BLOCK 4
SECTOR SPECIFIC ISSUES AND POLICIES

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This block focuses on Sector-specific (Agriculture, Industries and Services) issues, concerns and associated policies addressing those issues and concerns. The block comprises 5 Units.

Unit 13 entitled **'Agriculture: Issues, Concerns, Policy and Programmatic Initiatives** deals with role and relevance of agricultural sector in the Indian economy, trends of agricultural production, causes of deceleration of agricultural growth in India, shifting of agriculture from traditional to modern dynamic sector, impact of green revolution and the various policy initiatives taken by the government in this regard.

Unit 14 on **Large Scale Industries in India: Issues and Policy** covers the issues and policy related to large scale Industries. The unit examines growth strategy of heavy industries in terms of their features, legislative support, industrial policy support, critical issues before industrial sector and the framework for a new industrial policy.

Unit 15 on **'Micro, Small and Medium Enterprises: Issues and Policy'** covers issues and challenges being encountered by MSME sector, the impact of demonetization and GST on the MSME sector, and the various policy initiatives taken by the Government.

Unit 16 entitled **'Services Sector I: Organised Sector— Issues and Policy'** identifies the various issues and concerns of organised services sector. Sector-specific policy initiatives and issues in selected organised sectors have been provided in this unit.

Unit 17 entitled **'Services Sector-II: Informal Sector— Issues and Policy**' sheds light on salient characteristics of informal service sector. Factors responsible for its exponential growth, the issues and challenges being faced by the informal sector, policy implications of informality, and the role of government at various levels in this regard have also been covered in this Unit.

UNIT13 AGRICULTURE: ISSUES, CONCERNS, POLICY AND PROGRAMMATIC INITIATIVES

Structure

13.0 OBJECTIVES

After reading and studying this unit, you will be able to explain:

- role and relevance of agriculture sector in the Indian Economy;
- trends in agriculture production and productivity both in major food grains and non-food grains since independence especially after the adoption of New Agriculture Strategy in mid-1960s;
- causes for Stagnation in Agriculture Growth in India especially during economic reforms regime;
- shift in agricultural sector in India from a traditional agriculture in the 1950s to the modern technologically dynamic high capital-intensive agriculture;
- various programmes implemented during the first decade after independence for increasing the food grains production;
- impact of green revolution in terms of attaining self-sufficiency in food grains and in terms of shrinking incomes of the farmers as well as widespread environmental implications; and
- various policy and strategic initiatives by the Government for doubling of farmers' income.

13.1 INTRODUCTION: ROLE AND RELEVANCE OF AGRICULTURE IN INDIAN ECONOMY

Agriculture as a sector has contributed significantly in the process of India's development in number of ways, some of which are listed below:

- *Contribution to National Income:*In 1950-51 contribution of agricultural sector to national income was 59 per cent and in 2004-05 it came down to 24.4 per cent and further to about 15 per cent in 2017-18. Economic contribution of agriculture to India's GDP is steadily declining with the country's broad-based economic growth, yet, nearly 43 per cent of the population continues to be dependent on it for livelihood.

- *Largest Employment Provider Sector:*In 1972-73, 73.9 per cent of the working population was engaged in agriculture/allied activities, which fell to 64.8 per cent in 1993-94, to 48.9 per cent in 2011-12 and to 43 per cent in 2017-18. With rapid increase in population, the absolute number of people engaged in agriculture has become exceedingly large. As development of other sectors has not been sufficient, dependence of increasing population on agriculture has increased with marginal productivity of labour being less than or equal to zero– a scenario which gives rise to the familiar problem of disguised unemployment in agriculture.

- *Provision of Food Surplus to the Expanding Population:* Agriculture is the basic source of food supply and if agriculture fails to meet the rising demand of food products (due to increase in population), it is bound to affect adversely the growth rate of the economy. In India, food consumption still constitutes on an average 60 per cent of household income thereby generating adequate demand for food products.

- *Providing Raw Materials to Industries:* It provides essential raw materials to many industries like cotton textiles, jute, sugar, vegetables, oil, tinned food, Cigarettes and rubber, etc. The entire range of food processing industries is also dependent on agriculture. Therefore, unless agriculture develops, these industries will not be able meet their demand for raw materials.

- *Market for Industrial Products:* As majority of the population live in rural areas, increased rural purchasing power is a valuable stimulus to industrial development, as propounded by Ragner Nurkse and Arthur Lewis in their theories on financing industrial development through agriculture

- *Commercial Importance:* For a number of years after independence, the three agriculture-based exports of India – cotton textiles, jute and tea – accounted for more than 50 per cent of export earnings of the country. On adding the exports of other agricultural products such as cashew kernels, tobacco, coffee, Vanaspati, oil, and sugar, etc. the share of agriculture in total exports rose to around 70 to 75 per cent. Such a heavy dependence on agriculture reflected the underdeveloped nature of economy. With economic progress and consequent diversification of production base, share of agriculture goods in total exports fell to 44.2 per cent in 1960-61 which considerably fell to 30.7 per cent in 1980-81 and 12.3 per cent in 2016-17.

As India is still home to the largest number of poor and malnourished people in the world with it being at the 101th position among 119 countries in Global Hunger Index, 2018, a higher priority to agriculture will achieve the goals of reducing poverty and malnutrition as well as achieving inclusive growth. 'Growth with inclusiveness' can be achieved only when agriculture growth accelerates and is widely shared among the people and regions of the country.

Given the role and relevance of agriculture in India's economy, this unit intends to discuss in detail (a) the performance of agriculture sector in terms of trends in production and productivity focusing upon the period since independence; (b) Issues and concerns being faced by the sector; and (c) Strategic, policy and schematic initiatives taken by the government for transformation of agriculture and how far these measures have benefited in *de-facto* sense the farmers/ cultivators.

13.2 AGRICULTURE PRODUCTION AND PRODUCTIVITY AFTER INDEPENDENCE

The two major crop groups are Food grains (Food crops) and Non-food grains (Non-food crops). Food crops include rice, wheat, jowar, bajra, small millets, cereals, gram, pulses, vegetables and fruits, while Non-food crops include Oilseeds (groundnut, linseed, rapeseed and mustard, niger seed), Fibre crops (cotton, jute and mesta), sugarcane, tobacco, Plantation crops (tea, coffee and rubber), Condiments and Spices.

The food crops contribute about 2/3rd of total agricultural production. The most important component in the food grains category is wheat followed by rice. In non-food grains category, oilseeds constitute the most important group followed by Sugarcane and cotton.

13.2.1 Trends in Production

Table 13.1 reveals the following trends:

- Consistent increase in food grains production with considerable annual fluctuations.
- The production of two major crops – Wheat and Rice – has consistently increased since 1950-51 and increase was significant, especially in case of wheat after the adoption of New Agricultural Strategy since mid-1960s and in rice it followed subsequently in early 1980s. These two crops benefitted the most from the development of 'miracle seeds'.
- Jowar and bajra exhibited erratic trends over the planning period. Introduction of HYV maize has pushed up its production and productivity. As a result, area under maize has risen significantly at the cost of other cereals like jowar, bajra, etc.

Table 13.1: Trends in Agricultural Production 1950-51 to 2018-19 (Units in Million Tones)

Crop	Decadal Trends from 1950-51 to 2010-11 and Annual Trends thereafter up to 2018-19														
	1950-51	**1960-61**	**1970-71**	**1980-81**	**1990-91**	**2000-01**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
Rice	20.6	34.6	42.2	53.6	74.3	85.0	96.0	105.3	105.2	106.6	105.5	104.4	109.7	112.8	116.4
Wheat	6.4	11.0	23.8	36.3	55.1	69.7	86.9	93.5	93.5	95.8	86.5	92.3	98.5	99.9	102.6
Jowar	5.5	9.8	8.1	10.4	11.7	7.5	7.0	6.0	5.3	5.5	5.5	4.2	4.6	4.8	3.8
Bajra	2.6	3.3	8.0	5.3	6.9	6.8	10.4	10.3	8.7	9.3	9.2	8.1	9.7	9.2	8.6
Maize	1.7	4.1	7.5	7.0	9.0	12.0	21.7	21.8	22.3	24.3	24.2	22.6	25.9	28.8	27.2
Other Cereals	4.1	6.5	7.0	6.4	4.1	4.5	4.3	5.3	3.6	4.2	3.9	3.6	3.4	6.4	3.0
Pulses	8.4	12.7	11.2	10.6	14.3	11.0	18.2	17.1	18.3	19.3	17.2	16.4	23.1	25.4	23.4
Total FGs	**50.8**	**82.0**	**108.4**	**129.6**	**175.4**	**196.8**	**244.5**	**259.3**	**257.1**	**265.0**	**252.0**	**251.6**	**275.1**	**285.0**	**285.0**
Oilseeds#	6.2	7.0	9.6	9.4	18.6	18.4	32.5	29.8	30.9	32.7	27.5	25.3	31.3	31.5	32.3
Sugarcane	57.1	110.0	126.4	154.2	241.0	296	342.4	361.0	341.2	352.1	362.3	348.4	306.1	379.9	400.2
Cotton@	3.0	5.6	4.8	7.0	9.8	9.5	33.0	35.2	34.2	35.9	34.8	30.0	32.6	32.8	27.8
Jute$	3.3	4.1	4.9	6.5	7.9	9.3	10.0	10.7	10.3	11.7	10.6	9.9	10.4	9.6	9.4

@Million Bales (bale=170kg), $ Million Bales (bale=180kg),

#Includes groundnut, rapeseed & mustard, sesamum, linseed, castorseed, nigerseed, safflower, sunflower and soyabean;

Source: Source: Indian Economy, Mishra and Puri, 36th Edition, 2018 and Col 3-6 from Economic Survey, 2000-01 (Statistical Tables, Table 1.12), Col 7 to 16 from Economic Survey, 2019-20 (Volume II), Statistical Appendices, Table 1.15, page number A 34.

- Pulses requirement in India is estimated at about 17 million tons; but actual production has been considerably less than this level during most of the period. However, production of pulses shot up from 16.4 million tons in 2015-16 to 23 million tons in 2016-17. The supply of pulses lagged behind for most of the planning era; India has had to import a large quantity of pulses over the period which constituted 15-20 per cent of our total demand in the country. Recently India has achieved nearly self-sufficiency in pulses and therefore imports are confined to international agreements negotiated earlier

- As far non food grains group is concerned, the production of oilseeds rose sharply in the latter half of 1980s and the first decade of the present century with minor fluctuations. Just like pulses, there has been a large gap between demand and supply for a considerable period forcing the countryto import large quantities of edible oils. In fact, even at present 60 per cent of demand for edible oils is met out of imports, Which is likely to be untenable in the long run.
- century with minor fluctuations. Just like pulses, there has been a large gap between demand and supply for a considerable period forcing the country to import large quantities of edible oils. In fact, even at present 60 per cent of demand for edible oils is met out of imports, which is likely to be untenable in the long run.
- Production of cotton which averaged 8 to 9 million bales per annum till 2000-01 rose significantly thereafter due to widespread use of Bt Cotton (a genetically modified pest resistant plant cotton variety) in 2002. From annual production of about 9 million bales in 2000-01, the production rose to 33 million bales in 2010-11 but thereafter it almost stagnated at the same level. Now almost 90 per cent of cotton area is covered under Bt cotton.
- Jute saw a slow and halting progress during the entire period of planning.
- The sugarcane exhibited a consistent increase in production during the four decades period 1952-53 to 2002-03 but thereafter it rose considerably with annual fluctuations.

13.2.2 Trends in Productivity

The agricultural production depends not only on the area but also on the productivity of land. It shows the relationship between inputs and output. The agricultural productivity can be classified into two categories viz. agricultural productivity per hectare and agricultural productivity per worker. Trends in productivity per hectare of major food grains and Non-food grains crops after independence are analysed in Table 13.2.

The Table 13.2 reveals the following trends:

- The yield per hectare of all food grains has increased by about four times from 552 kg per hectare in 1950-51 to 2299 kg per hectare in 2018-19.
- The most significant increase has been recorded by wheat with its yield increasing from 655 kg per hectare to 3507 kg per hectare in 2018-19. Productivity of rice also increased significantly from 1123 kg per hectare in 1970-71 to 2659 kg per hectare in 2018-19.
- Jowar and Bajra recorded much lower rates of growth in productivity.
- Most disappointing has been the performance of pulses with stagnant productivity at around 532 kg per hectare during the period from 1960-61 to 1999-00, thereafter it increased at snail pace to 806 in 2018-19.
- The productivity of maize and cotton has increased in recent years due to adoption of hybrid maize varieties and Bt cotton since 2002 in most areas of the country.

Table-13.2: Yield Per Hectare of Major Crops (Kg per Hectare)

Crop	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**
Rice	668	1013	1123	1336	1740	1901	2239	2393	2462	2416	2391	2400	2416	2576	2659
Wheat	655	851	1307	1630	2281	2708	2989	3178	3117	3145	2750	3034	3145	3368	3507
Jowar	353	533	466	660	814	764	949	957	850	957	884	697	957	960	979
Bajra	288	286	622	458	658	688	1079	1171	1198	1184	1255	1132	1184	1231	1242
Maize	547	926	1269	1159	1518	1822	2540	2478	2566	2676	2632	2563	2676	3065	2986
Pulses	441	539	524	473	578	544	691	699	789	764	728	656	764	853	806
Total FGs	**552**	**710**	**872**	**1023**	**1380**	**1626**	**1930**	**2078**	**2079**	**2120**	**2028**	**2042**	**2120**	**2235**	**2299**
Oilseeds*	481	507	579	532	771	810	1193	1133	1168	1168	1075	968	1168	1284	1265
Cotton	88	125	106	152	225	190	499	491	486	510	462	415	510	443	386
Jute	1043	1049	1186	1245	1833	2026	2329	2389	2396	2639	2549	2457	2639	2517	2467

*Include groundnut, rapeseed & mustard, sesamum, linseed, castorseed, nigerseed, safflower, sunflower and soyabean.

Source: Indian Economy, Mishra and Puri, 36th Edition, 2018 and Col 3-7 from Economic Survey, 2000-01 (Statistical Tables, Table 1.14), Col 7 to 16 from Economic Survey, 2019-20 (Volume II), Statistical Appendices, Table 1.17, and page number A 36.

Even if we focus on trends in agricultural growth in post-1991 economic reforms regime, it is observed that new economic policy seems to have bypassed the agriculture sector completely. The comparison in aggregate GDP growth vis-à-vis Agri-GDP growth is reflected in Table 13.3.

Table 13.3: Rates of Growth (in per cent) since 1991

Years	Overall GDP	Agri-GDP
1991-92 to 1995-96	5.2	2.4
1999-00 to 2003-04	6.0	2.9
2004-05 to 2013-14	8.0	3.7
2014-15 to 2018-19	7.2	1.9

Check Your Progress 1

1) Trace out the trends in production and productivity of major crops in India after independence.

2) Do you agree with the statement that 'Agriculture has significantly contributed to development of India'?

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3) Do you agree with the view that agriculture growth continued to stagnate even after economic reforms were launched in 1991? Does it imply that economic reforms have by-passed agriculture?

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13.3 CAUSES FOR STAGNATION IN AGRICULTURE GROWTH IN INDIA

13.3.1 Deceleration in Agriculture Investment

Capital formation is necessary for improving long-term growth potential in agriculture. The share of agriculture and allied activities in gross capital formation in the economy increased in the mid-1960s and this trend continued till the late 1970s. Higher growth rates of agriculture witnessed in the 1980s were due to the lagged impact of increases in the share of agriculture and allied sector in gross capital formation during the late 1960s and 1970s (Figure 13.1)

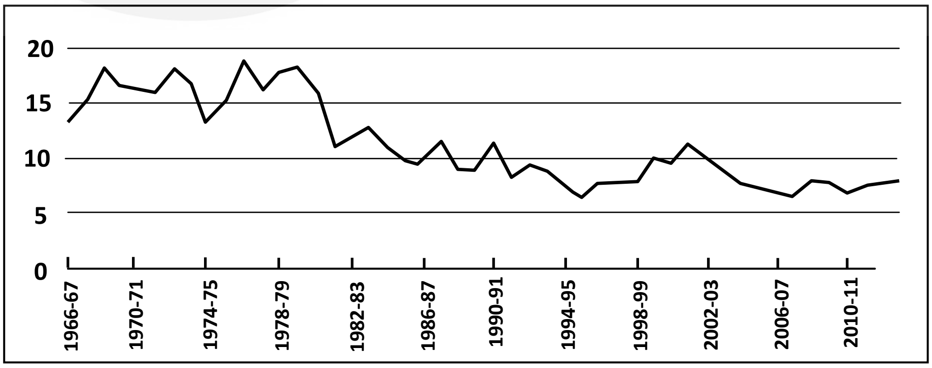

Figure 13.1: Share of Agriculture and Allied Sectors (per cent) in Gross Capital Formation since 1966-67

Source: Planning commission of India and Agricultural Statistics at a Glance (2015)

However, since the 1980s, the share has shown a declining trend. There was a mild recovery during the late 1990s till 2001- 02, and then the share declined again. Total investment in agriculture as proportion of GDP declined from 9.9 per cent in 1990-91 to just 3.5 per cent in 1999-2000. The share of public investment in gross capital formation in agriculture has also declined over the years, as shown in Table 13.4.

Table 13.4: Share of Public & Private Sector in Capital Formation in Agriculture and Allied Activities

Sector	1970s	1980s	1990s	2000s	2011-12	2015-16
Private	66.5	58.3	761	81.1	84.9	81.98
Public	33.5	41.7	23.9	18.9	15.1	18.02

Source: National Accounts Statistics and National Accounts Statistics, 2017.

There is a difference in the nature of public and private capital formation and contribution in the production processes. The former is mainly in the nature of public goods such as irrigation projects and road networks. These will not be provided by private capital. Decline in public capital formation is not adequately compensated by an increase in private investment in agriculture. The most important cause of decline in public investment in agriculture is the diversion of resources from investment to current expenditure in the form of subsidies.

13.3.2 Inadequate Irrigation Coverage and Falling Productivity of Irrigation in Foodgrains

Inadequate irrigation cover for most of the crops is an important constraining factor in speedy adoption of improved technology. Various Economic Surveys released by Ministry of Finance have highlighted the following issues: (a) only 40 per cent of Gross Cropped Area (GCA) was under irrigation in 2002-03, which increased only to around 49 per cent in 2016-17, and (b) share of public expenditure on irrigation and flood control to total public expenditure has declined over the years, (c) Irrigation coverage across the states is quite skewed (e.g. in Punjab 98.5 per cent of total area under all crops is irrigated, while in Maharashtra it was only 19.5 per cent in 2013-14) and (d) distribution of irrigation facilities across crops is equally skewed (e.g. 93.6 per cent of area under wheat, 60 per cent of area under rice has been under irrigation while for pulses and oilseeds it was only 20 per cent and 27 per cent, respectively).

Jha and Acharya (2011) examined trends in policies that govern public expenditure on agricultural and rural development, including expenditure on irrigation and flood control, in the post-Independence period. Their study classifies this period into three phases. The first phase, which lasted from the early years after independence to the late 1960s, saw the Central and State governments paying greater attention to the development of irrigation. This period was characterised by large outlays on medium and minor irrigation schemes. In the second phase, from the early 1970s to the late 1980s, substantial expenditure was incurred on new water technologies to promote the Green Revolution. The third phase, which begins with liberalisation of the economy in the 1990s, is characterised by a substantial reduction in the expenditure on agricultural and rural development. Table 13.5 shows the decline in the share of outlays on irrigation in GDP over time from the already low levels of the 1980s.

Table 13.5: Allocation to Irrigation Projects as percentage to GDP

Year	1981-82	1990-91	1995-96	2000-01	2005-06	2011-12	2013-14
Share	1.4	0.7	0.7	0.7	0.8	0.6	0.5

Source: Shantanu De Roy(2017), "Economic Reforms and Agricultural Growth in India", Economic and Political Weekly, vol LII no 9, March 4, 2017, p.70 (Table 6).

The low irrigation cover for various crops has led to severe rainfall dependency. One finds a high correlation between production and rainfall for pulses and oilseeds.

13.3.3 Failure to Evolve and Adopt New Technologies

India was able to avail of the potential of seed-fertilizer technology because of favourable international research collaborations. However, the country has failed to make a major breakthrough in frontal areas like biotechnological research. In India, public funding for agriculture Research and Education (R&E) is contributed by both Centre and States with around 55.4 per cent of the total allocation contributed by the Centre and 44.6 per cent by states. Lack of investment in research and technology in agriculture has resulted in the non-availability of any new cost– reducing technology in agriculture and has led to declining input efficiency. One of the main reasons for the low levels of yields in Indian agriculture has been the unsatisfactory spread of new technological practices including HYVs of seeds and usage of fertilizers and pesticides and inadequate spread of farm management techniques and other practices such as soil conservation and crop rotation.

Between 2000-01 and 2014-15, India's total R & E expenditure for agriculture and allied activities in real terms (2004-05 prices) has increased from Rs. 31.1 billion to Rs. 61.6 billion (a compound annual growth rate of 5 per cent). However, as a percentage of GDP from agriculture (GDPA), it amount to about 0.54 per cent in 2014-15.

13.3.4 Shrinking Farm Size

The shrinking size of average land holding of an Indian farmer has held back agricultural productivity and there is not much that can be done about this. Due to smaller holding size majority of Indian farms find it difficult to access institutional credit, access new technology, adopt more efficient form of farm practices and undertake more capital-intensive investment for land improvement. The average landholding size of a household has shrunk marginally to 1.1 hectare (ha) in 2015-16 from 1.16 ha three years ago, according to a rural survey carried out by the National Bank for Agriculture and Rural Development (NABARD). The said survey shows that nearly one-thirds of farmers have land parcels smaller than 1 ha, while 37 per cent of farm households owned land parcels of smaller than 0.4 ha, another 30 per cent had holdings which fall between 0.41 and 1.0 ha. Only 16 per cent agricultural households owned landholdings in between 1 to 2 ha and only 13 per cent of farmers have holdings bigger than 2 ha.

Table 13.6: Trends in Farm Size Holdings in India (Unit in Million)

Holding	1970-71	1980-81	1990-91	2000-01	2010-11
Marginal	36	50	83	75	93
Small	13	16	20	23	25
Medium	19	21	22	21	20
Large	3	2	2	1	1

Note: Marginal: up to 1 hectare, Small: 1-2 hectares, Medium: 2-10 hectares, Large: over 10 hectares. Sources: Agriculture Census 2011

13.3.5 Non-availability or Inadequate Credit from Formal Sources

Shantanu De Roy (2017) using the data from RBI's Handbook of Statistics for Indian Economy computed the trends in (a) opening of new rural branches, (b) credit-deposit ratio in rural areas and (c) shares of priority sector and agriculture in total outstanding credit of Commercial Banks which are presented in Figures (Figure 13.2A to 13.2C). It may be observed that reduction in bank branches in rural areas and declining credit–deposit ratios led to increased dependence of smaller cultivators on private moneylenders at exploitative conditions.

Reduced emphasis on priority sector lending with financial liberalisation had led to reduction in the availability of credit to small and marginal cultivators and made cultivation more expensive. Trends in credit–deposit ratio and shares of priority sector and agriculture in total outstanding credit of commercial banks indicate that both declined in the 1990s as compared to the 1980s. Since 2001, however, there has been a turnaround, whereby there were steep increases in these ratios. Increase in rural credit since 2001 was largely due to an increase in indirect finance in agriculture and definitional changes that incorporated export-oriented and capital-intensive agriculture under priority sector lending. Main beneficiaries of this change were large agribusiness companies and big cultivators. The share of the latter in total credit outstanding and loan per account increased substantially between the mid-1990s and 2004–05.

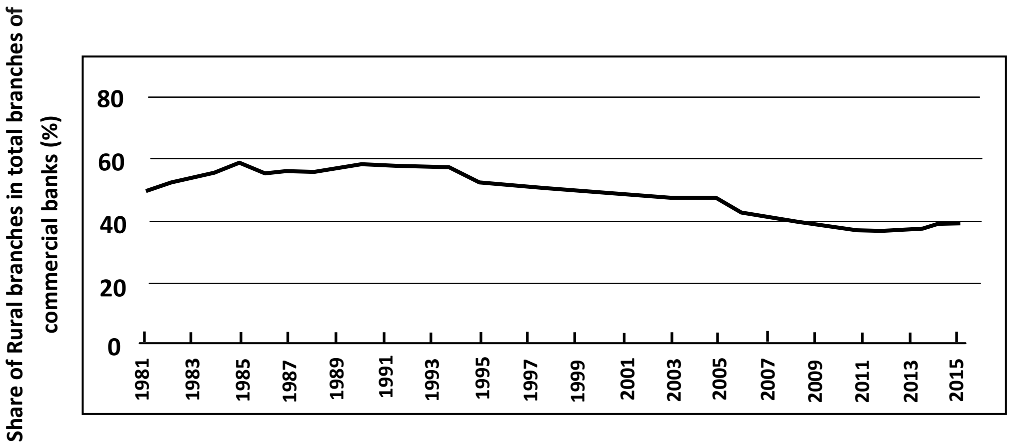

Fig. 13.2A: Trends in the declining Rural Branches in India

Source: Computed from the Handbook of Statistics, Reserve Bank of India, various years.

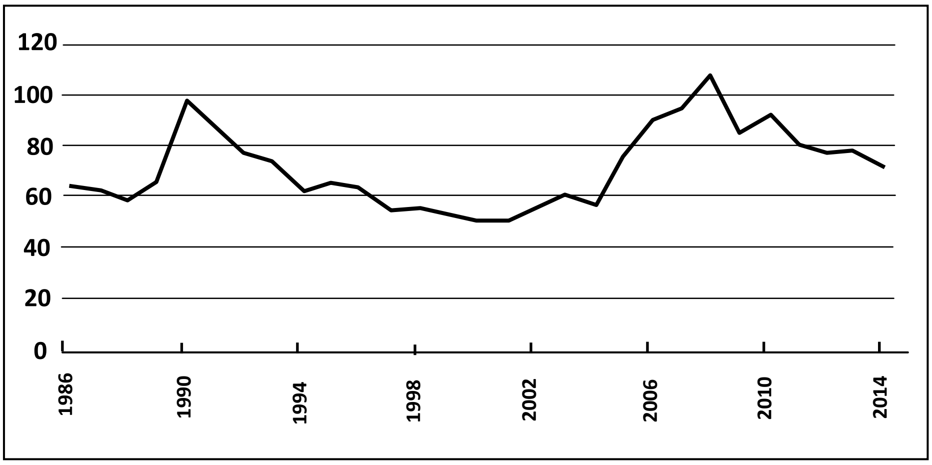

Fig. 13.2B: Trends in the declining Credit-Deposit Ratio

Source: Computed from the Handbook of Statistics, Reserve Bank of India, various years.

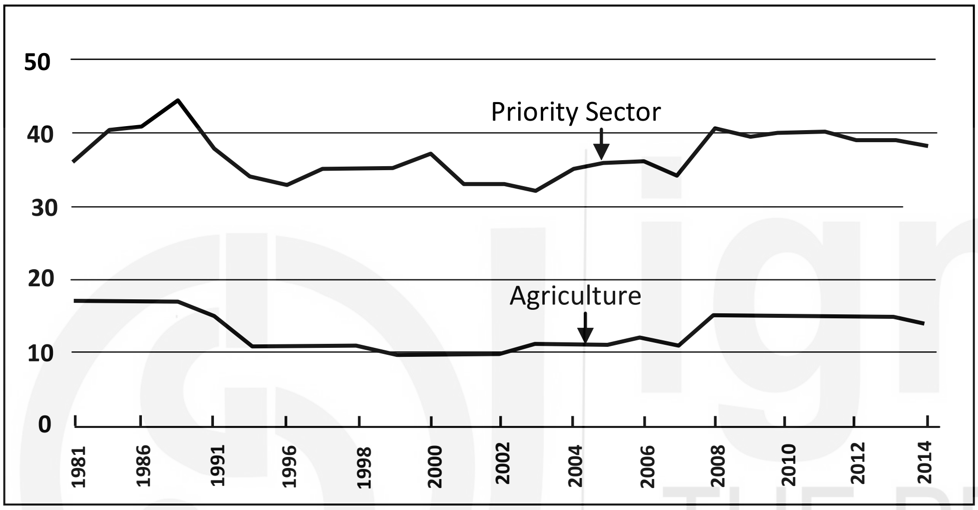

Fig. 13.2C: Shares of Priority Sector and Agriculture in Total Outstanding Credit of Commercial Banks

13.3.6 Imbalance in the use of Fertilizer

In general, the nitrogenous (N), phosphate (P) and potash (K) Fertilizers' ratio of 4:2:1 is considered to be optimum for India. The total fertilizer-use in India increased at 6 per cent per annum from 2.65 million tons of NPK in 1971-72 to 28.12 million tons in 2010-11. In the early 1970s Indian farmers applied N, P and K in the ratio of 6.0:1.9:1.0, which increased to 9.5:3.2:1 in 1992. The ratio worsened further to 10:2.9:1 in 1996. In 2012–13, the ratio of NPK use in India reached 8.2:3.2:1, which is more imbalanced compared to the early 1970s. Imbalance in the use of fertilizers in soil may also result in a loss of fertility.

