Q. Critically discuss the role of Public Sector Banks in the Indian economy.

#### Hints:

As of March 2019, Public Sector Banks (PSBs) had Rs.
 80 lakh crore in deposits, held Rs. 20 lakh crore in government bonds, and made loans and advances of Rs. 58 lakh crore, representing between 65 per cent

and 70 per cent of the aggregates for all scheduled commercial banks operating in India. They also hold about Rs. 20 lakh crore of the government debt, a large part of it driven by the requirements for a minimum "statutory liquidity" ratio.

- India's banks are disproportionately small compared to the size of its economy. 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.
- A large economy needs an efficient banking sector to support its growth. Yet, credit growth among PSBs has declined significantly since 2013 and has also been anaemic since 2016. Even as 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.
- Given India's demographics and the growth opportunities on hand, we need a thriving banking sector now. A vibrant banking system can support and unleash a multiplier effect and permanently alter India's growth trajectory in a positive way. Conversely, inefficient PSBs can severely handicap the country's ability to exploit the unique opportunities she can utilize today. The result could be a generational setback to the country's economic growth.

### 6. Financial Fragility in the NBFC Sector

Q. The Economic Survey 2019-20 has suggested a dynamic 'Health Score' to give early warning signs for Non-Banking Financial Companies. Explain the role and function of 'Health Score' in this regard.

Hints:

- The Economic Survey 2019-20, has summarised the Non-Banking Financial Companies (NBFC) crisis and suggested a dynamic 'Health Score' to give early warning signs when such crises is in the early stage of its development. It recounted how the NBFC fiasco unfolded, the important role played by liquid funds in financing these shadow banks, how defaults triggered widespread selling by mutual funds, and precipitated a full blown crisis.
- Given the significant economic impact of the liquidity crisis on the domestic economy, it would be a fruitful exercise to investigate whether there were any early warning signs of stress in the NBFC sector. The Health Score employs information on the key drivers of refinancing risk such as ALM problems, excess reliance

on short-term wholesale funding (Commercial Paper) and balance sheet strength of the NBFCs.

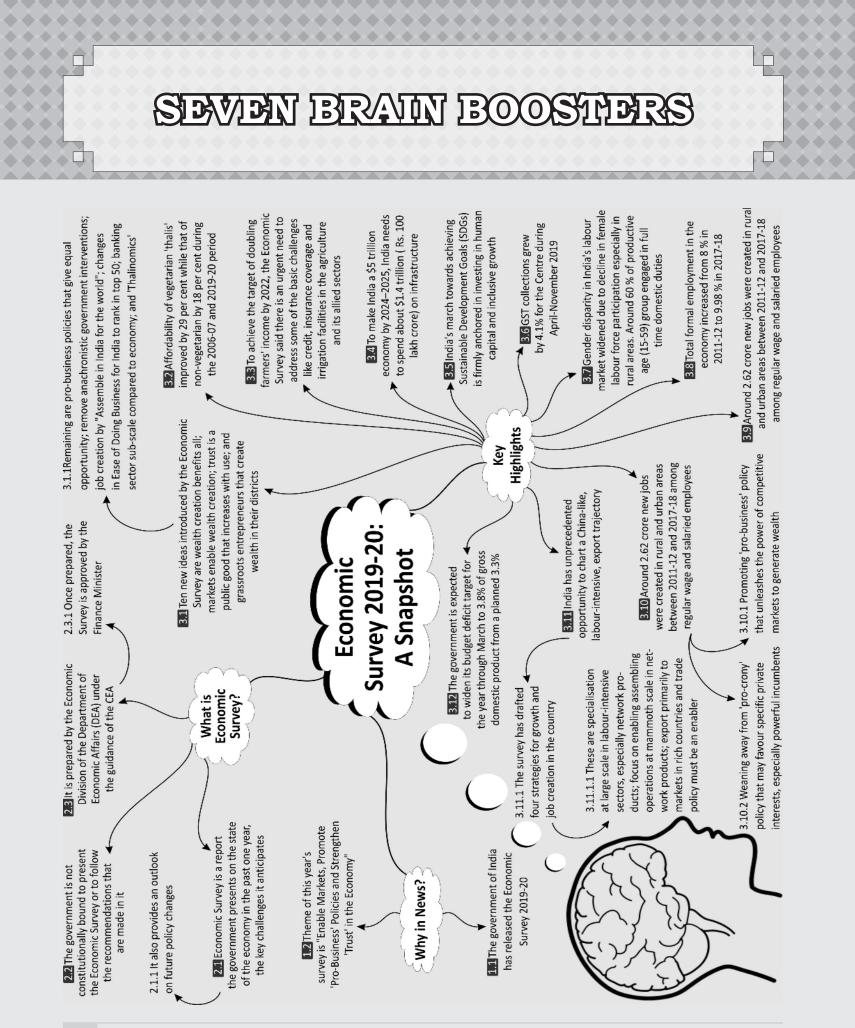
- Score methodology to detect early warning signals of impending rollover risk problems in individual NBFCs. Downtrends in the health score can be used to trigger greater monitoring of an NBFC. Furthermore, an analysis of the trends in the components of the health score can shed light on the appropriate corrective measures that should be applied to reverse the adverse trends.
- Liquidity crises in the NBFC sector shook the fundamentals of Indian economy. In the Survey, the economists computed a health score by quantifying the rollover risk for a sample of HFCs and retail NBFCs, which are representative of their respective sectors.

# 7. Thalinomics: The Economics of a Plate of Food in India

### Q. Explain the concept of 'Thalinomics'.

Hints:

- For the first time,"Thalinomics: The economics of a plate of food in India", was introduced in Economic Survey 2019-20. According to the survey, from 2006-07 to 2019-20, affordability of vegetarian Thalis improved 29 per cent, while affordability of non-vegetarian Thalis improved by 18 per cent.
- The affordability of Thalis has increased over the years. In terms of vegetarian Thali, it is found that, an individual who would have spent around 70 per cent of his/her daily wage on two Thalis for a household of five in 2006-07 is able to afford same number of Thalis from around 50 per cent of his daily wage in 2019-20 (April to October).
- Similarly, the affordability of non-vegetarian Thalis has also increased with the share of wages required decreasing from around 93 per cent to around 79 per cent between 2006-07 and 2019-20 (April to October).
- It is found that at the all-India level as well as regional levels, moderation in prices of vegetarian Thali have been witnessed since 2015-16 though Thali prices have increased this year. This is owing to the sharp downward turn in the prices of vegetables and dal in contrast to the previous trend of increasing prices. In terms of the inflation in Thali prices and all the components,for the said period there had been a distinct declining trend under review. Affordability of Thalis vis-à-vis a day's pay of a worker has improved over time indicating improved welfare of thecommon person.



