Mains 2019 GS Test Series

Test 9 – Economy Structures

Q1. One of the major pre-requisite to inclusive growth is reducing the size of informal economy in India. Analyze. (150 words; 10 marks)

Inclusive Growth is economic growth that is distributed fairly across society and creates opportunities for all. India was ranked at the 62nd place among emerging economies on World Economic Forum's Inclusive Development Index, much below China's 26 Position and Pakistan's 47th.
With 80% of the labor force stuck in low-productivity activities in informal employment, the Indian economy is performing far below its true potential.

Why Informal Economy is hampering in inclusive growth?

1. It offers largely insecure jobs with no employment contracts which **deprive labor of social security benefits** like insurance & pensions.
2. Problem of **intermittent and variable pay** makes it difficult to make any savings for future.
3. Workers are effectively **excluded from accessing many of the resources** they need to make themselves more productive and thereby improve their life chances- exact opposite of Inclusive Growth.
4. Informal sector is known for **rampant gender targeting** for elementary jobs, with concentration of women in relatively low-paying jobs hence reducing their bargaining power to negotiate the terms of employment.
5. **NSSO** report reveals that Informal sector is **home to out-of-school children,** thereby increasing the dropout rates.
6. Exploitation of labor due to long working hours, poor working conditions and unsustainable environment leads to problem of **low productivity.**
7. For broad based inclusive growth we need to formalise the economy in which technology will play a pivotal role.

Conclusion:

By 2040, India will reach its maximum share of working-age population and for the Indian economy to reach its growth potential, ways and means must be found to move workers from informal to formal employment. Ultimately, the economy can reach its full potential only when the hundreds of millions of Indian workers can escape the trap of lowproductivity.

Q2: NITI Aayog suggested development of Coastal Economic Zones (CEZ) for boosting economic development in India. Discuss the potential and challenges faced in setting up CEZ in India? (150 words; 10 marks)

CEZs are spatial economic regions comprising group of coastal districts or districts with strong linkages to ports in region to tap into synergies with planned industrial corridor projects.

How it will lead to Economic Development?

It would **propel manufacturing, encourage port led development** and create hubs of job creation.

Proposed development of CEZs under the Sagarmala programme will provide impetus to the 'Make In India' initiative of the government.

Sagarmala would **reduce logistics costs and time for movement** of cargo and improve competitiveness of India's manufacturing sector at a global level.

Integration of CEZs with deep-draft ports will facilitate large ships to dock.

. It would **optimize time/cost of EXIM container movement** and improve **export competitiveness** by developing port proximate discrete manufacturing clusters.

It aims to promote development of **industrial clusters around ports** which will **enhance Indian exports** worldwide.

Challenges in integrating Ports & CEZs:

Unlike China, we have an open domestic migration policy. This makes **segmented development politically impractical**, especially on the scale envisaged in the CEZs.

India's experience with SEZs shows that **state-driven market distortions do not boost exports** in a sustained manner.

To be successful, these zones **would have to cover a large area** and would have to have some existing infrastructure and economic activity.

Delays in obtaining government approvals, environmental clearances, as well as compliance with coastal regulations.

Some of the challenges faced in respect of existing ports include inadequate road networks within the port area, inadequate cargo-handling equipment and machinery, inefficiency due to poor hinterland connectivity through rail, road,highways, coastal shipping and inland waterways, inadequate navigational aids,facilities and IT systems, insufficient dredging capacity, lack of technical expertise and a lack of equipment for handling large volumes.

They would need to provide a business friendly ecosystem including **ease of doingbusiness,** especially, ease of exporting and importing, swift decisions on applicationsfor environmental clearances and speedy water and electricity connections.

The zones would **need to create urban spaces** to house local resident workforce.

To incentivize early investments in the zones, **the tax holiday** might be limited to investments made in the first three or four years of the creation of the zones.

The Centre will also need to provide for creation of **bonded free trade zones** or warehouses within the CEZs to facilitate free export and import.

Skill training across India's 21 coastal districts in trades such as fishing, logistics, manufacturing and tourism is needed as part of **Sagarmala programme.**

Way Forward:

It may make sense to initially limit the number of zones to a few, perhaps two or three. This would help ensure that many sector-specific zones and clusters emerge within each CEZ to fully exploit economies of scale and agglomeration. Simultaneous creation of too many zones would spread the available public resources thinly while also diffusing economic activities with potential synergies. Centre's plan to develop a CEZ by integrating Paradip and Dhamra ports in Odisha are in the right direction.