13.3.7 Effectiveness of Minimum Support Prices (MSPs)

MSPs are declared prior to each sowing season (in June and October) so that farmers are aware of the minimum price the government will offer for their produce. As per a report by the NITI Aayog, a low proportion of farmers (10 per cent) were aware of MSPs before the sowing season. 62 per cent of the farmers were informed of MSPs after sowing their crops. The pricing policy of MSPs would be effective only if farmers are aware of it at the time of deciding what crops to grow. The NITI Aayog recommended that the awareness level of farmers regarding MSPs must be increased and the mediums of dissemination of this information must be strengthened.

Other issues with the implementation of the MSP regime include long distances to the procurement centres, increasing cost of transportation for farmers, irregular hours of the procurement centres, lack of covered storage godowns and inadequate storage capacity, and delays in the payment of MSPs to farmers.

13.3.8 Inadequate Availability and Access to Quality Seeds

Quality seeds are another input necessary for agricultural productivity, and good quality seeds account for 20 per cent-25 per cent of increased crop productivity. Agricultural seeds are produced by various agencies such as Indian Council of Agricultural Research and its research institutions, state agricultural universities, and national and state seeds corporations. The private sector has also started playing a role in supplying some seeds such as hybrid maize, bajra, cotton and sunflower. About 30 per cent-35 per cent of the total seeds available are produced by private and public sector companies, and farm bred seeds account for the remaining seeds. The cost of HYV varieties is too high for marginal and small farmers to afford, thus disincentivising them from purchasing these varieties. The Economic Survey 2015-16 recommended bringing in more players into the production of seeds, to improve their availability in the market and also reduce their prices.

13.3.9 Farm Mechanisation: Major Challenges

Mechanisation is another aspect with a significant impact on agricultural productivity. It makes activities such as tilling, spreading of seeds and fertilizers and harvesting more efficient, so that the cost of inputs is offset. It can also make the use of labour in agriculture more cost-effective. The status of mechanisation in agriculture varies for different activities, although the overall level of mechanisation is still less than 50 per cent, as compared to 90 per cent in developed countries.

Some challenges faced by farm mechanisation include different soil and climatic zones which require customised farm machinery, and small land holdings with lack of access to resources. To increase productivity, farm equipment which is durable, lightweight and low cost and also specific to different crops and regions should be made available for small and marginal farmers.

13.3.10 Post-harvest Activities-Inadequate Storage Facilities

After agricultural produce is harvested, it requires a robust storage infrastructure in order to minimise any losses due to adverse weather conditions or in the process of transportation. Owing to the inadequate capacity and poor conditions of storage, the quantity of food which is wasted during the harvest and post-harvest processes in the country has increased over the years. The highest losses are observed in the case of fruits and vegetables (up to 40 per cent of production), pulses (6.4 per cent-8.4 per cent) and oilseeds (5.3 per cent-9.9 per cent).

In sum, Indian agriculture continues to face challenges, some new and some old, such as: (i) declining availability/quality of soil, water and other natural resources; (ii) decreasing size of farm holdings; (iii) inefficient use of inputs and their increasing costs; (iv) scarce and more costly agriculture labour; (v) drudgery in farming operations; (vi) growing risks in farming at all its stages from pre-production to production to marketing; (vii) increasing information gap, knowledge gap and skill gap; (viii) poor access to credit and investments; (ix) slow diffusion of relevant technologies; (x) competitiveness of quality and prices in domestic and export markets; (xi) inadequate focus on processing and value addition; (xii) inadequate rural infrastructure; (xiii) regional imbalances; (xiv) problems in retaining rural youth in agriculture; (xv) poor access to resources and services for women in agriculture; (xvi) weak institutional/sub-system linkages and convergence; and (xvii) extreme events of climate change.

Check Your Progress 2

1) Discuss the factors responsible for slow growth in agriculture in recent years.

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2) How does public investment in agriculture affects the productivity growth of the sector in India? Give reasons.

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3) Give a critical appraisal of the flow of institutional credit for agriculture in India.

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4) Do you agree with the view that shrinking farm size in India is a major factor of sluggish growth and rural poverty in India?

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13.4 TRANSFORMATION OF INDIAN AGRICULTURE: STRATEGIES FOR DEVELOPMENT (1951-2002)

Agricultural sector in India has moved from a traditional agriculture in the 1950s to the modern, technologically dynamic high capital-intensive agriculture, in which along with food and non-food crops, horticulture and other allied activities have also expanded. In the context of Indian agriculture, three distinct phases of growth can be distinguished as follows:

- **Phase I:** Traditional Agriculture (1951-1966)
  - First sub-period (1951-61)
  - Second sub-period (1961-66)
- **Phase II:** Technologically Dynamic Agriculture with New Agriculture Strategy (NAS) (1966 - 2002)
- **Phase III:** Post Green Revolution (GR) Policy/Schematic Initiatives

13.4.1 Phase I: Traditional Agriculture (1951-1966)

This is a technologically stagnant phase in which a larger farm production becomes generally possible only through increased application of all three traditional inputs, viz. land, labour and capital. The rate of increase of output is normally smaller than the rate of increase in inputs-revealing diminishing productivity of inputs, even at a low yield. Till mid-1960s, the Indian agriculture was typically embodied within the characteristics of traditional agriculture.

The primary feature of this period was that production of agricultural crops consistently maintained an upward trend, except for small dips in two years, 1957-58 and 1959-60. Independent India implemented various programmes, listed below, as part of the effort to increase production and to ensure food security.

- Grow More Food Campaign,
- Intensive Agricultural Development Programme (1950-51),
- Community Development Programme (1952),
- National Extension Service (1953), and
- Intensive Agricultural District Programme (1960-61)

Neglect of the agricultural sector during the Second Plan, the short war with China in 1962 and with Pakistan in 1966, the widespread drought in the east India culminated in a food crisis. In 1965-66, foodgrain production in the country fell from 83 million tons in 1960-61 to 72 million tons. This led to a serious crisis in the Indian economy, as the growth in foodgrains production was inadequate to meet the consumption needs of the growing population and food imports became essential.

13.4.2 Phase II: Technologically Dynamic Agriculture with New Agriculture Strategy (NAS):1966 - 2002

This is the beginning of the process of transformation from traditional agriculture to modern agriculture. The distinguishing feature of phase II is the application of science and technology, evolved by research institutions, in a progressively large scale. The 'New Agricultural Strategy' was India's response to the grave and long - standing food crisis that culminated in the 1960s.

The salient features of the Green Revolution Strategy are briefly listed below:

- *Revolution in Biotechnology: Biotechnology* - a hybrid of genetics and chemistry determines the maximum biological performance of plants and animals and also influences the scope and effectiveness of other forms of technology as well.

- *Green Revolution as Package Programme:* consisting of improved seeds, inorganic fertilizer, irrigation, and plant protection code (PPC) combined with agricultural R&D

- *Central Role of High Yielding Varieties or 'Miracle seeds':* The response of the traditional varieties to fertilizer was said to be negative. When they are fertilized with chemicals, they would shoot up even faster, grow dense, stoop and lodge on the ground reducing the photosynthetic work, and in the end would yield even less.

- *An important characteristic of modern varieties is their ability to utilise nutrients and water efficiently,* and to trans-locate more of them to grain formation than to other parts such as leaf. The unique feature of these seeds is that it can grow and work uninterruptedly even under cloudy skies, which drastically cuts down the time needed to produce a crop. This results in a quantum jump in yield.

- Spread of Green Revolution limited to irrigated areas.

- *Confined to Wheat Revolution:* Presently 90 per cent of lands engaged in wheat cultivation have benefitted from this new agricultural strategy. Most of the HYV seeds are related to wheat crop and major portion of chemical fertilizers are also used in wheat cultivation.

13.4.3 Impact of Green Revolution on Production and Yield of Major Crops During the Entire Planning Period

- The rate of growth of wheat production which was 4 per cent per annum in the pre-green revolution period (1949-50 to1964-65) shot up to 5.7 per cent per annum. During the sub-Phase I, i.e. initial phase of green revolution (1967-68 to1980-81) the rate of productivity doubled over the period from 1.3 per cent per annum to 2.6 per cent per annum. It was due to the adoption of new HYVs of seeds in the irrigated areas in certain regions of the country.

- Other crops picked up in the decade of 1980s, for instance, rice and oilseeds did considerably better in 1980s as compared with 1967-68 to 1980-81 and green revolution started spreading to more crops and this period is termed as the maturing of green revolution.

- During pre-green revolution phase, the contribution of area growth to output growth was 50.1 per cent while that of yield growth was only 38.4 per cent. During the green revolution or post green revolution phase, yield growth became the dominant source of growth of output, i.e. 85.2 per cent of growth was accounted for by yield growth while area expansion only contributed only 14.4 per cent.

- Deceleration in agricultural growth rates in the reform period commencing in 1991: Rate of growth of food grains production fell from 2.9 per cent in 1980s to 2 per cent in 1990s and remains stagnant thereafter at around 1.2 per cent during 1999-2019.Similarly rate of growth of productivity fell from 2.7 per cent in 1980s to 1.51 per cent in 1990s and further decreases to 1.3 per cent during the period 2000-19.

Thus in the reform period, the resurgent growth in agriculture from mid-1960s was arrested.

Green revolution generated employment opportunities in diverse activities which were created as a result of multiple cropping and mechanisation of farming. It helped to stimulate non-farm economy that generated newer employment in various services such as milling, marketing, warehousing, etc. Another positive effect of Green Revolution is the ploughing back of increased profits in agriculture. Increased production and productivity of foodgrains in post green revolution period not only helped in maintaining the price stability in food grains but also strengthened the forward and backward linkages with industry.

Negative socio-economic impacts of Green Revolution

The new agriculture strategy has resulted in increased productivity and returns for farmers. However, the revolution resulted into increased income with wide interpersonal and regional inequality and inequitable asset distribution:

- Being costly, NAS was adopted by large farmers resulting in interpersonal inequalities.
- NAS was confined to only irrigated areas, resulting in an increase in regional disparities.
- Restrictive Crop Coverage: The new agriculture strategy involving use of HYV seeds was initially limited to wheat and other major crop rice responded much later. The progress of developing and application of HYV seeds in other crops especially commercial crops like oilseeds, jute, etc. has been very slow. In fact, in a certain period, a decline in the output of commercial crops is witnessed because of diversion of area under commercial crop to food crop production.

Check Your Progress 3

1) Give an account of major programmes implemented during first one and a half decade of planning era for enhancing the foodgrains production in India.

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2) Enhancing the productivity of agriculture is the key to inclusive growth which is possible only with ‘strategic management’ and ‘technological upgradation’ in the sector. Discuss.

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3) What are the unique characteristics of the New Agriculture Strategy (also called Green Revolution)? Do you think India needed such strategy to address its food shortage? Narrate the positive and negative impacts of the Green Revolution.

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4) The Green Revolution and consequent increase in agriculture produce has worked to the disadvantage of farmers. Critically analyse the statement.

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13.5 TRANSFORMATION OF INDIAN AGRICULTURE: STRATEGIES FOR DEVELOPMENT 2002-2014

The analysis of growth dynamics of agriculture after adoption of NAS reveals that agricultural development strategies must be reoriented to meet the needs of farmers and called upon the Central and State governments to evolve a strategy to rejuvenate agriculture. The new strategy requires extending the first Green Revolution to the second Green Revolution in Eastern Part of the country or to Evergreen Revolution throughout the country to ensure that growth in agriculture is sustainable in future. This called for giving more autonomy and degree of freedom to states in formulating agricultural policies.

13.5.1 Rashtriya Krishi Vikas Yojana (RKVY)

Given the fact that by the end of 1990s, rates of growth of both production and the yield plateaued or rather declined, National Development Council (NDC) resolved on 29.5.2007 that agricultural development strategies must be reoriented to meet the needs of farmers and called upon the Central and State governments to evolve a strategy to rejuvenate agriculture. In compliance of the NDC resolution Ministry of Agriculture and Farmers Welfare launched a new Scheme named Rashtriya Krishi Vikas Yojana (RKVY) in 2007 with the following objectives:

- To incentivise the states that increase their investment in agriculture and allied sectors;
- To provide flexibility and autonomy to the States in planning and executing programmes for agriculture;
- To ensure the preparation of agriculture plans for the districts and states;

- To achieve the goal of reducing the yield gaps in important crops;
- To maximise returns to the farmers;
- To address the agriculture and allied sectors in an integrated manner.

The macro-level impact of RKVY at both the national and state level has been measured using three growth indicators. These indicators are: (i) growth in GDP, overall GSDP and agricultural GSDP (ii) growth in agricultural area and production and (iii) percentage of agriculture expenditure out of states' budget and agriculture GSDP. The growth in agricultural GDP of the country was 2.4 per cent per annum in the 10th Plan that increased to 3.7 per cent per annum in the 11th Plan. The overall growth rate of GSDP of 28 states (excluding the UTs) also went-up from 7.61 per cent in 10th FYP to 8.63 per cent in the 11th FYP. Similarly, the overall agriculture GSDP of 28 states grew from 2.38 per cent in 10th FYP to 3.66 per cent in 11th FYP.

13.5.2 Second Green Resolution

Green Revolution accelerated the yields of major food crops such as paddy, wheat, millets and oil seeds, particularly in the states of Punjab, Haryana, parts of Uttar Pradesh and Rajasthan. Green Revolution in India created a huge impact in terms of crop production but it had several negative impacts like gradual loss of soil fertility, increasing alkalinity and salinity, water-logging, depletion of ground-water resources, decreasing bio– diversity, chemical poisoning of soils, surface water and food. The first Green Revolution was launched to ensure food security as there was severe scarcity of food in the country. Now our food supply is well secure and meeting the growing needs is within reach. Therefore, the second Green Revolution should aim at promoting sustainable livelihood, enabling the poor to come out of poverty by generating gainful self-employment. There is a need for a second green revolution which could potentially address the negative impacts of the climate change through some kinds of farming like:

- *Agro-forestry on Degraded Lands:* The focus should be on sustainable use of degraded and low fertility lands deprived of irrigation. Such lands can be profitably used for establishment of drought tolerant fruit crops and agriculture-horticulture pastures.
- *Farming on Wastelands:* Apart from un-irrigated lands, there are large stretches of wastelands in India. Among the estimated 40-50 million ha of wastelands, more than 9 million ha are sodic wastelands (Fertile irrigated fields which turned sodic due to excessive use of water for irrigation and poor drainage facilities). With reclamation of sodic lands, it is possible to enhance food production while creating employment for 8-10 million people.
- *Organic Agriculture:* cultivation without any use of chemical inputs like mineral fertilizers and chemical pesticides.
- *Green Agriculture:* cultivation with the help of integrated pest management, integrated nutrient supply and integrated natural resource management systems.
- *Eco-agriculture*: Based on conservation of soil, water and biodiversity and the application of traditional knowledge and ecological prudence.
- *EM Agriculture:* system of farming using effective microorganisms (EM).

- *White agriculture:* system of agriculture based on substantial use of microorganisms, particularly fungi.
- *One-straw Revolution:* system of natural farming without ploughing, chemical fertilizers, weeding and chemical pesticides and herbicides.
- Promotion for animal husbandry.
- Efficient management of water resources.

This could help address the issues of climate change and agriculture and would further increase the productivity in perpetuity without ecological harm. Consequently, new agriculture policy of India aims at sustainable agriculture, which is popularly called 'second green revolution' or 'Evergreen Revolution'.

Check Your Progress 4

1) Do you agree with the view that green revolution lost its stream and India needs another green revolution or evergreen revolution? Give adequate justification in support of your answer.

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13.6 TRANSFORMATION OF INDIAN AGRICULTURE THROUGH AN UMBRELLA PROGRAMME OF DOUBLING OF FARMERS' INCOME (DFI) FROM 2015 TO 2022

Past strategy for development of the agriculture sector in India focused primarily on raising agricultural output and improving food security. This strategy involved: (a) an increase in productivity through better technology and varieties, and increased use of quality seed, fertilizer, irrigation and agro-chemicals, (b) incentive structure in the form of remunerative prices for some crops and subsidies on farm product, (c) public investments in and for agriculture, and developing facilitating institutions. This strategy paid dividends as the country was able to address severe food shortage that emerged during 1960s:

- During the period 1965-2015, since the adoption of green revolution, India's food production multiplied 3.7 times while the population multiplied by 2.55 times.
- The net result has been a 45 per cent increase in per person food production, which has made India not only self-sufficient in foodgrains at aggregate level but also a net food exporting country.

This strategy did not recognise the need to raise farmers' income and thus no direct action for farmers' welfare. NSSO data on Household Consumption Survey, 2011-12 reveal that more than 1/5th of rural households with self-employment in agriculture have income below the rural poverty line. During 1980s, farm income per cultivator was just 34 per cent of the income of non-agricultural worker, which further worsened to 25 per cent in 1993-94. Low level of absolute income of farmers and rising disparity between the farmers' income and non-farm workers resulted in widespread emergence of farmers' distress during 1990s. Low and highly fluctuating farm income has been detrimental to farmers and farm investment, and thus forcing young people leaving agriculture. Realising the need to pay special attention to the plight of farmers, the goal to double the farmer's income by 2022-23 has been set by the government.

13.6.1 Prime Minister's Multi-dimensional Seven Points Strategy

Prime Minister's multi-dimensional seven-point strategy includes:

1) Emphasis on irrigation along with end-to-end solution on creation of resources for 'More crop per drop'.
2) Provision of quality seeds and nutrients according to the soil quality of each farm.
3) Large investments in warehouses and cold chains to prevent post-harvest losses.
4) Promotion of value addition through food processing.
5) Implementation of National Agricultural Markets and e-platforms (e-NAM) to eliminate shortcomings of all the 585 centres.
6) To mitigate the risk, introduction of crop insurance scheme at a lower cost to the farmers.
7) Promotion of allied activities such as dairy, animal husbandry, poultry, bee-keeping, horticulture, and fisheries.

13.6.2 Policy Initiatives for Enhancing the Farmers' Output per Hectare: Improving Cropping Intensity

In consonance with crucial sources for raising the cropping intensity, two major flagship schemes launched immediately after announcement of DFI include (a) Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) and (b) Pradhan Mantri Fasal Bima Yojana (PMFBY)

Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

With almost 54 per cent of the net sown area in the country rain-fed, availability of irrigation facility will ensure access to some means of protective irrigation for all agricultural farms in the country. To this effect Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) has been approved (in July 2015) and formulated with the vision of extending the coverage of irrigation 'Har Khet Ko Pani' and improving water use efficiency 'More crop per drop'.

Pradhan Mantri Fasal Bima Yojana (PMFBY)

Small and marginal farmers holding (86.3 per cent) with 47.3 per cent cropped area dominates India's agriculture. India's primary failure has been its inability to capitalise on technology and efficient agricultural practices, which can ensure surpluses despite small landholdings. Another reason for India's farmers needing insurance is that commercialisation of agriculture requires an increase in credit needs, but most small and marginal farmers cannot avail credit from formal institutions due to the massive defaults caused by repeated crop failure. Besides, due to climate change higher incidence of extreme weather events aggravates agrarian distress and if this risk is mitigated, farmers will be motivated to make investment in agriculture.

In April, 2016, the government of India had launched PMFBY after rolling back the earlier insurance schemes viz. National Agriculture Insurance Scheme (NAIS), Weather-based Crop Insurance scheme and Modified National Agricultural Insurance Scheme (MNAIS). The PMFBY was created to target 50 per cent of all farmers, with the promise of compensation in case of crop loss.

13.6.3 Policy Initiatives for Crop Diversification and Enhancing Value Realisation

To enhance the farmers' income one of the alternatives is that farmers may be motivated to diversify the cropping pattern from cultivation of cereals such as wheat and rice to high value crops such as fruits and vegetables, commercial crops, spices etc. The idea behind Operation Green is to double the income of farmers by end of 2022 through changing the cropping pattern.

Basic Principles of Operation Green Strategy

- *Principle I:*To establish the link between farmers and major organised retailers to begin with and thereafter allow them to access the retail markets. The real challenge is to find the right markets that can give them remunerative prices on a sustainable basis. Farmers can be organised in Farmers Producers Organisations (FPOs). NABARD and Small Farmers' Agri-Business Consortium (SFAC) together have about 3,000 FPOs, which could be the starting points for the aggregation of commodities, assaying, sorting, grading, and even packing with bar codes, reflecting their traceability. It is targeted to form at least 10,000 FPOs by 2022.

- *Principle 2:* The existing Agricultural Produce Market Committee (APMC) system of marketing does not allow FPOs to sell their produce directly to the private traders. APMC Act needs to be replaced by the New Agriculture Produce and Livestock Marketing, (Promotion and Facilitation) (APLM) Act, 2017.

- *Principle 3:*Reducing post-harvest losses (PHL) in fruits and vegetables, which are approx. 40 per cent in India. Agri-logistics can help generate post-harvest specialised infrastructure needed for complete integration of cold-chain facilities. In order to increase the income gains to farmers, they should be involved in post-harvest logistics as partners through the Farmer Producer Organisation (FPO)/Village Producer Organisation (VPO)/ cooperative society. This would directly benefit the farmers by providing them access to bigger markets (beyond the local market) and more remunerative prices.

- *Principle 4:* Linking the processing industry with farmers and FPOs. The processing of perishable agricultural products is low (around 2 per cent). In fact, farmers do not have access to the food processing markets and most of their produce they sell directly to APMC markets and private traders and thus get less than 1/14th of the price consumer pays to the chain of middlemen operating between farmers and retail and food processors. The Operation Green focuses on direct access of food processing market by FPOs. To facilitate this linkage, Agricultural Produce and Livestock Contract Farming and Services (Promotion & Facilitation) Act, 2018 has been drafted and circulated to all states for replacing it with existing APMC Acts.

Agricultural markets despite some changes continue to face many challenges like licensing barriers, lack of integration of various markets, lack of marketing infrastructure, high incidence of marketing charges, high wastages in supply chain, etc. Market dynamics continued with the protectionist perspectives. The best protection to farmers is in promoting long– term market linkages, such that markets are connected across place, time and form with farms. The necessary condition for transferring remunerative prices to the farmers is a competitive environment that facilitates fair and transparent price discovery.

E-National Agriculture Market (e-NAM)

The government introduced a Central Sector Scheme for promotion of a NAM to bring about a transformation in agriculture marketing environment. A unified market can be best realised through a pan-India electronic platform which can facilitate the participation of buyers and sellers from all over the country. The e-NAM network was inaugurated on 14-April-2016. As of July 2019, all 585 markets have been integrated into the scheme and 42.18 lakh farmers and 89,199 traders have been registered on e-NAM portal with a turnover of Rs. 16, 163.1 crore from the trading of 63.17 lakh tons produce. The government intends to link 22,000 mandis across the country with e-NAM, by 2021-22.The vision of a full-fledged e-NAM is where all types of markets have inter-operability in communication, standards, systems, operating under a common regulatory framework.

13.6.4 Policy Initiatives to Ensure Remunerative Price to Farmers for their Produce: MSP Policy and Procurement

The success of green revolution journey predicated upon, *inter-alia*, market support in terms of Minimum Support Price (MSP) and Procurement Policies. MSP was intended to serve as a floor price and an assurance against risks that could arise from sharp falls in the market price. The Government notifies MSPs based on the recommendations of an independent body, called Commission for Agricultural Costs and Prices (CACP).CACP recommendation is based on A-2 concept of cultivation which comprises of input costs in cash +Imputed value of family labour.

Minimum support prices acquire value only when they are supplemented by a robust mechanism of procurement, whenever they are breached in the market on the negative side. It is opined that the farmers would gain better from a more robust system of procurement rather than increase in MSPs. The existing procurement mechanisms by the government are implemented under:

- Food Corporation of India (FCI) operations for Central Pool Procurement is made to meet buffer norms and for meeting targets of the public distribution system.
- Price Support Scheme (PSS) applicable in case of MSP notified crops. Intervention by GoI whenever market prices fall below MSP.

- Market Intervention Scheme (MIS): To support commodities, for which MSPs are not notified - fruits/vegetables/other horticulture products.
- Price Stabilisation Fund (PSF): A scheme to protect consumers from rising prices.

Enhanced MSP (= 1.5 times of Cost of Cultivation-A-2) in Union Budget, 2018 followed by announcement of PM-AASHA for Enforcement

Giving a major boost to the pro-farmer initiatives of the Government and in keeping with its commitment and dedication for the Annadata, the government launched a Scheme "Pradhan Mantri Annadata Aay Sanrakshan Abhiyan' (PM-AASHA) which aimed at ensuring remunerative prices to the farmers for their produce as announced in the Union Budget for 2018. The new Umbrella Scheme PM-AASHA comprises of Price Support Scheme (PSS) (for Pulses, Oilseeds and Copra), Price Deficiency Payment Scheme (PDPS) (Oilseeds and Pulses) and Pilot of Private Procurement and Stockiest Scheme (PPPS) (only for Oilseeds in 15 districts).

Warehousing

An efficient marketing system alone is not sufficient and cannot guarantee desired benefits to farmers unless it is supported by an efficient storage system for post-harvest crops. Warehousing allows farmers to balance their supply to markets and in the interim, enables them to avail finance to meet their immediate financial requirements. Warehousing availability, of suitable type and quality, thus makes it an important component of the agricultural marketing system. Three main agencies in the public sector engaged in building large scale storage/warehousing capacity viz., Food Corporation of India (FCI), Central warehousing Corporation (CWC) and State Warehousing Corporation (SWCs). The government also supports the private sector and Cooperatives in creating warehousing capacity under the 'Agricultural Marketing Infrastructure sub scheme' (erstwhile rural godown scheme).

13.6.5 Policy Initiatives to Improve Resource Efficiency/ Reduction in Cost

The inputs (seed, fertilizers and pesticides, farm machinery, credit and labour) account for major component of cost in case of all selected crops. The effective management of these inputs and their efficient use would help in reducing the cost and in turn in enhancing the productivity and income of the farmers.

Soil Health Management – Soil Health Card (SHC) Scheme

Diagnostic surveys in the Indo-Gangetic Plains (IGP) indicate that in several high productivity areas of irrigated ecosystems, farmers use excessive fertilizer N to maintain the yield levels attained previously with relatively less fertilizer. Indiscriminate use of N fertilizers aggravates soil fertility depletion, and proves detrimental in terms of low nutrient use efficiency, poor quality of produce, enhanced susceptibility of crops to biotic and a biotic stresses, and a potential threat of groundwater pollution due to excessive leaching of nitrates beyond effective root zone.

Enhancing nutrient use efficiency will be the key for sustained agricultural production, lowering of unit cost of cultivation and for raising farm income in the years to come. SHC Scheme, launched on 19 February, 2015 aims at issuing SHC to each one of the 140 million farm holdings at 2-3-year interval on a continuing basis. The SHC would include analysis of 12 soil parameters viz., potential for hydrogen (pH), Emulsifiable Concentrate (EC), Soil Organic (SOC), available primary nutrients (N, P, K), available secondary nutrient (S), and available micro-nutrients (Zn, Fe, Cu, Mn, Boron). Based on analyses for these values, fertilizer and soil amendment recommendations are to be formulated for three prominent crops each of kharif (monsoon) and rabi (dry) seasons.

Issue of subsidised fertilizers to farmers was linked to the recommendations made in soil health card. SHC involves assessment of soil fertility variation and suggesting nutrient prescriptions following the principle of 4R (right rate, right source, right time and right method). As on 31st March 2019, around 130 million SHCs issued.

To rationalise the use of fertilizers, government announced Direct Benefit Transfer (DBT) scheme under which subsidies will be released for those fertilizers issued against the SHCs. The SHC-based fertilizer recommendation is expected to enhance productivity and income. But timely availability of all fertilizers recommended in the SHC is a pre-requisite for adoption of SHCs.