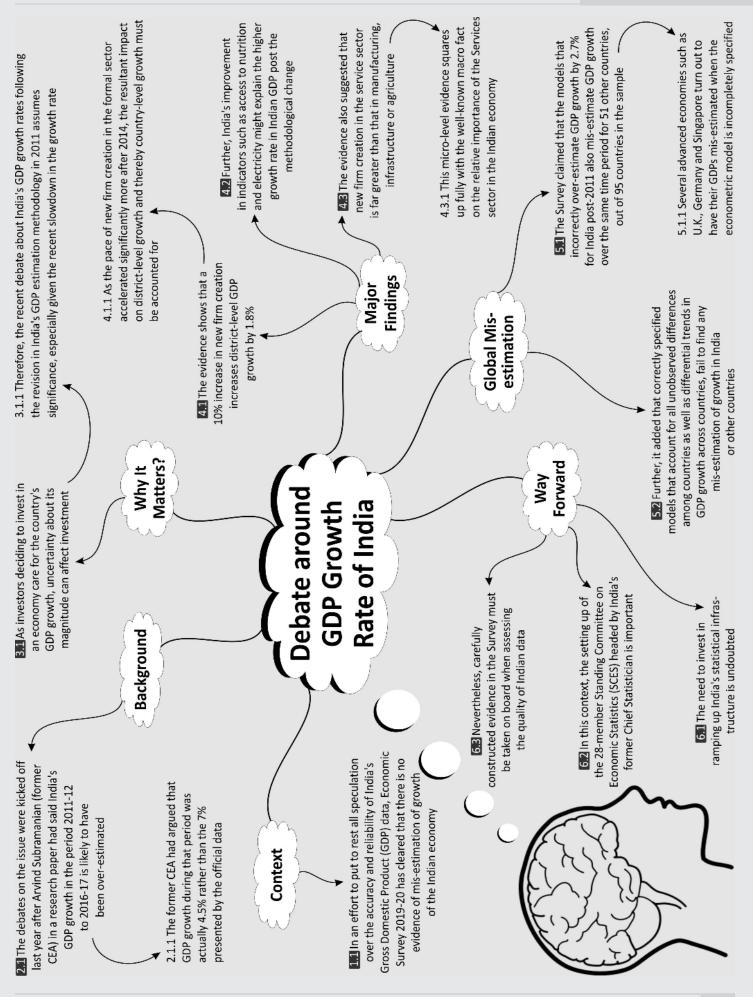
| <ul> <li>Government can affect markets either<br/>through direct participation (as a market maker<br/>or as a buyer or supplier of goods and services),<br/>or through indirect participation in private<br/>markets (for example, through regulation,<br/>taxation, subsidy or other influence)</li> </ul> | <b>B.3</b> 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 | A) does enable opportunities for rent-seeking and harassment                                                                                                                                 | Az Second, the regulation of<br>prices of drugs through the Drug (Prices<br>Control) Order (DPCO), 2013, has led to<br>increase in the price of a regulated<br>pharmaceutical drug | 4.2.1 The increase in prices was witnessed<br>for more expensive formulations than for<br>cheaper ones and those sold in hospitals<br>rather than retail shops, reinforcing that the<br>outcome is opposite to what DPCO aims<br>to do - making drugs affordable | <ul> <li>Third, government policies in the<br/>foodgrain markets has led to the emergence<br/>of government as the largest procurer and<br/>hoarder of foodgrains – adversely affecting<br/>competition in these markets</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 4.3.1 This has led to overflowing of buffer<br>stocks with Food Corporation of India (FCI),<br>burgeoning food subsidy burden, divergence<br>between demand and supply of cereals<br>and acted as a disincentive towards<br>crop diversification |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Government intervention, sometimes<br>though well intended, often ends up under-th<br>mining the ability of the markets to support or<br>wealth creation and leads to outcomes<br>opposite to those intended                                                                                                | Introduction                                                                                                                                                                                | <b>4.1</b> First, frequent and unpredictable imposition of blanket stock limits on commodities under Essential Commodities Act (ECA) neither brings down prices nor reduces price volatility | Examples of<br>Government<br>Interventions                                                                                                                                         | 4.4 Fourth, analysis of debt waivers given<br>by States/Centre shows that full waiver<br>beneficiaries consume less, save less,<br>invest less and are less moduction after                                                                                      | the state of the s | 5.1.2 However, several areas of un-<br>necessary and inefficient government<br>intervention still remain                                                                                                                                         |
| <b>2.3</b> The low rank in economic freedom makes it evident that India chains opportunities for wealth creation by shackling economic freedom for its citizens                                                                                                                                             | About Economic<br>Freedom                                                                                                                                                                   |                                                                                                                                                                                              | Rationalisation<br>of Government<br>Interventions                                                                                                                                  | <b>5.3</b> Eliminating such instances of need-<br>less government intervention will enable<br>competitive markets and thereby spur<br>investments and economic growth                                                                                            | 5.2 The government must system-<br>atically examine areas where the<br>government needlessly intervenes<br>and undermines markets<br>5.1 In several spheres of the economy,<br>India has traversed the transition from                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | a command and control economy<br>to a market-driven economy<br>5.1.1 Specifically industrial deregulation, privatizations<br>of several stateowned enterprises, reduced controls on<br>international trade and investment                        |
| <b>2.2</b> Though India has made significant progress in enhancing economic freedom for firms and its citizens, it still counts among the shackled economies in the world                                                                                                                                   | 2.2.1 In the Index of Economic Freedom,<br>India was categorized as 'mostly unfree' with<br>a score of 55.2 in 2019 ranking the Indian<br>economy 129 <sup>th</sup> among 186 countries     | <b>2.1</b> Economic freedom enhances wealth creation by enabling efficient allocation of entrepreneurial resources and energy to productive activities, thereby pro-                         | moting economic dynamism<br>Context                                                                                                                                                | The Economic Survey 2019-<br>20 has suggested rationalisation<br>of government interventions to<br>boost economic freedom and<br>wealth creation                                                                                                                 | The government ne<br>atically examined and under<br>and under                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 5.1.1<br>of se<br>inter                                                                                                                                                                                                                          |



| most traster since 2005                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Current Affairs : Perfect 7                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul> <li>3.1.1 The finding mute the view that entrepreneurial activity in emerging economies like India is largely necessity driven and typically borne from a lack of alternative employment options</li> <li>3.1.2 Rather, the findings highlight the incidence of productive and growthfocused entrepreneurial activity in the formal sector in India</li> <li>3.1.4 10% increase in registration of new firms per district for year yields of new firms per district for year yields District Product (GDDP)</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <ul> <li>Relative to entrepreneurial capabilities in manufacturing, services and infrastructure, entrepreneurial capabilities in the agriculture sector are not geographically localized and seem to be distributed evenly across most districts in India</li> <li>The states with entrepreneurial activities in the agriculture sector are Manipur, Meghalaya, Madhya Pradesh, Assam, Tripura and Orissa</li> <li>The entrepreneurial activity in the regions of Guiarat, Meghalaya,</li> </ul> | Puducherry, Punjab and Rajasthan<br>Ad The entrepreneurial activity in the<br>Services sector is highest in the regions<br>of Delhi, Mizoram, Uttar Pradesh, Kerala,<br>Andaman & Nicobar and Haryana<br>Andaman & Nicobar and Haryana<br>the Infrastructure sector is highest in the<br>states of Jharkhand, Arunachal Pradesh,<br>Himachal Pradesh, Mizoram, Jammu<br>& Kashmir and Bihar                                                                         |
| The new firm creation in<br>that in manufacturing, in-<br>that in manufacturing, in-<br>structure or agriculture<br>structure or agriculture<br>structure or agriculture<br>structure or agriculture<br>structure or agriculture<br>(14.1 For instance, the eastern part of<br>India has the lowest literacy rate of about<br>59.6%. This is also the region in which<br>new firm formation is the lowest<br>2.4.2 The level of local education and the<br>quality of physical infrastructure in the district<br>influences new firm creation significantly<br><b>Entrepreneurship</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | seen<br>multiple<br>in the product of the protein of the protein of the protein of the maximum<br>globs, states must focus on enabling ease<br>of doing business and flexible labour<br>regulation to foster job creation                                                                                                                                                                                                                                                                        | oster ease<br>cible labour<br>eurial activity,<br>er connectivity<br>ar roads will likely<br>ocal markets and<br>neurial activity<br>fs could also explore<br>ts could also explore<br>the els rapidly through the institution<br>of more schools and colleges will spur<br>entrepreneurship and consequently<br>local wealth creation                                                                                                                              |
| 2.2.2 As a result, from about 70,000<br>new firms created in 2014, the number<br>has grown by about 80% to about<br>1,24,000 new firms in 2018<br>1,24,000 new firms in 2018<br>1,24,000 new firms in 2018<br>2.2.1 While the number of new firms<br>in the formal sector grew at a compoun-<br>ded annual growth rate of 3.8% from<br>2006-2014, the growth rate from 2014<br>to 2018 has been 12.2%<br>Entrepreneurship<br>in India<br>2014<br>2.2.1 Mode annual<br>2.2.1 While the number of new firms<br>in the formal sector grew at a compoun-<br>ded annual growth rate from 2014<br>to 2018 has been 12.2%<br>2.2.1 Mode annual<br>2.2.1 While the number of new firms<br>in the formal sector grew at a compoun-<br>ded annual growth rate from 2014<br>to 2018 has been 12.2%<br>2.2.1 Mode and and a from 2014<br>to 2018 has been 12.2%<br>2.2.1 Mode and a from 2014<br>to 2018 has been 12.2%<br>2.2.1 Mode and a from 2014<br>to 2018 has been 12.2%<br>2.2.1 Mode and a from 2014<br>to 2018 has been 12.2%<br>2.2.2 Mode and a from 2014<br>to 2018 has been 12.2%<br>2.2.2 Mode and a from 2014<br>to 2018 has been 12.2%<br>2.2.2 Mode and a from 2014<br>to 2018 has been 12.2%<br>2.2.2 Mode and a from 2014<br>2.2.2 Mode and a from 2.2.2 Mode and a from 2. | The Economic Survey 2019-20 stated<br>that the 'Startup India' campaign has recog-<br>nized entrepreneurship as an increasingly<br>important strategy to fuel productivity<br>free potential to<br>growth and wealth creation in India<br>of doing busine<br>regulation to                                                                                                                                                                                                                       | <ul> <li>Sa Third, policies that foster ease of doing business and flexible labour regulation foster entrepreneurial activity, especially in the manufacturing sector of villages through tar roads will likely improve access to local markets and improve entrepreneurial activity for villages through tar roads will likely improve entrepreneurial activity the privatization of education to augment education capacity at all levels of education</li> </ul> |