Q3. Comment on the steps taken by the government over the last few years to widen its tax base. What is the issue in India's tax structure and how it could be solved?

Following are the steps to widen its tax base

Direct taxes (Tax collection till november 2018 - 10.1 lakh crore) increse of 18 %

1. Ease of filing returns(form 16, online refunds, ease of filing, reduced complexities)
2. Various schemes (income declaration scheme, PM Garib Kalyan Yojana)
3. Black money act
4. Demonetisation(formalisation of economy, expansion in tax base)
5. Prosecutions against tax evaders
6. Tax breaks
7. Incentivising honest taxpayers

Indirect taxes

1. Reform in indirect tax regime - GST (Ease of filing, Reduced form size , faster refunds , uniform tax rates, amalgamation of plethora of central and states indirect taxes)
2. Digital assesments
3. Increase in service tax revenue,
4. Lowering of various tax compliance costs,
5. More surveys raids and scrutinise.

Issues in India's tax structure

1. Small tax base in India . Eg only 4.5 % of indians pay income tax.
2. Share of direct taxes is very low
3. Lack of Direct tax code
4. Size of formal economy in India is very small
5. Low income levels
6. High compliance cost(work hours spent, complexities of compliance)
7. GST- potential to improve

Solutions

1. Direct taxes code
2. Reducing exemptions(especially to corporates)
3. GST(Reduced tax labs, Improvements in GSTIN, Reliefs to MSMES, rates should be rationalised and competitive, faster refunds)
4. Formalisation of economy
5. CBDT, CBIC -Policy leadership, effective and effective institution response
6. Reduce in tax evasions
7. Better sensatisation and awareness
8. Tax information network
9. Base Erosion and Profit Shifting

Q4-The major challenge posed by disruptive technologies is large scale unemployment. Point out different steps that must be taken by various stakeholders to address these challenges?

By 2020, 75 percent of all organisations will experience visible business disruptions owing to infrastructure and operational skill gaps.

However, automation and rapid technological changes also bring the promise of higher productivity, economic growth, increased efficiencies, safety, and convenience apart from the new jobs it has created.

Measures needed to address the challenge of unemployment:

By the government

- ✓ Competitiveness-enhancing initiatives of corporates and facilitate the transition of workers in adapting to new technologies.
- ✓ Support labor-intensive industries such as apparel and leather – job creation.
- ✓ Leverage the attractive size of the Indian consumer market to gain access to latest technologies through insistence of technology transfer during FDI deals in key sectors.
- ✓ Skilling and reskilling initiatives

- ✓ Expand and upgrade the technology tools to enable the MSME sector to adopt exponential technologies.
- ✓ Formulate life-long learning strategies -setting-up career counseling centers, establish centers of excellence (CoEs) in emerging exponential technologies, etc.
- ✓ Encourage startups - transform unorganized sectors to organized ones using technology.
- ✓ job creation through Government investments in infrastructure and transform the public healthcare, education, tourism and hospitality and other development sectors through use of technology-assisted outreach workforce.

By the industries

- ✓ Create collaborative learning ecosystems and develop workforce re-training programs across organization levels.
- ✓ Work in close partnership with the Government to ensure success of its efforts to take advantage of Industry 4.0 technologies.

By the academia

- ✓ Focus on cognitive/judgment-driven skills- The rapid pace of change in jobs and skills is creating a growing demand for updated skills.
- ✓ Tailored courses with flexible completion timings to enhance students' inclination towards learning.

By the Individuals

- ✓ Take responsibility for life-long learning
- ✓ Embrace the online economy

Q-5: Growth and Inflation have been always been conflicting and giving priority in any one alone may create problems. In the context of sustainability, what should be given priority—growth or inflation? Substantiate with valid arguments.

Inflation is the rate at which the general level of prices for goods and services rise. Economic Growth can be described as an increase in the capacity of an economy to produce goods and services, compared from one period of time to another.

The **conflict** in prioritizing between growth and inflation has been due to several dimensions. Inflation appears to be negatively associated with growth because :

- ✓ An increase in inflation reduces consumption and therefore GDP decreases. Growth, investments and productivity are also generally negatively related to inflation.

- ✓ High rates of inflation are not consistent with permanent growth. High inflation can make investments less desirable, since it creates uncertainty for the future. It can also affect the balance of payments because exports become more expensive. So, GDP decreases further.

Phillips curve shows that high inflation is consistent with low rates of unemployment, implying that there is a positive impact on economic growth.