Seed – A critical Input

Seed is a critical input for enhancing productivity of all agricultural and horticultural crops and plays a vital role in improving the income status of farmers. Use of quality seeds alone can increase productivity by 15-20 per cent, showcasing its importance in agriculture. Sustained increase in agricultural production and productivity necessarily requires continuous development of new and improved varieties as well as hybrids, suitable for 128 agro-climatic zones of the country. This also necessitates an efficient seed multiplication system, integrating plant breeding, trade and distribution, and finally the farmer using the seeds. One of the serious factors responsible for low use of quality seed is sale of spurious seed in the market.

In order to improve the quality of farm saved seeds (60-65 per cent), Seed Village Programme being implemented from year 2005-06 onwards needs to be upgraded for better monitoring. The targeted 500 number of Seed Processing and Godown at the Gram Panchayat level by 2022 will strengthen seed production system.

Pest Management

In India, the farmer's crop yield losses range from 15 to 25 per cent owing to the presence of weeds, pests, diseases and rodents. The Government enacted Insecticides Act (I.A.), 1968 regulates import, manufacture, sale, transport, distribution and use of pesticides so as to prevent risks to human beings, animals and matters connected therewith. Challenges such as Quality of pesticide, Optimum application of pesticide, Popularising Integrated Pest Management (IPM) techniques, Price of generic pesticides and monopolistic practices still need to be addressed. The problem of excessive pesticide usage can be addressed through multi-stakeholder participation. In addition to farmers, pesticide producers and sellers, middleman of vegetable trade and consumers should also be involved in diagnosis of the problems and designing of approaches.

Agriculture Mechanisation

Agricultural Mechanisation speeds up tasks, and helps bring judicious use of inputs like seeds, fertilizer and water, contributing to farm productivity, and is, therefore aid in enhancing farmers' income. Estimates indicate that agricultural mechanisation can contribute a cut in cultivation cost by 25 per cent and rise in productivity by 20 per cent, thereby affecting an increase in farm income, to the extent of 25-30 per cent.

The Government of India is promoting agricultural mechanisation on farms through a Sub Mission on Agricultural Mechanisation (SMAM) of Rs. 2000 crore, which started from April 2014 under the umbrella of National Mission on Agricultural Extension and Technology (NMAET). The objectives of this Mission are: increasing the reach of farm mechanisation to small and marginal farmers and regions with low farm power; promoting 'Custom Hiring Centres'; creating hubs for hi-tech and high value farm equipment; awareness through demonstration and capacity building and ensuring performance testing and certification of machines.

Check Your Progress 5

1) 'Crop diversification is the key for raising the farmers Income'. Do you agree with the statement? Critically examine the strategy envisaged by the Government for promoting crop diversification in India.

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2) In the context of the stated aim of doubling farmer's income, discuss the challenges involved in realising the same.

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3) What is MSP? Explain its importance to Indian agriculture and to consumers.

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4) Examine the problems associated with food grains procurement and their storage by the government in India.

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13.7 RELEVANCE OF NON-AGRICULTURAL ACTIVITIES IN DOUBLING OF FARMERS' INCOME

The agrarian structure of India has been experiencing a reduction in farm size and increase in marginalisation of holdings for the past several decades. The small land base of the Indian farmer is one of the major factors contributing to rural poverty. If agriculture were to the sole source of income for small landholders, the majority of them would live much below the poverty line. A number of studies from developing countries have suggested that diversification of rural economy towards non-farm activities has considerable potential to augment farmers' income and reduce rural poverty. Diversification towards nonfarm activities overcomes the land constraint to income growth, enables the farmers to cope up with the shocks of crop failure and enhances their capacity to invest in productivity-enhancing agricultural inputs and technologies.

NABARD Survey shows that 35 per cent income of agricultural households is from cultivation, 34 per cent from wage labour, 16 per cent from salaries and 8 per cent from livestock and remaining 7 per cent from non-farm sectors. NABARD survey also provides that:

- Only 13 per cent of agricultural households have one single source of income.
- Around 50 per cent of these households have two sources,
- 29 per cent three sources and
- 9 per cent four sources.

It shows that agricultural households do not depend only on farm income but they depend on multiple sources for their livelihoods. Thus, both agriculture and non-agriculture are important for raising income of agricultural households. According to NSSO SAS Surveys and NABARD Survey, the income of households was classified according to four sources, viz. agriculture, agricultural wages, livestock and non-farm income. Further discussion on income of the farmers earned through sources other than cultivation is beyond the scope of this unit and therefore needs to be covered separately in the different unit.

Check Your Progress 6

1) Briefly discuss the role and relevance of non-agricultural activities in raising the farmers income in India.

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13.8 LET US SUM UP

In India, agriculture is a key sector in terms of its contribution to both employment and GDP.

The green revolution in cereal production, white revolution in milk production, green revolution in cotton production and the more recent diversification of production towards pulses, fruit and vegetables as well as meat and meat products, have been largely in response to evolving demand patterns driven by rising incomes and urbanisation. As a result, India has transformed from a food deficit country to a major exporter of agriculture and allied products. The strong growth in production has been sustained by an improved access to inputs such as fertilizers and seeds, increased irrigation coverage (including micro irrigation), greater reach of institutional credit, introduction of the Kisan Credit Card scheme – enabling a more timely access to credit – and the designation of agriculture for priority lending. The beginning of structural change is underway due to the involvement of the private sector, going beyond the mainly traditional or unorganised private players (including mandi traders, private mills, village brokers, traditional retailers) to organised private entities, such as agribusiness and large food–processing companies or supermarkets.

Despite these successes, challenges remain. Among them, the notable being, slow pace of structural transformation and low labour productivity, continuing fragmentation of operational holding, inefficient agro-food supply chains and retail sector, prevalence of informal channels of credit and the climate change. Although, Indian agriculture has increasingly become integrated with world markets, its trade share is still low compared to the share of India's total merchandise exports and imports as a per cent of India's GDP. Environmental pressures are also starting to loom large. To address these concerns, agricultural policies in India are designed and implemented by a complex system of institutions. States have Constitutional responsibility for many aspects of agriculture, but the Central government plays an important role by developing national approaches to policy and providing the necessary funds for implementation at the state level. Throughout the last decades, agricultural policies have sought to achieve food security, often interpreted in India as self-sufficiency, while ensuring remunerative prices to producers and safeguarding the interest of consumers by making supplies available at affordable prices.

13.9 TERM-END EXERCISES

1) The need for a Second Green Revolution is being experienced more than ever before. Do you agree? What are your views with respect to bringing revolution in the production of nutrition-rich crops like pulses, fruits and vegetables — which remained untouched in the first Green Revolution?

2) Discuss any two steps taken by the government in the direction of improving agricultural marketing system in India since independence.

3) "Agriculture sector appears to be adversely affected by the economic reform process." Elucidate.

4) Discuss the impact of the Climate change on the Indian Agriculture. What are the initiatives taken by the Government to mitigate this impact?

5) How farming system play important role in doubling the farmers income? Also, explain the role of Non-farm income in doubling farmers' income.

6) What are the Policy Initiatives taken by the government to ensure Remunerative Price to farmers for their Produce?

13.10 KEYWORDS

Crop Diversification : Crop diversification refers to the addition of new crops or cropping systems to agricultural production on a particular farm taking into account the different returns from value-added crops.

HYV Seeds : High Yielding Variety Seeds (HYV seeds) are seeds of better quality than normal quality seeds. They are resistant and have a high yielding potential against insects and diseases.

Institutional Credit : Agriculture credits provided by government institutions are called institutional credit.

Marginalising of Landholdings : A general feature of the size distribution of operational holdings is that the percentage of holdings decreases as the holding size increases.

Minimum Support Prices : The minimum support price (MSP) is an agricultural product price, set by the Government of India to purchase directly from the farmer.

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13.12 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Read Section 13.2 and answer

2) Read Sections 13.1 and 13.2 and answer

3) Read Sections 13.1 and 13.2 and answer

Check Your Progress 2

1) Read Section 13.3 and answer

2) Read Sub-section 13.3.1 and answer

3) Read Sub-section 13.3.5 and answer

4) Read Sub-section 13.3.4 and answer

Check Your Progress 3

1) Read Section 13.4 and answer

2) Read Sub-section 13.4.2 and answer

3) Read Section 13.4 and answer

4) Read Sub-section 13.4.3 and answer

Check Your Progress 4

1) Read Section 13.5 and answer

Check Your Progress 5

1) Read Sub-section 13.6.3 and answer

2) Read Section 13.6 and answer

3) Read Sub-section 13.6.4 and answer

4) Read Sub-section 13.6.5 and answer

Check Your Progress 6

1) Read Section 13.7 and answer

UNIT 14 LARGE SCALE INDUSTRIES IN INDIA: ISSUES AND POLICY

Structure

14.0 OBJECTIVES

After studying this unit, you will be able to:

- discuss the relevance of industrialisation in the process of growth and development of an economy;
- appreciate the basic contours of growth strategy pursued in India in the context of Heavy industrialisation;
- identify the role of the state in formulating and operating the industrial policy in India;
- review the relevance of industrial licensing in India and the subsequent phase of liberalisation;
- outline the critical issues facing the industrial sector in India; and
- get insights into the approach to the new industrial policy in India.

14.1 INTRODUCTION

As stated elsewhere in this unit, "fast economic development everywhere has been made possible essentially due to rapid industrialisation." Industrialisation, indeed, holds the key to rapid economic growth, as productivity levels in industry are much higher than in agriculture. Moreover, industrialisation is regarded as an important policy to affect fundamental economic and social changes in under-developed countries which are considered as necessary conditions to raise their growth potentials. No wonder, fast industrialisation as the developmental goal has a universal appeal, notwithstanding the fact that industrialisation may give rise to problems like pollution, premature exhaustion of raw materials, unemployment, and inequalities in income distribution. India has been no exception to this universal urge. The present unit involves discussion about the Indian industrial sector with respect to its relevance for the Indian economy's growth and development; the strategies and policies initiated to serve this sector; the issues faced by this sector; and the approach that could be adopted for setting up the new industrial policy.

14.2 INDUSTRIALISATION AND ECONOMIC DEVELOPMENT

Industrialisation has come to be regarded as synonymous with economic development. There is hardly any country in the world (with the possible exception of New Zealand) that could reach the level of per capita income of industrially developed countries of the West, on the back of its agriculture and processing of its products (petroleum producing countries, like Saudi Arabia, Kuwait and UAE represent a special case or exception to the positive relationship between per capita income and the share of manufacturing sector). The main criteria that are generally being used to distinguish a developed economy from a developing one relate to the proportion of workforce engaged in industrial activity and the proportion of national output originating in the industrial sector.

14.2.1 What is Industrialisation?

Industrialisation is a process by which the centre of economic gravity of an economy shifts from agriculture to industry.

Industrialisation involves two things:

i) Adoption of technologically superior techniques of production that help to transform basic raw materials and intermediate goods into manufactured goods;

ii) Application of modern techniques of management and organisation like economic calculations, accountancy and management techniques.

Large vs. Small Industry

For policy purposes, industrial units are generally classified as (i) micro, small and medium enterperises (MSMEs) and (ii) large enterprises. For this categorisation, indicators like capital investment, output capacity, labour employed are used. Units within the laid down maximum limits of these indicators are classified as MSMEs. Beyond these limits, all enterprises are treated as large enterprises.

Consumer vs. Capital Goods

Production units that produce consumer goods are classified as consumer goods industries, whereas, capital goods are produced in capital goods industries.

Public vs. Private Ownership

Production units set up and managed by a government are classified as units with public ownership. Privately owned units are the ones owned and managed by private capital and enterprise.

14.2.2 Case for Industrialisation

The following factors favour rapid industrialisation as a means to accelerate economic development:

1) **Labour Productivity**

   The productivity in the industrial sector is generally higher due to one or more of the following reasons:

   i) existence of greater capital intensity,

   ii) continuity of production,

   iii) greater specialisation and division of labour,

   iv) less dependence on natural factors,

   v) a greater possibility of internal-external economies in the manufacturing sector.

2) **Employment Generation**

   Industrial activity expansion create more employment opportunities, thus attracting labour from less productive occupations. This process adds to the national output as also to the purchasing power and aggregate consumption expenditure which in turn pulls the aggregate demand upwards and is instrumental in creating more employment opportunities.

3) **Mobilisation of Surplus**

   A major constraint on development in a developing economy is the lack of adequate resources to finance the process of capital accumulation. Inadequacy of resources is the result of two inter-related factors: (a) the absolute size of resources, national output and saving in a developing economy is low, and (b) it is not possible to mobilise the surpluses. The problem of inadequacy of resources is common to all the sectors of the economy, while the problem of mobilisation of resources is peculiar in the agricultural sector. The task of mobilisation of surplus savings in this sector is rendered difficult by the fact that there is no suitable institutional set-up for this purpose. Such a set-up can more easily be provided in the industrial sector of the economy. Thus, by concentrating resources on industrialisation the pace of economic development can be quickened.

14.3 GROWTH STRATEGY IN INDIA

The primary problem to be identified in developmental planning in an underdeveloped mixed economy is to establish a set of ends or goals that could be pursued with a specific choice of technique deemed appropriate for that context. This refers to the strategy of planning. Any strategy for development consists of three components: resource mobilisation, priorities for the allocation of resources mobilised, and a policy framework to ensure an efficient deployment of resources into the priority sectors.

14.3.1 Evolution of Strategy in India's Plans

It was during the First Five Year Plan (*FYP-1*) period itself that the Planning Commission had started doing 'home work' relating to the formulation of the *FYP-2*. A series of studies, under the general guidance of Prof. P.C. Mahalanobis, were prepared by a group of both Indian and foreign economists and statisticians. These contributed to the writing of the Mahalanobis' Plan Frame (hailed as the most radical Plan outside Communist countries) which became the foundation of the *FYP-2,* and for that matter, all long-term planning subsequently. The strategy aimed at building a self-sufficient economy.

The two basic features of the strategy were: (i) Explicit emphasis on industrialisation, and (ii) Within the industrial sector, emphasis on the growth of heavy/capital goods industries.

The essential feature of the strategy was to allocate a given volume of investible resources in the capital goods producing industries which would yield a relatively large volume of investment goods and therefore support growth with transformation of the economy, in comparison to allocation tilted in favour of consumer goods industries. Hence, the strategy to be driven by the increased production of heavy engineering or capital goods in the short run required a higher allocation of investible resources to the capital goods sector. Such a strategy would lead to lower levels of consumption in the short run, but would yield a relatively high growth and consumption in the medium to long run. In contrast to this, an alternative model of development was developed by Vakil and Brahmananda which laid stress on wage goods or what they called liquid capital in determining the growth of employment and income. Their model propounded a strategy of development which accorded the highest priority to wage goods industries, especially agriculture in allocation of investment resources. However, policy choice was exercised in favour of the former model.

14.3.2 Essential Features of Heavy Industries

Three essential features of the heavy industries are as follows:

One, capital investment to set up and run such units involves huge sums of money. *Two*, the time lag between capital accumulation (investment) and flow of output (gestation gap) could be fairly large, which could deter private enterprise from entering such industries. *Three*, these production units by nature are natural monopolies, (i.e., these are subject to law of increasing returns to scale). Given these features, it is no wonder that strategies pertaining to heavy industrialisation devolves almost exclusively on the State, which is required to set up and operate such production units. This is precisely what the State in India chose to do.

14.3.3 Policy Support to Strategy

There are several aspects of industrial policy which affect industrial investment and production.

a) Industrial licensing policy which regulates the setting up of new (large and medium) industrial undertakings and their expansion.

b) Policy concerning the control of monopolies and economic concentration— and the reservation of certain lines of production for the decentralised, small-scale sector– which in a way forms an integral part of industrial licensing policy.

c) Policy regarding technology import. Closely allied to technology import policy is the policy regarding the import of capital goods, components, and raw materials.

d) A whole range of financial and fiscal policies which pertain to the provision of industrial finance, development of the capital market, as well as fiscal incentives/disincentives to investment and production.

The goal of industrial policy is to influence sectoral development in an economy.

14.3.4 Industrial Policy in India

Till July 24, 1991, when the New Industrial Policy was announced by the Government, the industrial policy had been chalked out within the framework of the Industrial Policy Resolution, 1956 (IPR, 1956). The roots of the IPR, 1956, can be traced back at least to a decade earlier. Immediately after Independence, it was considered desirable by the Government to announce its attitude towards private capital and to define the scope of State participation in economic activity. This aimed at removing all uncertainties that would have worked as constraints on industrial growth in the economy. This announcement took the form of the Industrial Policy Resolution, 1948 (IPR, 1948).

IPR 1956

A number of important developments had taken place in India since adoption of the IPR, 1948. These necessitated a fresh statement on industrial policy. Among these developments the more important were as follows:

i) New Constitution of India which guaranteed certain Fundamental Rights and provided for Directive Principles of State Policy.

ii) Completion of the First Five-Year Plan and the commencement of the Second Plan; and

iii) Acceptance by Parliament of the socialist pattern of society as the objective of social and economic policy.

The industrial policy, as other policies, was, therefore, to be governed by these principles and directions. The IPR, 1956, has been known as the '*Economic Constitution*' of India. The Resolution put emphasis on:

i) The development of heavy and machine-building industries;

ii) the expansion of the public sector;

iii) the establishment of a large and growing co-operative sector; and

iv) encouragement to the diffusion of ownership and management in the private sector.

14.3.5 Legislative Support to Strategy

The system of industrial licensing was adopted in India to give effect to the IPR, 1948. The legislative framework of industrial licensing is embodied in three different Acts passed at different times.

A) **Industries (Development and Regulation) Act, 1951**

The Industries (Development and Regulation) Act (in short, known as the IDRA) was passed in October, 1951. It came into force on May 8, 1952.

1) **Objectives** The chief objective of the Act, as its title suggests, is the development and regulation of Indian industries in a manner befitting a socialistic society, and other related social, economic or political considerations.

2) **Provisions** The Act made the registration of all industrial units in the scheduled industries compulsory and enjoin upon the owners thereof to obtain a certificate of registration within a prescribed period. It also required the new industrial units to be established only after obtaining a licence from the Central Government. A licence from the Government was required for any of the following purposes:

   a) starting of a new industrial unit,

   b) a substantial expansion of the existing unit,

   c) the manufacture of a new 'article', and

   d) shifting the location of an industrial unit.

3) **Scope** The Act in its original form applied to industries included in the first schedule to the Act. This schedule covered a number of industries like metallurgical, industrial machinery, transportation, fertilizers, textiles, cement, defence, etc.

B) **Monopolies and Restrictive Trade Practices Act, 1969**

The Mahalanobis Committee, in 1960, brought out the issue of growing inequalities in the post-independence period. The Monopoly Inquiry Commission (MIC) in its Report submitted in 1965 recognised the ill effects of concentration of economic power. The findings of MIC prompted the Government of India to enact the Monopolies and Restrictive Trade Practices Act (MRTPA), 1969 which came into force on June 1, 1970, with the objective of prevention of concentration of economic power to the common detriment, control of monopolies and prohibition of monopolistic/restrictive trade practices. The Act covered monopolistic trade practices and restrictive trade practices. Unfair trade practice was added through amendment in 1984.

The issue of concentration of economic power was addressed by the government by making it obligatory for undertakings with assets of the total value of Rs. 20 crore or more (later raised to Rs. 100 crore or more in 1985 and removed altogether in 1991) and for dominant undertakings which enjoy $1/4^{th}$ of the market share of the total market (which was initially $1/3^{rd}$) with assets of Rs. one crore or more, to seek prior approval before effecting expansion of the undertaking.

C) **Foreign Exchange Regulation**

The Foreign Exchange Regulation Act, 1973 (FERA, 1973)– often described as the economic canvas of the country– had its origin in the Foreign Exchange Regulation Act, 1947 (FERA, 1947).

The FERA, 1973 was formulated in the background of a highly restrictive and centrally controlled industrial policy regime. The subsequent amendment to the FERA in 1993 substantially diluted its regulatory provisions and brought it in line with the new liberalised industrial, trade and exchange rate policies. The FERA has since been repealed and replaced by FEMA.

D) **Other Controls**

1) **The Companies Act, 2011**

The Companies Act, 2011 was enacted to comprehensively amend the 55-year old Companies Act, 1956. The Act was aimed at the modernisation of corporate regulation.

2) **The Securities Contracts (Regulation) Act, 1956**

The Act provides for, apart from regulation of stock exchanges, a general system and apparatus of control to ensure fair dealing in securities and investors protection. In terms of recent amendment to this Act, companies cannot reject, except on technical grounds, share transfer without appropriate reference to the Company Law Board.

3) **Import and Export Control**

Import and export control in India is exercised under the provisions of the Foreign Trade (Regulation and Development) Act, 1992, which succeeds the *Imports and Exports (Control) Act, 1947*. The principal objective of the Act is 'to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from, India.

4) Commodity Control

Commodity control in India is exercised under the provisions of various Acts enacted by the Government. The first in the list is the *Essential Commodities Act, 1955*, which empowers the Central Government to control, regulate or prohibit the production, distribution, transport, trade, consumption, or storage of a large number of commodities, to prescribe their prices and even to take over stocks on conditions that it set. Besides, there are several enactments to control various specific commodities like coffee, coir, tea, rubber, sugar, etc.

5) Financial and Credit Controls

Allocation of credit is subject to guidelines or policy announced by the government from time to time. Since a large part of the financial sector is in the public sector, the government exercises formal and informal control over the allocation of financial resources.

6) Location, Environment and Labour Legislation

The location of industries is banned in the municipal areas of all towns and cities, as well as in specific areas around the largest twenty cities.

Environmental and pollution control clearance for all projects above a certain size is also mandatory. The rules regarding closure of units, retrenchment of labour, compensation, and sale of assets of a sick unit are governed by a comprehensive set of labour laws.

To top all these controls is the *Companies Act*, which, in its present incarnation, has 658 sections and hundreds of sub-sections, clauses, sub-clauses and amendments governing every aspect of the running of a company, from audits and printing of annual reports, to remuneration of directors, and investments and mergers.

Check Your Progress 1

1) What do you understand by the term 'Industrialisation'? How does industrialisation contribute to economic development?

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2) How does the strategy for the industrial sector evolved during the planning era in India?

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14.4 REVIEW OF INDUSTRIAL LICENSING IN INDIA

Industrial licensing was introduced in India with the enactment of the IDRA, 1951, in pursuance of the IPR, 1948. The system worked to provide protection to the Indian industry. It could be argued that protection, both against potential domestic competition and foreign competition, was the right approach in the initial stage of industrialisation in a developing economy which was struggling to come out of the stranglehold posed by two-centuries old colonial domination. The industrial landscape underwent a dramatic change within a period of about four decades. But the major failure of the policy of protection was that it did not have a built-in mechanism that could prompt the industry to adapt itself to the fast-changing technological scene to which a large part of the underdeveloped world was responding with zeal and enthusiasm. The industrial structure of India, under the burden of protection, turned out to be high-cost and low-quality that lacked the basic ingredients of international competitiveness. Instead of fortifying the economy (where domestic economy will be protected against outright incursions), we made a '*jail*' out of it. The tiger was 'caged' and remained so for long, its muscles became frigid and lacked in flexibility.

It was becoming increasingly clear that the industrial policy would have to be taken out of the "convoluted cobweb" in which it had got landed, system of controls would have to be gradually given up and the industrial economy liberalised, so as to enable it to breathe some fresh air.

14.4.1 Phase of Liberalisation

New Industrial Policy, 1991

Experiments with domestic liberalisation began in the mid-1970s. In 1975, a scheme was introduced which provided for an increase in licensed capacity up to a maximum of 25 per cent in a five-year period. Other measures included regularisation of capacities in excess of authorised capacities for select industries, some liberalisation from controls for units which exported 100 per cent of their production, and a more general scheme of re-endorsement of capacities introduced in 1982. The exemption limit for industrial licensing was also raised from Rs. 1 crore as set in 1970 to Rs. 3 crore in 1978 and to Rs. 5 crore in 1983, and further since June 1988 to Rs. 25 crores for those units that were set up in the non-backward areas and to Rs. 75 crores for those units that were set up in the backward areas. The main emphasis during the 1970s was on reducing the restrictive and complex features of the licensing policy.

The process of liberalisation got a fillip with the announcement of the New Industrial Policy (NIP) in July 1991, and entered a new phase of what has been described as '*reform by storm*' that supplants '*reform by stealth*' of the last half of the 1970s, and '*reform with reluctance*' during the second half of the 1980s.

As already stated earlier the NIP has made a bonfire of the industrial licensing system by throwing out various provisions. There has also been some move away from extensive physical controls and an increase in the role of financial incentives in channelling investments in the desired areas. This, plus the lowering of the tax rates combined with better administration of the revenue-collecting system, helped in attracting investments and boosting economic activity which had strayed away from the mainstream. The role of the financial institutions for their intermediation functions become very important in the new regime.

1) **Foreign Investment**

i) Automatic approval is available to FDI in almost all sectors except a few sensitive ones. Automatic approval is available for 50 per cent, 51 per cent, 74 per cent and even 100 per cent in specified industry groups.

ii) To provide access to international markets, majority foreign equity holding up to 51 per cent equity will be allowed for trading companies primarily engaged in export activities.

iii) The Foreign Investment Promotion Board has been constituted to negotiate with a number of large international firms and approve direct foreign investment in select areas.

2) **Foreign Technology Agreements**

i) Automatic permission is to be given for foreign technology agreements in identified high priority industries up to a lumpsum payment of $ 2 million, 5 per cent royalty for domestic sales and 8 per cent for exports, subject to total payments of 8 per cent of sales over a 10-year period from date of agreement or 7 years from commencement of production.

ii) In respect of industries other than those included above, automatic permission is to be given subject to the same guidelines as if no foreign exchange is required for any payments.

3) **Public Sector**

a) Portfolio of public sector investments is to be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained, there is no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly, the public sector is also to be allowed entry in areas not reserved for it.

b) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/rehabilitation schemes, are to be referred to the Board of Industrial and Financial Reconstruction.

c) In order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

4) **MRTP Act**

a) The MRTP Act has been amended to remove the threshold limits of assets in respect of MRTP Companies and dominant undertakings.

b) Provisions relating to concentration of economic power, pre-entry restrictions with regard to prior approval of the Central government for establishing a new undertaking, expanding an existing undertaking, amalgamations, mergers etc., have been deleted.

c) Emphasis has been placed on controlling and regulating monopolistic, restrictive and unfair trade practices.

5) There is considerable *internal deregulation* aimed at strengthening the more efficient domestic firms and encouraging them to invest and expand. This is expected to inject much more competition into the system, creating incentives for reducing costs. Scientists tell us that the diamond sparkles because of a phenomenon called total internal reflection. If our economy is to sparkle, total internal liberalisation is the key.

6) Measures have also been taken to improve the legal framework.

- The Securitisation, Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 gives powers to banks and financial institutions to enforce their claims on collateral for delinquent secured credit, without going through a long and cumbersome judicial process.

- Companies (Amendment) Act, 2002 is expected to enhance the competitiveness of cooperatives, and enable them to compete and operate in today's liberalised, globalised market.

- In Companies (Second Amendment) Act, 2002 industrial sickness has been redefined; a revival and rehabilitation fund has been set up; protection from creditors has been withdrawn.

- The Competition Act, 2002 aims at promoting competition through prohibition of anti-competitive practices, abuse of dominance and through regulation of companies beyond a particular size.

- DIN (Director Identification Number) has been issued to all the directors of all the companies under a surveillance system. The system will give the government instant access to the details and nature of employment relevant to company law requirements and antecedents which are crucial to investor protection.

The internal liberalisation has been accompanied by a policy of maintaining an *open access to imports* to permit modernisation and technological upgradation in Indian industry which is expected to reduce costs and promote international competition.

The *aim of sweeping policy changes* is to evolve an integrated economic package that can be implemented in stages to create an appropriate environment so as to encourage and promote greater efficiency, higher productivity and faster industrial growth in desired directions through a well-coordinated system of incentives. Accelerated growth of manufacturing, accompanied by radical restructuring and induction of 'sunrise' industries within a suitably modified policy frame would bring about a significant transformation of India's industrial economy.

Positive Effects

India has woken up to the liberating influence of what Joseph Schumpeter called "creative destruction"– the death of the outdated at the hands of the modern. The following can be identified as some of the positive effects:

1) The post-liberalisation era has propelled companies into a restructuring spree; companies are doing away with their not-so-profitable businesses. Corporate sell offs are moving at a pace never seen before.

