1. How has the fiscal scenario panned out during COVID-19? What are your views on the mid-year budgetary allocations announced by the government during the previous year? Discuss.

Approach

Since question is asking you to discuss it necessitates a debate where reasoning is backed up with evidence to make a case for and against an argument and finally arriving at a conclusion. In simple terms an examiner expects one to discuss various perspectives and present a logical argument.

Introduction

Amidst the economic slowdown triggered by the outbreak of the Covid-19 pandemic in India's there have been many demands for the government to announce a large fiscal stimulus to support the economy. Economic growth and tax revenues remain uncertain in 2020-21 making it challenging for the government to finance any addition to the fiscal deficit.

Body

HOW HAS THE FISCAL SCENARIO PANNED OUT DURING COVID-19?

India's fiscal support measures can be divided into two broad categories:

(i) Above-the-line measures which include government spending (about 3.2 percent of gdp, of which about 2.2 percent of gdp is expected to fall in the current fiscal year), foregone or deferred revenues (about 0.3 percent of gdp falling due within the current year) and expedited spending (about 0.3 percent of gdp falling due within the current year); and

(ii) Below-the-line measures designed to support businesses and shore up credit provision to several sectors (about 5.2 percent of gdp).

- In the early stages of the pandemic response, above-the-line expenditure measures focused primarily on social protection and healthcare. These include in-kind (food; cooking gas) and cash transfers to lower-income households (1 percent of gdp); wage support and employment provision to low-wage workers (0.5 percent of gdp); insurance coverage for workers in the healthcare sector; and healthcare infrastructure (0.1 percent of gdp).
- The more recent measures that were announced in october and november include additional public investment (higher capital expenditure by the central government and interest-free loans to states, of about 0.2 percent of gdp) and support schemes targeting certain sectors. The latter includes a production linked incentive scheme targeting 13 priority sectors and is expected to cost about 0.8 percent

of gdp over 5 years, a higher fertilizer subsidy allocation benefiting the agriculture sector (0.3 percent of gdp) and support for urban housing construction (0.1 percent of gdp).

- Several measures to ease the tax compliance burden across a range of sectors have also been announced, including postponing some tax-filing and other compliance deadlines, and a reduction in the penalty interest rate for overdue gst filings.
- Measures without an immediate direct bearing on the government's deficit position aim to provide credit support to businesses (1.9 percent of gdp), poor households, especially migrants and farmers (1.6 percent of gdp), distressed electricity distribution companies (0.4 percent of gdp), and targeted support for the agricultural sector (0.7 percent of gdp), as well as some miscellaneous support measures (about 0.3 percent of gdp).
- Key elements of the business-support package are various financial sector measures for micro, small, and medium-sized enterprises and non-bank financial companies, whereas additional support to farmers will mainly be in the form of providing concessional credit to farmers, as well as a credit facility for street vendors. Agricultural sector support is mainly for infrastructure development.

VIEWS ON THE MID-YEAR BUDGETARY ALLOCATIONS ANNOUNCED BY THE GOVERNMENT DURING THE PREVIOUS YEAR

- The Finance Minister has announced a package ("Atmanirbhar Bharat Abhiyaan" package) of policy initiatives targeted at low-income households and micro, small and medium enterprises which are likely to be most vulnerable in the broad-based economic slowdown. The total amount of the package has been announced to be Rs 20 trillion (or roughly 10% of GDP).
- This allocation focussed on land, labour, liquidity and laws, and would deal with such sectors as cottage industries, MSMEs, the working class, middle class and industry. He also talked of focusing on empowering the poor, labourers and migrant workers, both in the organised and unorganised sectors.
- However, a careful analysis reveals that the actual amount of fiscal stimulus offered by the government has been around 2-3% of GDP. As a result, demand for a larger fiscal stimulus has been emerging from various quarters. Several economists have argued that spending on welfare measures should be increased significantly, by 5 percent of GDP or more.
- Increase in government spending beyond the levels already announced would then mean an increase in the fiscal deficit beyond the levels discussed above. This may be financed either if disinvestment revenue turns out to be higher this year due to additional efforts made to sell off Public Sector Enterprises.