Prioritizing inflation

Advantages	Disadvantages
✓ Helps avert Deflation ✓ Inflation can boost growth. ✓ Less Unemployment	✓ Decrease in Investment ✓ Rise in interest rates ✓ Fluctuations in exchange rates

Prioritizing economic growth:

Advantages	Disadvantages
✓ Higher average income ✓ Lower unemployment ✓ Lower government borrowing. ✓ Improved public services due to increased tax revenues ✓ Economic growth encourages firms to invest	✓ Inflation ✓ Boom and bust economic cycles ✓ Current account deficit

Governments trying to stimulate growth have made deficits so high they could not pay off their debts and this spiraled into hyperinflation. Growth in emerging economies like India can be achieved with comparatively low capital infusion. Such growth turns unsustainable, however, without inflation curbing measures in place

To conclude, it cannot be an either or approach with respect to growth and inflation. Keeping the Inflation within a certain limit i.e. optimum inflation rate (e.g. Monetary policy committee- Inflation targeting) the government shall focus on rapid socio-economic growth.

Q6: In light of various challenges faced by Public Private Partnership (PPP) in India, discuss the recommendations of Vijay Kelkar committee.

Issues with PPP

- ✓ improper estimation of project costs
- ✓ unrealistic projection of cash inflows from the facilities created
- ✓ inadequate assessment of risks involved and clarity on the sharing of risk
- ✓ delay in handing over of public assets to the private partner

- ✓ insincerity of both partners in implementing the project
- ✓ an working environment where corruption is so pervasive
- ✓ cost over-runs that inevitably result from the above. The escalation of the project cost throws all calculations haywire forcing the partner to walk away from the project.

Challenges to PPP in India

- ✓ **Regulatory Environment** There is no independent regulator for facilitating and overseeing PPP projects in India.
- ✓ **Lack of Information** company which is investing need very comprehensive, reliable and well-researched information about the proposed project so that it can arrive at a prudent decision. This is not available now.
- ✓ **Project Development** Activities such as feasibility studies, land acquisition, environmental impact studies, forest relation clearance etc. - increase project costs.
- ✓ **Lack of Institutional capacity** - delay execution and greatly
- ✓ project implementers lack earlier experience in executing large projects.
- ✓ The controls imposed at the central and state government bureaucracy becomes to stifling for the party.
- ✓ **Financing availability**
- ✓ **Opaque political atmosphere**
- ✓ **Too rigid contracts with no scope for re-negotiation**

Highlights of the Report

The success of deploying PPP as an additional policy instrument for creating infrastructure in India will depend on the change in attitudes and mindsets of all the authorities including:

- ✓ public agencies partnering the private sector
- ✓ government departments supervising the PPPs
- ✓ auditing and legislative institutions providing oversight of the PPPs

The PPP reflects a paradigm shift involving the private sector. It means moving away from “transaction to relationship,” accommodating “give and take” between private and public sector partners, and finally accepting uncertainties and appropriate adjustments inherent in implementing long-time contracts.

Panel emphasizes on:

- ✓ Contracts need to focus more on service delivery instead of fiscal benefits
- ✓ Better identification and allocation of risks between stakeholders
- ✓ Improved fiscal reporting practices and careful monitoring of performance

- ✓ Given the urgency of India's demographic transition, and the experience India has already gathered in managing PPPs, the government must move the PPP model to the next level of maturity and sophistication.
- ✓ Re-balancing of risk Sharing between stakeholders
- ✓ Only a statutorily established, credible, empowered, multi-disciplinary expert institutional mechanism can deal with the complex issues involved
- ✓ Infrastructure PPP Project Review Committee ("IPRC") to evaluate any Infrastructure Project developed in PPP mode
- ✓ Infrastructure PPP Adjudication Tribunal ("IPAT") chaired by a Judicial Member (former Judge SC/Chief Justice HC)
- ✓ In case procurement of land or clearance is pending from government authorities for more than prescribed number of days, the outstanding work should be descoped, and allow rest of activities for completed work.
- ✓ Cancel projects that have not achieved a prescribed percentage of progress on the ground.
- ✓ Learnings from the Highways sector to be utilized for other sectors to customize and adopt such frameworks
- ✓ Umbrella guidelines may be developed for stressed projects
- ✓ PPP not to be adopted for very small projects in view of the transaction costs involved
- ✓ Strengthening Policy, Governance and Institutional Capacity
- ✓ Scaling- Up Finance
- ✓ Reinvigorating the Sectors
- ✓ Fast Forward PPPs

Q7: What do you understand by "superstar companies"? Discuss impact of these companies on India.