2) More ambitious players have been consolidating themselves by way of mergers and acquisitions. Entrepreneurs have come to believe: "In business, big is always beautiful."

3) Over the last two decades, Indian manufacturing companies have emerged on a par with the best in the world from the quality perspective. This has happened because Indian manufacturing has adopted world-class practices in manufacturing management by educating their employees, both managers and shop-floor staff with the help of global teachers, mainly Japanese, who have brought in the best manufacturing management techniques.

4) India's share in world market capitalisation is now more aligned with its share in global GDP.

5) Economic reforms have created an environment conducive for low-cost innovation. This, combined with increasing pressures for inclusiveness, will contribute to creating an income-pyramid that will develop a bulge in the middle– faster than earlier forecast. That is creating a huge mass market for goods and services at a price that is affordable for this segment.

6) Indian business has emerged leaner, more efficient in terms of process, quality and financing, and becoming competitive on a global scale. Indian companies today are expanding operations in overseas markets through both organic and inorganic means. There is a sense of optimism, and the ability to think big and execute large plans. In addition, companies have developed the ability to quickly respond to changes in market conditions. For example, in response to the recent global economic slowdown, they aggressively reduced their inventories, realigned production levels, and cut costs to rebase to the new cost price-demand equation.

7) Companies are increasingly going in for *coopetition*, *i.e.*, getting together to become more competitive.

8) Trade unions and workers have responded positively to the economic reforms. Their open-minded approach towards adoption of new technologies and productivity linked wage agreements would go a long way in consolidating the future of Indian industry.

9) Liberalisation has altered the investment behaviour of Indian entrepreneurs. Industrialists have fast realised the role of scale economies, rapid technological growth and increased productivity. Indian companies are now going in for world-size plants. This will enable them to meet the competitive challenge of MNCs. Many Indian companies, for the first time, have crossed the billion-dollar mark in annual turnover.

10) The restructuring process of the corporate sector has gained momentum with foreign collaborators seeking to enhance equity in the Indian ventures, to gain a foothold in the management. The money comes in with strings attached: board membership, due diligence and even some operational oversight.

In short, liberalisation has opened up a new era which stresses the importance of both economies of scale and quality of products; these hold the embryo of higher productivity and competitiveness both in the home market and the export markets, only if the Indian industry responds positively to the challenge thrown to it.

Negative Effects

From a force that unleashed India's creative energies, markets are increasingly seen as an institution that seems emblematic of homo homini lupus – man is wolf to another man - and capitalism's genius of "creative destruction" appears in popular discourse as a force that is more destructive and less creative.

The current phase of investment following liberalisation also need to be given a second look. While substantial investments might have been flowing into a few industries the Government has reportedly expressed its concern over slow pace of investments in a few basic and strategic industries such as engineering, power, machine tools, etc. It has often been pointed out that the rate of return in these sectors is not more than the expectations in the newer or 'Sunrise' areas. Thus, the rate of growth of the industries wherein sufficient investment is not coming could slacken. Such distortions in the investment pattern need to be rectified for the sake of balanced growth of industrial economy.

Need for Strengthening Interlinkages between New and Old Sectors

New sectors should have strong linkages with the old ones and should push up the latter towards modernisation and new product development. Unless interlinkages are strengthened, a part of impetus given by the new sectors could be lost through leakages abroad.

New Game-Changers

Indian investors tracking basic industries had a relatively easier task till now. They had to keep one eye on the macroeconomy and assess the interplay of factors such as demand-supply, raw material cost and availability, and the landed cost of imports. These factors can be tracked since they are tangible and measurable.

Government Policy has now emerged as a new and significant factor on the horizon, one which is intangible and, hence, not easily measured. Environmental policy and regulations at the central and state levels are affecting business. The key players are the government itself, regulators (such as pollution control boards) and courts.

14.4.2 Recent Policy Initiatives Impacting Industrial Growth

Implementation of GST

The GST is a game changing reform introduced by the government. It is expected that implementation of GST will facilitate the creation of one common market in the country by removing tax barriers; eliminate cascading of taxes thereby reducing cost of production of manufacturing goods; and enhance ease of doing business by cutting down transaction costs associated with the complex tax regime. The implementation of GST is also going to cover the unorganised sector industries.

Make in India

The 'Make in India' programme has been launched globally on 25th September 2014 which aims at making India a global hub for manufacturing, research and innovation and integral part of the global supply chain. This initiative is based on four pillars of New Processes, New Infrastructure, New Sectors and New Mindset.

Start-up India

Start-up India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Start-ups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Start-ups to grow through innovation and design.

Ease of Doing Business

The Government has taken up a series of measures to improve Ease of Doing Business. The emphasis has been on simplification and rationalisation of the existing rules and introduction of information technology to make governance more efficient and effective. States too have been brought on board in the process to expand the coverage of these efforts.

Intellectual Property Rights (IPR) Policy

In May, 2016, Government for the first time adopted a comprehensive National Intellectual Property Rights (IPR) policy to lay future roadmap for intellectual property. This aims to improve Indian intellectual property ecosystem, hopes to create an innovation movement in the country and aspires towards "Creative India; Innovative India".

Check Your Progress 2

1) Outline the main features of strategy for the industrial sector pursued post 1991 reforms.

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2) Compare and contrast the positive and the negative effects of liberalisation on the Indian industrial sector post 1991 reforms.

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3) Outline the recent policy initiatives impacting the Indian industrial sector.

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14.5 CRITICAL ISSUES BEFORE INDUSTRIAL SECTOR

14.5.1 Industrial Sickness

India is probably unique among market economies in having policies which override the normal processes of adjustment and which effectively prevent firms from closing down their operations. The result has been a widespread and growing incidence of the special Indian phenomenon of 'Industrial sickness'.

Definition of Sickness

The definition of sickness has undergone changes over the years. The latest definition of sick units is such that the related default of the loan amount is enough to categorise it as a sick unit. Technically speaking, the loan account of the unit has to become a non-performing asset (NPA).

Causes of Sickness

The important causes of industrial sickness can be classified as: (1) external causes, and (2) internal causes.

External Causes

i) High costs of manufacture coupled with a low realisation of sales revenue. High costs may be due to inflated prices of inputs. A low sales revenue may be accounted for by lack of control over prices of output.

ii) Non-availability of raw materials, regularly and smoothly, or availability at high prices.

iii) A lack of regular supply of inputs such as power and transport bottlenecks.

iv) A general recessionary trend in the economy affecting the overall performance of industrial units. This will be reflected in a downward sloping demand curve or lack of demand altogether, particularly for industries which have a derived demand.

v) Fiscal imposts such as excise duties, import duties, etc. These more generally undermine the profit margins.

Internal Causes

i) An improper demand estimation for the products to be sold. Normally, only industry-wise demand estimations are made without ascertaining the particular factors which account for a specific demand for a particular unit's production.

ii) An improper choice of technology, unsuitability of product mix, or single product technology, wrong location of industry, non-flexibility of fixed assets, mainly machinery, for possible use in the diversified manufacturing set-up.

iii) A defective capital structure specially on account of delayed constructions and operations, resulting in cost overruns and larger borrowings. Moreover, an inability to raise adequate financial resources to with-stand operational losses and bear their impact, in the initial stages, due to a poor equity base, will appear to be a severe constraint.

iv) A growing shortage of working capital, as the units go into operation, due to a shortage of raw materials, and high prices, poor debtors' collection, inadequate inventory management, etc. are serious constraints.

v) Managerial ineffectiveness, poor control and absence of control on such key areas of operations as finance, inventory and marketing.

Of all the factors mentioned above, it is the mismanagement[1] that has been the most important cause of sickness.

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[1] Until recently, under what Raj Krishna called the *dharmshala* model (a shelter for the pious poor), government guaranteed capital against failure by taking over sick industries.

Government Policy

The Government in co-operation with the RBI have instituted arrangements for monitoring sickness of industrial units so that corrective action is taken in time. The legislative and institutional framework for dealing with industrial sickness is contained in the Sick Industrial Companies Act, (SICA) 1985 that provided for the setting up of the Board for Industrial and Financial Reconstruction (BIFR).

Rehabilitation

The rehabilitation programme involves the following major issues which have to be sorted out after it is decided that a sick unit is viable and should be rehabilitated: (a) Change of management, (b) Development of a suitable management information system, (c) A settlement with the creditors for payment of their dues in a phased manner, taking into account the expected cash generation as per viability study, (d) Determination of the sources of additional funds needed to refinance, (e) Modernisation of plant and equipment or expansion of an existing programme or even diversification of the products being manufactured, (f) Concession or reliefs or assistance to be allowed by the state level corporation, financial institutions and Central Government.

14.5.2 Technological Obsolescence and Modernisation

Another related problem Indian industry is faced with is that of technological obsolescence a large segment of industry. As a result, input intensity has increased, productivity is low, costs high and quality poor. All this means losing out in the world market and cutting into the rate of growth of income. Indian industry needs modernisation, which is a multidimensional concept. It may cover replacement of an obsolete machinery by a new machinery. A basic test of modernisation is that it should lead to a substantial reduction in the unit cost of production

Causes of Slow Pace of Modernisation

The basic cause has been the paucity of finance resulting from the following major handicaps:

1) ***Licensing Policy***. Sometimes, modernisation of a unit may bring about expansion of capacity. In the past restrictive industrial policy was followed, whereby expansion and modernisation proposals, specially from the large houses, were rejected because these led to capacity addition.

2) ***Price Controls***. Price controls tend to depress the rate of return. This prevents industry from retaining adequate profits which can be deployed to replace machines in time. From experience, it is found that even when costs of production rise sharply, the adjustment in prices follow invariably with a time lag, resulting in substantial erosion of funds for replacement and modernisation.

3) ***Depreciation Provisions***. Depreciation provisions based on historical cost of acquisition of machinery are inadequate to replace machinery in a period of rising costs and prices. Industry is forced to borrow just to keep the production capacity intact. Modernisation, consequently, is delayed.

4) ***High Rate of Corporate Taxation***. This leaves industry with too little earnings for modernisation. Although recently (2019) this has been brought down to regionally competitive levels.

The combined effect of the above factors has been the erosion of funds available for replacement or modernisation.

Suggested Measures

To put the modernisation programme through, certain policy modifications will be required. These can be classified in two categories: (a) those required to meet immediate needs, and (b) those over time.

Among the first is the need to make available more and cheaper funds through the financial institutions. Viability of an enterprise has a be the primary and the most important criterion for lending these funds. There should not be insistence on any specific debt-equity ratio or promoter's contribution. Similarly, investment allowance and excise rebate on production could be granted.

For future needs, following steps can be suggested:

i) Units may be allowed to set aside a percentage of profits and depreciation towards modernisation reserves. This presumes that units have adequate profits.

ii) In computing the cost of production for fixing prices, modernisation requirement must be taken into account.

iii) For purposes of taxation, units may be allowed to carry back losses against profits of the previous three years.

iv) The import policy for capital goods may be modified. The possibility of tying up modernisation with export production can also be considered.

v) Developments in technology are taking place across the globe. Government and industry must work together to complete the programme within the shortest possible time.

14.5.3 Productivity in Indian Industry

Productivity is a measure of performance of the production activity and refers to the amount of output produced per unit of input. It is possible to express this in the following equation:

Here, output stands for a weighted sum of various products, whereas input stands for a weighted sum of various inputs. So defined, the concept of productivity refers to the total factor productivity, rather than the partial measures of productivity like labour productivity (*i.e.*, output per unit of labour); and capital productivity (*i.e.*, output per unit of capital). The partial productivity indices are dominantly influenced by the process of capital deepening (or increasing capital-labour ratio) which is normally associated with the process of capital accumulation. It is, therefore, necessary to go beyond the partial factor productivities to analyse the total factor productivity growth (TFPG).

Importance of Productivity

For a country like India, with a multiplicity of socio-economic demands on its capital, how the limited resources are utilised assumes importance. While substantial improvements in production process can be a precondition for economic transformation, it is only the productivity of investments undertaken which yields further re-investible resources. These generate surpluses, which then motivate entrepreneurs toward undertaking further industrial activity.

Secondly, productivity growth also comes in handy in an attempt to enhance the competitiveness of a country's exports. Productivity growth lowers labour costs and thus, *ceteris paribus*, the international price of the good concerned.

Thirdly, TFP is now accepted as the main contributing factor of economic growth. The central idea is that due to the law of diminishing returns, increased use of inputs simply fails to yield increased output in the long run. Sustained output growth requires not so much the dollops of capital as technological sophistication, managerial innovativeness and shop floor acumen.

Fourthly, productivity growth can have a positive impact on poverty reduction through two channels. *One*, an increase in productivity potentially raises wages and incomes, and hence reduces poverty. Higher productivity-led wages and incomes can have a second-round impact on domestic demand, and in turn, on employment and in further gains in poverty reduction. *Two*, productivity gains help to moderate the rate of increase in prices. Lower inflation is equivalent to an increase in the purchasing power of current incomes. This indirect effect, operating through lower inflation, can also have a mitigating effect on poverty levels.

Liberalisation and Productivity

Productivity gains are the most immediate targets of the policy reforms that have centred around liberalisation and deregulation. Liberalisation can contribute to productivity gains in at least four different ways:

1) Liberalisation could result in reduction of *X-inefficiency*. This can happen in two ways: (a) a 'challenge-response' mechanism induced by a more competitive environment helps reduce the managerial slack; and (b) the existence of excess capacity can deter entry.

2) Liberalisation makes better exploitation of scale economies. These economies are possible through larger export markets.

3) Relaxation of import restrictions, or an increased ability to import due to increased exports, could then lead to better productivity performance due to the import of superior embodied technology and/or lower cost inputs.

4) Liberalisation makes possible faster rates of technological 'Catch up' in expanding sectors of comparative advantages.

Total factor productivity in Indian manufacturing was 0.61 per cent per annum during the period 1981-82 to 1990-91, dipped to 0.25 per cent per annum during 1991-92 to 1997-98, went down further to -0.09 per cent per year during 1998-99 to 2001-02 and then expanded sharply to 1.41 per cent per year between 2002-03 and 2007-08. The growth of productivity in manufacturing, therefore, follows a J-curve pattern, slowing down in the initial years after liberalisation, but picking up steam later.

Why is the curve J-shaped? Total factor productivity growth was slow during the early and mid-1990s because of the dramatic import liberalisation, the balance of payments deterioration and the exchange rate reform, all of which came as a shock to industry. Moreover, with the removal of import restrictions on consumer goods, certain types of capital goods were rendered obsolescent, which led to lower capacity utilisation in the late 1990s and early 2000s, and even lower productivity. As firms learned to cope and the benefit of new technologies and products became widespread, productivity improved dramatically from the mid-2000s.

Although other general measures on labour, land and infrastructure could improve total factor productivity somewhat, sector-specific factors are required to be analysed for taking necessary policy measures to take productivity growth in manufacturing to a higher level.

14.6 APPROACH TO A NEW INDUSTRIAL POLICY

The Government had released in recent past a 'Discussion Paper' outlining the basic contours of industrial policy suitable for rapid industrial growth. It presents vision, strategic objectives, and intent of the policy. These objectives and instruments to achieve the same are summarised below.

Clear Vision, Strategic Objectives and Intent

The policy aims to set a clear vision for the role of industry and industrial growth in the growth and development of the economy. A shared vision to develop a globally competitive Indian industry with skill and scale, which leverages technology will be developed through engagement with stakeholders. Strategic objectives have to be delineated with measurable outcomes. The policy has to also ensure that it embeds into itself sectoral objectives and provides an overarching umbrella policy framework. The timeframe for implementation of the policy needs to be decided taking into consideration the changing economic and business cycles of the world and the Indian economy, geopolitical trends and broad policy directions of the country. To begin with, the following strategic objectives are set forth for the policy, to enable commencement of work.

A) **Establishing Global Linkages**

1) India needs to strengthen global strategic linkages by– creating global brands out of India, strengthening linkages between Indian and global inductivity and intensifying FDI.

2) Brand building must gain importance alongside achieving quality and scale. The quantum of value addition must be increased at all levels. Larger the value addition, greater the positive externalities from economic activity.

3) FDI policy is largely aimed at attracting investment. Benefits of retaining investments and accessing technology in industrial sector have not been harnessed to the extent possible. FDI policy requires a review to ensure that it facilitates greater technology transfer, leverages strategic linkages and innovation

B) **Enhancing Industrial Competitiveness**

1) Competitiveness can be improved by reducing the cost of infrastructure such as power logistics causing regulatory compliance burden reducing the cost of capital and improving labour productivity.

2) Industrial infrastructure in India suffers from lack of funds and inefficiencies. Infrastructure financing relies heavily on banks due to the lack of developed debt and bond markets. Increased pressure on infrastructure from rapid urbanisation exacerbates inefficiencies leading to high cost of logistics.

3) Advances in technology are leading to emergence of new activities, major changes in existing systems and obsolescence at a rate faster than ever before. The central role of technology in next generation business has to be acknowledged and appropriated to ensure greater productivity and competitiveness.

4) In an open world, domestic tax structure and duty rates are an important factor in deciding the direction of flow of raw materials and final products. High direct tax rates and a duty structure that favours import of final products can act as disincentives for domestic manufacturers.

C) **Employing Gainfully a Growing Workforce**

India is now in the mid-point of the demographic dividend phenomenon which is expected to continue for another 15- 20 years. Demographic dividend has been a part of mainstream planning and policy making process in the last decades. There are several related concerns to name a few include the following:

- Some states would move out of the phenomenon earlier than others adding yet another dimension to existing inequalities
- Projected upward trends in automation and Artificial Intelligence (AI) leading to job losses
- Disproportionately slower growth in creation of jobs as compared to growth in output – the phenomenon of 'job-less' or 'ruth- less growth'.
- Poor outcomes in education, skill and health leading to an inability to harness the demographic dividend.

D) **Ensuring Sustainability and Responsible Industrialisation**

Industry is a major contributor to carbon emission and also has substantial resource footprint. It is also irrefutable that energy is a significant contributor to industrial growth as well as industrial emissions. Policies on utilisation of natural resources, including energy sources have to be aligned to support industrial growth. Sustainability has to be treated as integral to growth in all sectors and industry as a whole. A balance between industrial growth and improvement in environment and sustainability has to be achieved. Sectors that contribute to the latter should be given equal or more attention given that they also contribute to the former

E) **Enabling Ecosystem for Technology Adoption and Innovation**

1) India has the potential to diversify its strengths in the field of information technology. It is not just the largest software service provider, but can provide products and solutions and also become the 'Digital factory of the world', by becoming the vanguard of digital revolution. Despite foreign investments being received in the country over the last three decades, transfer of technology has largely remained at assembly level. Component manufacturing design and R&D activities have to be strengthened.

2) Right models of technology transfer need to be adopted to ensure that the transferred technology is enhanced and customised for Indian conditions. The issue of academia– research institutions industry linkages needs to be addressed. Across the board innovation should be promoted helping Indian firms increase their R&D spends and file high-quality patents that can be commercialised. Start-up ecosystem that plays a key role in this effort needs to be encouraged.

To sum up, there is a need to formulate an outcome-oriented actionable industrial policy that provides direction and charts a course of action for a globally competitive Indian industry which leverages skill scale and technology. Consultations will be held with industry bodies, industry captains, central government departments, state governments, think tanks, academia, and R&D institutes to understand perspectives of all stakeholders.

Check Your Progress 3

1) What was the critical issues facing the Indian industrial sector?

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2) What are the strategic objectives set forth for the new Indian industrial policy?

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14.7 LET US SUM UP

Industrialisation is the process by which an economy moves from primarily agrarian production to mass-produced and technologically advanced goods and services. This phase brings with itself an era of higher productivity, shifts from rural to urban labour, and increased standards of living. In India, post-independence, the national consensus was in favour of the rapid industrialisation of the economy as the key to economic growth and development. The Industrial Policy Resolution of 1948 marked the beginning of the evolution of the Indian Industrial Policy. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of Industries. In the subsequent years, India's Industrial Policy developed through successive Industrial Policy Resolutions and Industrial Policy Statements. The key role in industrial development programme was in the public sector. The aim was to make the economy self-sustaining in producers' goods industries such as steel, machine building, etc., so that the quantum of external assistance needed could be curtailed to a very low level. Later in the mid-eighties, the trend towards liberalisation became more pronounced. Industrial policies took a shift from predominantly Socialistic pattern in 1956 to Capitalistic since 1991. Industrial policy 1991 onwards dealt with liberalising licensing and measures to encourage foreign investments. However, the major challenges that have restricted industrial growth inter-alia include– inadequate infrastructure, restrictive labour laws, complicated business environment, slow technology adoption, low productivity, etc. This calls for adopting a comprehensive, actionable, outcome oriented industrial policy which will enable Industry to deliver a larger role in the economy; to fulfil its role as the engine of growth and to shoulder the responsibility of adding more value and jobs.

14.8 TERM-END EXERCISES

1) Outline the factors that justifies the basic premise of the Industrial Policy Resolution 1956.
2) What do you mean by 'industrial sickness'? How is it treated in India?
3) How does improved technology contribute to industrial development in an economy?

14.9 KEY WORDS

Capital Goods : Capital goods are fixed assets such as machinery, equipment, buildings, vehicles , computers, etc. which are used in the productive process in order to produce a finished 'consumer' good.

Creative Destruction : Creative destruction refers to the incessant product and process innovation mechanism by which new production units replace outdated ones.

Heavy Industries : Industry that manufactures large pieces of equipment or machinery, or that uses large pieces of equipment or machinery to manufacture products.

Industrialisation : Industrialisation is the process by which an economy is transformed from a primarily agricultural one to one based on the manufacturing of goods.

Industrial Sickness : Industrial sickness usually refers to a situation when an industrial firm performs poorly, incurs losses for several years and often defaults in its debt repayment obligations.

Liberalisation : It is the lessening of government regulations and restrictions in an economy in exchange for greater participation by private entities.

14.10 REFERENCES

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3) Industrial Policy – 2017, A Discussion Paper. Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.

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4.11 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See Section 14.2 and answer.
2) See Section 14.3 and answer.

Check Your Progress 2

1) See Section 14.4 and answer.
2) See Sub-section 14.4.1 and answer.
3) See Sub-section 14.4.2 and answer.

Check Your Progress 3

1) See Section 14.5 and answer.
2) See Section 14.6 and answer.

UNIT 15 MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs): ISSUES AND POLICY

Structure

15.0 OBJECTIVES

After reading and studying this unit, you will be able to:

- define Micro Small and Medium Enterprises (MSMEs);
- discuss the significance of MSMEs in the Indian Economy;
- evaluate the performance of the Indian MSME sector in terms of contribution to GDP and employment share;
- compare the performance of the MSME sector with that of the overall industrial sector;
- identify the issues and challenges faced by this sector; and
- outline the policy framework for the MSME sector.

15.1 INTRODUCTION

Micro, Small and Medium Enterprise (MSME) sector has emerged as a significant sector of the Indian economy, contributing remarkably to employment generation, entrepreneurship, innovation, exports, and inclusive growth of the economy.

Likewise, the sector has been regarded as the engine of growth worldwide, in both, the developing as well as the developed countries.

As per the WTO, Micro, small and medium-sized enterprises (MSMEs) are the backbone of many economies, representing 95 per cent of all companies worldwide and accounting for 60 per cent of employment. Many MSMEs depend on international trade for their activities, either because they export their products through direct or indirect channels, or because they import inputs to manufacture the products that they sell domestically. They are major employers of women and young people, and a key driver of innovation. Nevertheless, the sector is not able to contribute to its potential due to some issues faced by MSMEs.

These issues can be classified as being external and internal. External issues are caused due to macro environmental factors– economic and political– that are beyond the control of the enterprises, for example regulatory barriers, access to finance, corruption, competition, lack of skilled labour, changing global economic scenario, etc. Internal issues are related to factors that are within the enterprise domain, for example, lack of managerial competence and appropriate technology, ineffective marketing and distribution techniques, etc. In response to these issues, from time to time, government has been coming up with various policies to assist the MSME sector in various ways including, enterprise and skill development, technological up gradation, access to finance, cluster development, marketing assistance, etc.

However, several issues continue to persist, more in some areas than others. It is imperative to realise the importance of MSMEs, recognise the factors hindering their growth and address through appropriate policies. This unit seeks to do just that. It begins with defining the MSME sector, which is followed by a discussion on the significance of the MSME sector in the Indian Economy. Subsequent sections will involve evaluating the performance of the Indian MSME sector in terms of its contribution to GDP and employment and comparing the performance of the MSME sector with that of the overall industrial sector. The unit also carries a section identifying the issues and challenges faced by the MSME sector, followed by a section outlining the policy framework for the sector.

15.2 WHAT ARE MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)?

The term 'MSME' is normally used to describe small industrial or business units in private sector. Considering the global trend of classifying the MSME sector, the definition differs widely across jurisdictions and depends upon the government policies of the country. As per International Finance Corporation (2014) report, among the 267 definitions used by different institutions in 155 economies, the most widely used variable for defining an MSME is the number of employees. Other variables commonly found in MSME definitions are turnover as well as value of assets, with few other variables being the loan size, formality, years of experience, type of technology, size of the manufacturing space, and initial investment amount, among others. The definition according to the World Bank is that a business is classified as MSMEs when it meets two of the three criteria – employee strength, size of assets or annual sales (refer Table 15.1).

Table 15.1:Definition of the MSME sector as per the World Bank

Medium	<300	<USD 15 Million <INR 750 Million	<USD 15 Million <INR 750 Million
Small	<50	<USD 3 Million <INR 150 Million	<USD 3 Million <INR 150 Million
Macro	<10	<USD 10, 000 <INR 500, 000	<USD 10,000 <INR 500,000

However, in India, MSMEs are presently defined based on investment in plant and machinery/equipment. The enactment of Micro, Small & Medium Enterprises Development (MSMED) Act, in 2006 by the Government of India (GOI) gave a legal basis and framework to the micro, small and medium enterprises by defining and classifying these enterprises on a uniform basis. This classification covers industries both under manufacturing and service sector and the said limits (refer Table 15.2) are excluding the cost of land, building and other specified items.

Table 15.2: Defining MSME for Manufacturing and Service sector

Manufacturing Sector	
Enterprise Category	**Investment in Plant & Machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
	Service Sector
Enterprise Category	**Investment in Equipment**
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Thus, an enterprise, engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act,1951, is defined as– (i) a micro enterprise, where the investment in plant and machinery does not exceed twenty– five lakh rupees;(ii) a small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees; or(iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees. Similarly, an enterprise engaged in providing or rendering of services is defined as– (i) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;(ii) a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or (iii) a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

The definition based on investment in plant and machinery/equipment is often criticised for not reflecting the current increase in price index of plant and machinery/equipment. Furthermore, MSMEs due to their informal and small scale of operations often do not maintain proper books of accounts and hence find it difficult to get classified as MSMEs as per the current definition. In response to this and to facilitate ease of doing business, the Government has proposed turnover-based definition by replacing the current investment-based definition of MSMEs. The proposed definition is found to be rational, transparent, progressive and easier to implement with the introduction and operationalisation of Goods and Services Tax(GST).

Proposed Definition

Government of India has proposed to classify MSMEs based on turnover as mentioned below:

i) A micro enterprise will be defined as a unit where the annual turnover does not exceed five crore rupees;

ii) A small enterprise will be defined as a unit where the annual turnover is more than five crore rupees but does not exceed seventy-five crore rupees;

iii) A medium enterprise will be defined as a unit where the annual turnover is more than seventy-five crore rupees but does not exceed two hundred and fifty crore rupees.

Check Your Progress 1

1) What are Micro, Small and Medium Enterprises (MSMEs)? Also state the criticism involved in defining these enterprises on the basis of investment in Plant and machinery/equipment.

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2) Briefly explain how MSME (Manufacturing) are different from MSME (Services)?