Conclusion

The economic impact of COVID-19 has been substantial and broad-based. GDP contracted sharply in 2020Q2 (-23.9 percent year-on-year) due to the unprecedented lockdowns to control the spread of COVID-19. However, if the fiscal deficit is even higher and puts the government's debt trajectory on an unsustainable path, longer term considerations will come into play.

2. What are your views on recent budgetary announcement regarding disinvestments and privatisation? Discuss.

Approach:

The question is very much straight forward, students need to put forward their views regarding recent budgetary provisions in terms of disinvestment and privatisation, also mention some data regarding disinvestment policies of the previous budgets as well.

Introduction:

Privatization is the process of transferring the ownership of a business of a public sector to the private sector. In a broader sense, privatization refers to transfer of any government function to the private sector including governmental functions like revenue collection and law enforcement whereas disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets. The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources. Disinvestment allows a larger share of PSU ownership in the open market, which in turn allows for the development of a strong capital market in India.

Body:

Historical context of disinvestment and privatisation-

- Central public sector Enterprises policy was reset in 1991 when the government decided to disinvest upto 20% in select public sector undertakings. The first disinvestment commission set up in 1996 recommended strategic sales meant to bring down the government's share to less than 50% in select PSU'S. Strategic sales were part of policies being pursued between 1998-2004.
- In last five financial years attempted disinvestments through buy-backs, exchange traded funds and in some cases transfer of stake to other public sector entities.
- In 2020 a new public sector policy was put in place, accordingly maximum of four public sector companies in strategic sectors will be retained and other firms will eventually be privatised.

Provisions in budget 2021-22:

- Budget 2021-22 projected 1.75 lakh crore from stake sale in public sector companies and financial institutions including 2 PSU banks and one insurance company. According to new PSE policy barring four strategic areas like Atomic energy, Space and defence, Transport and telecommunications power petroleum coal and other minerals and banking insurance and financial services, all CPSEs in other sectors will be privatised, in four strategic areas a bare minimum number of firms will be retained and rest will be privatised.

Views:

- The government has no business to be in Business, guided by the basic principle that government should not be in the business to engage itself in producing and manufacturing goods where competitive markets have come of age, examining the realised efficiency gains from privatisation in the Indian context economic survey 2019-20 analysed the before and after performance of 11 CPSEc that had undergone strategic disinvestment during 1999-2004 comparing such CPSEs with their peers in the same industry group showed that on an average they performed better post privatisation in terms of their net worth, net profit and sales growth this indicated that privatised CPSEs could generate more wealth from same resources.
- Providing employment was one of the objectives of the CPSEs in the years that followed several PSUs became white elephants serving neither social nor economic cause, many of them naturally became black holes for public money they were often the text book case of poor management and aggressive trade unionism and became umpireless playfields for political parties with myopic objectives.
- Confronted with an unprecedented fiscal deficit and worried by economy in crisis the government has to find resources and Disinvestment is a preferred option for ideological and practical reasons.
- Privatisation will give ample space for creative and innovative thinking as well as systematic and strategic planning to realize the full potential of economy.
- Privatising PSUs will incentivise the employees to work more efficiently in order to serve the interests of company which will ultimately help in making market more competitive and efficient.

However, the process of disinvestment and privatisation has some issues which are as follows-

- With disinvestment government would get some cash in hand and could carry out some capital formation, but there are multiple claims on government funds and only a fraction of capital receipts from the sale of PSUs is likely to be channelled into new investment.
- At the time of crashing growth and low animal spirits the competition to buy up public enterprises on the block would be anaemic and government will get significantly lower.
- With rising unemployment figures of about 23% due to COVID

containment measures it would be hazardous to tamper with PSEs that employ over 15 lakh people at this juncture.
- Privatisation is one element of the overall reform policy but it can't be adopted as a foremost plank of reforms in sectors like banking and insurance simple solutions like privatising all PSUs may be no panacea.