A small number of giant companies like Google, Alphabet, Amazon etc who try to tighten their grip on global markets, merging with each other to get even bigger, and enjoying vast profits are called super star companies. They are taking away major chunk of profit and eliminating competition from the market.

Impact on Indian economy:

- ✓ Increase inequality
- ✓ Anti-competition
- ✓ Less choice to consumers - exploitation
- ✓ Concentration of wealth in some companies – dictate market terms

In US superstar companies have gained 45% of total profit by private sector. This is not yet happening in India. Indian economy is still undergoing this process. There are ways to mend the ways like proper taxation policy, taking action against anti-competitive step of companies.

Q8: What are the challenges faced by India in realizing the goal of universal access to electricity? Also enumerate the steps taken by government to move closer to the goal.

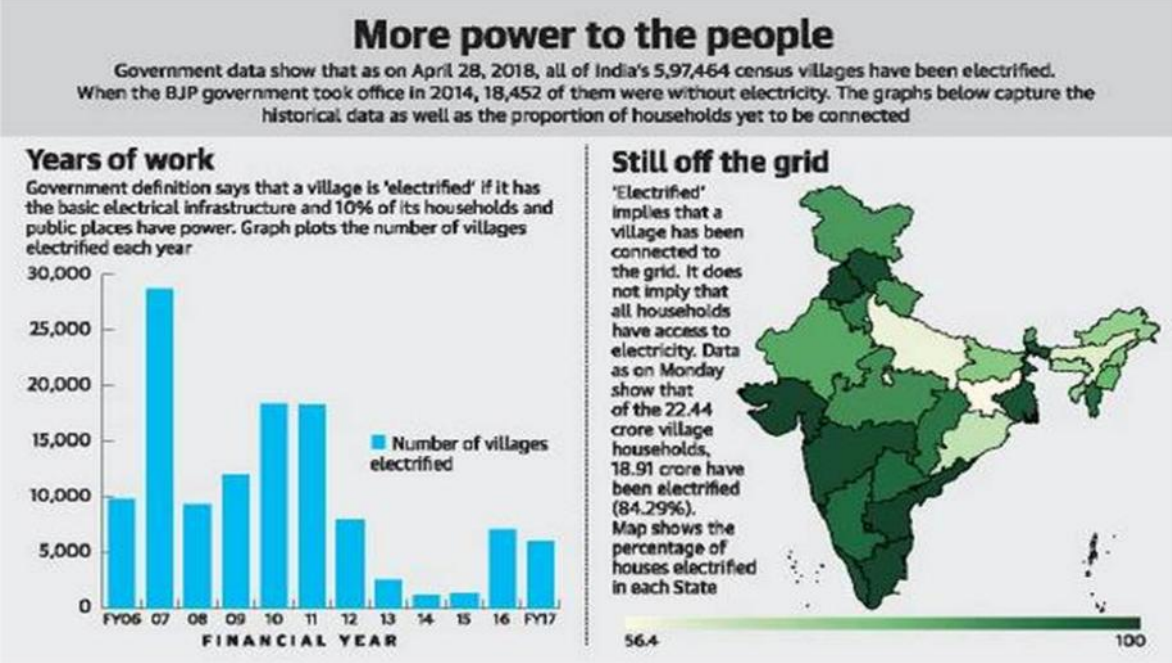
According to the definition since 1997, a village is deemed to be electrified if:

- ✓ Basic infrastructure such as a distribution transformer and distribution lines are in place in the inhabited locality
- ✓ Electricity is provided to public places like schools, panchayat office, health centres, dispensaries, community centres
- ✓ At least 10% of the households in the village are electrified

Current Status

As of today in India, the rural household electrification is about 83%. From State to State, it ranges from 47% to 100%, but on average about 83% of households are electrified.

Country had achieved 100% electrification of villages on April 28, leading to criticism from various quarters about the deficiencies in the definition of electrification.



Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya)

Government had in 2017 launched the Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya), aimed at covering the last-mile connectivity of taking electricity to the household level.

The target for the scheme is March 31, 2019.

According to data from the Ministry of Power and the Central Electricity Authority, so far 84.3% of households have been electrified.

- ✓ The Saubhagya scheme defines the electrification of a household as including a service line cable, energy meter, and single point wiring.
- ✓ For unelectrified households in remote areas, electrification will involve the provision of power packs of 200 to 300 W (with battery bank) with a maximum of 5 LED lights, 1 DC Fan, and 1 DC power plug.
- ✓ 15% of the villages so far electrified have been done so using off-grid solutions such as solar, while the remaining 85% are connected to the grid.