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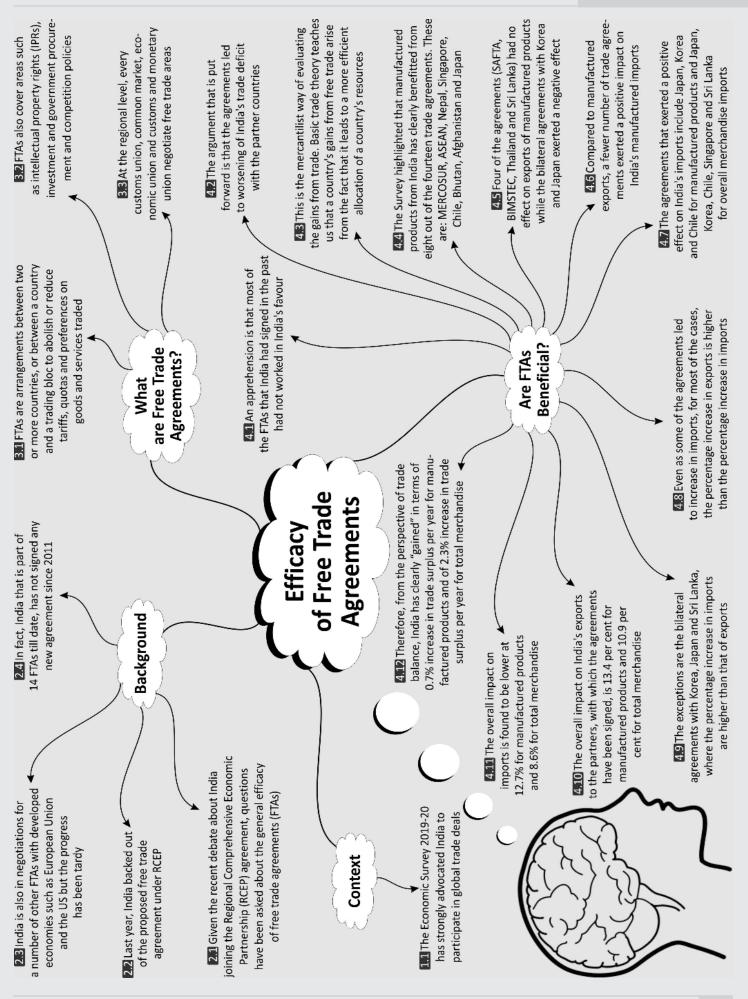


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| <ul> <li>Therefore, from the perspective of trade balance, India has clearly "gained" in terms of 0.7 % increase in trade surplus per year for manufactured products and of 2.3 % increase in trade surplus per year for total merchandise</li> </ul> | <b>3.4</b> By the nature of its specialization<br>(dominance of capital intensive products),<br>India has gained a competitive advantage in<br>relatively low and middle income country<br>markets, but at the cost of losing the much<br>bigger markets in richer countries | <ul> <li>4.1 Citing example of China, the Survey said by importing components and assembling them in China for the world, the neighbouring country has created jobs at an unprecedented scale</li> </ul> | <b>4.2</b> The Survey has suggested a strategy similar to one used by China to grab this opportunity | <b>4.3</b> It said that the current environ-<br>ment for international trade provides<br>huge opportunities to India to chart a<br>China-like, labour-intensive, export tra-<br>jectory and thereby create un-<br>paralleled job opportunities | 4.4 Further, it said that India must have laser-like focus on assembling operations on a mammoth scale in network product, wherein production occurs across Global Value Chains (GVCs) operated by multi-national corporations and focus on exports primarily to markets in rich countries |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.2 The overall impact on imports<br>is found to be lower at 12.7% for<br>manufactured products and 8.6%<br>for total merchandise                                                                                                                     | India's<br>Position                                                                                                                                                                                                                                                          |                                                                                                                                                                                                          | Survey's<br>Highlights                                                                               | <b>4.5</b> It would create about 40 million wellpaid jobs by 2025 and about 80 million by 2030 in the process                                                                                                                                  | 4.4.1 Examples of network products<br>include computers, electronic and<br>electrical equipments and telecom gear                                                                                                                                                                          |
| <b>B.I.</b> According to the Survey, the overall<br>impact on India's exports to the partners,<br>with which the agreements have been signed,<br>is 13.4% for manufactured products and<br>10.9 % for total merchandise                               | Introduction                                                                                                                                                                                                                                                                 | Integrating 'Assemble<br>in India' into 'Make<br>in India'                                                                                                                                               | The bottom line is that                                                                              | 5.2.1 It should specialize more in the areas of its comparative advantage and achieve significant quantity expansion Forward                                                                                                                   | entation of K<br>vards labour-<br>th respect to<br>fully driven<br>effect                                                                                                                                                                                                                  |
| <ul> <li>2.2.2 It pointed out that China enjoys<br/>a much greater share of the global<br/>export market than India primarily<br/>due to its focus on specialisation</li> <li>2.2.1 But the Survey said that India</li> </ul>                         | is clearly catching up with China in<br>terms of diversification across<br>products and markets<br>products and markets<br>The Survey examined the reasons<br>for India's under-performance in<br>exports vis-à-vis China                                                    | Context                                                                                                                                                                                                  |                                                                                                      | 5.2.1 It should s<br>areas of its com<br>achieve signific                                                                                                                                                                                      | 5.2.2 It requires a reori trade specialization tow intensive product lines intensive product lines specialization has been specialization has been by the quantity                                                                                                                         |

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| <ul> <li>In the initial phase, this was done through the sale of minority stake in bundles through auction. This was followed by separate sale for each company in the following years</li> <li>In 1999-2000, India adopted strategic sale as a policy measure with sale of substantial portion of government shareholding in identified CPSEs up to 50% or more, along with transfer of management control</li> </ul>                                                                                                                                                                                                                                                      | <b>Bul</b> in 2016, Department of Investment and<br>Public Asset Management (DIPAM) has laid<br>down comprehensive guidelines on "Capital<br>Restructuring of CPSEs by addressing various<br>aspects, such as, payment of dividend,<br>buyback of shares, issues of bonus<br>shares and splitting of shares | <b>3.5.1</b> For this purpose, NITI Aayog has been mandated to identify PSUs for strategic disinvestment 3.5.1 For this purpose, NITI Aayog has classified PSUs into "high priority" and "low priority", based on national security, sovereign functions at arm's length and market imperfections and public purpose                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Evolution of<br>Disinvestment Policy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>3.5</b> Further, in November, 2019,<br>India has launched its biggest privati<br>zation drive in more than a decade<br>to facilitate quick decision making                                                                                                                                               | 3.6.1 An "in-principle" approval was<br>accorded to reduce Government of<br>India's paid-up share capital below<br>51% in select CPSEs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | The disinvestment (through the<br>strategic sale) of CPSEs unlocks their<br>potential of these enterprises to create<br>wealth evinced by the improved per-<br>formance after privatization                                                         |
| <ul> <li>2.2.1 These CPSEs, on an average, performed better after privatisation than better after privatisation than better after privatisation than better after privatisation than better privatisation than better privatisation than better privatisation and gross revenue, net profit margin, sales growth and gross revenue, net profit margin, sales growth and gross profit per employee</li> <li>2.2.1 These CPSEs, on an average, performed better after privatisation than better privatisation and whether the purported benefits of privatization and whether the purported benefits of privatization the indeed manifested in the indian context.</li> </ul> | 2.1.1 The Survey analysed the<br>performance of 11 CPSEs that had<br>undergone strategic disinvestment<br>from 1999-2000 to 2003-04<br>from 1999-2000 to 2003-04<br>from 1999-2000 to 2003-04<br>from the Privatisation<br>and Wealth<br>Creation                                                           | Suggested aggressive disinvestment<br>of Central Public Sector Enterprises<br>(CPSEs) as the move ensures pro-<br>fitability and efficiency<br>in various CPSEs<br>approved the disinvestment<br>in various CPSEs<br>in various CPSEs<br>in various CPSEs<br>approved the disinvestment<br>in various CPSEs<br>in | And Aggressive disinvestment, preferably through<br>the route of strategic sale, should be utilized to<br>bring in higher profitability, promote efficiency,<br>increase competitiveness and to promote pro-<br>fessionalism in management in CPSEs |

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#### 1. Economic Survey 2019-20: A Snapshot

- Q. Consider the following statements:
  - The Economic Survey is a report the government presents on the state of the economy in the past one year.
  - 2. The government is constitutionally bound to follow the recommendations that are made in it.
  - 3. It is prepared by the Economic Division of the Department of Economic Affairs (DEA) under the guidance of the Union Finance Minister.