Conclusion:

Privatisation only weighs well when there is transparency of process and effectiveness of the regulators, every government has an obligation to reconcile growth with equity and privatising government assets is a step in that direction, however It must be accompanied by competition in the post privatised scenario in order to improve the performance of inefficient units creation of competitive market environment is absolutely essential eventually it is the people who will benefit, as an arm of overall reforms disinvestment and privatisation need to be carefully proceeded.

3. The economy will get the required impetus with sustained focus on expanding physical infrastructure? Do you agree? Substantiate your views.

Approach

The candidate needs to give his views regarding the sustained focus on expanding physical infrastructure and its effect on economy where the views should be well substantiated with proper facts, examples, etc.

Introduction

Development can be defined as improving the welfare of a society through appropriate social, political, and economic conditions. The expected outcomes are quantitative and qualitative improvements in human capital as well as physical capital such as infrastructures (utilities, transport, telecommunications, etc.) which clearly showcases the importance of expanding physical infrastructure.

Body

- Good quality infrastructure is the most critical physical requirement for attaining faster growth in a competitive world and also for ensuring investment in backward regions.
- This includes all-weather roads; round-the-clock availability of power at a stable voltage and frequency; water for irrigation; railways that are not overcrowded, which run on time and do not overcharge for freight; ports with low turnaround time to reduce costs of imports and exports; etc.
- Physical infrastructure development is an essential driving force for achieving rapid economic growth. Higher investment in physical infrastructure reduces transaction costs as well as other input costs, fosters trade and investment, opens up new markets, improves competitiveness, creates employment opportunities, raises productivity, and stimulates economic activities, which contributes to economic growth.

- Greater access, especially for the deprived population, to transport, telecommunications, energy, electricity, water and sanitation, education and health services are needed to bring inclusive growth and development.
- All these facilities play both direct and indirect role in the development process by increasing the factor productivity of land, labour, and capital in the production process, which promotes economic growth. Lack of infrastructure continues to be a major obstacle to achieve growth and development. Recently, the Indian government estimated that there is a need for nearly $4.5 trillion for reducing physical infrastructure deficit in the country.
- Continuous supply of good quality electrical power from the grid is critical for industries, but the situation in this regard is very unsatisfactory. Large-scale units can deal with this problem by setting up captive power plants, but this is not an economical option for small and medium units.
- Manufacturing also entails movement of large volumes of goods in order to compete in a globalized context and manufacturers need transport infrastructure which can ensure speedy and reliable movement.
- Deficiencies in the road infrastructure must be addressed urgently to increase the competitiveness of Indian manufacturing. Much the same is true of ports where insufficient port capacity and inadequate navigation aid facilities. Without substantial improvement in all these aspects of the transport infrastructure, growth in manufacturing cannot be sustained.
- The COVID-19 crisis has just reinforced the idea of the failing infrastructure in India. To add to this, almost half the country is exposed to severe climate-induced disasters. India desperately needs to buckle up its infrastructure, and while it does so, it can give it a green boost.
- The Indian Railway Finance Corporation Ltd (IRFC) recently established a Green Bond Framework for fundraising, for financing the Dedicated Freight Corridor project and electrification of the railways. India can look into establishing an agency for green financing, to fund the green infrastructure projects of the country to make development more environment friendly.

But at the same time, it is important to consider other investments that would also provide short-term stimulus. To be sure, spending money on pretty much anything will spur growth in a recession if it is debt-financed.

- It has been an article of faith for decades that traditional physical infrastructure—concrete and steel—boosts long-term growth, but evidence suggests that the growth benefits are limited when compared to other areas, especially 21st century digital infrastructure.
- In contrast, investments in digital infrastructure can generate greater

overall economic returns. These include both dedicated digital infrastructure (infrastructure that is innately digital, such as broadband, 5G, cloud computing centres) and hybrid infrastructure (adding digital components to traditional infrastructure, such as smart meters, smart grid, and smart cities).