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15.3 SIGNIFICANCE OF MSMES IN THE INDIAN ECONOMY

India is currently among the fast growing economies of the world. The MSME sector in the country occupies the second position next only to agriculture in terms of employment generation. It has been contributing significantly to the expansion of entrepreneurial base through business innovations. The sector consistently feeds the domestic and the international value chains as manufacturers, suppliers, distributors, retailers, contractors and service provider by accounting for a substantial segment of the economy's industrial and service units. Besides this, MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

15.3.1 Contribution of MSMEs in the Country's Economy

As per the Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation, the contribution of MSME Sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for a 5-year period is as below (Table 15.3):

Table 15.3: Contribution of MSMEs in the Indian Economy (at Current prices)

(Figures in Rs. Crores adjusted for FISIM[1] at current prices)						
Year	**MSME GVA**	**Growth (%)**	**Total GVA**	**Share of MSME in GVA (%)**	**Total GDP**	**Share of in MSME GDP (in %)**
2011-12	2622574	-	8106946	32.35	8736329	30.00
2012-13	3020528	15.17	9202692	32.82	9944013	30.40
2013-14	3389922	12.23	10363153	32.71	11233522	30.20
2014-15	3704956	9.29	11504279	32.21	12467959	39.70
2015-16	4025595	8.65	12566646	32.03	13764037	29.20
2016-17	4405753	9.44	13841591	31.83	15253714	28.90

Source: Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation

The MSME sector accounts for about 95 per cent of the industrial units, 45 per cent of manufacturing output, and 40 per cent of total exports of the country. The sector has shown impressive growth in terms of parameters like number of units, production, employment, exports in the economy. The sector has been performing appreciably better than the overall rate of GDP(average 8 per cent growth per annum) and the overall industrial output (measured by Index of Industrial Production-IIP). As per a press release by Press Information Bureau of a "Roadmap for Growth of MSMEs" in August 2019, currently MSME contributes 29 per cent to the country's GDP and the government intends to take this to 50 per cent in the next 5 years. The sector gives employment to about 11 crore people currently, which the Ministry of MSME intends to take to 15 crore in the next 5 years. To achieve this, the Ministry has underlined the need to create new channels for funding, making the sector investor-friendly, bringing in technological innovations, and reducing logistics cost to make MSME products competitive, providing adequate skilling and market support. There is scope for diversification in the MSME sector. Honey production, bamboo, bio-fuel production, fisheries, dairy, Agarbatti making, hydroponics, water transport like Ro-Ro, Ro-Pax, e-transport, mechanised fishing trawlers etc. are some of the new areas for ventures. Also, since MSMEs are less capital intensive, more employment-friendly, have easier access to raw materials, subsidies and other incentives under cluster programmes, there is huge potential for the sector to

[1]Financial Intermediation Services Indirectly Measured

grow as ancillary industries to unleash greater industrial growth. Development of the sector is therefore extremely important as it holds the key to inclusive growth and plays a pivotal role in holistic development of the country.

As per the MSME Annual report 2019-20, the state of Uttar Pradesh had the largest estimated number of MSMEs with a share of 14.20 per cent of MSMEs in the country. West Bengal comes a close second with a share of 14 per cent The top ten States together accounted for a share of 74 per cent of the total estimated number of MSMEs in the country.

The MSME sector has the potential to emerge as the backbone of Indian economy and to continue as an engine of growth provided policy environment– that addresses issues in the areas like entrepreneurial skill development, financial resources, human resources, technology and innovations, international market linkages and bilateral trade agreements, and infrastructural support..

15.3.2 Employment in the MSME Sector

MSME sector in India creates largest employment opportunities, both in terms of self-employment and wage-employment, for the Indian labour force, next only to agriculture. MSMEs are thought to have lower capital-output and capital-labour ratios than large-scale industries, and therefore, better serve growth and employment objectives. The sector in India has grown significantly since 1960 – with an average annual growth rate of 4.4 per cent in the number of units and 4.62 per cent in employment (currently employing 110 million). Not only do MSMEs generate the highest employment per capita investment, they also go a long way in checking rural-urban migration by providing people living in isolated areas with a sustainable source of employment. Apart from this, MSMEs also help in industrialisation of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 111 million jobs in the rural and the urban areas across the country. Micro sector enterprises provided employment to 107.7 million persons that in turn accounts for around 97 per cent of total employment in the sector. For the Small and the Medium sectors, the employment shares were around 2.88 per cent and 0.16 per cent, respectively. As far as the employment in the MSME sector based on broad activity category-wise is concerned, the respective sharesare given in the following Table 15.4:

Table 15.4: Estimated Employment in MSME sector (Broad Activity Category Wise)

Broad Activity Category	**Employment (in Lakh)**			**Share (%)**
	Rural	**Urban**	**Total**	
Manufacturing	186.56	173.86	360.41	32
Trade	160.64	226.54	387.18	35
Other Services	150.53	211.69	362.22	33
Electricity*	0.06	0.02	0.07	0
All	**497.78**	**612.10**	**1109.89**	**100**

Source: National Sample Survey (NSS) 73rd round 2015-16

15.3.3 Comparison of MSME Export to Total Exports

The MSME sector in India is contributing more than 40 per cent to exports. The share of MSME exports has increased from 43 per cent in 2012-13 to 49 per cent in 2017-18. Further, the trend growth of MSME exports is in line with the total exports of the country. (Refer Table 15.5)

Table 15.5: Share of MSME Exports in Total Exports (in US $)

Year	Total Exports	Exports by MSME	Share of MSME Exports *(%)
2012-13	300400	127992	43
2013-14	314415	133313	42
2014-15	310352	138896	45
2015-16	262291	130768	50
2016-17	275852	137068	50
2017-18	303376	147390	49

Source: Central Statistics Office (CSO), Ministry of Statistics and programme Implementation

As can be seen from Figure 15.1, MSME exports grew by 4.19 per cent in 2014-15, which declined to –5.85 per cent in 2015-16. During the same period total exports also declined from –1.29 per cent to –15.49 per cent. During 2016-17 and 2017-18 there was positive growth in case of both MSME exports and total exports.

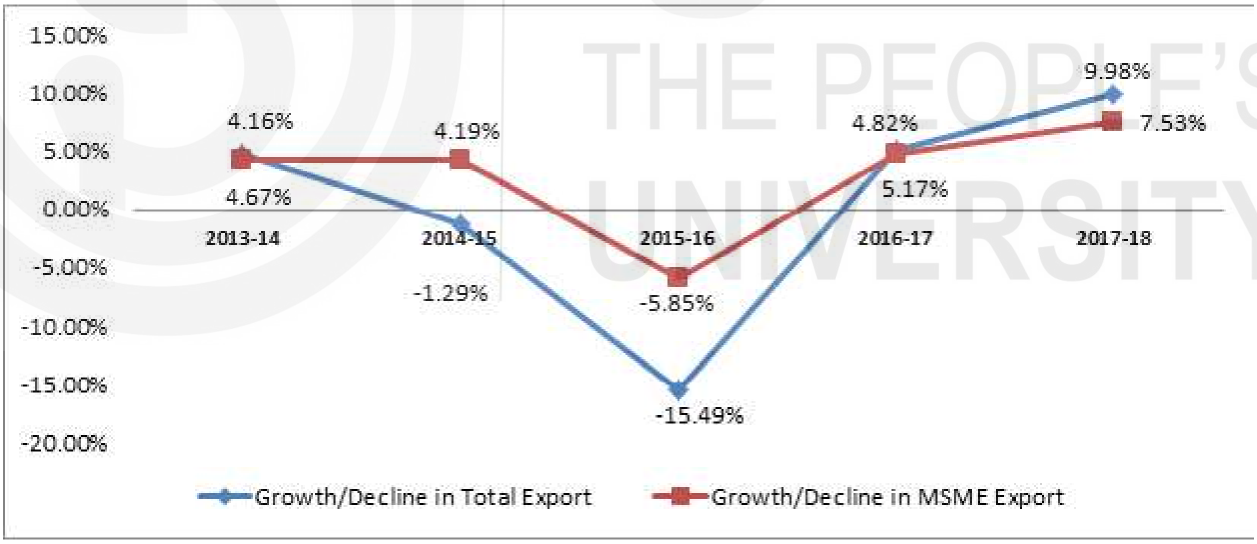

Fig. 15.1: Growth of Exports by MSME in Total Exports

Source: RBI & Press Information Bureau/Directorate General of Commercial Intelligence and Statistics. (DGCIS)

15.4 COMPARISON OF THE MSME SECTOR WITH THE OVERALL INDUSTRIAL SECTOR

MSMEs provide employment opportunities at comparatively lower capital cost and act as ancillary units for large enterprises. Figure 15.2 depicts the growth rate of MSME sector in comparison with the overall industrial sector during last sixteen years.

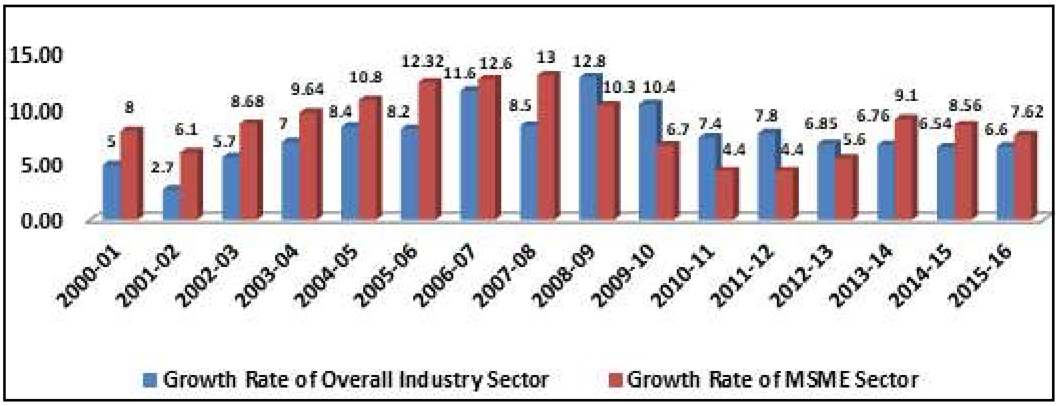

Fig. 15.2: Comparison of MSME sector vis-à-vis Overall Industry

Source: Annual Reports of Ministry of MSME

The MSME sector has in many years registered a higher growth rate than the overall growth of industrial sector. During, the period 2000 to 2006, India witnessed industrial growth in the range of 5-8 per cent annually. Subsequently, it recorded double digit growth for 4-5 years, before slowing down to around 6 per cent growth during 2015-2016. The MSME sector improved its growth performance during 2003 –2009 and recorded a growth of over 10 per cent during 2008-09. Introduction of MSMED Act, 2006 apparently played a role here. However, post 2008 global financial crisis, MSME growth fell sharply and hovered around 4-7 per cent.

Check Your Progress 2

1) Discuss the contribution of the MSME sector to the India economy.

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2) MSME sector has been performing better than the overall industrial sector. Do you agree? Give the possible reasons for your agreement or disagreement with the statement.

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3) Briefly discuss the reasons behind the MSME sector becoming the largest employer next only to the agriculture in the Indian economy.

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15.5 ISSUES AND CHALLENGES FACED BY THE MSME SECTOR

Despite the pivotal role and strategic importance in the context of industrial development and economic growth of the country, the MSME sector experiences several constraints and challenges. The Committee on financial architecture of MSME sector in their Report submitted in the February, 2015 has identified some key issues. These include; i) Equity as a source of financing is underutilised and the prevalence of investment by venture capital and angel investors is low, ii) MSMEs face the problem of delayed payments from their buyers which adversely impacts their working capital as well as their next cycle of production, iii) MSMEs lack adequate information about various schemes and benefits available by the government, iv) Financial institutions/Banks face challenges in credit risk assessment of MSMEs, v) The utilisation of the available credit guarantee and insurance schemes by banks has been low. In general, the sector is inflicted by some of the major challenges including:

i) **Lack of Adequate Capital and Credit**

This is one of the greatest challenges which constrains the growth of MSMEs in our country. Easy and timely access to credit is crucial factor for development and growth of enterprises. The Report of the Working Group on Rehabilitation of sick MSMEs by the RBI has identified this situation as a crucial reason for industrial sickness of this sector. This is further worsened by the complex collaterals instead by the banks, cumbersome sanction procedures and delay in disbursement and high rate of interest on term loans.

ii) **Poor and Inadequate Infrastructural Facilities**

Lack of adequate infrastructure facilities and poor support facilities marked by inadequate access to basic facilities like water, power supply, road/rail connectivity, etc. adversely affect this sector and contribute to enhance their operational costs. This renders the MSMEs less competitive in a challenging market situations.

iii) **Inadequate Access and Marketing Linkages**

Weak marketing linkages characterised by inadequate Government support and patronage, lack of adequate marketing infrastructure/ network facilities continue to be a greater challenge for marketing and sale of MSME products.

iv) **Lack of Skilled Human Resources**

Unavailability of the skilled workforce and descent managerial/entrepreneurial expertise at affordable cost in the proximity of the enterprises is another such big challenge for the MSMEs in our country.

v) **Lack of Access to New Technology**

Continuance of low technology base in the MSME sector results in low productivity by making these enterprises uncompetitive in the ever-widening industry with most of the industries today requiring application of advanced technology in their operations.

vi) **Dilatory and Cumbersome Regulatory Practices**

The MSME sector suffers from the cumbersome and dilatory regulatory practices relating to sanction and disbursement of loans from banks, collateral securities/guarantees, for construction permits, resolving insolvency and taxation, etc. Absence of a common regulatory body and inadequate provisions for start-ups affect the growth of such enterprises. Non-adherence to RBI guidelines regarding revival/rehabilitation of seek enterprises by the Banks is another such constraint that needs to be addressed.

This calls for the need for strategic intervention to improve coordination and linkages between various stakeholders including the Government, industries and other agencies/associations working in this field.

15.5.1 Impact of Demonetisation and GST on the MSME Sector

Micro, small and medium enterprises (MSMEs) in India and abroad have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economics lowdown. However, at times, the sector faces operational problems due to its size and nature of business, and is, therefore, relatively more vulnerable in the face of shocks to the economy. MSMEs largely operate in the informal sector and comprise a large number of micro enterprises and daily wage earners. As a result, the sector could not escape the consequences of two major shocks, viz., demonetisation and introduction of goods and services tax (GST). For instance, as per on RBI report (2017), contractual labour in both the wearing apparel and gems and jewellery sectors reportedly suffered as payments from employers became constrained after demonetisation. Similarly, the introduction of GST led to increase in compliance costs and other operating costs for MSMEs as most of them were brought into the tax net.

The structural reforms might have disrupted the performance of MSMEs in the short run. Nevertheless, Demonetisation and GST are expected to be positive in the long run with growth in digitisation, enhanced ease of doing business and creation of database of transactions which would facilitate better access to finance and improve the medium- and long-term growth prospects of the sector.

15.5.2 Impact of the Covid-19 Pandemic on the MSME Sector

COVID-19 pandemic brought in country-wide lockdown and impacted the MSME sector severely mainly due to liquidity crunch. Extended lockdown had negative impact on supply of finished goods, procurement of raw material, cash flow and availability of employees to work in production and supply processes. During April to June 2020, sector faced challenges related to debt repayments, wages/ salaries, statutory dues, etc. As per some survey reports, disruptions caused by the Covid-19 pandemic have impacted MSMEs earnings by 20-50 per cent.

Furthermore, the sudden collapse of trade during the lockdown time affected the MSME sector. India's top exports including labour intensive products starting from gems and jewellery to garments/apparel or sea food are mainly supplied by MSME sector. Similarly, the lockdown affected the imports of raw materials and intermediates which disrupted the supply chain of MSME sector. MSMEs presence in remote areas also faced lots of difficulties due to interrupted supply chain systems and intrastate lockdown provisions. However, enterprises working in essential commodity business were better off in terms of interrupted but predictable cash flows. Some enterprises innovated their ways by shifting focus from non-essential commodities towards essential commodities; like production of hand sanitizer and toiletries, PPE kits, reusable masks, etc. and were able to survive in tough times. The pandemic time has also enhanced digitisation of the MSME sector, with most businesses going digital by either starting a website or expanding their offering on to e-commerce.

Check Your Progress 3

1) Discuss the issues and the challenges faced by the MSME sector in India.

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2) Briefly discuss the impact of policy shocks on the Indian MSME sector and how do you see the sector coping in the medium term?

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3) MSMEs suffered during the lockdown period resulting from the COVID-19 pandemic. Does this hold true for all the MSMEs equally?

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15.6 POLICY INITIATIVES BY THE GOVERNMENT

15.6.1 Legislation and Institutional Support System

Government and regulators through various legislations and directives have attempted to create a conducive environment for the development of MSME sector. One of the major steps in this direction was enactment of the MSMED Act, 2006. The Act facilitates MSMEs in terms of public procurement, delayed payment, marketing support, issues that have been constraining the sector. It also empowers Central and State Government to establish institutions for promotion of MSMEs.

The MSMED Act has the following key provisions:

- Establishment of a National Board for Micro, Small and Medium Enterprises headed by the Minister for MSME. The role of the Board is to examine the factors affecting the promotion and development of MSMEs, review the policies and programmes of the Central Government and make recommendations to facilitate their promotion and development and enhance their competitiveness.
- It provides the legal framework for recognition of the concept of "enterprise" which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, Micro, Small and Medium.
- It empowers the Central Government to undertake programmes and issue guidelines and instructions to develop and enhance the competitiveness of MSMEs.

On 9 May 2007, the erstwhile Ministry of Small Scale Industries and the Ministry of Agro and Rural Industries were merged to form the Ministry of Micro, Small and Medium Enterprises (M/o MSME). This Ministry is responsible for designing policies, promoting/ facilitating programmes/ projects/schemes and monitoring their implementation, with a view to assist MSMEs and helping them to scale up. The Ministry runs various schemes aimed at financial assistance, technology assistance and up-gradation, infrastructure development, skill development and training, enhancing competitiveness and market assistance of MSMEs.

A number of statutory and non-statutory bodies work under the aegis of the Ministry of MSME. These include the Khadi and Village Industries Commission (KVIC) and the Coir Board besides National Small Industries Corporation (NSIC), National Institute for Micro, Small and Medium Enterprises (NIMSME) and Mahatma Gandhi Institute for Rural Industrialisation (MGIRI). The M/o MSME envisions a progressive MSME sector by promoting growth and development of the sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises, adopting cutting-edge technologies and encouraging creation of new enterprises.

The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives. The role of the Ministry of MSME and its organisations is to assist the States in their efforts to encourage entrepreneurship, employment and livelihood opportunities and enhance the competitiveness of MSMEs in the changed economic scenario.

Some of the major policy initiatives introduced by the Government of India for support and promotion of micro, small and medium enterprises in the country include; establishment of Small Industries Development Bank of India (SIDBI) in 1990 for promotion and financing of the MSME sector, Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) was launched in 2000 to offer credit facilities to eligible borrowers and the Prime Minister's Employment Generation Programme (PMEGP) in 2008 to generate employment opportunities in rural and urban areas through new self-employment ventures / projects / micro enterprises.

15.6.2 Formalisation of MSMEs

As per 73rd round of National Sample Survey (NSS), there are 63.39 million MSMEs in the country. However, a large number of MSMEs exist in the informal sector and are not registered with any statutory authority. Reasons for lack of registration are many and varied. For nano/household type of enterprises, not obtaining registration is an escape from official machinery, paperwork, costs and rent seeking. For them, it is perhaps "the art of not being governed". Registration offers them little by way of tangible benefits. There are other MSMEs who, upon reaching a minimum size seek legitimacy and acknowledgement of their existence to seek benefits or credit for instance, but they too struggle.

Lack of formalisation impacts the sector in terms of development and in availing credit from financial institutions like banks and in terms of policymaking as well as development interventions. Registration provides information on nature of business, location, segmentation, etc. In the absence of a robust system of registration for capturing information on operational units, new and existing units, reliance has to be placed on surrogate data or on national census/ surveys, which are infrequent.

Although the registration of MSMEs engaged in services activities is discretionary, nevertheless, over a period of time, registration has been an intrinsic part of the development of MSMEs itself. Having a registration certificate entitles an MSME for numerous benefits. Particularly after the MSMED Act, 2006, which came into effect from October 2, 2006, availability of registration certificate has assumed greater importance. Some of the direct incentives provided by the Government are:

- Collateral Free loans from banks
- Ease of getting Licenses, approvals and registrations
- Reservation policies to manufacturing / production sector
- Special consideration on international trade fairs
- Octroi benefits
- Waiver of Stamp Duty and Registration Fees
- Exemption under Direct Tax Laws
- Bar Code registration subsidy
- Subsidy on National Small Industries Corporation Limited (NSIC) Performance and

Credit ratings

- Eligibility for Industrial Promotion Subsidy (IPS) subsidy
- Counter Guarantee from Government of India through Guaranteed by Credit Guarantee Fund Trust for Small Industries (CGSTI)
- Protection against delay in payment
- Reduction in rate of Interest from banks
- 15% Credit Linked Capital Subsidy Scheme (CLCSS) subsidy to purchase fully
- Waiver in Security Deposit in Government

- Concession in electricity bills
- Reimbursement of International Organisation for Standardisation (ISO) Certification
- Excise Exemption Scheme
- Preference in procuring from Government
- P15% weightage in price Preference
- 1% exemption on interest rate on Overdraft(OD)
- 50% subsidy for patent registration.

Source: Ministry of MSME

The registration process of MSMEs was radically simplified with the introduction of Udyog Aadhaar, with effect from September 18, 2015. It is an Aadhaar based electronic platform and requires a few basic entries including PAN details. Registration certificate is also issued electronically. In terms of coverage, 68.89 lakh MSMEs (as on June 12, 2019) have registered through this system. Udyog Aadhaar has facilitated registration of MSMEs in a user-friendly way. While Udyog Aadhaar offers a simple mode of registration, it is usually not enough. Often, more is needed e.g., Shops and Establishments, PAN, GST, etc.

The Government and RBI have taken several initiatives and measures to address the issues faced by MSMEs. However, the sector remains informal and vulnerable to structural and cyclical shocks, at times with persistent outcomes. Further, an increasingly globalised world, marked by competition and innovation is posing newer and varied challenges to the MSMEs. The increasing stress in the sector is a matter of concern and therefore, it was felt imperative that a comprehensive review should be undertaken of the entire MSME ecosystem along with global best practices for suggesting measures for a holistic development of the sector. For this, an all-inclusive approach is necessary to be adopted with special focus on appropriate policy and institutional interventions, accelerating incubation and enabling formalisation.

Check Your Progress 4

1) What are the policy initiatives or measures taken by the government to provide an enabling environment to the MSME sector?

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2) 'The policy framework to help the MSME sector grow and develop has not been adequate enough'. Comment on the statement with suitable examples.

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3) What is the need for formalisation the MSME sector? Do you agree with the view that formalisation of the MSME sector will be equally advantageous for the MSMEs as it will be for the Government? Justify adequately.

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4) What are the incentives provided by the Government of India to incentivise MSMEs to come under the purview of organised sector?

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15.7 LET US SUM UP

The Micro, Small and Medium Enterprises (MSMEs) sector constitute the backbone of the Indian economy. There are several ways of defining the term MSME. The definition varies country-wise depending upon variables like turnover, value of assets, loan size, formality, years of experience, type of technology, size of the manufacturing space, and initial investment amount, among others. In India, MSMEs are presently defined based on investment in plant and machinery/equipment. However, a definition based on the turnover is being proposed by the Government. This sector contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. Complementary to large industries as ancillary units, MSMEs contributes significantly in the inclusive industrial development of the country.

Besides this, the sector has been registering a higher growth rate than the overall growth of industrial sector in most of the years. Despite the significant contributions of the MSME sector, the sector continues to face certain constraints including financial/credit crunch, non-availability of suitable technology, ineffective marketing strategy, non-availability of skilled labour, etc. Over the years, the government has been taking initiatives to create an enabling ecosystem where these enterprises are able to access the benefits meant for themselves under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order. A few among them are: enactment of the MSMED Act, 2006, creating the Ministry of MSME, providing incentives to formalise the MSME sector, etc.

Nevertheless, considering the extent to which the prevalent issues impact the MSME sector, it is essential that an all-inclusive approach is adopted with special focus on appropriate policy and institutional interventions, accelerating incubation and enabling formalisation, addressing infrastructural bottlenecks, facilitating capacity building, enabling access to risk capital, credit and technological interventions for improving underwriting standards and delivery, supporting market linkage and tie-up with public procurement platforms, etc.

15.8 KEY WORDS

COVID-19 : Coronavirus disease 2019 is a mild to severe respiratory illness that is caused by a Coronavirus.

Demonetisation : The act of stripping a currency unit of its status as legal tender.

Formalisation : The act of making formal aiming at bringing more of the unorganised sector into the formal fold.

Gross Domestic Product (GDP) : A monetary measure of the market value of all the final goods and services produced in a country during a specific time period.

Gross Value Added (GVA): A measure of the value of goods and services produced in an area, industry or sector of an economy.

Goods and Services Tax (GST) : An indirect tax (or consumption tax) used in India on the supply of goods and services. It is a comprehensive, multi-stage, destination-based tax that is levied on every value addition made along the supply chain.

Informal Sector : According to National Commission for Enterprises in the Unorganised Sector (NCEUS) informal sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers.

Lockdown : A lockdown is a restriction policy for people or community to stay where they are, usually due to specific risks to themselves or to others if they can move and interact freely.

Rehabilitation : The action of restoring something that has been damaged to its former condition.

Service Sector : The service sector is the third of the three economic sectors of the three-sector theory. The others are the secondary sector, and the primary sector. The service sector consists of the production of services instead of end products.

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15.10 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See Section 15.2 and answer.

2) The Manufacturing Enterprise are engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use, and they are defined in terms of investment in Plant & Machinery; while the Service Enterprises are engaged in providing or rendering of services and are defined in terms of investment in equipment.

Check Your Progress 2

1) See Section 15.3 and answer.

2) See Section 15.4 and answer.

3) See Section 15.2 & 15.3 and answer.

Check Your Progress 3

1) See Section 15.5 and answer.

2) See Sub-section 15.5.1 and answer.

3) See Sub-section 15.5.2 and answer.

Check Your Progress 4

1) See Section 15.6 and answer.

2) See Section 15.5 & 15.6 and answer.

3) See Sub-section 15.6.2 and answer.

4) See Sub-section 15.6.2 and answer.

UNIT 16 SERVICES SECTOR I: ORGANISED SECTOR - ISSUES AND POLICY

Structure

16.0 OBJECTIVES

After studying this unit, you will be able to explain:

- role of the services sector in the process of development and how the relative share of various sector changes as the economy grows;
- what constitutes the services sector in general and especially in case of Indian economy;
- the pattern of growth of services sector in Indian Economy and changes in relative shares of various sub-sectors within the service GDP;

- the factors which led to the spurt in services sector growth especially in post-reform regime;
- policy initiatives and measures taken by the government for the promotion and growth of certain major services; and
- constrains and bottlenecks being faced in selected service sectors.

16.1 INTRODUCTION

The service or tertiary sector is the third piece of a three-part economy. The first economic sector, the primary sector, covers the farming, mining, and agricultural business activities in the economy. The secondary sector covers manufacturing and business activities that facilitate the production of tangible goods from the raw materials produced by the primary sector. The service sector, though classified as the third economic sector, is responsible for the largest portion of the global economy's business activity.The sector currently accounts for more than half of India's GDP. This process of tertiarisation (dominance of the tertiary or services sector) of the economy has been accompanied by a decline in the share of the primary sector (agriculture) and a more or less constant share of the secondary (industry) sector over the years.

However, though the growth of service sector in India is in line with the global trends, there are unique characteristics of India's service sector growth.

- First, the entire decline in the share of agriculture sector in GDP has been picked up by the service sector while manufacturing sector's share has remained more or less the same.
- Second, in spite of its growing share in the GDP, there has been a serious mismatch between the share of services in GDP and the corresponding share of services in total employment.
- Further, it is found that growth pattern in the service sector has not been uniform across all services in India.

This unit, especially focusing on the organised service sector, is designed to respond the following questions: (a) what constitutes the service sector (b) what is the pattern of growth in India's service-sector? (c) what are issues – major cross-cutting issues as well as sector-specific issues being faced by the organised service sector in India? (d) what are the important external and internal barriers to trade in different services in India? (e) what policy initiatives have been taken by the government to sustain the growth of service sector in the long run?

16.2 WHAT CONSTITUTES THE SERVICES SECTOR?

The term services sector refers to, at the most aggregate level, a large group of activities that include trade, hospitality (hotels, restaurants), transportation, communication, entertainment, health, education, public services and so on. Even at the aggregate level, the services sector is more heterogeneous than the other two sectors, agriculture (primary sector) and industry (secondary sector). Thus, if the primary sector involves producing goods directly from natural resources (agriculture, fishing, hunting, mining and so on) and secondary sector involves modifying material goods into other more useful products and commodities, then the tertiary sector or the services sector includes all activities that do not produce or modify material goods.