Which of the statements given above is/are correct?

- a) 1 only
   b) 1 and 2 only

   c) 2 only
   d) 1, 2 and 3

#### Answer: (a)

**Explaination: Statement 1 is correct.** The Economic Survey is a report the government presents on the state of the economy in the past one year, the key challenges it anticipates. It also provides an outlook on future policy changes.

**Statement 2 and 3 are incorrect.** The government is not constitutionally bound to present the Economic Survey or to follow the recommendations that are made in it. It is prepared by the Economic Division of the Department of Economic Affairs (DEA) under the guidance of the CEA.

### 2. Rationalisation of Government Interventions

- Q. Consider the following statements:
  - 1. The Economic Survey 2019-20 has suggested rationalisation of government intervention to boost economic freedom and wealth creation.
  - 2. In the Index of Economic Freedom 2019, India has been ranked 129<sup>th</sup>.

Which of the statements given above is/are correct?

- a) 1 only b) 2 only
- c) Both 1 and 2 d) Neither 1 nor 2

#### Answer: (c)

**Explanation: Both statements are correct.** The Economic Survey 2019-20 has suggested rationalisation of government intervention to boost economic freedom and wealth creation.

Though India has made significant progress in enhancing economic freedom for firms and its citizens, it still counts among the shackled economies in the world. In the Index of Economic Freedom, India was categorized as 'mostly unfree' with a score of 55.2 in 2019 ranking the Indian economy129<sup>th</sup> among 186 countries.

### 3. Grassroots Entrepreneurship and Wealth Creation

#### Q. Consider the following statements:

- 1. As per World Bank's Data on Entrepreneurship, India ranks third in number of new firms created.
- 2. The new firm creation in services is significantly higher than that in manufacturing, infrastructure or agriculture.

Which of the statements given above is/are correct?

| Answer: (c) |    |              |    |                 |
|-------------|----|--------------|----|-----------------|
| (           | c) | Both 1 and 2 | d) | Neither 1 nor 2 |
| i           | a) | 1 only       | b) | 2 only          |

**Explanation: Both statements are correct.** As per World Bank's Data on Entrepreneurship, it is seen that India ranks third in number of new firms created. The new firm creation has gone up dramatically in India since 2014. While the number of new firms in the formal sector grew at a compounded annual growth rate of 3.8% from 2006-2014, the growth rate from 2014 to 2018 has been 12.2%.

As a result, from about 70,000 new firms created in 2014, the number has grown by about 80% to about 1,24,000 new firms in 2018. The new firm creation in services is significantly higher than that in manufacturing, infrastructure or agriculture.



### 4. Debate around GDP Growth Rate of India

#### Q. Consider the following statements:

- 1. A 10% increase in new firm creation increases district-level GDP growth by 1.8%.
- 2. The new firm creation in the Service sector is far greater than that in manufacturing, infrastructure or agriculture.

Which of the statements given above is/are correct?

| a) 1 only b) 2 only |  |
|---------------------|--|
|---------------------|--|

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (c)

**Explanation: Both statements are correct.** The evidence shows that a 10% increase in new firm creation increases district-level GDP growth by 1.8%.

The evidence also suggested that new firm creation in the Service sector is far greater than that in manufacturing, infrastructure or agriculture. This micro-level evidence squares up fully with the well-known macro fact on the relative importance of the Services sector in the Indian economy.

### 5. Integrating 'Assemble in India' into 'Make in India'

#### Q. Consider the following statements:

- 1. The Economic Survey 2019-20 has suggested integration of 'Assemble in India for the World' into 'Make in India'.
- 2. This step would help raise India its export market share to about 3.5% by 2025 and 6% by 2030.

Which of the statements given above is/are correct?

| a) | 1 only | b) | only |
|----|--------|----|------|
|    |        |    |      |

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (c)

**Explanation: Both statements are correct.** The Economic Survey 2019-20 has suggested integrating 'Assemble in India for the World' into 'Make in India' as it would help raise India its export market share to about 3.5% by 2025 and 6% by 2030.

Citing example of China, the Survey said by importing components and assembling them in China for the world, the neighbouring country has created jobs at an unprecedented scale. The Survey has suggested a strategy similar to one used by China to grab this opportunity.

### 6. Efficacy of Free Trade Agreements

#### Q. Consider the following statements:

- 1. The Economic Survey 2019-20 has strongly advocated India to participate in global trade deals.
- 2. India that is part of 14 FTAs till date, has not signed any new agreement since 2011.

Which of the statements given above is/are correct?

- a) 1 only b) 2 only
- c) Both 1 and 2 d) Neither 1 nor 2

Answer: (c)

**Explanation: Both statements are correct.** The Economic Survey 2019-20 has strongly advocated India to participate in global trade deals. Last year, India backed out of the proposed free trade agreement under RCEP. India is also in negotiations for a number of other FTAs with developed economies such as European Union and the US but the progress has been tardy. In fact, India that is part of 14 FTAs till date, has not signed any new agreement since 2011.

### 7. Privatisation and Wealth Creation

#### Q. Consider the following statements:

- 1. The Economic Survey 2019-20 has suggested aggressive disinvestment of Central Public Sector Enterprises (CPSEs).
- 2. NITI Aayog has been mandated to identify PSUs for strategic disinvestment.

Which of the statements given above is/are correct?

- a) 1 only b) 2 only
- c) Both 1 and 2 d) Neither 1 nor 2

#### Answer: (c)

**Explanation: Both statements are correct.** The Economic Survey 2019-20 has suggested aggressive disinvestment of Central Public Sector Enterprises (CPSEs) as the move ensures profitability and efficiency.

NITI Aayog has been mandated to identify PSUs for strategic disinvestment. For this purpose, NITI Aayog has classified PSUs into "high priority" and "low priority", based on national security, sovereign functions at arm's length and market imperfections and public purpose.

# SINCER PREMINE PACES FOR PREMIS

1. Which city has hosted 22<sup>nd</sup> India International Seafood Show 2020, one of the largest Seafood Fairs in Asia? - Kochi, Kerala 2. Who has been awarded International Gandhi Awards for Leprosy? - Dr. N S Dharamshaktu (Indiviual Category) - Leprosy Mission Trust India (Institutional Category) 3. Which state government has launched 'Mukti Caravan' to generate awareness and mobilise people against child trafficking, combat forced labour, exploitation and sexual abuse of children? - Rajasthan 4. Who will head the trust that will oversee the construction of a Ram temple in Ayodhya? - Supreme Court Lawyer K. Parasaran 5. Which team won the ICC Under 19 Cricket World Cup 2020? - Bangladesh 6. Which nation has rejoined the Commonwealth as 54<sup>th</sup> member? - Maldives 7. Who has been conferred with National Kishore Kumar Samman by Madhya Pradesh government? - Waheeda Rehman 000

## SEAVEN PRACEER QUESTIONS FOR MAINS EXAM

- 1. Discuss the concept of 'Protected Special Agriculture Zone'. Also explain how such methods can ensure food security.
- 2. "Honesty is a priceless asset for a civil servant." Elaborate.
- 3. What are the continued challenges for women in India against time and space?
- 4. Are we losing our local identity for the global identity? Discuss.
- 5. What is Direct Tax Vivad se Vishwas Bill, 2020?

- 6. Explain the basic principles of citizens charter movement and bring out its importance.
- 7. What is filament-free Kerala project? Explain how it can be useful in reducing the dependence on conventional energy sources and maximise potential on renewable sources.

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## 1. International Intellectual Property (IP) Index 2020

US Chamber of Commerce's Global Innovation Policy Center has released the International Intellectual Property (IP) Index 2020. In this edition, the IP Index has ranked 53 global economies, representing over 90% of global GDP, including India, on 50 IP-specific indicators.

#### **Key Highlights**

The US tops the scorecard with 95.28% out of an 100% scale, while the UK (93.92%), France (91.50%), Germany (91.08%), Sweden (90.56%) and Japan (90.40%) follow closely.



The 2020 index includes three new countries — Dominican Republic, Greece, and Kuwait. Two new Index economies (Greece and the Dominican Republic) scored ahead of India.

#### **India's Performance**

India stands at 40<sup>th</sup> place out of 53 economies in global IP Index 2020, as against 36<sup>th</sup> place out of 50 economies in the 2019 Index.