- Further, India's dismal performance in social indicators shows urgent need to invest more in social infrastructure rather than only physical infrastructure.
- This does not imply that physical infrastructure should be ignored. There are potential projects that can have big payoffs, but a policy makers should avoid the notion that massive investment in infrastructure will pay long-term economic dividends. For example, reviving the nationwide smart cities program to help cities and towns use digital technologies to improve operations and improve quality of life can help.

Conclusion

India's goal of becoming a USD 5 trillion economy rests on the completion of critical infrastructure under the National Infrastructure Pipeline. Given the sudden shock to the economy and the resultant recessionary pressures, there is a need for strong re-prioritization of resources towards majors sectors with emphasis on physical infrastructure sector.

4. What are the intended benefits of graded water tariff? Examine.

Approach

Students are expected to write about graded water tariff and also examine the intended benefits of graded water tariff.

Introduction

As per the UN's Dublin Principle (1992), water is an economic good and hence should reflect its scarcity value. Fortunately, this has been recognised by successive National Water Policies. The 1987, the policy envisaged that the water rates should reflect the scarcity value of the resource and foster economy in water use. The 2002 policy envisaged that the water charges for various uses should cover at least the operation and maintenance charges of providing the service initially, and a part of capital costs subsequently.

Body

Graded water tariff:

- Graded water tariff is to fix an appropriate price for water on a graded basis, wherein higher consumption entails higher charges.
- The government has accepted the recommendation of the 15th

Finance Commission, which has suggested fixing a graded water tariff to reform the water sector.

Per capita water availability has been declining over the years, and it has now touched the scarcity benchmark of 1,000 cubic meter annually. In such situation we need to study importance of graded water tariff and it's intended benefits such as:

- According to the 15th finance commission, fixing water tariff is necessary because "inappropriate water pricing" is one of the major causes of over-exploitation of water in the domestic sector. Graded water tariffing can work on controlling over exploitation.
- It will enhance the revenue collection. Tariff do not get revised on a periodic basis, resulting in a large gap between the cost of supply of water and the revenue collected. Thus it will create revenue for local bodies and state governments from heavy water usage industries which can be used to subsidies water vulnerable section of society.
- Help in increasing the water use efficiency. Tariff of water will reflect its efficient use and reward its conservation. Graded water tariff will roll out equitable access of water for all and its fair pricing for drinking and other uses will be undertaken by a statutory regulatory authority. It will refrain water determined directly on a volumetric basis. It will be beneficial if Water charges be determined on volumetric basis after taking into consideration equity and efficiency.
- With graded water tariff there will be establishment of water regulator. The water regulator can be made a statutory body and be given a mandate to regulate various water uses and their fair pricing.
- The irrigation sector, which accounts for 90 per cent of the groundwater consumed, which was exempted earlier from levy of Ground Water Conservation Fee (GWCF) can be taken under fold.
- Through graded water tariffing, it is expected to discourage setting up of new industries in overexploited and critical areas and to deter large scale groundwater extraction by industries in these areas.

However, moving towards an elaborate water tariffing is not that easy. There are few challenges involved in it:

- To make a case for water tariffing at a time when the most vulnerable to water shortage are already reeling under severe economic hardship.
- To introduce graded water tariff in the entrenched political economy in different parts of India. Severe water crisis in some parts of the country are in stark contrast to flourishing fields in some other parts.
- The public procurement policies also promote cultivation of water-intensive crops, sometimes in those very states where the usage is most inefficient.
- The most important challenge is the inherent design problems associated with graded water pricing. This is because the government does not exercise control over the sources of water as it does over other natural resources.