Criticism of government's claims:

However, an in-depth analysis had found severe gaps between the on-ground reality and the numbers projected by the government.

Of the many deficiencies found, the analysis revealed that while several villages were deemed to be electrified in the official data, the on-ground engineers had registered complaints that key components such as transmission wires had been stolen, leaving the village unelectrified.

Q9: In the light of compartmentalization in various transportation sector, discuss the need of Integrated Transportation Policy in India. (150 words; 10 marks)

Integrated transport system refers to a multi-modal transport system where different modes of transport are effectively linked with each other. This translates into the smooth movement of freight over various modes like roads, railways, ports, coastal shipping, inland waterway and civil aviation.

But till date, road transport, shipping, waterways and air transport in India have been working in silos.

Need of ITP:

a) Transport network is not planned holistically, lack of interconnectedness and synergies.
b) The transport network has severe modal imbalances overtime, roadways have become the dominant mode of transport of goods at Cost of railways, despite the latter is economic and environmental advantages
c) Similarly inland waterways remain under-utilized.
d) Due to above reasons logistics cost in India are high and make India uncompetitive.
e) Environmental reasons

f) Rising urbanisation and smart city concept

Q10: Recently India jumped to 70th position in World Bank's ranking of Ease of Doing Business. Examine the reasons behind improvement in this Index of India.

India jumped 23 ranks in the World Bank's Ease of Doing Business Index 2018 to 77. It ranked 100 in the 2017 report. The Index ranks 190 countries across 10 indicators ranged across the lifecycle of a business from 'starting a business' to 'resolving insolvency'.

This has been on back of overall reforms driven by the government, and to a large extent,use of digital and technology leading to process improvement. Recent thrust on infrastructure development to promote trade and business, especially logistics and supply chain centred initiatives also overall fiscal reforms including bankruptcy code have showed results.

Reasons for improvement in India's EODB ranking :

1. Improvements in time taken for
    - Registering property
    - Starting business
    - Insolvency and taxation
    - Enforcement of contracts
2. Success of GST
3. Getting electricity
4. Accessing credit

Apart from it following inter setoral measures also helped,

1. Streamlined processes
2. Single window clearance
3. E-biz portal
4. Protection of minority investors
5. Trading across borders
6. Greater ease in paying taxes

Q11: What is Peer-to-Peer to lending? Enlist its advantages and disadvantages. Also give details of regulatory framework for P2P lending in India.

Peer-to-peer (P2P) lending is a form of crowd-funding used to raise loans for people who need to borrow, from people who want to invest. It enables individuals to borrow and lend money without any financial institution as an intermediary, and extends credit to borrowers who are unable to get it through traditional financial institutions.

Advantages of peer-to-peer lending

- ✓ Elimination of a third party - process quick and easy.
- ✓ No requirement of building bank branches.
- ✓ Offers the lender the ability to choose own terms and rates.
- ✓ Borrow without the requirement of any collateral
- ✓ Lenders can enjoy higher returns.
- ✓ Can facilitating easier access to loans for consumers.
- ✓ Promotes financial inclusion

Disadvantages of peer-to-peer lending

- ✓ High risk of loan default, with little recourse for non-payment.
- ✓ Lack of regulatory oversight
- ✓ Peer-to-peer loans are not subject to the same financial regulations as banks, so the loan terms may not be as favorable.
- ✓ Peer-to-peer loans can hurt your personal credit score in case of default

Regulatory framework for P2P lending in India

Till last year, P2P platforms largely remained unregulated. These were largely tech companies registered under the Companies Act.

But RBI recently notified that all peer-to-peer (P2P) lending platforms will be treated on par with Non-banking financial companies (NBFCs).

RBI also released a set of guidelines for regulation of P2P-NBFCs relating to eligibility requirements, scope of activities, prudential norms etc.

The recent guidelines by RBI will ensure greater transparency between the platform, the lenders, and the borrowers and is expected to create a stable, alternative lending market in the country.

Q12: Enumerating the need of strong and modern infrastructure, discuss the need of modern export infrastructure in India. Also list out different steps government have taken to improve export infrastructure in India.

Logistics Performance Index – 35 ranked.

Importance of strong and modern infra:

a) raises productivity in economy

b) diversify production by the firms

c) promote agriculture growth and setting up of agro processing industries

d) better export competitiveness.