The index has reported that India's key areas of strength in IP domain include continued strong efforts to combat copyright piracy throughout 2019 by issuing of dynamic injunction orders, precedent-setting case law on online trademark infringement and damages, new pilot patent prosecution highway (PPH) programme and generous R&D along with IP-based incentives.

India remained a global leader on targeted administrative incentives for the creation and use of IP assets for SMEs while the country's strong awareness-raising efforts on the negative impact of piracy and counterfeiting have made a mark in the overall IP spectrum.

GIPC has identified several India. Prominent challenges for among them being patentability requirements, patent enforcement, compulsory licensing, patent opposition, regulatory data protection, transparency in reporting seizures by customs, and Singapore Treaty of Law of TMs and Patent Law Treaty.

### 2. New Vaccine to Control Classical Swine Fever

In order to check fall in pig population in India, the government of India has unveiled a new indigenously developed vaccine for controlling classical swine fever, which is an highly contagious fatal pig disease. As per 2019 census, the country's pig population declined to 9.06 million from 11.13 million in 2007. The new vaccine is developed by Uttar Pradesh-based ICAR-Indian Veterinary Research Institute (IVRI).

#### What is CSF?

Classical swine fever (CSF), also known as hog cholera, is a contagious viral disease of domestic and wild swine. It is caused by a virus of the genus Pestivirus of the family Flaviviridae, which is closely related to the viruses that cause bovine viral diarrhoea in cattle and border disease in sheep. CSF virus can survive in pork and processed pork products for months when meat is refrigerated and for years when it is frozen. Pigs can become infected by eating CSF-infected pork meat or products.

#### Significance

The new vaccine will be much cheaper than the existing one. It would cost only Rs 2 per dose compared to the current vaccine's rate of Rs 15-20 per dose and imported Korean vaccine rate of Rs 30 per dose.

The new vaccine has been developed using Indian strain and lakhs of doses can be produced very easily using the cell culture technology and the country's requirement can be easily fulfilled.

The vaccine is safe, potent, does not revert to virulence and provide protective immunity from day 14 of the vaccination till 24 months studied so far. The vaccine has been tested on around 500 pigs at multiple locations.



NASA and the European Space Agency (ESA) has launched a new probe, solar orbiter, toward the Sun to take a unique look at its blazing poles, an unprecedented view is expected to help researchers grasp how the star's vast bubble of energy affects Earth and humans in space.

#### What is the Solar Orbiter?

Carrying four in situ instruments (which measures the space environment immediately around the spacecraft like the sense of touch) and six remotesensing imagers (which see the Sun from afar), the Solar Orbiter (called SolO) will face the Sun at approximately 42 million kilometres from its surface.

## 3. Solar Orbiter

Before SolO, all solar imaging instruments have been within the ecliptic plane, in which all planets orbit and which is aligned with the Sun's equator. The new spacecraft will use the gravity of Venus and Earth to swing itself out of the ecliptic plane, passing inside the orbit of Mercury, and will be able to get a bird's eye view of the Sun's poles for the first time.

The SolO will take pictures using telescopes through a heat shield that is partly made of baked animal bones, to help it withstand temperatures of up to 600 degree Celsius.

By understanding the behaviour of the Sun, the Orbiter aims to provide

information on how the former would affect technology such as satellites, navigation systems, power grids, and telecommunication services.

#### Significance

The Orbiter will help scientists understand the Sun's dynamic behaviour and solve mysteries such as the sunspot cycle, or why the star spews out high velocity charged particles through the solar system. With more data on the global magnetic field of the star, scientists would be able to forecast space weather events.

## 4. 33<sup>rd</sup> African Union Summit

The 33<sup>rd</sup> African Union (AU) summit was held in Addis Ababa under the theme of 'Silencing the Guns: Creating Conducive Conditions for Africa's Development.' For Africa's Development, 'Silencing the Guns' is a commitment to achieve the Aspirations of Africa's Agenda 2063, specifically Aspiration 4, which envisions a peaceful and secure Africa, thereby making peace a reality for African people.

#### **Key Highlights**

The issues discussed during the summit includes, sustainable funding of Africa's development agenda specifically addressing the scale of assessment and contributions to the AU's budget; progress made in the implementation of Agenda 2063; operationalization of the Africa Continental Free Trade Area (AfCFTA); African candidatures in the international system, the International Criminal Court, and Africa's Digital Transformation Strategy.

African Continental Free Trade Area (AfCFTA) which will become operational in July 2020, will be a major driver for reigniting industrialization and paving the way for Africa's integration into the global economy as a player of considerable weight and scale.

On the Africa's Agenda 2063 summit noted that the drive for sustainable development has yielded significant improvements, with rising living standards, better access to quality education, healthcare and services, but progress remains slow and uneven when it comes to ending poverty and ending exclusion. On the issue of empowerment of women and girls in Africa, the summit emphasised the need to move beyond the cliches and general statements and work towards achieving practical solutions such as the implementation of awarding 25% of public procurement to women owned businesses in line with Agenda 2063.

Conflict is one of the biggest challenges for the implementation of Agenda 2063, and with the vision of "Silencing the Guns," it was aimed to end all wars, civil conflicts, genderbased violence, violent conflicts and preventing genocide in the continent by 2020. The summit has underlined on the need to build peace through implementation of innovative way, such as development and solidarity.

## 5. Parth - Gun Shot Locator

The Army's College of Military Engineering jointly with a private firm has developed a gun shot locator, Parth.

#### **Key Highlights**

• The device can locate the exact location of a bullet from a distance

of 400m and will help to locate and neutralize terrorist faster.

 The device costs around Rs 3 lakhs, and if inducted, would replace a



similar imported item which costs around Rs 65 lakhs.

#### What is Gun Shot Locator?

A gun shot locator or gunshot detection system is a system that detects and



conveys the location of gunfire or other weapon fire using acoustic, optical, or potentially other types of sensors, as well as a combination of such sensors. These systems are used by law enforcement, security, military and

> businesses to identify the source and in some cases, the direction of gunfire and/ or the type of weapon fired. Most systems possess three main components:

 An array of microphones or sensors either co-located or geographically dispersed;

- A processing unit; and
- A user-interface that displays gunfire alerts

Systems used in urban settings integrate a geographic information system so the display includes a map and address location of each incident.

#### Signifance

The technology could help neutralise terrorists faster, especially in areas such as Jammu and Kashmir, where the security forces have been fighting a proxy war.

## 6. Kerala has Banned CFL and Filament Bulbs

Kerala government has imposed a ban on the sale of compact fluorescent lamps (CFL) and incandescent (filament) bulbs starting November this year as part of sustainable energy policy. Recent announcement is in line with the government project of 'Filament-free Kerala' envisaged in 2018 as part of the state's Urja Kerala Mission.

#### **Reason Behind**

LED bulbs are energy-efficient than filament or CFL bulbs and will,

therefore, generate less waste. Also, filament bulbs contain the mercury element which, when broken, is polluting in nature.

Further, governement's long-term sustainable energy policy is committed to reduce the dependence on conventional energy sources and instead maximise potential on renewable sources like solar and hydel power.

#### **Key Highlights**

The streetlights and bulbs in government offices across the state

will be converted to light-emitting diode (LED) bulbs.

Consumers in the state can place orders for LED bulbs on the state website government's in exchange for existing filament bulbs. Nine-watt LED bulbs are being sold at reduced prices by the government to encourage usage. Last year, Peelikode in Kasaragod district became the first panchayat in the country to be completely filamentfree.

## 7. Web Portal Launched for Star Rating of Mines in India

In order to promote green, safe and sustainable mining practices using technology as a tool, Ministry of Coal (MoC) has launched a web portal for star rating of coal mines. It will enable all operational coal mines across India for self-rating, their subsequent validation by Coal Controller's Organization (CCO), further evaluation and finally award of star rating.

It envisages 50 evaluation parameters in opencast mines and 47 in underground mines as star rating criteria under seven broad modules namely - mining operations related parameters; environment related parameters; adoption of technologies: best mining practices; economic performance, rehabilitation & resettlement related parameters; worker related compliance; and safety and security related parameters.

The mines that score from 91 to 100% will get 5 star, 81 to 90% 4 star, 71 to 80% 3 star, 61 to 70% 2 star, 41 to 60% 1 star and mines that score from 0 to 40% will get No star.

#### Significance

It will increase transparency in the mining sector and address many issues of stakeholders, the public and miners.

It will act as a powerful tool for implementation of the Sustainable Development Framework (SDF) in the mining sector.