Wayforward:

- The government should make people realise that without a price on water usage, it is they who will suffer the worst consequences of a drought.
- Groundwater has to be priced through proxies electricity or diesel used by farmers to pump the water. The strategy for pricing should be such that the cost of migration from one method of irrigation to another or from electricity to diesel offsets the difference in cost between the two.
- It is also important to target irrigation water for pricing purposes because it alone comprises more than 78% of the total water usage in India. Also, irrigation consumption is an area where the scope for increase in efficiency is very high and provide sustainable control over water guzzling crops.

Conclusion

Graded water tariffing is a complex subject and its imposition has huge political overtones. The determination of water-use charges has to be rational, consultative and transparent. And, the role of the statutory water regulator should be recognised.

5. What is a Development Finance Institution (DFI)? Discuss. What are its key objectives?

Approach- Question is straight forward. Candidate is required to define development finance institution and then discuss its importance by giving examples of such institutions.

Introduction

The development finance institutions or development finance companies are organizations owned by the government or charitable institution to provide funds for low-capital projects or where their borrowers are unable to get it from commercial lenders.

Body

What is Development Finance Institution?

- These are specialized institutions set up primarily to provide

development/ Project finance especially in developing countries.
- These DFIs are usually majority-owned by national governments.
- The source of capital of these banks is national or international development funds.
- This ensures their creditworthiness and their ability to provide project finance in a very competitive rate.

How is it different from commercial banks?
- It strikes a balance between commercial operational norms as followed by commercial banks on the one hand, and developmental responsibilities on the other.
- DFIs are not just plain lenders like commercial banks but they act as companions in the development of significant sectors of the economy.

Objectives of Development Finance Institutions
- The prime objective of DFI is the economic development of the country
- These banks provide financial as well as the technical support to various sectors
- DFIs do not accept deposits from people
- They raise funds by borrowing funds from governments and by selling their bonds to the general public
- It also provides a guarantee to banks on behalf of companies and subscriptions to shares, debentures, etc.
- Underwriting enables firms to raise funds from the public. Underwriting a financial institution guarantees to purchase a certain percentage of shares of a company that is issuing IPO if it is not subscribed by the Public.
- They also provide technical assistance like Project Report, Viability study, and consultancy services.

Some important DFI's (sector specific)

Industry
- IFCI – 1st DFI in India. Industrial Corporation of India was established in 1948.
- ICICI – Industrial Credit and Investment Corporation of India Limited established in 1955 by an initiative of the World Bank.
- It established its subsidiary company ICICI Bank limited in 1994.
- In 2002, ICICI limited was merged into ICICI Bank Limited making it the first universal bank of the country.

Universal Bank – Any Financial institution performing the function of Commercial Bank + DFI
- It was established in the private sector and is still the Only DFI in the private sector.

IDBI – Industrial Development Bank of India was set up in 1964 under RBI and was granted autonomy in 1976
- It is responsible for ensuring adequate flow of credit to various sectors
- It was converted into a Universal Bank in 2003

IRCI – Industrial Reconstruction Corporation of India was set up in 1971.

- It was set up to revive weak units and provide financial & technical assistance.

SIDBI – Small Industries development bank of India was established in 1989.

- Was established as a subsidiary of IDBI
- It was granted autonomy in 1998

Foreign Trade

- EXIM Bank – Export-Import Bank was established in January 1982 and is the apex institution in the area of foreign trade investment.
- Provides technical assistance and loan to exporters

Agriculture Sector

NABARD – National Bank for agriculture and rural development was established in July 1982. It was established on the recommendation of the Shivraman Committee It is the apex institution in the area of agriculture and rural sectors It functions as a refinancing institution

Housing

NHB- National Housing Bank was established in 1988. It is the apex institution in Housing Finance

Conclusion

India needs DFI's to boost economic growth which would increase capital flows and energize capital markets. To improve long term finances, provide credit enhancement for infrastructure and housing projects. As India does not have a development bank, DFI would fulfil the need for us to have an institutional mechanism.