Shortcoming of export infra:

a) road connectivity suffers from choke points like one way route.
b) Warehouses and cold chains – unscientific manner.
c) Port infrastructure 0 our rank in EoDB here is poor.
d) Poor hinterland connectivity
e) Airport infrastructure
f) IT infrastructure

To improve the export infrastructure, GoI has taken steps like:

a) Modernization of infra – DFC, upgradation of air cargo facility
b) Sagarmala project
c) Multi-modal Logistics
d) FTP 2015-2020 – TIES scheme

Q13: Animal rearing has great potential but it remains underutilized due to various challenges faced by livestock sector in India. Elaborate on the statement. Also provide some measures to face these challenges.

Potential:

- ✓ 2.29% of the land area of the world, India is maintaining about 10.71% of the world's livestock.
- ✓ A large manpower is also involved in livestock related activities like
  - o manufacture of food products and beverages,
  - o manufacture of textiles,
  - o tanning and dressing of leather,
  - o farming of animals etc.

Potential of animal rearing remains underutilized due to various challenges:

- ✓ Lack of livestock feed
- ✓ Low productivity
- ✓ Health issues: challenges like
  - o Non availability of qualified veterinarians in rural area.
  - o Frequent disease like FMD which has negative impact on dairy production.
  - o Absence of measures like deworming and vaccination

- ✓ Management of animals:
  - o Poor hygiene and upkeep
  - o Meat/Dairy unfit to meet industry and export norms
  - o Farmers are not aware of proper record keeping
- ✓ Lack of trained human resource
- ✓ Lack of modernized abattoir in meat sector impacts export
- ✓ Cultural issues: in some states meat industry - facing resistance due to religious sentiments
- ✓ Low level of processing and value addition in animal products
- ✓ Ineffective marketing strategies

Remedial measures:

- ✓ Long term sustainable production measures should be looked into to increase the production and quality of livestock feed.
- ✓ Active surveillance, monitoring and control in case of any outbreaks, in a rapid manner.
- ✓ Implementation of livestock insurance schemes.
- ✓ Network for a realistic national and global livestock database and marketing intelligence.
- ✓ Genetic resource of Indian livestock - conserved through programmes (Rashtriya Gokul Mission)
- ✓ Sufficient trained manpower
- ✓ The by-products from mechanized abattoirs - for production of value added products like Meat cum Bone meal, pet food.
- ✓ Proper utilization of by-products of livestock slaughter for higher income of livestock owners.
- ✓ The environmental pollution and spread of livestock diseases should be prevented.

14] Even though logistics play important role in national development, the sector is facing multiple challenges in India and many of these could be solved by granting infrastructure status to logistics. Critically analyze.

Could start from WB ranking in LPI – 35 in 2016

Role of logistics in national development:

As per Economic Survey 2017-18, Indian logistics sector provides livelihood to more than 22 million people. Improving this sector will facilitate 10% decrease in indirect logistics cost leading to growth of 5 to 8% in exports. Further, it estimates that worth of Indian logistics market will be around US $215 billion in next two years compared to about US $160 billion currently.

Facilitate seamless movement of goods and aids in economy.

Increase exports, generate employment

Gives country a place in global supply chain

Challenges:

a) High logistic cost – reduced competitiveness
b) Informal and unorganized
c) Underdeveloped material handling infra
d) Fragmented warehousing
e) Multiple regulatory and policy making entities. Ministry of commerce, ministry of transport, ministry of trade.
f) Poor integration with modern IT sector.
g) Skill of manpower not up to level

Grant infra status:

a) Avail infra lending at easier terms and bigger limits
b) Access to ECBs
c) Access to longer duration funds like insurance companies and pension funds
d) Eligible to borrow from IIFCL

Q15: Government has launched SAMPADA scheme with aim to create modern infrastructure and and supply chain management from farm to fork. Discuss

Umbrella schemes:

a) mega food park
b) integrated cold chain and value addition infra
c) food safety and quality assurance infra
d) infra for agro-processing cluster
e) backward and forward linkages
f) creation /expansion of food processing and preservation capacities
g) strengthen storage infra

Discuss from these points of views how it will strengthen from farm to fork.

Q16: Explain the concept of gender sensitive budgeting. Also examine recent steps taken by government in this regard.

Gender responsive budgeting:

It seeks to ensure that collection and allocation of budget resources are in a way that contribute to advancing gender equality, women empowerment and advancing women rights. It also ensures gender perspective in policy/pogramme formulation, implementation and review. Dissecting govt budgets to establish gender differential impact.

It also provides tools to assess different needs of various genders(Men, Women, Children, Old age persons), address gender bias and discrimination.