Further, in the long run, it will enable formulation of Comprehensive Regional Plans to address cumulative impact in mining areas through coordinated and collective action.



## 1. Operation Vanilla

Indian Navy has launched 'Operation Vanilla' in support of the Cyclone Diane hit Madagascar. As the first respondent, Indian Navy Ship (INS) Airavat a large amphibious ship, which was enroute to Seychelles was diverted to Madagascar. INS Airavat reached port city Antsiranana, Madagascar and immediately began to provide medical aid as required by local authorities. Cyclone Diane originated in north-west off the coast of Mauritius in the Southwestern Indian Ocean.

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#### **Key Highlights**

 Madagascar has been hit by a cyclone and there has been heavy flooding and landslips causing loss of lives and displacement of a number of people. According to reports, more than 92,000 people have been affected.

India's assistance to Madagascar is in consonance with Indian Navy's Foreign Cooperation initiatives in line

with India's vision of 'Security and Growth for all in the Region (SAGAR)'.

 There are about 15,000 persons of India origin in Madagascar,



including approximately 2500 Indian passport holders.

Madagascar is also a member of inter-governmental organisation Indian Ocean Rim Association (IORA).

## 2. National Technical Textiles Mission

The government has announced a proposal to set up a National Technical Textiles Mission with a four-year implementation period from 2020-21 to 2023-24 at an estimated outlay of Rs. 1480 crore to position India as a global leader in technical textile.



In terms of the projections of the last baseline survey on technical textiles submitted in 2015, the market size in India for the year 2017-18 is projected as Rs 1,16,217 crore. Although, there is no projection in the last baseline study with regard to the projections for 2020-21. Taking into account the current trend of growth and various initiatives of the government, domestic market size of the technical textiles is expected to cross Rs 2 lakh crores by the year 2020-21.

#### **About Technical Textiles**

Technical textiles are material and products manufactured primarily for their technical properties and functional requirements rather than for aesthetic characteristics. The scope of use of technical textiles encompasses a wide range of applications such as agrotextiles, medical textiles, geo-textiles, protection-textiles, industrial-textiles, sports-textiles and many other usages.

Use of technical textiles have benefits of increased productivity in agriculture, horticulture and aquaculture fields, better protection of military, para-military, police and security forces, stronger and sturdier transportation infrastructure for highways, railways, ports and airports and in improving hygiene and healthcare of general public. In India, technical textiles hold immense growth opportunities both for the industry as well as across various applications.



## 3. Data Centre Parks Policy

The government of India has proposed a policy to enable private sector build data center parks in the country.

#### **Key Highlights**

The new policy will enable private sector in building Data Centre Parks throughout the country, thus enabling firms to incorporate data in every step of their value chains. The new policy on data centre parks is expected to incentivize setting up data centres, similar to some US states that have relaxed taxation on data centre providers.

#### Need

Currently there is no large-scale foreign investment in data centres in the country. There is no policy or framework right now on how these global data centres hubs can be created in India. If the government has a clear cut policy around it, India could essentially become a data centre hub for global enterprises.

The global data centre market is expected to grow by \$284.44 billion during 2019-23, according to market researcher Technavio. According to Research and Markets, US data centre market is expected to reach revenue of \$69 billion by 2024. Meanwhile, India data centre market is expected to reach values of approximately \$4 billion by 2024.

However, setting up data centres in India can be challenging considering costly real estate, high power consumption and heavy expenses on improving wide area network connectivity.

## 4. Pradhan Mantri Matru Vandana Yojana

The government of India has given the Pradhan Mantri Matru Vandana Yojana (PMMVY) awards to states, Union Territories (UTs) and districts for best performance.

#### **Key Highlights**

In the category of best performance since inception of the scheme to states/ UTs having population of more than 1 crore the first position was awarded to the State of Madhya Pradesh, followed by Andhra Pradesh and Haryana was in the third position.

In the same category, among states/ UTs having population of less than 1 crore Dadra & Nagar Haveli is in the first position. Himachal Pradesh stood second and Chandigarh is at the third position. District level awards for states/ UTs with population of more than 1 crore the first position went to Indore in Madhya Pradesh. Kurnool in Andhra Pradesh is in second position and South Salmara Mankachar in Assam was third.

Among the districts of states/ UTs having population of less than 1 crore the first position went to Serchhip in Mizoram, second position to Una in Himachal Pradesh and Puducherry was in the third position.

#### About PMMVY

The PMMVY is a maternity benefit programme being implemented in all districts of the country from 01.01.2017. Under PMMVY a cash

5. Vadhavan Port

incentive of Rs. 5000 is provided directly to the bank/ post office account of Pregnant Women and Lactating Mothers (PW&LM) for the first living child of the family subject to fulfilling specific conditions relating to maternal and child health.

PMMVY is implemented using the platform of Anganwadi Services Scheme of Umbrella ICDS under the WCD Ministry in respect of States/ UTs implementing scheme through Women and Child Development Department/ Social Welfare Department and through health system in respect of States/ UTs where scheme is implemented by Health and Family Welfare Department.

The Union Cabinet has given its 'inprinciple' approval for setting up a major port at Vadhavan near Dahanu in Maharashtra. Total cost of the project is likely to be Rs.65,544.54 crore.

Vadhavan port will be developed on "land lord model". A Special Purpose Vehicle (SPV) will be formed with Jawaharlal Nehru Port Trust (JNPT) as the lead partner with equity participation equal to or more than 50% to implement the project. The SPV will develop the port infrastructure including reclamation, construction of breakwater, besides establishing connectivity to the hinterland. All the business activities would be undertaken under public private partnership (PPP) mode by private developers.

The position of JN Port, the biggest container port in India is 28<sup>th</sup> in the world with a traffic of 5.1 million TEUs (Twenty-Foot Equivalent Units). Even after the completion of 4<sup>th</sup> terminal at



**Current Affairs : Perfect 7** 

JN Port with a capacity increase upto 10 million TEUs by 2023, it will stand as the 17<sup>th</sup> largest container port in the world. With the development of Vadhavan port, India will break into the countries with top 10 container ports in the world.

#### What is Landlord Port Model?

In the landlord port model, the

publicly governed port authority acts as a regulatory body and as landlord while private companies carry out port operations—mainly cargo-handling activities. Here, the port authority maintains ownership of the port while the infrastructure is leased to private firms that provide and maintain

their own superstructure and install own equipment to handle cargo. In return, the landlord port gets a share of the revenue from the private entity. Currently, most major port trusts in India carry out terminal operations as well, resulting in a hybrid model of port governance.

## 6. Second National Judicial Pay Commission Report

The Second National Judicial Pay Commission has filed its report covering the subject of Pay, Pension and Allowances, in the Registry of the Supreme Court. The Commission has been constituted pursuant to the Order of the Supreme Court in All India Judges Association case and the Government of India, Ministry of Law & Justice issued a Notification dated 16.11.2017 in this regard.

The recommendations made by the Commission are applicable to the Judicial officers throughout the country.

Supreme Court will have to issue directions regarding the

implementation of recommendations after hearing the stakeholders.

#### **Key Recommendations**

**Pay:** As per the revised pay structure evolved by the Commission, the Junior Civil Judge/First Class Magistrate whose staring pay is Rs.27,700/- will now get Rs.77,840/-. The next higher post of Senior Civil Judge starts with the pay of Rs.1,11,000/- and that of the District Judge Rs.1,44,840/-. The highest pay which a District Judge (STS) will get, is Rs.2,24,100/-.

**Pension:** Pension at 50% of last drawn pay worked out on the basis of proposed revised pay scales is recommended w. e. f. 1-1-2016. The family pension will be 30% of the last drawn pay. Additional quantum of pension will commence on completing the age of 75 years (instead of 80 years) and percentages at various stages thereafter are increased. The existing ceiling of retirement gratuity and death gratuity will be increased by 25% when the DA reaches 50%.

Allowances: The existing allowances have been suitably increased and certain new features have been added. Certain new allowances viz. children education allowance, home orderly allowances, transport allowance in lieu of pool car facility, have been proposed.

## 7. Ease of Living Index and Municipal Performance Index 2019

The Ministry of Housing & Urban Affairs has launched two Assessment Frameworks, viz. Ease of Living Index (EoLI) and Municipal Performance Index (MPI) 2019 to assess the progress made in cities through various initiatives and empower them to use evidence to plan, implement & monitor their performance. Both these indices are designed to assess quality of life of citizens in 100 Smart Cities and 14 other Million Plus Cities.

#### About MPI

With the Municipal Performance Index 2019, the Ministry has sought to assess the performance of municipalities based on five enablers namely : Service,

Finance, Planning, Technology and Governance which have been further divided into 20 sectors which will be evaluated across 100 indicators. This will help Municipalities in better planning and management, filling the gaps in city administration, and improving the liveability of cities for its citizens.