In other words, unlike the output of agriculture, mining or manufacturing which are material and tangible, the output of the services sector such as teaching, cleaning, selling, curing and entertaining have no physical form and therefore are immaterial or intangible. Given its nature and heterogeneity, the precise definition and identification of the services sector is being debated even today. T. P. Hill (1977) provided what constitutes the production of goods and what would be services, and thus provides a positive definition of the services sector. Hill makes a distinction between 'services affecting goods' and 'services affecting persons' and thus proposes a definition of the services sector *"as a change in the condition of a person, or of a good belonging to some economic unit, which is brought about as the result of the activity of some other economic unit, with the prior agreement of the former person or economic unit"*. Alternatively, many studies adopt a broader and simpler definition of services on non-transferability and non-storability. Other associated characteristics of services that need to be noted are that services are heterogeneous and flexible in production and imperfect competition is highly relevant for services.

According to the United Nations System of National Accounts (UNSNA) (1993), "Services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production. Services are heterogeneous outputs produced to order and typically consist of changes in the conditions of the consuming units realised by the activities of producers at the demand of the consumers. By the time their production is completed they must have been provided to the consumers."

In India, the National Industrial Classification provides classifications for services. At present, the National Industrial Classification 2008 is used (Box 16.1) though there are differences between it and the United Nations International Standard Industrial Classification (UNISIC), e.g., construction is not a part of the sector in India while it is in the UNISIC.

Box 16.1: Services Included in the Service Sector in the National Industrial Classification, 2008

- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific, and technical activities
- Administrative and support services
- Public administration and defense; compulsory social security
- Education
- Human health and social work activities

- Arts, entertainment, and recreation
- Other service activities
- Activities of households as employers; undifferentiated goods and services producing activities of households for own use
- Activities of extraterritorial organisations and bodies

Source: Extracted from National Industrial Classification, 2008

Disaggregated data for many services are not available. Services such as retailing and construction are largely in the non-corporate (informal or unorganised) sector, there is both misreporting and under-reporting.

India has a quasi-federal governance structure; some services are under the jurisdiction of the central government (Union List), some are under the state governments (State List) and the remaining are under the joint administration of central and state governments (Concurrent List) (Box 16.2).

Box 16.2: Jurisdictions in the Service Sector

- **Union List**

  Telecommunications, postal, broadcasting, financial services (including insurance and banking), national highways, mining services
- **State List**

  Healthcare and related services, real estate services, retail, services incidental to agriculture, hunting, and forestry
- **Concurrent List**

  Professional services, education, printing and publishing, electricity

Multiple ministries and central government departments regulate services such as energy and transport while others like construction and retail do not have nodal ministries. Services like telecommunications have one independent regulator while others like electricity have state regulators as well. Professional bodies regulate professions such as doctors, architects, and accountants.

16.3 SERVICE SECTOR MEASUREMENT ISSUES

The main sets of problems with regard to measurement of services sector value added are:

- The first set of problems relates to the inability to measure the value of output itself. For example, there are services that are not marketed or do not have an explicit ‘market value’ such as services that are provided by public administration, ownership dwellings, banking and financial services and so on. A part of this problem is also the difficulty in obtaining the actual ‘quantity of service’ provided.The general method adopted for measuring value added in case of such services is the value of wages given to workers in the sector. Thus, an increase in either employment or in wages both lead to a corresponding increase in value added.

- The second set of problems relate to obtaining the real value of services as opposed to the nominal value of services. The absence of appropriate price deflators for many different types of services makes it difficult to arrive at the value added in services in real terms. The most popular method used to overcome this problem is the method of double deflation, where in the value of output and value of inputs are deflated separately by their appropriate price indices and the value added for the service is then estimated as the difference between the output and inputs.

- The third set of issues is to do with the inability to actually make measurements on the ground and hence the use of indicators as proxies for the existence and growth of some services.

Having discussed the three problem areas of services sector measurement in general, we now turn to discuss issues specific to India. The main problem with regard to estimating services GDP in India emanates from the fact that the estimates for GDP are arrived at in seven main categories, each being subdivided into subcategories and each of the subcategories in turn being classified further into three institutional sectors viz., private sector, public corporate sector and the unorganised sector. Each of these three institutional sectors has its own characteristics, making collection of data and estimates complicated and complex.

On the challenges in measurement of services sector in India, Economic Survey of 2010- 11 observed that *"One of the important challenges faced by the country is collection of data on the services sector. The challenge of data collection leads to difficulties in compilation of an index for services sector production, non representation of many services sectors in the calculation of the wholesale price index, limited availability of published data on pricing of services, and limited data on trade in services. Even where data are available, they suffer from 14 deficiencies related to definition, method of collection, suitability for pricing, and construction of indices".*

Check Your Progress 1

1) Briefly explain the process of tertiarisation in case of Indian Economy.

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2) Briefly discuss the unique characteristics of growth of service sector in India.

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3) Briefly explain the issues involved in measuring the value added in some of the services sectors in India.

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16.4 PATTERN OF GROWTH IN SERVICES IN INDIA

16.4.1 Structural Change in Indian Economy

The process of development requires structural change. The structural change of an economy takes place mainly along two dimensions: one is the changing sector-wise shares in GDP and the second is the changing share of the labour force, engaged in each sector. Over a span of past 60 years (1950-51 to 2011-12), the share of primary sector in GVA at factor cost measured at constant prices (2004-05 prices), in general, and the agriculture, in particular, has come down to one-third of what it was initially (i.e., 53.7 per cent in 1950-51 to 16.48 per cent in 2011-12). Even during 2011-12 to 2019-20 (shares measured with new data sources and new methodology for estimation), although the share of commodity sectors were slightly inflated but the share of primary sector continued to fall from 21.8 per cent in 2011-12 to 16.9 per cent in 2019-20 (1st AE) (Economic Survey, 2020).The secondary sector of the economy has shown a change at the snail's pace. The share of secondary sector that was 14.35 per cent of GVA in the year 1950-51 took a long span of 60 years to grow to 26.11 per cent. The percentage share of tertiary sector in the GVA has grown to 57.41 per cent in 2011-12 as compared to mere 29.43 per cent in 1950-51. This implies that the tertiary sector has been the major beneficiary of the economic reforms.

16.4.2 Relative Shares of Sub-Sectors of Service GDP

Major trends in the change in structure of service sector during the entire period from 1950-51 to 2011-12 and thereafter are summarised as below:

- Two important service sub-sectors, Trade and Public administration appear to remain stable with regard to their contribution to services sector GDP. The share of Trade changed from 25 per cent to about 26 per cent. Similarly, the share of Public administration changed from 9 per cent to 10 per cent.

- A closer look at trends over the period reveals that trade shows a U-shaped pattern with regard to its share in total services GDP; its share first declined to about 20 per cent in 1991- 92 before increasing to 27 per cent in 2011-12. Similarly, Public administration displays an inverse U-shaped pattern with regard to its share in total services GDP. Public administration peaked with a share in services GDP of about 14.7 per cent before declining to 10 per cent in 2011-12.

- The services that have notable increases in shares through the period are Banks (whose GDP increase from about 1.2 per centin 1950 51 to 8.3 per cent in 2009 10), Road transport (from 4.5 per centto 8 per cent), Business services (from 0.8 per cent to 7.4 per cent) and Insurance (0.8 to 2.7 per cent). Of these, the share of Business services increased sharply starting from the mid 1990s. Services that experienced a secular decline are Dwellings (23.8 per cent to 7.6 per cent), Domestic services (8.4 per cent to 1per cent) Recreation and entertainment services (5.4 per cent to 0.8 per cent)
- Services that exhibited an inverse U-pattern in their shares in GDP are Public administration, Education and Health. Their respective shares in services GDP increased till about the 1980s before beginning to decline.
- Finally, there are two services that stand out prominently in terms of high growth. The first is Business services and the second is Private sector communications. Private sector communications which did not exist in any significant way till 1990 - 91 (0.1 per cent) grew to account for about 3.5 per cent of services GDP in 2011- 12. Similarly, business services of which computer related services is a major component accounted for only about 1.3 per cent of the services GDP in 1989- 90 and this share increased to 7.4 per cent in 2011-12.

16.4.3 Share of Services in Trade

The growth in services sector worldwide has also been accompanied by the rising share of services in world transactions. In India also, growth in the services sector has also been accompanied by a substantial growth in international transactions in services. In fact, India's exports of services displayed one of the fastest growth rates in the world, i.e., over 17 per cent per annum in the 1990s (the world average being 5.6 per cent). Thereafter it declined but still remains higher than the merchandise share in world trade. India's Services share in world services exports is given in Table 16.1.

Table 16.1: India's Share in World Services Exports (Unit in USD Billion)

Year	Exports of India's Services	Imports of India's Services	India's Share in World Exports of Services
1998-99	13.20	11.02	0.99
1999-00	17.60	11.64	1.20
2000-01	20.40	16.39	1.40
2001-02	20.70	16.08	1.30
2017-18	205.11	179.58	3.50

Source: Handbook of Statistics on The Indian Economy (https://dbie.rbi.org.in), Reserve Bank of India, Mumbai.

16.4.4 Share of Services in FDI

Along with trade, there has been a large inflow of FDI into India since 1990s onwards. However, this increase in FDI inflows has been accompanied by a change in the structure of FDI. Following the international trend, FDI inflows into India are also shifting increasingly away from manufacturing sector, towards services sector. The average share of services in total FDI increased from 10.5 per cent in the period 1990-94 to 28.3 per cent in the period 1995-1999 (World Investment Report, 2004).But the inflow of FDI into services sector has been biased towards few of the services sectors e.g. telecommunications (69 per cent), financial services (15 per cent) and Hotels and Restaurants (6 per cent). Relative share of FDI inflows in India from 2006-07 to 2010-11indicates that the share of services although remains dominant but declined in total FDI inflows and largely moved into the manufacturing sector.

Check Your Progress 2

1) Briefly discuss the trends in the relative shares of sub-sectors of Service GDP since independence.

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2) Discuss the trends in the share of services in trade and FDI inflows in India and comment on the dominance of services both in trade and FDI inflows.

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16.5 FACTORS BEHIND SERVICE SECTOR GROWTH

The literature on growth in service sector primarily argues that when an economy grows, both demand side and supply side factors operate that lead to higher growth in the service sector as compared to the other sectors. This also results in a larger share of service sector in total employment.

16.5.1 Demand-Side Factors

Although the emphasis laid on different factors by different economists has varied, the broad line of reasoning advanced by pioneers like Fisher and Clark and followed with some elaborations and modifications by later analysts has been as follows: Income elasticity of demand for agricultural products is low; that for industrial, particularly manufacturing goods is high; and, for services, it is still higher. As a result, with rising levels of income, the demand for agricultural products relatively declines and that for industrial goods increases and, after reaching a reasonably high level of income, demand for services increases sharply.

Bhagwati (1984) has put forward different ways in which technical and structural changes define a continuous process during which services splinter-off-goods and goods-splinter-off services. He argues that services that splinter off from goods are technically progressive and possibly capital-intensive, but services that are left behind after goods-from-services splintering process are mostly technically unprogressive and labour intensive. The reason for expecting these services to be technically progressive is the fact that these services arise due to specialisation, which reflects economies of scale. But in case the goods that splinter-off from services, for example records being produced, the musical services left behind are unprogressive and technically stagnant.

16.5.2 Supply Side Factors: Trade Liberalisation and Reforms

Three supply side factors that lead to higher supply of services are increased trade, higher FDI and improved technology. With respect to the Indian economy,Gordon and Gupta (2004) show that on the demand side high growth of services output in the 1990s was mostly due to factors such as, increasing input usage of services by other sectors i.e., higher domestic demand, higher foreign demand for services and higher income elasticity for final demand for services. The study also found that the growing use of services has a significant favourable effect on growth of output in Indian manufacturing in the 1990s. The contribution of service input to output growth in manufacturing was about one per cent in the 1980s, and it increased to about 25 per cent in the 1990s.

Trade reforms carried out in the 1990s explain to a large extent the rapid growth of use of services in manufacturing. Lower tariff and lower non-tariff barriers were also found to have led to an increase in the usage of services in manufacturing sector. Thus, the studies show that growth of India's services sector can be attributed to:

- Structural Changes that have led to increase in usage of services by other sectors;
- Lower tariff and non-tariff barriers to trade; and
- Other reforms carried out in the 1990s.

Check Your Progress 3

1) Discuss the factors that have led to the spurt in service sector growth in India.

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16.6 ORGANISED SERVICE SECTORS– CROSS CUTTING POLICY INITIATIVES AND ISSUES

Various policy initiatives have been taken by the Government to promote the services sector:

- In the Foreign Trade Policy (2015-20), to provide an impetus to the services trade, the SEIS (Service Export from India Scheme) incentives were increased by 2 per cent for notified services such as Business, Legal, Accounting, Architectural, Engineering, Educational, Hospitals, Hotels and Restaurants amounting to Rs. 1140 crore.
- The validity period of the Duty Credit Scrips was increased from 18 months to 24 months to enhance their utility in the GST framework. GST rate for transfer/sale of scrips has been reduced to zero from the earlier rate of 12 per cent. This will also help services sector.
- New Logistics Division created in the Commerce Department to develop and coordinate implementation of an Action Plan for the integrated development of the logistics sector.
- New Services division is being set up in Directorate General of Foreign Trade (DGFT) to examine EXIM policies and procedures from the point of view of "Services".

Despite these cross-cutting promotional measures, service sectors are facing variety of issues. The issues can be divided into two broad categories– Major Cross Cutting Issues and Sector-specific Issues. In this section, focus is on the major issues concerning all the service sectors.

16.6.1 Impact of Demonetisation on Service Sector in India

Demonetisation has offered both challenges and opportunities in the digitisation of the Indian economy. There was positive impact on services due to greater digitisation with measures like launch of Unified Payments Interface (UPI), Bharat Interface for Money (BHIM) app, and BHIM-Aadhaar Pay, etc. It has been empirically justified in many studies (R. Seranmadevia and A. Senthil Kumar, 2019) that the impact of demonetisation based on adoptability, implementation, readiness and acceptance of new payment methods and digital cash by the services providers and the customers has been significant.

16.6.2 Goods and Services Tax (GST): Impact on Services

You have already learned about the GST in detail in Unit 11. As you are aware, Goods and Services Tax Law, introduced since 1st July 2017, is a comprehensive, multi-stage, destination based tax that is levied on every value addition.

Positive Effects of GST on Service Sector

- ***No double taxation:*** In the previous regime there were disputes whether a particular supply is a supply of good or service. In such scenario, assesses were required to pay taxes (both VAT and Service Tax) multiple times. In GST regime, both goods and services are treated equally and this double taxation is removed.

- ***Seamless flow of Input Tax Credit (ITC):*** Under GST regime, service providers are allowed to avail ITC paid on inputs and capital goods. Therefore, now the cost of inputs and capital goods is reduced for service providers.

- ***Access to inputs held in stock:*** The service providers will access CENVAT credit of inputs that is held in stocks. This is best applicable when a person is moving from one category of taxation to the next like the exemption category to the taxable one. For example, earlier, service providers used to charge Service Tax to the clients and used to pay VAT on the goods purchased, like computers. It was not possible to take set off VAT against Service Tax. But in GST regime, you pay GST on both sales and purchases and hence it is easy to claim ITC on that.

- ***More Clarity for Software Industry:*** For companies that sell online software, it was not clear whether to apply VAT or Service Tax on the product. In GST regime, there is a clear distinction between products and services which will remove the confusion for service industry.

- ***Fewer costs to service providers:*** In the previous system of taxation, the credit of VAT and CST that were paid to the input were billed to the service provider. With the GST system, the CENVAT credit of SGST/CGST, as well as the IGST that are to be paid on inputs and capital goods are all taken care of which is a relief to the service provider.

Negative Impacts of GST on Service Sector

- ***Lack of a centralised registration:*** With the previous taxation system, many service providers rejoiced over being able to register all their businesses in different areas from a central place. However, this privilege has been taken away. Most of the service providers with operations in multiple states will now have to register in different states to be assessed separately in each state.

- ***More burden of Compliance:*** Service Tax return was required to be filled half yearly but in GST regime, 3 returns are required to be filled per month. Annual return is also required to be filled in addition to monthly return. In crux, now service providers are required to file 37 returns per state in comparison with 2 returns on PAN India basis.

- ***Services becoming Costlier:*** In previous tax regime, service tax was applicable at the rate of 15 per cent on Services rendered which included 0.5 per cent for Swachh Bharat Cess and 0.5 per cent for Krishi Kalyan Cess but in the Goods and Service tax regime, it has been increased up to 18 per cent making the services and works contracts costlier. Some services are put in 28 per cent slab.

16.6.3 Domestic Regulations and Barriers to Trade in Services

Since services trade often requires (temporary) movement of provider or consumer, restrictions on services mostly arises from regulations and discriminating requirements regarding this movement. Most service industries are highly regulated by national governments so that non-tariff barriers may be inadvertent and also specifically designed to exclude foreign competition. Trade in services thus can be restricted by external constraints as well as domestic constraints.

- External trade barriers are mainly in the form of quantity and price-based barriers, limits on foreign equity participation, recognition and licensing of provisions, immigration and labour market regulations and discriminatory treatment with respect to taxes, subsidies, and other policies.
- While domestic constraints may result from infrastructure inadequacies, poor quality and standards, lack of clear-cut responsibilities between centre and state governments and other policy-related disincentives.

Services that face high trade barriers have mostly experienced low growth rates, especially professional services and rail transport that are still restricted services. Not all services that have low external trade barriers and high growth rates have high share in exports. In particular, it is observed that health and education services have low external trade barriers and experience high growth rates but have low share in exports. This reflects high domestic constraints in these services. Further, there are services that are less than moderately liberalised or are restricted with high external trade barriers and low growth e.g., professional services like legal, accountancy and rail transport. These services also have low share in exports, which reflect both domestic as well as external constraints to their trade.Construction services are also found to have low growth and low share in exports though external trade barriers have been somewhat lowered for them.

Modes of Trade in Organised Services

The definition of services trade used in the General Agreement on Trade in Services (GATS) includes four modes of delivery.

- The *first mode* is cross-border supply, with neither the consumer moving nor the supplier establishing it abroad. The supplier mails, electronically transmits, or otherwise transports a service across a national border. For example, architectural services may be provided in the form of design drawings sent via mail to a consumer in a foreign country.
- The *second mode* of supply is consumption abroad, where consumers, such as a tourists or students, travel across national borders to avail themselves of a service.
- In the *third mode*, commercial presence, a service supplier establishes a foreign-based corporation, joint venture, partnership, or other establishment, to supply services to persons in the host country.
- Presence of natural persons is the *fourth mode* of delivery and involves an individual, functioning alone or in the employment of a service provider, temporarily travelling abroad to deliver a service.

Reflecting the diverse economic and technical characteristics of services, the relative importance of different modes of supply varies widely across services. The principal method by which foreign firms establish a commercial presence is through foreign direct investment (FDI). FDI involves a foreign firm or individual acquiring a controlling interest in a firm in a host country or establishing a new firm or subsidiary in the host country.

16.6.4 Low Employment Elasticity in Organised Service Sectors

India's services sector has witnessed tremendous growth since the reform period, nevertheless, this growth has not been accompanied by a corresponding growth in employment in this sector. The share of manufacturing sector in GDP has also remained stagnant since 1990s.The biggest employing sector in India is the Agriculture sector, employing 45 per cent of the population but contributing 15 per cent to the GDP, whereas Service sector is the biggest contributor to the GDP but employs about 30 per cent. This has led to a policy dilemma and doubts have been cast on the sustainability of service-led growth.

It is observed that growth in service sector has been lopsided and jobless. Some sub-sectors have witnessed a double-digit growth rate in the last decade, e.g., communication and business services, while some have experienced a fall in their growth rates, e.g., railways, real estate and dwellings. The sub-sectors that have witnessed negative growth rates and those that have experienced slow growth rates are also the ones that have large potential for generating employment, e.g., construction, transport and professional services. Rising labour productivity in the faster growing sub-sectors has further reduced the scope for increasing employment in these sub-sectors. For example, IT, ITeS, business and financial services are drivers of service sector growth however these sub-sectors are not employment intensive. The average labour productivity in this sector is 5-10 times that of the overall Indian economy, while its share in overall employment is only about 1.7 per cent. Thus, the knowledge-intensive services sector which along with some segments of capital-intensive manufacturing were the engines of growth in India. But these sectors by their nature are not employment-intensive. Thus, they have contributed to growth, but not necessarily to employment. It is also observed in number of empirical studies that stringent employment protection legislations (e.g. Industrial Dispute Resolution Act, Trade Union Act, and Work Compensation Act, etc.) have pushed employers towards more capital-intensive modes of production, than warranted by existing costs of labour relative to capital. For example, a World Bank Study reveals that Industrial Disputes Act has lowered employment in organised manufacturing by about 25 per cent.

Check Your Progress 4

1) Analyse the positive impact of demonetisation in driving the growth in IT/ Telecom services in India.

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2) Do you agree with the view that GST has retarded the growth of services in India? What improvements could be done in GST regime so that it becomes a stimulator for services growth in India?

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3) Do you think that domestic regulations and barriers are more constraining to trade in services rather than the external barriers? Elucidate your reply with suitable examples and justifications.

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4) How far the GATS have been successful in promoting the trade in services across the world? Give adequate justifications in support to your reply.

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16.7 SECTOR-SPECIFIC POLICY INITIATIVES AND ISSUES IN SELECTED ORGANISED SECTORS

16.7.1 IT-BPM / Software Sector

Government Initiatives in IT-BPM/Software Sector

The Government of India's rapid adoption of technologies as a platform to delivery of government-to-government and government-to-citizen services is a tremendous push factor for the domestic IT-BPM (Business Process Management) market. It has developed its own cloud platform – MeghRaj – that offers Platform-as-a Service (PaaS), Infrastructure as a Service (IaaS), Software as a Service (SaaS) and Storage as a Service (STaaS). The focus of this initiative is to accelerate delivery of e-services in the country while optimising Information Communication and Technology (ICT) spending of the Government. It also intends to make India a hub for cyber security solutions for the world. Some of the initiatives under Digital India programme include Universal Digital Identity (Aadhaar); Common Services Centres (CSCs); Digital Locker; eSign; UMANG(Unified Mobile App for New Age Governance); Jeevan Pramaan scheme for Digital Life Certificate for Pensioners; National Scholarship Portal; National Centre of Geo-informatics (NCoG) project, etc.

With these initiatives, India's IT industry has thrived globally with exports around \$70 billion. There are over 2.8 million employees working in the IT sector. India's IT industry is an emerging market for the economy which requires more IT services as we move further. The major reason behind the rapid development of the IT industry is the vast reservoir of technically skilled manpower which has transformed India into a IT superpower. However, India's Software exports which were growing robustly at 27 to 38 per cent during 2002- 03 to 2007-08 have slowed down in recent years with exports even falling. In FY 2019, growth will settle just about 7.5 per cent to 8 per cent while in FY 2020, IT services export growth is pegged at 6 per cent to 8 per cent.

The major issues and challenges in the IT-BPM sector are listed below:

- *Visa Issues* : This is a major issues for the IT sector. Immigration and visa issues, which have long plagued the information technology sector seem to have hurt Indian IT services companies with the US Government's stance on the H-1B visa issue.
- *Goods and Services Tax payable ('IGST/CGST/SGST') on import or domestic procurement of services by Software Technology Parks of India (STPIs):* GST laws treat any service provided to a SEZ unit as 'Zero Rated Supply'. Accordingly, a SEZ unit can import services or procure domestically those services required for authorised operations without payment of GST. However, STPI units, which are also into the activity of export of IT/ITES are required to pay GST both on import and domestic procurement of services required for authorised operations and subsequently claim refund of the same. Payment of GST on procurement of services by an STPI unit would increase the working capital requirement. While relief has been provided till March 2018, upfront exemption from payment of GST on import and domestic procurement of services by STPIs could be considered in the GST regime on par with SEZ units.
- Further on the Goods and Service Tax (GST) front, the industry has been adversely impacted and faced with ambiguity due to divergent advance rulings by tax authorities. Delay in granting refund of accumulated GST credits continues to pose a working capital challenge to the industry, despite government's initiatives such as special refund drives.
- *SEIS benefit to units covered under STP scheme and export of IT/ITES(IT enabled services):* Under the Service Exports from India scheme (SEIS) of FTP (2015-20), certain services including professional services have been notified as eligible services. Under these scheme exports of notified services by SEZ units are made eligible to claim the SEIS scrips. However, exports of similar notified services by units registered under STPI scheme are not eligible to claim the SEIS scrips.

Globally, India has continued to perform well in the computer software and ITES sphere since the post-reforms period. However, this achievement has been dwarfed by the neglect of high-end IT services. Too much dependence on a few external markets for IT exports could prove to be a risky business model, and there is a serious need to explore possibilities of broadbasing the market by looking at the African, Asian and Latin American markets. Also, the IT/ITES sector in the country faces a scarcity of professionals and venture capital. The increased threat to cyber security due to cloud computing, e-commerce, and digital payments is another concern which the industry has to deal with without delay.

16.7.2 Challenges and Prospects of Indian Tourism

Important initiatives taken by the Government to promote tourism in the country include the following:

For creation of tourism infrastructure, Central Financial Assistance to States/ UTs under the schemes of Swadesh Darshan, National Mission on Pilgrimage

Rejuvenation and Spiritual Heritage Augmentation Drive (PRASHAD). Besides, some initiatives taken by Ministry of Tourism include the following:

- Extension of e-visa facility to citizens of 167 countries.
- Launch of the Incredible India 2.0 campaign with market specific promotional plans and content creation.
- Revamping of Incredible India website with the aim to provide more information about India as a tourist destination.
- Launch of 24x7 toll free multi-lingual tourist helpline in 12 International languages including Hindi and English.
- Organisation of annual Global Tourism Mart for India in line with major international travel marts being held in countries across the world. It provides a platform for all stakeholders in tourism and hospitality industries to interact and transact business opportunities.
- Organisation of Annual International Tourism Mart for promotion of tourism in North Eastern States.
- Promotional activities in tourist generating markets overseas through the India Tourism Offices abroad with active participation in travel fairs and exhibitions; organising Road Shows, "Know India" seminars and workshops.
- Ministry launched a mobile application called Swatch Paryatan which will let citizens report any hygiene issues at various tourist destinations across the country.
- The Archaeological Survey of India (ASI) has identified 100 monuments to be developed as Model Monuments under Adarsh Smarak scheme.

The Government has initiated many policies to make India a Medical Value Travel destination which include constituting the National Medical and Wellness Tourism Promotion Board in 2015 and launching e-tourist visa and m-visa facilities. The board has taken many initiatives which inter alia include: a) Stressing on easing entry formalities for those arriving for Medical Visits. On the recommendations of the Board, Government has done away with the procedure for reporting of those coming on medical visas to Foreigner Regional Registration Offices (FRRO) and accepts hospital's reporting. b) Giving emphasis on accreditation of institutions and organisations dealing with Medical and Wellness Tourism at all levels. c) Encouraging the Medical and Wellness Tourism stakeholders to work in a transparent and fair manner by listing out indicative cost of procedures.

The 'Adopt a Heritage Scheme' invited Private Sector Companies, Public Sector Companies and Corporate individuals to adopt the sites and to take up the responsibility developing 8 monuments, heritage and tourist sites across India and making them tourist friendly to enhance their tourism potential and cultural importance, in a planned and phased manner.

As a result of these initiatives, Indian travel and tourism industry is prospering enormously with number of tourists increasing from 17000 in 1951 to over 10 million by 2017. It contributed 9.4 per cent to India's total GDP (Gross Domestic Product) in 2017 and provided 41.622 million jobs to the people. Yet, we are relatively far behind several other small countries like Singapore and Hong Kong.

Some of the challenges being faced by the tourism sector are listed below:

- Lack of proper infrastructure
- *GST related Issues:* Ministry of Finance in its Working Paper (Prasad and Sathish, 2017) highlighted the following GST related issues in tourism sector:
  - o *Need to treat foreign exchange earnings in tourism services as exports or deemed exports*: While goods and services exported from India are exempt from GST, for tourism services this is not the case as they are governed by a special provision of being served in India.
  - o *GST rates in India are very high:* With GST for hotels at around 18 per cent and tour operators at 28 per cent, India is among the highly taxed tourism countries.
- *Social and Political Concerns:* These relate to the developmental, cultural and environmental effects liberalisation of tourism can have on local communities and sensitive locales. New parameters at the macro, and micro levels have to be identified for developing tourism keeping in view the incidents of communalism, terrorism, natural disasters, climate change, global warming, deforestation, pollution etc.
- *Alternatives:* This includes health tourism, village tourism (in the vintage of global village!), sports and games tourism, etc. Kerala has done innovative thinking in "monsoon tourism" which reduces seasonality of tourism.