Steps taken by government:

1. 1st gender budget introduced in 2005-06
2. From 10 demand of grants to 36
3. 16 states in India have introduced gender budgeting eg. UP,UK,Raj,Guj.
4. Five year plans- we had women component plan
5. Gender specific data gathering
6. Gender budgeting cells (introduced in 2007)
7. Ministry of Women and Child Development- schemes division women specific: 100% budget allocation, pro women schemes: 30%budget allocation
8. Capacity building across govt,psus,ngos,women specific groups and channelising Corporate Social responsibility spending.

Q 17: Discuss the factors which affect vulnerability of fiscal account of India. Give suggestions to address this vulnerability.

Fiscal Accounts of India: Fiscal Deficit and Current Account Deficit.

Vulnerabilities to FD--(3.5% in 2017-18, 3.3% target in 2018-19)

1. GST collections(Less than targeted 1 lath core per month)
2. High crude oil prices at international level
3. Modest growth in direct taxes
4. Capital and revenue spending on uptick due to infra,road,rail,health(Ayushyaman Bharat)and agriculture(Implemetation of swaminathan formula- 150% MSP of production cost).
5. Less than expected disinvestment spending(Failed attempt to divest Air India)

Vulnerabilities to CAD--(1.8% in 2017-18, Projected to 2.8%)

1. Firming up of oil prices (From subpar $30 per barrel to $85)
2. Falling rupee
3. Decreasing FDI
4. Outflow of FPIs(Sep and Oct witnessed outflow of $7881)
5. Uptick in gold demand as well as firming import growth
6. Falling remittances(Due to fragile middle east and Visa restrictions in US,UK,Aus etc.)

7. Falling exports due to looming trade wars and protectionist tendencies
8. US federal bank backtracking on easy money policy

Solutions:

FOR FD:

1. Reforms in taxation(GST,DTC,Widening of tax base,reducing tax evasion)
2. Rationalisation of Schemes(Centrally sponsored ans Central Sector Schemes)
3. Increasing Disinvestment receipts(Especially from loss making PSUs)
4. Stimulating household sector investment
5. Reduction in nonessential subsidies(eg.Bringing Urea into NBS regime)

For CAD:

1. Shift to renewable energy
2. Export incentives(CEZs, SEZs, Better export infrastructure, Sagarmala and so on)
3. Tightening monetary policy
4. Reducing non essential imports
5. Thrust on domestic industrial capacity building(Defence, Capital goods and Electronics Sectors)
6. Use of innovative financial instruments like Masala bonds
7. Relaxing both FDI and FPI norms

Q 18: What is twin balance sheet challenge? Discuss the recent steps taken by government to solve the Twin Balance Sheet problem.

Twin Balance Shit Problem:

Deals with 2 balance sheet problem of Indian Companies and Indian Banks.

For companies they are overleveraged and unable to pay interest sometimes even principle amount due to reduction in demand, cost overruns, regulatory environment and so on. Sometimes resulting in insolvency or bankruptcy.

For banks due to aggressive lending ,lack of loanee appraisal and many reasons they are encumbered with bad loans which has made advancing loans hard and slowed investment.

Steps taken by Govt to solve the problem:

1. Insolvency and Bankruptcy Code 2017(time bound resolution of insolvency proceedings)
2. Recapitalisation of public sector banks.
3. Governance reforms in PSBs(Banks board bureau).
4. Merger of banks .
5. Improved regulatory environment.
6. Timely completion of on-going central sector infrastructure project.
7. Setting up revised cost committees to handle cost overruns in infrastructure projects.
8. Committees in various ministries for fixation of responsibilities for time and cost overruns.

9. Recognition Recapitalisation Resolution and Reform.
10. Structural reforms in Indian Economy (like faster regulatory clearances, streamlined land acquisition process).

19] MSME sector has potential to become growth engine of the nation. In the light of given statement, discuss the potential and challenges faced by MSME sector in India. Suggest some measures to overcome these challenges.

Significance of MSME sector

- ✓ Termed as "the engine of growth" for India. Played a prominent role in the development of the country. contributed to the **GDP (8% of GDP)**
- ✓ **Share of MSME in Manufacturing, Exports and Employment sectors in India:**

	Sector	Percentage share
1	Manufacturing	45
2	Exports	40
3	Employment	69

- ✓ creates large scale employment
- ✓ has scaled manufacturing capabilities
- ✓ has curtailed regional disparities
- ✓ has resulted in balancing the distribution of wealth
- ✓ Setting MSME requires less investment. With limited resources, decision-making becomes easy and efficient and it can run single-handedly.
- ✓ MNCs are buying semi-finished and auxiliary products from small enterprises, for example, buying of clutches, and brakes by automobile companies. It helps create a linkage between MSME and big companies.
- ✓ MSME sectors forms the backbone for successful Make in India.