#### **About EoLI**

Ease of Living Index is aimed at providing a holistic view of Indian cities - beginning from the services provided by local bodies, the effectiveness of the administration, the outcomes generated through these services in terms of the liveability within cities and, finally, the citizen perception of these outcomes.

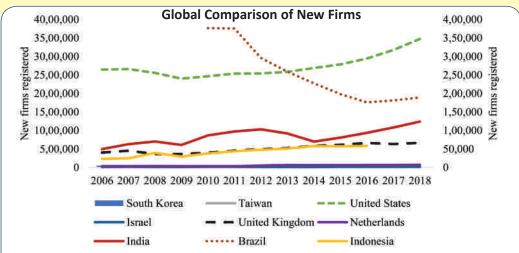
The key objectives of the Ease of Living Index are four-folds, viz. a) generate information to guide evidence-based policy making; b) catalyse action to achieve broader developmental outcomes including the SDG; c) assess and compare the outcomes achieved from various urban policies and schemes; and d) obtain the perception of citizens about their view of the services provided by the city administration. EoLI 2019 will facilitate the assessment of ease of living of citizens across three pillars: quality of life, economic ability and Sustainability which are further divided into 14 categories across 50 indicators.

## SEVEN IMPORTANT CONCEPTS THROUGH GRAPHICS

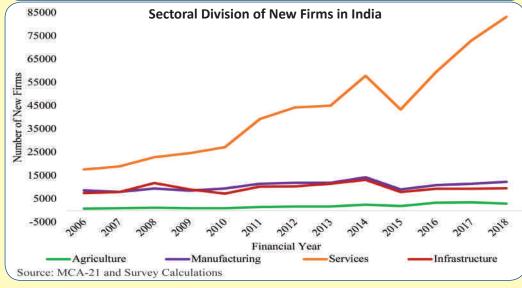
## **Economic Survey 2019-20**

1. Global and Domestic Comparison of New Firms

- Entrepreneurship represents a key focus area for many policy makers given its role in economic development and subsequent employment growth.
- Entrepreneurs are seen as agents of change that accelerate innovation in the economy.
- As per the World Bank's Ease of Doing Business (EODB) Entrepreneurship data, India has the 3rd largest entrepreneurship ecosystem in the world.
- Also, while the number of new firms in the formal sector grew at a cumulative annual growth rate of 3.8% from 2006-2014, the growth rate from 2014 to 2018 has been 12.2%. As a result, from about 70,000 new firms created in 2014, the number has grown by about 80% to about 1,24,000 new firms in 2018.
- On a per-capita basis, India has low rates of entrepreneurship in the formal economy. Between 2006 and 2016, the mean (median) number of new firms registered per year per 1000 workers was 0.10 (0.11). In contrast, the mean (median) entrepreneurial intensity for the United Kingdom and the United States was 12, 22 (11.84).



Source: World Bank's EODB Entrepreneurship Data, Business Formation Statistics of the U.S. Census Bureau and Survey Calculations Note: Secondary axis for India, Brazil and, Indonesia



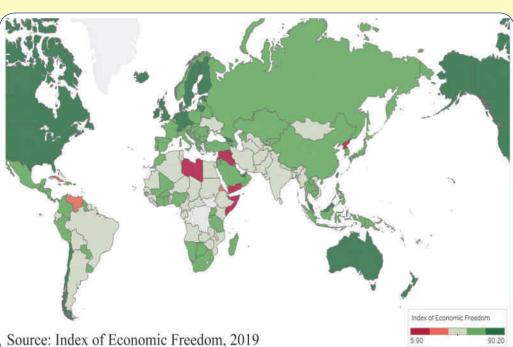
United States was 12.22 (11.84) and 12.12 (11.81) respectively.

- In general, the entrepreneurial intensity is significantly higher for the developed economies. It is also growing across all countries except Brazil, which has seen a significant decline from 2010 to 2018.
- Further, new firm creation in services is significantly higher than that in manufacturing, infrastructure or agriculture. This fact reflects India's new economic structure, i.e. comparative advantage in the Services sector.



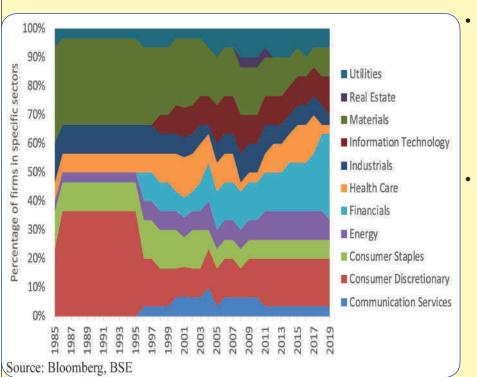
#### 2. Economic Freedom in India

- Despite, India has made significant progress in enhancing economic freedom for firms and its citizens, it is still amongst the shackled economies in the world.
- In the global indices of economic freedom, India ranks in the bottom half. The Index of Economic Freedom measures economic freedom as the freedom of choice enjoyed by individuals in acquiring and using economic goods and resources.
- In the Index of Economic Freedom, India was categorized as 'mostly unfree' with a score of 55.2. In 2019 Indian economy ranked 129<sup>th</sup> among 186 countries, i.e., in the bottom 30% of countries.
- In the component pertaining to 'investment freedom', which measures the ease of flow of investment capital both internally



investment capital both internally and acros 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 Global Economic Freedom too, India ranks 79<sup>th</sup> among 162 countries with 108<sup>th</sup> rank in business regulation.

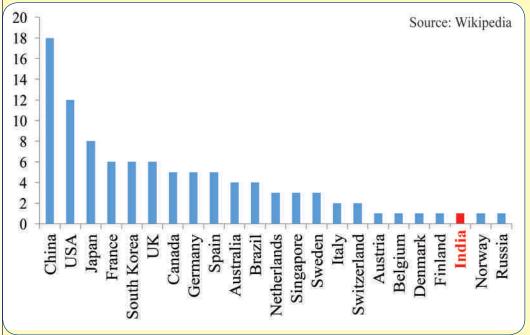


#### **3. Sectoral Concentration of the Sensex**

- Almost 60% 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.
  - Thus, over the years, the share of services sector in the total number of companies on the Sensex has changed from being negligible in the 1980s to the dominant status today.
- The diversity of sectors in the Sensex steadily increased over time following market reforms. The initial Sensex of 1986 was dominated by the Materials and Consumer Discretionary sectors, accounting for two-thirds of the firms on the Sensex. Sectors like financials, telecommunications and information technology were nonexistent in the index then. With the entry of these new sectors, today's Sensex is far less concentrated than the Sensex of the 1980s and 1990s, and mirrors the far lower sectoral concentration of the Indian economy as a whole.

• New sectors like banks and financials entered the index for the first time, eroding the predominance of the manufacturing sector on the index, placing the services sector on the map for the first time and reflecting the farreaching changes that the Indian economy was witnessing in the wake of liberalization.





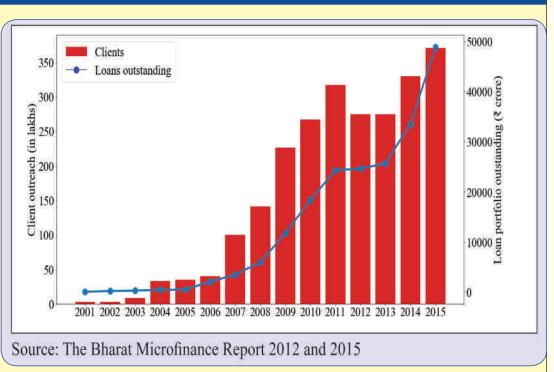
India's banks are disproportionately small compared to the size of its economy.

DHYEYA IAS

- In 2019, when Indian economy is the fifth largest in the world, India's highest ranked bank-State Bank of India-is ranked a lowly 55<sup>th</sup> in the world and is the only bank to be ranked in the Global top 100.
- India has only one bank in the global top 100 and gets grouped on this characteristic with countries that are a fraction of its size: Finland (about 1/11<sup>th</sup>), Denmark (1/8<sup>th</sup>), Norway (1/7<sup>th</sup>), Austria (about 1/7<sup>th</sup>) and Belgium (about 1/6<sup>th</sup>).
- Countries like Sweden and Singapore, which are respectively about 1/6<sup>th</sup> and 1/8<sup>th</sup> the economic size of India, have thrice the number of global banks as India does.
- All the larger economies have proportionately large banks with China being an outlier on the positive side with 18 banks in the global top 100.