16.7.3 Shipping and Port Services: Initiatives and Challenges

As far as the Indian subcontinent is concerned, shipping plays an important role in the transport sector of India's economy. Approximately, 95 per cent of the country's trade by volume (70 per cent in terms of value) is moved by sea. The geographical factor that puts the Indian maritime sector at an advantageous position is its vast coastline of 7,500 km.

In order to improve India's ranking in terms of 'Trading across Borders', the Ministry of Shipping has initiated the following measures:

- **From manual to e-forms**
- **Implementation of Direct Port Delivery Scheme**
- **Reduction in fee and charges for non-peak hours**
- **Container scanners at major ports**
- **Delivery orders are automated**
- **RFID Scheme for gate automation:** All the major ports are in process of implementing radio-frequency identification (RFID) gate automation system.
- **Integration of major ports filing system with Customs software:** This process has cut down dwell time significantly.
- **Remove congestion at ports:** To remove bottlenecks in rail or road connectivity for faster evacuation of cargo, all major ports have been directed to take the measures such as development of parking areas, widening roads and inter-terminal movement trailers.

The important issues in this sector are listed below:

- *The costs of operating a shipping company in India are higher than overseas* and therefore foreign shipping companies do not prefer to flag their ships in India.

- *Onerous Tax Regime:* The shipping industry is facing significant tax burden such as minimum alternate tax, dividend distribution tax, withholding tax liability on interest paid to foreign lenders and on charter hire charges paid to foreign ship owners, and so on which is ultimately squeezing the bottom line/profit margin further.

- *GST related issues:*Ministry of Finance in its Working Paper (Prasad and Sathish, 2017) highlighted the following GST related issues in shipping sector

    - o *GST applicability on sale of ships located abroad*: *GST* is applicable on the sale of a ship by an Indian shipping company which has a ship located abroad. Earlier, such a sale was outside the purview of the Indian VAT laws and hence was not liable to VAT.

    - o *Need for parity in GST treatment for services of international transportation of goods by sea by Indian shipping companies vs. foreign shipping companies:*If a foreign charterer desires to engage a shipping line for transportation of cargo from abroad to India, he would prefer to engage a foreign shipping line over an Indian shipping line since the latter would charge 5 per cent GST on its freight invoice while the former would not charge any tax.

    - o *GST input tax credit on any goods purchased in various States:* Goods such as furnace oil, lubes, spares, ship stores, etc. are purchased by shipping companies at various ports/States. Such purchase of goods would attract CGST and SGST of the respective State where goods are procured. Shipping companies may not have any place of business in the States where the purchases are made and hence may not be able to utilise the input tax credit in respect of goods procured at various States. This could result in significant blockage of input tax credit in various States and needs to be addressed.

- *The multiplicity of Regulations – costly affair:* The shipping industry is regulated by International Maritime Organisation (IMO). There are also international regulations on operations of ships and for seafarers. Even though such regulatory framework makes stricter entry barriers into the industry, it adds cost to the compliance of such regulations.

- The challenges facing in development of a world class port infrastructure include the following:

    - o Issues with PPP Model- Most port PPPs impose strict limits on what private operators are allowed to do, usually in terms of the types of cargo they are allowed to handle.

    - o Limited Hinterland Linkages

    - o Sub-optimal Transport Modal Mix – Lack of requisite infrastructure for evacuation from major and non-major ports leads to sub-optimal transport modal mix.

- o Processes and operations across India's ports are not standardised or uniform, costs and time for key processes are unpredictable and there is an unacceptable level of variation across ports as well as within ports.
- o Financial constraints – continued underinvestment have left the port infrastructure in dismal condition especially with regards to the non-major ports.
- o Deficient dredging capacity – Draft is also a major limitation in India as terminals and ports are unable to cater to vessels beyond Panamax (Draft over 13 meters) size that are increasingly dominating global trade.
- o Land acquisition and environmental clearances are some specific challenges for port infrastructure.

16.7.4 Real Estate Sector in India: Policy Initiatives and Challenges

The real estate sector in India is growing at a rate of about 20 per cent per annum and this sector has been contributing to about 6-7 per cent to India's GDP but it is not able to balance the supply-demand continuum.

Some of the policy initiatives that have had a lasting impact on the Indian real estate industry include Pradhan Mantri Awas Yojana, Smart Cities Mission,Real Estate Regulation and Development Act (RERA) in 2016, Amendment to Benami Transactions (Prohibition) Act, Real Estate Investment Trust (REITs)– approved by the Securities and Exchange Board of India (SEBI) – is a platform to pool money from investors all across the country, Service Tax Exemption on Construction of Affordable Housing, Interest Subsidy for the first-time homebuyers, Permanent Residency Status for Foreign Investors for a period of 10 years, subject to fulfillment of certain conditions, Infrastructure Status to Affordable Housing; Foreign Direct Investment in Real Estate (except real estate farms) and Home loan moratorium for real estate due to the COVID-19-led lockdown and the nationwide restrictions aiming at helping borrowers and developers who are reeling under monetary pressure since long.

The demonetisation in November 2016 severely impacted the growth of the real estate sector and reduced the flow of investments. The implementation of the Real Estate Regulation Act (RERA) in 2016 and GST in 2017 has resulted in a variety of projects arriving at a standstill. Similarly, there are other such policy and regulation challenges that have plagued the real estate sector in India:

- ***Delayed Infrastructure Projects:***In addition to the complications faced to acquire funding for the project, a real estate developer has to navigate through numerous government regulations before commencing construction. Thus, the sector calls for a single-window clearance system to streamline and fasten the approval mechanism.

- ***Funding problems for land acquisition:*** Currently, funding is only available for construction purpose, but not for land acquisition. Land acquisition alone constitutes 60 per cent of the entire cost in a particular project. After funding for the acquisition of a land, developer needs to wait for 12 to 18 months, during which the developer does not get any money, but gets burdened with interest charges. These issues need to be examined and addressed.

- ***Land availability:*** Another challenge that has affected the growth of the real estate sector and the developers is litigated land. According to a survey conducted by the MahaRERA, around 16 per cent of projects and 31 per cent of built-up spaces are, or have been, in legal disputes.These challenges call for a serious revision of the Land Acquisition Resettlement and Rehabilitation Act, 2013 which grants compensation, rehabilitation, and resettlement to the affected persons in India.

- ***Outdated building byelaws:*** Over 50 per cent of the world's population lives in cities, and the number is expected to rise by 2.5 billion by the year 2050. However, the current Floor Space Index (FSI) norms in the cities are not on par with the growing demands of the consumers. Reports state that the permitted FSI in Indian cities is currently at an all-time industry low, within the range of 1 to 1.5. These challenges call for state governments to revisit the FSI norms.

- ***Rising non-performing assets (NPA), higher risk provisioning assigned to real estate sector by the RBI and dwindling profits in the real estate sector:*** These have affected bank lending to the sector. Among the major funding sources to real estate sector, bank lending to the real estate sector has significantly dropped from over 57 per cent in 2010, to less than 24 per cent in 2016, while private equity investments have increased. The real estate sector has also been grappling with liquidity issues and piling debt.

- ***Tax shifts and demand shifts:*** Prior to GST implementation, there was a service tax of 4.5 per cent that was payable in case of under-construction property. Post GST, that rate has gone up sharply to 12 per cent making it almost unattractive to buyers. Property buyers were already paying registration charges and stamp duty on properties. With the addition of 12 per cent GST, the total statutory cost has gone up by 20 per cent of the cost of property for the buyer. The bigger problem is a fundamental shift in demand patterns. During the days of the property boom, many real estate companies invested heavily in developing middle range and premium properties. When the cycle turned, most of these properties could not find buyers. Shortage of working capital has led to many builders defaulting on their delivery commitments to customers.

- **GST Issues:** While construction sector is the worst hit sector due to economic slowdown and demonetisation, all components of construction except bricks are charged at 28 per cent GST.

16.7.5 Policy Initiatives and Challenges being Faced by Banking and Financial Services

Initiatives to improve the conditions of Government Banks and Financial Services
Government of India has taken comprehensive steps to strengthen the Public Sector Banks (PSBs), under Government's 4R's strategy of– recognising NPAs transparently, resolving and recovering value from Stressed Accounts through clean and effective laws and processes, recapitalising banks, and reforming banks through the PSB Reforms Agenda.Other steps taken by the Government to improve the condition of banks include, *inter alia*, the following:

- Change in credit culture with institution of Insolvency and Bankruptcy Code (IBC) fundamentally changing the creditor-borrower relationship, taking away control of the defaulting company from promoters/owners and debarring wilful defaulters from the resolution process and debarring them from raising funds from the market.

- Fugitive Economic Offenders Act, 2018 has been enacted to enable confiscation of fugitive economic offenders' property.

- National Financial Reporting Authority has been established as an independent regulator for enforcing auditing standards and ensuring audit quality.

- Key reforms instituted in PSBs include, the following:

  o To ensure proper due diligence in project financing, Board-approved Loan Policies of PSBs now mandate tying up necessary clearances/ approvals and linkages before disbursement, scrutiny of group balance-sheet and ring-fencing of cash flows, and appraised of non-fund and tail risk.

  o For mitigating risk on account of misrepresentation and fraud, use of third-party data sources for comprehensive due diligence across data sources has been instituted.

  o For clean and effective monitoring, monitoring roles have been strictly segregated from sanctioning roles in high-value loans, and specialised monitoring agencies combining financial and domain knowledge have been deployed for effective monitoring of loans above Rs. 250 crore.

  o To ensure timely and better realisation in One-Time Settlements (OTSs), online end-to-end OTS platforms have been set up.

  o For faster processing of loan proposals, Loan Management Systems have been put in place for personal segment and MSME loans.

- To strengthen governance at the Board level, the position of Chairman and Managing Director (CMD) has been bifurcated into separate positions of a Non-executive Chairman and a Managing Director (MD) and Chief Executive Officer (CEO).

- A professional Banks Board Bureau (BBB) has been created for arm's length selection of non-executive Chairmen and whole-time directors.

The banking industry is undergoing a radical shift, one driven by new competition from FinTechs, changing business models, mounting regulation and compliance pressures, and disruptive technologies. The emergence of FinTech/non-bank Start-ups is changing the competitive landscape in financial services, forcing traditional institutions to rethink the way they do business.

A Cultural Shift: In the digital world, there is no room for manual processes and systems. Therefore, it's important that financial institutions promote a culture of innovation for maximum efficiency.

Regulatory Compliance: Regulatory compliance has become one of the most significant banking industry challenges as a direct result of the dramatic increase in regulatory fees relative to earnings and credit losses since the 2008 financial crisis. Beginning from Basel's III Risk-weighted capital adequacy norms to a growing number of RBI regulations that banks must comply with; compliance can significantly strain resources.

Security Breaches: With a series of breaches and frauds over the past few years, security is one of the leading banking industry challenges, as well as a major concern for bank and credit union customers.

*Continuous Innovation:*Sustainable success in business requires insight, agility, rich client relationships, and continuous innovation. Innovation stems from insights, and insights are discovered through customer interactions and continuous organisational analysis.

Check Your Progress 5

1) 'The policy initiatives or measures taken by the government to provide a boost in service sectors are not adequate enough instead big-bang reforms are required to provide impetus to growth of sectors'. Comment on the statement with suitable examples.

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2) Do you think that GST law launched in July 2017 has put the break on the growth and development of certain major service sectors in India? Give adequate justifications with suitable citations in your answer.

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3) Do you agree with the view that infrastructure constraint is the biggest bottleneck in growth and development of major service sectors in India? Justify adequately.

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4) 'Service sectors which are contributing significantly to service GDP requires more reforms to improve their competitiveness and exploit their unleashed potential' Comment on the statement with suitable examples and justifications.

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16.8 POLICY IMPLICATIONS

One of the probable reasons for lopsided growth in services is the fact that reforms in India at the sectoral level have evolved in an ad-hoc way. There has been no coherent overall policy for services in line with the industrial policy and agricultural policy. Consequently, the depth and pace of reforms lack uniformity across sectors.

Given the large positive externalities of services, it is important for an economy to provide services as efficiently as possible. Keeping in view the backward and forward linkage for activities in different sectors it is observed that the services that have maximum forward as well as backward linkages are trade, transport, and construction. These sectors are found to have high domestic constraints and therefore require immediate policy reforms.

It is observed that health and education sectors have high potential for trade since they have low external barriers and high growth rates. This indicates substantial domestic constraints in these services. Given the low-cost quality treatment available in India, there is a large scope for health tourism in India. India also has a competitive advantage in the practice of alternative medicine. These areas should be developed and exploited for trade opportunities.An important domestic constraint identified in the health sector is that since health sector is on the concurrent list, i.e., both state and central governments have jurisdiction over this sector; a number of regulations are imposed by the state governments. There are also state-specific regulations of the town and planning departments on the design and construction of healthcare infrastructure, which form important domestic constraints to trade in health services. Thus, even though there is no cap on FDI in health services, there is still a low share of health services in total trade and FDI. There is therefore a need to have a clear-cut demarcation of responsibilities of Centre and the State in this respect. Regarding trade in education services, there is a need to study the system of regulation and accreditation of educational institutions in foreign countries and accordingly develop own accreditation system.

With respect to slow growing services, which have low share in exports, e.g., professional services, like legal, postal, accountancy, etc. we find that these services have restricted liberalisation. Both external and domestic constraints restricting growth in these services need to be identified and addressed by taking relevant policy initiatives.

The full gains of trade liberalisation in services can however be acquired by an economy only if certain economy-wide efforts are made to make general environment more conducive to trade and investments in services. Macro-economic policies like high tariff rates, large fiscal deficits and rigid labour laws may have as adverse effect on competitiveness of services as on goods. Excessive regulations, discretion in the allocation of licenses and permits, corruption and poor quality of infrastructure could adversely affect the growth of services sector.

16.9 LET US SUM UP

The services sector accounts for more than half of India's GDP. This process of tertiarisation (dominance of the tertiary or services sector) of the economy has been accompanied by a decline in the share of the primary sector (agriculture) and a more or less constant share of the secondary (industry) sector over the years. However, though the growth of service sector in India is in line with the global trends, there are unique characteristics of India's service sector growth. Within the service sector, the fastest growing services in the 1990s have been trade, communications, financial services, business services and community services like health and education. However, out of these services, only communication services have witnessed growth in their share in exports and FDI during this period.

In India the share of services sector was already notable in the 1950s, and there has been steady growth of the sector since then. During the entire planning era, Trade and Public administration appear to remain stable with regard to their contribution to services sector GDP. Similar to the world trend, in the Indian economy, growth in the services sector has been accompanied by a substantial growth in international transactions in services. Along with trade, there has been a large inflow of FDI into India since 1990s onwards. But, the inflow of FDI into services sector has been biased towards few of the services sectors.

The analysis of the Services Sector in general and selected sectors, in particular, indicates not only the potential of the services sector, but also the major issues and problems areas. While only few services are analysed, there are many other services. Telecom is one area where India has already made a mark. Some other services are Super Specialty healthcare, Satellite Mapping and Professional services where prospects are bright and India has the necessary competence to provide them. Many of the issues highlighted in various sectors if addressed can help in further growth of the services sector. This can make the services sector which is already the dominant growth contributor to become a high growth propeller, along with foreign exchange earner and employment provider for India.

16.10 KEY WORDS

Duty Credit Scrips : A Duty Credit Scrip is a scrip which can be used for the payment of Customs Duty.

Employment Elasticity : It is a measure of how employment varies with economic output.

Trade Barrier : A trade barrier is a government-imposed restrictions on international trade.

General Agreement on Trade in Services (GATS)	:	The General Agreement on Trade in Services, abbreviated as GATS, is a treaty of the World Trade Organisation (WTO) that entered into force in 1995 following the Uruguay Round negotiations. It envisages the objective of establishing a sound multilateral framework or principles and rules for trade in services.
Information Technology Business Process Management (IT-BPM)	:	Information Technology and Business Process Management (IT-BPM) refers to engagement of services of a third-party vendor to manage certain aspects of work operations by an enterprise.
Public Private Partnership (PPP)	:	Public-private partnership (PPP), partnership between an agency of the government and the private sector in the delivery of goods or services to the public
Quasi-federal	:	Quasi-federalism means an intermediate form of state between a unitary state and a federation. It combines the features of a federal government and the features of a unitary government.
Special Economic Zone (SEZ)	:	Special Economic Zone (SEZ) is an area in a country that is subject to different economic regulations than other regions within the same country.

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16.12 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See Section 16.1 to 16.3 and answer
2) See Section 16.2 and answer
3) See Section 16.3 and answer

Check Your Progress 2

1) See Section 16.4 and answer
2) See Section 16.4 and answer

Check Your Progress 3

1) See Section 16.5 and answer

Check Your Progress 4

1) See Sub-section 16.6.1 and answer
2) See Sub-section 16.6.2 and answer
3) See Sub-section 16.6.3 and answer
4) See Sub-section 16.6.4 and answer

Check Your Progress 5

1) See Section 16.7 and answer
2) See Section 16.7 and answer
3) See Section 16.7 and answer
4) See Section 16.7 and answer

UNIT 17 SERVICES SECTOR II: INFORMAL SECTOR-ISSUES AND POLICY

Structure

17.0 OBJECTIVES

After studying this unit, you will be able to

- explain the informal service sector;
- discuss the salient characteristics of the informal service sector in India;
- shed light on the size of informal service sector in India and main factors responsible for its exponential growth;
- analyse legal and regulatory framework for commercial enterprises and their implications for the informal sector with special reference to the service sector;
- point out issues and challenges being faced by the informal service sector in India; and

- highlight the policy implications of informality particularly focusing on the role of governments at various levels.

17.1 INTRODUCTION

In some countries, the term "informal sector" refers to the private sector while in others the term is considered synonymous with the "underground", "shadow" or "grey" economy. However, the majority of workers and enterprises in the informal sector produce legal goods and services, albeit sometimes not in conformity with procedural legal requirements, for example, where there is non-compliance with registration requirements, labour and or tax and commercial laws. It is important to note that the informal sector absorbs workers who would otherwise be without work or income, especially in developing countries like India that have a large and rapidly growing labour force, and where workers are made redundant following structural adjustment programmes. Most people enter the informal economy not by choice but out of a need to survive. Given the circumstances of high unemployment, underemployment and poverty, the informal sector has the potential for creation of jobs by providing ease of entry with low requirements for education, skills, technology, and capital. The jobs created falls under 'low productivity low wage' syndrome and thus often fail to meet the criteria of decent work. The informal sectors also meet the needs of poor consumers by providing accessible and low-priced goods and services.It supplies labour-intensive exports. This sector thus drives growth and livelihoods.

Considering the significant role played by the informal sector, the present unit while focusing on the informal service sector, is designed to respond to the following questions: (a) how the informal sector is defined in India and what constitutes the informal service sector? (b) what explains growth in India's informal service sector? (c) what are the issues being faced by the informal service sector in India? (d) what policy initiatives are taken so far to address the concerns of the informal sector in general and informal service sector in particular?

17.2 INFORMAL SERVICE SECTOR IN INDIA: DEFINITION AND CHARACTERISTICS

There is no standard definition of informal sector as such. A formal sector is generally referred to as that part of the economy which operates under the regulatory framework, is taxed by the government, and is monitored for inclusion in the gross national product. The term "informal sector" refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. According to National Commission for Enterprises in the Unorganised Sector (NCEUS) unorganised or informal sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers.

As per International Labour Organisation (ILO), the informal sector consists of units that are unincorporated (i.e., not constituted as separate legal entities of their owners), produce goods or services for sale or barter, and satisfy a number of criteria, for example, they are unregistered, small, have unregistered employees and/or they do not maintain a complete set of accounts. Here, enterprises/ units include not only those that employ hired labour but also self-employed persons such as street vendors, taxi-drivers, home based workers, etc. A wider concept of informal sector includes informal employment, which as per NCEUS consist of those working in the unorganised sector or households, excluding regular workers with social security benefits provided by the employers and the workers in the formal sector without any employment and social security benefits provided by the employers.

17.2.1 Characteristics of an Informal Service Sector

Informal enterprises are often characterised by ease of entry; the use of local resources; family ownership; small scale; labour-intensive adapted technology; informally acquired skills; and relatively unregulated, competitive markets. The informal sector is mainly located outside of (or antagonistic to) government regulation although this may not be always true. Some firms do act in accordance with government regulations. Some may evade them and in some cases the government may actually try to enforce regulations on small firms. Firms may comply with some but not other regulations. Perhaps the most useful, and common, distinction between the two sectors (formal or informal) seems to be with the number of employees in a firm. But this yardstick loses its relevance in case of professional services such as doctors and lawyers.

Activities Included:

A good way to envision the informal service sector is through some of its activities. Typical activities included in the informal service sector are:

- General Services: tailoring, hair dressing, machinery repair, etc.
- Commerce: retail sector, hotels, restaurants, lodging, etc.
- Finance: Informal financial services including money lending, etc.
- Real Estate: Construction and repair of public physical infrastructure projects, houses, and dwelling units, etc.
- Transportation: taxis, buses, etc.
- Social and community services.
- Miscellaneous: recycling, various illegal, immoral activities, etc.

Because informal firms operate outside some government regulation, often employing family workers, wages are low. Because they may have a harder time getting loans, and rely on informal financing, capital costs are higher. The lower wage-rental ratio, combined with smaller scale, explains why more firms are relatively labour-intensive in nature and operate with simpler technology.

The Informal Service Sector and Micro or Small-Scale Industries

Firms in the informal sector are usually of micro or small size. There are a number of reasons for this, including small, fragmented markets, high transportation costs, little access to capital and the prominence of labour-intensive industry such as food processing and apparel tend to keep down the size of firms. Once these barriers are overcome, firms can become quite large. In addition, a high degree of government regulation is also a factor. The cost of regulations frequently discourages the firms from crossing the invisible line that separates informal from formal while the large firms are better able to withstand those costs; thus, there are few mid-range firms.

Usefulness and Importance

- Informal firms provide some services that are otherwise not available at all or are available to only a small part of the population through the formal sector.
- They provide ancillary services (such as transportation and, repair work) that permit the formal sector to provide a variety of services to individuals who work in the formal sector.
- Informal firms are an extremely important source of inexpensively acquired skills including managerial and organisational skills for the poor workers in the country.
- Informal firms may compete with some formal firms, especially in services, transportation and insurance, but they also provide strong backward linkages to the formal sector by purchasing their machinery and raw materials.
- The informal economy absorbs workers who would otherwise be without work or income, especially in developing countries that have a large and rapidly growing labour force or where workers are made redundant following structural adjustment programmes.
- The informal economy also helps to meet the needs of poor consumers by providing accessible and low-priced goods and services.

Mode of Finance

Informal finance through moneylenders and co-operative organisations formed by poor people are crucial. In both rural and urban areas, there are informal rotating credit organisations in which funds are contributed by members and are available to them either on a regular basis or as needed.

Outside the Coverage of Tax Laws

Unregistered and unregulated enterprises often do not pay taxes, and benefits and entitlements to workers, which results in undervaluation of national income, accumulation of black money and unfair competition to other enterprises. These situations may deprive the government of public revenue thereby limiting government's ability to extend social services.

Informality is a Governance Issue

Informality is principally a governance issue. The growth of the informal economy can often be traced to inappropriate, ineffective, misguided or badly implemented macroeconomic and social policies, often developed without tripartite consultation; the lack of conducive legal and institutional frameworks; and the lack of good governance for proper and effective implementation of policies and laws.

Informality can also be traced to a number of other socio-economic factors. These include:

Poverty prevents real opportunities and choices for decent and protected work. Low and irregular incomes and often the absence of public policies prevent people from investing in their education and skills needed to boost their own employability and productivity. Lack of education (primary and secondary) to function effectively in the formal economy, in addition to a lack of recognition of skills garnered in the informal economy, act as another barrier to entering the formal economy. The lack of livelihood opportunities in rural areas drives migrants into informal activities in urban areas or other countries.

The feminisation of poverty and discrimination by gender, age, ethnicity, or disability also mean that the most vulnerable and marginalised groups tend to end up in the informal sector. The informal sector also provides an environment that allows child labour to thrive. The eradication of child labour requires the programme to transfer jobs from the informal to the economic mainstream. Key to the success of abolishing child labour is the creation of more quality jobs for adults.

Check Your Progress 1

1) How is the informal sector usually defined in general and particularly in India?

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2) What are the characteristics of informal sector and especially the informal service sector in India?

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3) Do you agree with the view that informality is a governance issue?

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17.3 SIZE OF INFORMAL SECTOR IN INDIA

Table17.1 presents the contribution of formal/informal sectors to total GVA. The share of informal sector is highest in agriculture as the holdings are small and fragmented which is followed by trade, construction, real estate, and other services.While the unorganised/informal sector now accounts for roughly half of India's GDP – and is shrinking relative to the share of the private and public corporate sector – it accounts for 80-90 per cent of the workforce. The informal service sector includes most of the rural non-farm economy and the vast services sector, from high-end to low-end, the manufacturing labour force, workshop industry and trade.

Table 17.1: Share of formal/informal sectors across broad sectors to GVA

Industry	2011-12		2017-18	
	Organised / formal	Unorganised/ Informal	Organised/ Formal	Unorganised/ informal
Agriculture, forestry and fishing	3.2	96.8	2.9	97.1
Mining and quarrying	77.4	22.6	77.5	22.5
Manufacturing	74.5	25.5	77.3	22.7
Electricity, gas, water supply & other utility services	95.7	4.3	94.7	5.3
Construction	23.6	76.4	25.5	74.5
Trade, repair, Accommodation and food services	13.4	86.6	13.4	86.6
Transport, storage, communication & services related to broadcasting	53.0	47.0	52.3	47.7
Financial services	90.7	9.3	88.1	11.9
Real estate, ownership of dwelling & professional services	36.9	63.1	47.2	52.8
Public administration and defence	100.0	0.0	100.0	0.0
Other services	58.8	41.2	52.1	47.9
Total GVA at basic prices	46.1	53.9	47.6	52.4

Source: Computed from National Accounts Statistics, 2019

17.3.1 Factors behind Growth of the Informal Sector

i) **Growth Strategy**

India's growth strategy adopted during the planning period has played a significant role in impacting the growth of the informal sector in the country. For instance, the Second Five Year Plan (1955-6 to 1959-60) involved adopting an import-substituting industrialisation strategy, with a focus on heavy-industry. This could not be, by definition, a strategy for rapid absorption of surplus labour in agriculture. The result was as surplus workers migrated away from agriculture in search of non-agricultural work, they were inevitably absorbed in traditional services in both rural and urban areas. If not, they were absorbed in unorganised manufacturing in micro-enterprises employing less than 10 workers, where no social insurance was available, in other words, in the informal sector of the economy.

ii) **Reservation for Manufacturing by the Small-scale Units**

Post-independence, in addition to the import-substituting industrialisation strategy, Government decided to reserve manufacture of consumer products of a non-durable nature for the small-scale sector, which began with a few products and reached 836 in 1990. Since medium-sized firms or large corporates were disallowed from entering this sector, the small enterprises had no incentive to grow and absorb more workers in their manufacturing units, thus exacerbating the problem of expanding informal sector resulting from the heavy industry first strategy.

iii) **Central and State Governments Labour Laws**

Another factor which led to growth of tiny, micro, small informal sectors is the plethora of central and state government labour laws. On the one hand, hardly any labour laws were applicable to the small enterprises. On the other hand, the larger enterprises, whether medium or large, became gradually subject to a number of laws passed by state or central governments, which protected the workers in the organised sector. While social insurance (in the form of employee provident fund and health insurance) was mandatory, the growing number of laws covering organised workers meant that employers tended to adopt technologies that often limited the number of workers. The number of central government laws related to labour alone amounted to 45 (in 2014, though after repeal of some the number fell to 35 by 2018), which are often inconsistent with each other, and tend to grow in their coverage as the size of enterprises increases. On top of these 35, there are state-specific labour laws that organised segment firms in industry or services had to comply with. The reaction of employers was inevitable: the fewer the workers, the better it is from their perspective. Organised sector jobs grew slowly, and most non-agricultural employment continued to grow in the always unorganised sector in micro-enterprises, with workers employed without any hope of social insurance.

iv) **The Quality of Labour Supply**

Another significant factor that resulted in the growth and persistence of informality in India is the education and skill levels of the workforce. It is pertinent to note that 146 million (or 30 per cent) of the workforce of 485 million in 2012 were illiterate. An additional 52 per cent (or 253 million) of the labour force are those only with education upto secondary level (class 10). Barely 3 per cent of the workforce has technical education at tertiary level, and another 7.2 per cent has general academic education at tertiary level. As recently as 2017-18, only 2.4 per cent of the workforce has formally acquired any vocational education or training.