What are the challenges of MSME?

- ✓ Need to improve the competitiveness of the overall MSME sector.
- ✓ Lack of infrastructure such as power
- ✓ Flow of institutional credit for MSME is not adequate.
- ✓ Most of unregistered MSMEs are micro enterprises confined to rural India and operates with obsolete technology.- Access to technology is problem as MSMEs are scattered and mostly in rural areas.- Low use of new technologies such as ICT, digital technologies. With Industrial Revolution 4.0 MSME sector faces challenge.
- ✓ There is a need to transform huge unregistered MSME into registered MSME.
- ✓ MSMEs face issues of lack of awareness about IPR.
- ✓ Wasteful usage of resources/manpower.

- ✓ Energy inefficiency and associated high cost.
- ✓ With less resources for marketing and promotion MSMEs faces issue of low market penetration.
- ✓ Lack of awareness about quality assurance/certification which hampers its growth.
- ✓ Definition for MSMEs must be updated considering inflation and better technologies.

Measures – recommendation of committee

K.V. Kamath Panel has given a number of recommendations to encourage this MSME sector. Create an apex authority which would be called the National MSME Authority under the Ministry of MSME- To ensure a single point resource center which will be a nodal agency to execute and administer programs, benefits & grievance redressal, facilitate ease of doing business, registration & inclusion by using Udyog-Aadhar.

• Achieve, in a time bound manner, universal financial inclusion of MSMEs by using the above registration to ensure that every registered MSME has a bank account.

• Increase the flow of equity to the MSME sector

• Encourage establishment of an effective, online, technology-driven receivables financing platform with wide participation by credit providers, MSMEs, corporate and government units

• Expand coverage under and enhance effectiveness & utilization of credit guarantee/insurance schemes and make the programmes accessible to a wider set of credit providers

• leverage outreach points outside the formal financial system (akin to the banking correspondent model) to enhance access to financial services through a hub-and-spoke approach, as also leverage the National MSME Portal to expand access

• Encourage expansion in coverage of credit bureaus to include a wider range of credit institutions and a wider range of transaction records to facilitate a better credit and payment history of the buyer and the seller.

• Based on the recommendations of the Committee, bank credit to the MSME sector which was 10 lakh crores as of March 2014 could scale up to as much as 30 lakh crores in five years.

Steps taken by govt to promote MSME-

• The government has augmented coverage of the sector under the Credit Guarantee Fund Scheme with limit of loan being doubled from Rs 1 crore to Rs 2 crores.

• The Cluster Development Programme of the government aims to create assets like Common Facility Centers to access latest tools, technology, designs, etc.

• There is a Credit Guarantee Scheme for MSME sector which focuses on availing funds for this sector.

• Industrial extension services

• Institutional support with reference to credit facilities

• Providing developed sites for the construction of sheds

• Providing training facilities
• Supply of machinery on the basis of hire-purchase terms
• Enabling Assistance for domestic marketing and exports
• Offering special incentives for creating enterprises in backward areas and so on
• Offering technical consultancy and financial assistance for the purpose of technological enhancement.

Q 20: Accessibility, availability and affordability of energy makes it imperative for India to look for proper mix of various sources and types of energy to meet its long term energy security. Discuss in light of recent draft national energy policy brought in by Niti Aayog.

Four key objectives of the draft new energy policy are:

- ensuring access at affordable prices,
- improving energy security & reducing dependence on fossil fuels,
- Promoting greater sustainability & renewable energy and
- Ensuring sustained economic growth.

Various sources are – coal, Gas, large hydro power plants, Renewables (wind, solar, small hydro plants, biogas etc), nuclear.

Issues involved-

(a) With accessibility – many potential sources still undiscovered, legal and environmental issues involved.
(b) With availability – coal bed methane or poly metallic nodules technologically defiant, many sources not profitable, shale gas – water requirement issues.
(c) With affordability – renewables investment to set up not affordable to all.

Proper mix required –

a. **Coal -** coal-fired power capacity will grow to 330-441 GW by 2040.
b. **Gas -** Infrastructure built in Iran–Pakistan–India (IPI) and TAPI gas pipelines.

2. Promote LNG imports, incentivise shale and conventional gas exploration, replace LPG in urban areas by piped gas and divert LPG to rural areas.
3. Aims to produce 75 GW energy from the renewable sector till 2022.
4. Emphasis on transition from the coal to clean energy for domestic utility.