#### 5. Exponential Growth in Customer reach by Microfinance Institutions

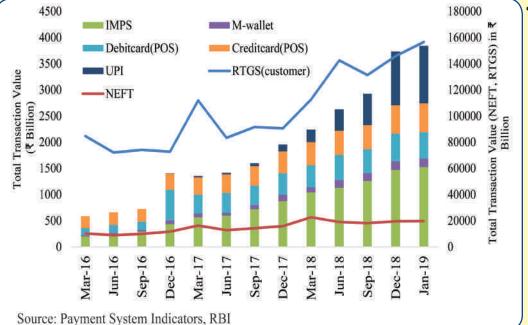
- The microfinance sector, . especially given its transformation since 2000, provides a good illustration of how social goals can be achieved at scale using business models that are different from that of Public Sector Banks (PSBs).
- Post 2000, while their . objective remained poverty alleviation via growth inclusive and financial inclusion, micro finance institutions (MFIs) moved from purely pursuing social goals to the double bottom-line approach of achieving social and financial returns.
- United Nation's The ٠ declaration of Micro-



- finance year in 2005 highlighted the role of MFIs in poverty alleviation. Some MFIs have transformed themselves into banks as well.
- As of 2016, 97% of the borrowers were women with SC/ST and minorities accounting for around 30% and 29% of the borrowers. This shows that the loans given by these MFIs primarily cater to the marginal sections of the society.

DHYEYA IAS

#### 6. Total Value of Digital Transactions - March 2016 to January 2019

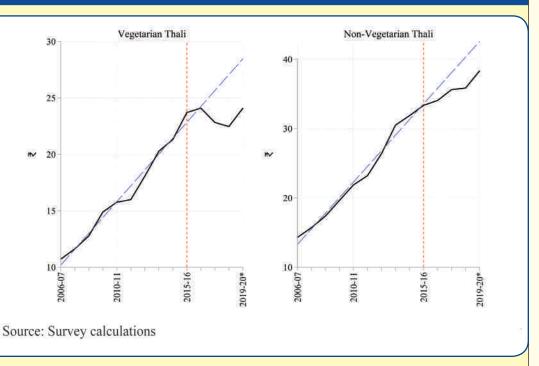


The key drivers of India's growth prospects are now highly favourable demographics with 35% of its population between 15 and 29 years of age; a modern and modernizing digital infrastructure that encompasses the "JAM" trinity of financial inclusion. the Aadhaar unique identification system and a well-developed mobile phone network and a uniform indirect taxation system (GST) to replace a fragmented, complex statelevel system.

 India's growth path depends on how quickly and productively these growth levers are deployed using a welldeveloped financial system.

• The growth in digital transactions as a result of these two factors has been significant.

- Use for direct benefit transfers, which increased from has increased exponentially over the last five years has helped to bring both credit.
- Deposits into the banking system across all geographies (rural, semi-urban, urban and metropolitan).
- In figure, the year 2015-16 is shown by the red dotted vertical line. The blue dashed line is the linear fit till 2015-16 and projected further for five years till 2019.
- At the All-India level, for the vegetarian Thali, post 2015-16, there was an average gain of around Rs. 3 per Thali (Rs. 0.1 in 2016-17, Rs. 2.8 in 2017-18, Rs. 4.6 in 2018-19 and Rs. 4.4 in 2019-20). This may seem to be a small number at first glance. However, it is a large decline in the cost of food to the households.
- To understand this, the gains have been estimated for a household comprising



#### 7. Thali Prices at All-India Level

five individuals and each consuming two vegetarian Thalis a day. Average yearly gain for this family, in nominal terms, for the periods subsequent to 2015-16, equals around Rs. 10887. The gain is, on average, 6.5% of an individual worker's yearly wages.

• For a non-vegetarian Thali, the gain per Thali was Rs. 1.8 in 2016-17, Rs. 2.4 in 2017-18, Rs. 4.5 in 2018-19 and Rs. 4.2 in 2019-20. The average yearly gain to the household consisting of 5 individuals would then be around Rs. 11787.



## COMPREHENSIVE ALL INDIA PRELIMS TEST SERIES (CAIPTS) TARGET 2020

## **PROGRAMME OBJECTIVE**

CAIPTS is a comprehensive and integrated program which will provide CSE Aspirants a good competitive environment, who are appearing in CSE-2020. In addition to this, an integrated guidance mechanism has been included in CAIPTS to keep the aspirants aligned with the true spirit of Civil Service Exam.

## APPROACH ANALYSIS

Along with studying basics and reference books it is necessary to examine our knowledge through MCQs based questions which will help to build right attitude towards solving questions and reduce the rate of errors committed by aspirants.

For this, Dhyeya IAS brings "Comprehensive All India Prelims Test Series (CAIPTS)" for the aspirants which will provide a real time environment for upcoming civil services examination.

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#### AN INTRODUCTION

Dhyeya IAS, a decade old institution, was founded by Mr. Vinay Singh and Mr. Q.H. Khan. Ever since its emergence it has unparallel track record of success. Today, it stands tall among the reputed institutes providing coaching for Civil Services Examination (CSE). The institute has been very successful in making potential realize their dreams which is evidents from success stories of the previous years.

Quite a large number of students desirous of building a career fro themselves are absolutely less equipped for the fairly tough competitive tests they have to appear in. Several others, who have a brilliant academic career, do not know that competitive exams are vartly different from academic examination and call for a systematic and scientifically planned guidance by a team of experts. Here one single move my invariably put one ahead of many others who lag behind. Dhyeya IAS is manned with qualified & experienced faculties besides especially designed study material that helps the students in achieving the desired goal.

Civil Services Exam requires knowledge base of specified subjects. These subjects though taught in schools and colleges are not necessarily oriented towards the exam approach. Coaching classes at Dhyeya IAS are different from classes conducted in schools and colleges with respect to their orientation. Classes are targeted towards the particular exam. classroom guidance at Dhyeya IAS is about improving the individuals capacity to focus, learn and innovate as we are comfortably aware of the fact that you can't teach a person anything you can only help him find it within himself.

#### DSDL Prepare yourself from distance

Distance learning Programme, DSDL, primarily caters the need for those who are unable to come to metros fro economic or family reason but have ardent desire to become a civil servant. Simultaneously, it also suits to the need of working professionals, who are unable to join regular classes due to increase in work load or places of their posting. The principal characteristic of our distance learning is that the student does not need to be present in a classroom in order to participate in the instruction. It aims to create and provide access to learning when the source of information and the learners are separated by time and distance. Realizing the difficulties faced by aspirants of distant areas, especially working candidates, in making use of the institute's classroom guidance programme, distance learning system is being provided in General Studies. The distance learning material is comprehensive, concise and examoriented in nature. Its aim is to make available almost all the relevant material on a subject at one place. Materials on all topics of General Studies have been prepared in such a way that, not even a single point will be missing. In other words, you will get all points, which are otherwise to be taken from 6-10 books available in the market / library. That means, DSDL study material is undoubtedly the most comprehensive and that will definitely give you added advantage in your Preliminary as well as Main Examination. These materials are not available in any book store or library. These materials have been prepared exclusively for the use of our students. We believe in our quality and commitment towards making these notes indispensable for any student preparing for Civil Services Examination. We adhere all pillars of Distance education.

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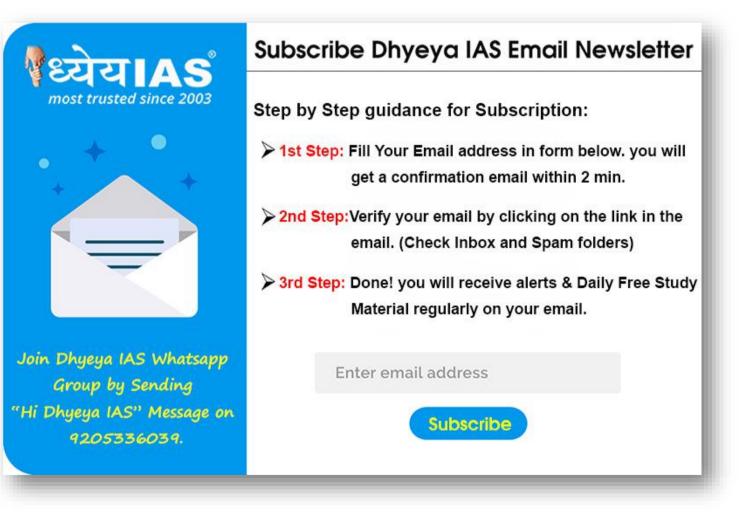


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