NSS data allows an analysis of the workforce by three types of employment: self-employed, casual wage labour, or regular salaried work. It is not surprising that hardly any illiterates have regular salaried jobs. Most illiterate are either casual workers or in self-employment usually engaged in low productivity work. Over half of the self-employed are own-account workers, as opposed to being employed in micro-enterprises which might have 2-9 workers. Firms that employ less than 10 workers are defined in Indian official parlance as being in the unorganised or informal sector. Just over half the workforce has education up to secondary level. Well over half of those who have education upto secondary level are self-employed. However, what is more worrying is that as many as 75 million of those with secondary education actually are in casual work. Given that nearly half of all those in the work force have secondary education the fact that nearly a third of all those with secondary education are in casual work (without any social insurance) is a challenge to policy makers.

The total number of those with higher secondary education (34.4 million) and those who have graduate level education and above (35.6 million) is roughly similar in the workforce. What is notable, however, is that half of those with only higher secondary education are self-employed. Under a third of those with higher secondary education are in regular salaried employment (while only 15 per cent of those with secondary education have regular salaried jobs). However, half of those with graduate level education or above are in regular salaried employment. What is worrying is that nearly four million of those with higher secondary level of education are engaged in casual wage work.

Both the labour market as well as tertiary education outcomes for men and women are rather different. It is well known that the labour force participation rate of women in India is well below that for men and in fact is one of the lowest in the world (at 23 per cent in 2011-12). Even more worrying is the fact that it has been declining. Nearly half of the women in the workforce are illiterate but less than one-third of men in the workforce are illiterate. Clearly, with a labour force that has relatively poor levels of education, it is not surprising that most of them have been absorbed, in informal services, or in informal construction sector. In none of these areas does employment come with social insurance.

Thus, as per economic literature, growth in unorganised/informal sector is generally due to either of the following reasons:

- High monetary costs associated with a formal set-up acts as a barrier to entry for informal enterprises (Exclusion view)
- Benefits of formalisation are not high enough to compensate for the costs of formalising and the survival of such enterprises will be difficult (Exit view)
- People resort to start an informal business due to lack of wage jobs in the formal economy (Dual economy view)

All these reasons can be attributed to the growth of informal enterprises in India. As revealed in FICCI's survey of industrial clusters, it is quite evident that unorganised enterprises do not want to get registered as it entails huge barriers, in terms of both monetary cost and time. In fact, one of the key reasons why unorganised players do not register business is to avoid tax net as they operate at marginal levels and cannot afford to pay taxes. Survival is a bigger concern for such enterprises. They believe that post registration, they will be rendered uncompetitive against not only the organised large players but also against the unorganised players who continue to remain in the informal sector. Businesses also view registration as unnecessary because they believe that it would lead to harassment, compliance and legal binding. Moreover, various studies conducted to study the issues involved with informal enterprises also indicate that weak enforcement encourages informal entrepreneurs to refrain from legal processes and rather incur slight cost of detection (in form of bribes to local authorities). Such payoffs enable these enterprises to get away with fines and penalties.

Table 17.2 gives a sense of the formalisation of the workforce over the period 2011-12 to 2017-18.

Table 17.2: Distribution of Total Employment (per cent)

Worker	2011-12			2017-18		
	Unorganised	Organised	Total	Unorganised	Organised	Total
Informal	82.6	9.8	92.4	85.5	5.2	90.7
Formal	0.4	7.2	7.6	1.3	7.9	9.3
Total	83.0	17.0	100.0	86.8	13.2	100.0

In 2011-12, in terms of employment share, the unorganised sector employs 83 per cent of the work force and while the share is 17 per cent in the organised sector. There are 92.4 per cent informal workers (with no written contract, paid leave and other benefits) in the economy. There are also 9.8 per cent informal workers in the organised sectors indicating the level of outsourcing. These are possibly the contract workers. In 2017-18 the share of unorganised sector employment has increased by 3.6 percentage points while on the other hand the share of formal employment has increased by 0.9 percentage points. There has been an increase in the share of formal employment. This also indicates the efforts of the government to provide social security to workers in the unorganised sector.

The Census of Micro, Small and Medium Enterprises (MSME) (2006-07) also shows (Table 17.3) that of nearly 361 lakh MSMEs in India, about 95.7 per cent are unregistered, with a large number operating in the unorganised/ informal sector.

Table 17.3: Distribution of Working MSMEs by type of Organisation (in lakh)

Enterprises	Registered	Unregistered	Total	Per cent of Unregistered
Proprietary	14.09	327.45	341.54	95.9
Partnership	0.63	3.65	4.28	85.3
Private Company	0.43	0.06	0.49	12.2
Co-operatives	0.05	1.16	1.21	95.9
Others	0.44	7.65	8.09	94.6
Not recorded	0.0	6.15	6.15	100.0
Total	15.64	346.12	361.76	95.7

Source: Fourth All India Census of MSME, 2006-2007.

Check Your Progress 2

1) What is the role and significance of informal sector in India?

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2) What according to you are the factors leading to exponentially increasing size of informal sector?

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3) Do you think that the quality of labour supply has been a factor in the rise and persistence of informal sectors?

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17.4 LEGAL AND REGULATORY FRAMEWORK

With more than half of the economic activities in India operating outside the legal and regulatory framework, it becomes essential to understand as to why do informal enterprises hesitate from becoming a legal entity. One of the reasons as pointed out is the complexities and difficulties associated with the overall regulatory framework.

According to the survey of selected industrial clusters undertaken by Federation of Indian Chambers of Commerce and Industry and Konrad-Adenauer-Stiftung (2017), the legal framework applicable for enterprises in India can be broadly categorised into following:

- ***Registration:*** To get registered, a business owner first needs to identify his/her business as a particular entity namely sole proprietorship, partnership, company, or a co-operative society. Each type of business entity has a governing act which defines the entity.

- ***Indirect Taxation****:* A registered business entity is required to collect tax on all sales made and to deposit it with the government. Before 1st July 2017, a business in the manufacture or trade of goods was bound to collect and pay Excise Duty and Value Added Tax (VAT) respectively to the relevant Government(s). Similarly, a service providing entity needs to collect and pay Service Tax to the Government. There are several other indirect taxes that a business passes on to the final consumer. From 1st July, 2017 onwards, all indirect taxes for most goods and services have been subsumed under one single indirect tax called the Goods and Services Tax. All existing and new businesses have to register under the GST and will receive a GSTIN for the same.

- ***Direct Taxation:*** Profits earned by a business are taxable under the laws of the Income Tax Act, 1961. In order to file Income Tax returns and deposit the tax, the business entity is required to register for a Permanent Account Number (PAN).

Besides these, there are certain regulatory procedures that need to be complied by a legal entity. All businesses in the formal sector must comply with the prescribed regulations. These include:

- ***Security and Safety Regulations:*** To formally start a business, an enterprise also needs to abide by various other regulatory procedures related to safety and security that may be governed by specific Acts. For instance, a business enterprise is required to obtain No Objection Certificates from Fire department, Pollution Control Board, Health department, Licensing Commissioner, etc.
- ***Labour regulations:*** Various labour laws apply to a business entity, depending on the number of employees that work there
  - 1-9 employees: Workmen's Compensation Act, 1923; Minimum Wages Act, 1948; The Industrial Disputes Act 1947, etc.
  - 10-19 workers: The payment of gratuity Act, 1972; Maternity Benefits Act1961, etc.
  - 20-49 workers: The Payment of Bonus Act, 1965; The Employees Provident Fund and Miscellaneous Provisions Act, 1952, etc.

Vast numbers of business regulations at different levels of government are contradictory as well as overlapping on account of these being administered by the different tiers as well as layers of government. According to National Manufacturing Policy, 2011 as amended thereafter, on an average, a unit in India has to comply with 70 odd legislations. In another study undertaken by Industrial Finance Corporation in Rajasthan on improving its business environment pointed that businesses in Rajasthan are required to obtain 136 licenses of which 40 licenses relate to Union government, 66 licenses relate to State government and 24 licenses relate to Local government. The study also found that an average medium sized business enterprise will require at least 28 licenses to start operating its business in the state.

Check Your Progress 3

1) What is the legal and regulatory framework for Commercial Enterprises in India?

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2) Do you think that legal and regulatory framework put in place for Commercial Enterprises in India has contributed to exponential growth of informal service sector in India?

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17.5 INFORMAL SERVICE SECTOR: ISSUES AND CHALLENGES

Informal enterprises are peculiar for working with small profit margins and a business model which is vulnerable to sudden change. They face many challenges that threaten their survival in a highly competitive and aggressive market. They also lack awareness of the benefits derived from formalisation and organisation. Key issues and challenges being faced by the informal enterprises especially in the service sector in India are:

17.5.1 Costs Associated with a Formal Enterprise

The costs associated with formalisation are broadly of two types:

- **Entry costs:** Besides the compulsory procedures in vogue to get registered in the formal set up, which includes the licence or registration fees which varies from state to state, the major deterrents during entry include:
  - Complicated paperwork for firm registration
  - Subsequent permissions, clearances, and licenses from multiple departments of the Government
  - One-time fees to be paid
  - Time involved in getting registered.
- **Recurring costs:** The recurring costs associated with working in the formal economy include:
  - Monetary costs like taxes, fees, social security contributions
  - Compliance costs with respect to labour and other regulations, and
  - Harassment by Government officials following any discrepancy in compliance.

After registration, there are numerous rules and regulations that have to be abided by the small firms that hold them back from growing in size. For example, a large number of small firms feel that income tax and EPF payment obligations as hurdles and therefore they ensure themselves to be below the threshold size in order to avoid compliance. Labour regulations, especially stringent hiring and firing rules also keep the entrepreneur's hands tied. A lot of the firms' finances during their growing phase are diverted towards employees' compensation and social security contributions. Also, registered firms cannot pay their employees below the minimum wage level or else it would attract heavy fines and penalties.

As against this, small firms find it beneficial to operate in the informal sector. They are free from bearing the entry costs and the formal operating costs as faced by formal organisations. They do not have to comply with stringent rules and regulations, nor are they forced to compensate their employees in a particular way. They can thus retain all their earnings with minimal costs and hence have a huge incentive to remain undetected.

17.5.2 Risks Associated with being an Informal Enterprise

Contrary to the benefits of staying informal, there are also several costs associated with informality. To remain undetected, informal businesses are required to use less-visible work places (often residential), keep a smaller number of employees and that too dispersed, avoid certain market places and keep the scale of business low. These phenomena directly affect the firms' business, forcing them to operate at thin margins. Additionally, if detected, the firm has to bribe authorities to avoid penalties and fines.

Informality deprives a small firm of external funds, restricting it from investing in new fixed assets which would help the firm grow. It cannot use its existing assets as collateral for fresh credit. An unregistered firm does not enjoy the benefits of the country's legal system. Thus, informal enterprises are unable to reap benefits associated with being in the formal set up, namely ease of permanent location, access to formal credit, insurance, access to business development services, and access to larger geographical market as well as benefit of utilising online marketplaces.

17.5.3 Challenges for their Growth and Scalability

The small units operating in an informal environment face severe survival challenges, especially due to competition from big manufacturers. In a FICCI Survey of informal enterprises conducted in 2017, almost 80 per cent of the small informal businesses that were surveyed indicated that their business has been declining and will continue to do so in future. Most of these enterprises operate on thin margins and have been impacted by cheaper imports as well as shift in consumer purchases towards organised retail market. Since most of them are unsure of their future growth or even survival, there is high resistance to undergoing the formalities for formal registration. Major challenges posed by these firms are corruption, availability of regular electricity, and access to easy credit. In order to ease these issues, they expect the Government to rationalise tax rates, invest in skill development, ban predatory pricing by large firms and promote competitive business practices.

17.5.4 Impact of Demonetisation on the Informal Sector

Demonetisation in November, 2016 ceased the legal tender status of Rs. 500 and Rs. 1000 Indian currency notes in an attempt to counter a host of factors affecting the economy adversely, including, black money, hoarding, counterfeit notes, terror financing, among others. With 98 per cent of transactions made in cash before demonetisation, the removal of currency notes dealt a massive shock to the informal sectors. Unfamiliar with e-tech, unwilling to pay hefty commissions on e-transactions, or to depend on mobile bankers the informal sector did not trust or to face physical discrimination in banks, the informal workforce reverted to old forms of exchange: barter, payments in kind, long-term credit promises, gifts, reciprocal social support. Some informal enterprises especially the family firms began to rely on credit lines of big corporations by becoming their retail agents, as a result of which casual wage workers replaced the family workers in such enterprises.

In the period that followed, India's real economy took a beating. Production and consumption contracted. Agricultural activities were delayed. Starved of cash, supply lines in all sectors without exception were disrupted: prices went haywire, job losses and chaotic flows of migrant workers grew to unprecedented levels. In the black economy there was temporary stop, after which it was business as usual. Growth in the tax base also has been mediocre. Investment in registered MSMEs has shrunk. Despite some re-employment, the unemployment rate rose and unemployment of more educated workers is at levels not seen for over four decades.

17.5.5 Impact of GST on the Informal Sector

The Goods and Services Tax reform (July 1, 2017) was sought to bring the informal sector under the regulatory framework. In other words, it was widely predicted that GST will formalise the informal sector and this in turn will reduce the economic share of unregistered/informal firms. The costs of compliance of GST were expected to put these firms out of competition. The necessary 'paper trail' and document-matching for purchases and sales (in fact regular e-returns) would force them to make hefty investments in IT and increase their skilled labour and materials costs. However, the research studies have been revealing that the formalisation of the informal sector is not happening to the extent predicted. Disregarding the reports of chaos in implementation caused by many fought-over amendments, GST further penalised small firms through delays in refunds. It generated a perverse redistribution from small to large firms, just as it has penalised states in relation to the Centre.

GST had the outcome as feared, in terms of sharp hits in profits in firms with recorded turnovers above the threshold of Rs. 20 lakhs, especially in trading firms, service-providers and micro enterprises (general stores, tailors, cobblers, barbers, plumbers, masons, electricians, etc.), resulting in reports of job losses in the informal economy of between 35 and 45 per cent. The household savings trends reveal that the informal economy has indeed been battered to the point where growth is depressed and that capital formation in the corporate sector has finally started to exceed that in the informal sector.

17.5.6 Impact of Coronavirus and Lockdown on the Informal Sector

The COVID-19 pandemic has caused a global multidimensional crisis, one of its impacts being the crisis on the informal economy. Even in the pre-COVID-19 period, the informal sector was reeling under shocks from economic slowdown, demonetisation and a poorly rolled out GST. As per the Periodic Labour Force Survey (2017-18), about 57 per cent of rural households derived their major income from self-employment activities, and 25 per cent had a major source of income from casual labour. The proportions of regular/wage salaried earners accounted for 12.81per cent of rural households. In urban India, the corresponding figures were 37.57 per cent, 12.68 per cent and 41.66 per cent. Many of these rural self-employed households are marginal cultivators and petty artisans, while in urban areas they are engaged in small shops, low-scale businesses or intermediation activities. Larger share of the self-employed and casual labour households indicates the extent of hardships millions of households must have undergone due to the suspension of economic activities amid the COVID-19 outbreak. The closure of businesses results in lost wages for workers in many cases, especially in the informal economy where there is no paid leave. The results of many surveys reveal that workers in the informal sector experienced decline in their incomes or loss of income altogether. This in turn has pushed the masses into deeper poverty.

Check Your Progress 4

1) List out the major challenges being faced by the informal sector and particularly the informal service sector in India.

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2) Do you agree that demonetisation of currency of high denominations in November 2016 which was followed by introduction of GST in July 2017 have further worsened the situation of informal sector in India?

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17.6 POLICY IMPLICATIONS

Unit 16 highlighted the fact that reforms in India at the sectoral level have evolved in an ad-hoc way which is probably one of the most important reasons for lopsided growth in services. There has been no coherent overall policy for services in line with the industrial policy and agricultural policy. Consequently, the depth and pace of reforms lack uniformity across sectors. In that unit, role and significance of some services sub-sectors was highlighted. As the size of informal service sector is quite large and provides the livelihood to those needed it most, i.e., vulnerable groups (unskilled, semi-skilled, illiterate persons, women, etc.) of the society, under this section, the role of government at various levels is highlighted so that informal sector can also grow with high productivity and those employed in this sector can enjoy the benefits of social security, high rates wages/remuneration and security of jobs.

17.6.1 Role and Responsibility of the Governments

Since decent work deficits are often traceable to good governance deficits, the government has a primary role to play in improving the quality of work opportunities. Governments should adopt a dynamic approach to place decent employment at the centre of economic and social development policies. It must promote well-functioning labour markets and labour market institutions, including labour market information systems and credit institutions. To increase job quantity and quality, emphasis should be placed on investing in people, especially the most vulnerable – in their education, skills training, lifelong learning, health and safety – and encouraging their entrepreneurial initiative. Poverty reduction strategies, in particular, should specifically address the problems in the informal economy. The creation of decent jobs should be a measure of success for these strategies.

Governments should have a lead responsibility to extend the coverage of social security to groups in the informal economy which are currently excluded. Micro insurance and other community-based schemes are important but should be developed in ways that are consistent with the extension of national social security schemes. The government has launched several policies and programmes for the development of the small and informal sector markets, but the perks of such initiatives do not seem to be reaching the actual targets. When enquired, it seems that they are unaware of these policies and programmes. For example, while the Central Government has passed the Street Vendors Act, 2014, which aims to protect the livelihood of street vendors, the same has not been implemented at the municipal level in many districts of the country. Granting legitimacy to street vendors is one of the strongest tools for formalisation, and while the provisions exist in law, the same need to be strictly implemented and enforced at the states and municipal levels.

Thus, making the administrative procedures simpler and less costly, introducing special and lower tax rates for small firms, providing them proper access to credit and financing for their better management, taking care of their social security contributions and replacing inspections and fines with training to improve awareness and knowledge of the entrepreneurs so that they are not harassed by the public officials are some of the measures which can help in promoting formalisation among the micro, small and medium firms.

Policies should also aim at developing greater understanding of the relationship between the informal economy and the feminisation of work and identify and implement strategies to ensure that women have equal opportunities to enter and enjoy decent work.

17.6.2 Access to Credit

The informal business owners cannot use their assets as collateral when requesting for formal credit. Thus, obtaining adequate financing is difficult and costly for informal firms, making it hard to run and expand their business. Thus, policies providing them access to finance and credit acts as incentives to formalise. For instance, Colombia promoted young entrepreneurs and provided them easy access to credit. "Colombia goes formal" helped firms who wished to formalise, through credit lines and grants.

All these measures if implemented by the governments at various levels with utmost sincerity and transparency will improve the image of informal sectors within a reasonable period of time. Particularly, if the state initiates efforts as early as possible to provide social insurance coverage to the poor among the unorganised segment, informal workers, this process will constitute a huge gain for the realisation of the rights of workers.

17.6.3 Tax Reforms

The tax laws and regulations that come along with formalisation are something that the small business owners take into account while making the decision to formalise. Not only the rates, but the complexity of procedures, multiplicity of taxes and the lack of information and support also disincentivises the entrepreneurs from formalising their business.

In order to promote formalisation, the steps that could be taken in the field of taxation include special tax regimes for MSMEs, convenient payment mechanisms, proper information and assistance and measures to check tax evasion. Special tax regimes for MSMEs include lower tax rates, certain exemptions, and integration of different taxes into a single payment. For instance, in Costa Rica, small companies faced preferential tax rates and were exempted from a corporate tax. Only the MSMEs registered with the Ministry of Economy could take benefit of this exemption, thus reinforcing formalisation.

17.6.4 Social Security Contributions

Informal businesses often fail to comply with their obligation related to the social security coverage of the workers in the firm. The costs related to declaring and paying to different social security administrators acts as obstacles to formalisation. Another disincentive to formalisation is the lack of continuity in social security payments, caused by seasonal or intermittent employment in micro and small enterprises. Limited knowledge among employers and employees about the real benefits of social security constitutes another obstacle.

Given these difficulties, the benefits from complying with social security payment schedules should be such that the stakeholders consider them to be valuable. The services that these schemes provide should be of good quality, in areas such as health, maternity and unemployment. Schemes like accidental insurance coverage at work act as incentives to labour formalisation. Social security schemes should be designed with the following characteristics to favour formalisation: (a) progressive social security contributions, (a) subsidies for social security contributions on low-income wages, (c) reduction of the administration costs of social security schemes.

17.6.5 Inspection and Compliance

The limited control of the tax and labour authorities over the informal firms acts as an obstacle to their formalisation. Regulation concerns not only labour law, but also health and safety, taxation, accounting rules, technical standards, consumer rights, bureaucratic procedures, and more. There is need for better regulatory environment. Complying with the law must become easier and law enforcement should be more effective. It is important that the small firm owners are not harassed by the public authorities.

Measures that involve capacity building are more effective than punitive sanctions for lack of compliance. For example, in Chile and Peru, inspectorates provide training for micro and small enterprises (MSEs) to comply with the law, particularly on safety and health issues, instead of imposing a fine on them for defaulting. In order, to be able to impart better knowledge and information about the rules and regulations, it is necessary to train the officials to interact with the employers and at the same time, it is necessary to organise training programmes and information campaigns for employers and employees of micro and small enterprises.

17.6.6 Awareness and Promotional Campaigns

Very often, micro and small entrepreneurs lack awareness of not just rules and regulations but also of various policies and schemes being run by the authorities to support registered enterprises. Industry and trade Chambers such as FICCI, CII and ASSOCHAM, in collaboration with or through other relevant organisations could assist economic units operating in the informal economy in a number of important ways, including access to information which they would otherwise find difficult to obtain. They could extend business support and basic services for productivity improvement, entrepreneurship development, personnel management, accounting, and the like. They could help develop a lobbying agenda specially geared to the needs of micro and small enterprises.

Trade unions can sensitise workers in the informal economy to the importance of having collective representation through education and outreach programmes. They can also make efforts to include workers in the informal economy in collective agreements. With women accounting for a majority in the informal economy, trade unions should create or adapt internal structures to promote the participation and representation of women and also to accommodate their specific needs. Trade unions can provide special services to workers in the informal economy, including information on their legal rights, educational and advocacy projects, legal aid, provision of medical insurance, credit and loan schemes and the establishment of cooperatives.

17.7 LET US SUM UP

The Service sector in India has been the fastest growing sector in the last decade. Within the service sector, we find that the fastest growing services in the 1990s have been trade, communications, financial services, business services and community services like health and education. The literature on growth in service sector primarily argues that when an economy grows, both demand side and supply side factors operate that lead to higher growth in the service sector as compared to the other sectors and also lead to a larger share of service sector in total employment.

However, the unfortunate part of growth of the service sector over time has led to informalisation of its growth process thereby creating a dualism in the sector wherein one component is growing very fast with high productivity while other component, quite large in size, has become laggard growing in size but not in terms of growth in productivity and profitability. As a result, those employed in the laggard informal service sector remain vulnerable in terms of low level of income and wages, insecurity of jobs, lack of social security and other benefits associated with the job if it had been in the formal service sector. The dynamic analysis presented in this unit highlights the factors responsible for such a growth of the sector and policy initiatives needed at comprehensive scale to improve the image and status of informal sector. Many of the issues highlighted above if addressed can help in further growth of the services sector. This can make the services sector which is already the dominant growth contributor to become a high growth propeller, along with foreign exchange earner and employment provider for India.

17.8 KEY WORDS

Covid-19	:	Coronavirus disease 2019 is a mild to severe respiratory illness that is caused by a Coronavirus.
Demonetisation	:	The act of stripping a currency unit of its status as legal tender.
Goods and Services Tax (GST)	:	An indirect tax (or consumption tax) used in India on the supply of goods and services. It is a comprehensive, multi-stage, destination-based tax that is levied on every value addition made along the supply chain.
Import-substituting Strategy	:	A trade strategy or policy that advocates replacing foreign imports with domestic production.
Informal Sector	:	Informal sector refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements.

17.9 REFERENCES

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17.10 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See Section 17.2 and answer.
2) See Section 17.2 and answer.
3) See Section 17.2 and answer.

Check Your Progress 2

1) See Section 17.3 and answer.
2) See Section 17.3 and answer.
3) See Section 17.3 and answer.

Check Your Progress 3

1) See Section 17.4 and answer.
2) See Section 17.4 and answer.

Check Your Progress 4

1) See Section 17.5 and answer.
2) See Sub-section 17.5.4 and 17.5.5 and answer.

APPENDIX 17.1

Why Informal India cannot be 'Atmanirbhar' India?

Atmanirbharta, or self-reliance, has been a holy grail for the Indian economy. In its present avatar, the idea hovers around increasing competitiveness and growth of the manufacturing sector which will in turn is expected to further expand the service sector. Competitiveness arises from productivity differentials, which, in turn, are a function of firm size. Larger firms are more productive with higher value added per capita, and higher levels of sales and output per employee. Formal status is another empirically established characteristic of productive firms across countries. World Bank's micro and informal enterprise surveys show that for India the wedge between value added per employee in a registered and unregistered firm is 35 per cent, that between a small registered firm and a large firm is 68 per cent, and that between a large registered firm and an unregistered firm is 212 per cent.This differential is due to large, formal firms' access to external finance, and use of more capital per labour. These firms with economies of scale are often run by better educated managers, and employ specialised staff for specific functions, resulting in better internal processes, and customer outreach, allowing these firms to generate sustainable productivity differentials to achieve competitiveness.

There are 19.67 million micro, small and medium enterprises (MSMEs) employing 36.04 million people. The share of micro enterprises, among MSMEs is almost 99 per cent.The antimonopoly regulations and stringent labour laws practised over years have ensured that the average Indian manufacturing firm remained small in size. The employment-generating and cost-cutting characteristics of these informal firms have made us believe that informality is forced by excessive cost of regulation. It is important to start acknowledging that these firms may be unproductive, run by lowly qualified managers, unable to function efficiently and, therefore, out of formal structure. The notion that economic growth will generate returns for these firms, bringing them into formality has not worked so far. Nor is there much empirical support for the hypothesis of registration alone increasing their productivity.

Shift to a formal status would typically mean additional costs of paying taxes, adhering to safety norms, and providing additional employment benefits to workers. All these are genuine costs. Any estimation of loss of revenue to the exchequer due to tax evasion, loss of lives and project assets due to non-compliance with safety norms, and loss of productivity due to non-provision of social security to employees, is sure to bypass the loss of profitability to informal enterprises.

However, thrust of the self-reliance movement undoubtedly has to be on designing regulatory systems conducive to creating large firms with a clear competitive edge. Ample macroeconomic evidence suggests that limited access to capital constrains productivity growth in developing countries. Ownership of banks by the government has resulted in hampered credit allocation as there is a conflict of interest between social objectives and the running of an efficient financial system. Implicit government guarantee weakens their incentives to pursue operational efficiency. They are prone to evergreen non-performing loans and keep insolvent borrowers afloat. Slow in adopting new technologies to improve the efficiency of financial intermediation, public banks are more susceptible to distress than private banks. Their investment in government securities reduces availability of loans to the private sector. Designing regulations to prune these hydra-headed institutions is vital in pursuance of self-reliance.

'Atmarnirbhar' development requires organisations that can benefit from scale economies, entrepreneurs who take risks and grow those organisations, independent professionals who have the skills that can support technological progress and productivity growth, and banks that understand the hazards of providing credit and that diversify their risks while financing growth. It requires regulating and unleashing the power of markets and holding back the temptation to use the state to direct scarce resources towards centrally-handed-down goals.

The informal sectoreffectively constitutes 90 per cent of the workforce and about 50 per cent of the national product. As per Government of India statistics, the unorganised sector contributes almost 50 per cent of the total GDP. The Economic Survey of 2018-19, released on 4 July, 2019, said "almost 93 per cent" of the total workforce is "informal". Around 86per cent of those working in the informal sector are not covered under labour legislation and they have absolutely no protection in terms of employment as they do not have an appointment letter, contract, guarantee for wages, health facilities, insurance, etc. They are at the mercy of the employer.

If the Centre realises the importance of the informal sector and its contribution to the economic growth of the country, it will need to define the sector effectively, provide labour legislation to protect employment, wages and treat them on par with the formal sector. As long as these measures are not put in place, it is difficult for informal India to become Atmanirbhar India.