

EVALUATION INDICATORS

1. Alignment Competence
2. Context Competence
3. Content Competence
4. Language Competence
5. Introduction Competence
6. Structure - Presentation Competence
7. Conclusion Competence

Overall Macro Comments / feedback / suggestions on Answer Booklet:

1.

2.

3.

4.

5.

6.

All the Best

SECTION-A

Q → Public Private Partnerships (PPPs) are not a panacea for infrastructural challenges of India.

Ans → Steve Jobs, the founder of Apple once said, "We hire the best minds in our company, not to tell them what to do, but we expect them to tell us what to do". This quote highlights the importance of hiring ~~the~~ and seeking the advice and domain specific expertise of the best in the business.

The Indian elephant lost in its path
India has begun its march, to become a global economic powerhouse within the next 20-30 years, by focussing on various ideas to tap its demographic dividend.

In order to pursue this goal of human development, the focus in recent times has shifted to infrastructure development, be it related to health, education or promotion of trade and investment.

Herein, lies the major problem of finding enough resources to create such infrastructure, as well as getting the right experts to guide the policy making process, in so that the process doesn't turn into a demographic disaster.

PPPs - A glimmer of hope

Governments across the world have not shied away from collaborating with private corporations, who are experts in their fields, in order to solve issues of national importance.

The Indian government too, has embarked on various such public private partnerships to create ideal

models of project execution and service delivery.

PPPs are of various types, such as:

- i) Build-operate-Transfer (BOT)
- ii) Engineering-Procurement-Construction (EPC)
- iii) Hybrid models, employing a combination of BOT, EPC and other models.

Each of the above models, is further divided into categories based on the funding distribution, such as hybrid annuity model, wherein, a fixed amount is paid upfront to start the project and further installments are made at different stages of the project's execution.

Government, has recently begun employing a variety of these PPP models, to its flagship schemes

in various sectors such as civil aviation, infrastructure, digital economy, food processing and even for R & D purposes.

Infrastructure - The Achilles' Heel

The infrastructure sector, in particular, has been the recipient of the majority of such PPP experiments.

The government's flagship programmes such as Smart City Project not only require funding from the private sector, but also need their technological expertise to intertwine layers of ICT, Internet of things (IoT), AI etc, in public delivery of goods and services.

A recent report by the NITI Aayog, pointed out that India would

require upto 40-50 lakh crore rupees of investment in infrastructure by 2040, in order to realise its goals of the required level of development.

A big chunk of this investment, will indeed be sought from multilateral institutions such as WB, IMF or AIB (which recently had its conference in Mumbai and pledged its commitment for more funds).

But in order to realise the goals of make in India, the focus must be on the indigenization of the manufacturing & construction process, so that the consequential job creation and returns on investment, can spur the growth of India's economy, particularly the MSME sector.

PPP projects have also been employed in the highways sector, where the Bharatmala Pariyojana, seeks to use 5 lakh crore rupees of investment to create 35,000 km of roads in the first phase. A lot of these projects employ the BOT model, where the private companies, could break-even, by managing the tolls and cash in on the resulting profits. Govt's focus on use of FastTags, increasing the maximum cargo loads on trucks & the increased push for logistics sector, would create a great business opportunity for these companies.

The need ^{for} improvement in logistics infrastructure is also felt in view of India's aim to improve its performance in the

World Bank's logistics performance Index (currently 35th rank),
as well as the Ease of doing Business Index (currently 100th rank)

A lot of the Indian companies, over the years, have gained experience in the execution of mega scale infrastructure projects, even internationally. For example, GMR has created airports not only in India (like IGI), but has also created them in South East Asian countries, Indian Ocean Island countries as well as in the African Continent. Even Infosys & Wipro, 2 of the IT giants have used their international experiences to flawlessly execute the Digital India and GSTN project.

Challenges to PPPs

While the prospects of infrastructure growth are quite bright at the

outlet, some inherent bottlenecks in the current PPPs model, threaten the chances of expected outcomes.

The major issue in PPP projects has been that of regulatory issues, project approval delays and red tapism. Such issues automatically lead to time and cost overruns & hamper the economic viability of the projects.

The recent issue of stressed assets and mounting NPAs, has been caused exactly due to this reason. The power sector, telecom projects and steel, cement industry has suffered the maximum losses.

Other issues that have affected the industry's faith in PPPs are as follows:

- i) Frequent policy changes: The recent issue of hiking the

import duties on raw materials for making solar panels is a case in point. It will lead to an increase in the bidding price of solar power and cause losses to the projects already under execution.

The focus of many state governments to renegotiate power purchase agreements on the frequent changes in the GST structure, that leads to overnight increases in project costs, further highlight this issue.

ii) Land acquisition issues : Despite the govt's push for the changes in land acquisition, compensation and rehabilitation acts, PPPs have been marred by inordinate delays due to protests by the local land owners.

In case of using forested lands for the projects,

clearances for environment & wildlife disturbances further extend the approval process. The contribution to compensatory afforestation funds, leads to cost overruns as well.

iii) Funding issues: Private companies in general and infrastructure companies in particular have had to face the lack of funding for their projects due to the absence of a robust corporate bond market. Recent hikes in interest rates by the Fed Reserve, has led to an outflow of equity investments from the Indian market.

The twin shocks of demonetization and GST, further hampered the cash crunch situations of these companies.

(iv) Role of Public Sentiments :

Many a times, some bottlenecks are created due to the fluctuating nature of the local populace with respect to these projects.

Protests in the case of Kudankulam nuclear plant, against perceived radiation issue from the nuclear waste, anti-Steelite protests on the general perception that the government tends to favour big businessmen against the poor villagers, only tend to harm the general business environment.

The recent flare ups in the Rafale deal case, Nirav Modi scam, Vijay Mallya issue, in the parliament, further exacerbated the problem.

Thus in view of the wide ranging challenges that PPPs are facing today, as well as

the necessity to create world class infrastructure in limited time, it is imperative to realise that PPPs are not a solution to this problem, unless certain tweaks are made or a radically different approach is pursued.

Solving the puzzle

In order, to achieve the desired levels of infrastructure growth, the following solutions can be proposed:

- a) Strengthening the investment flows: Govt. can allow for the use of Masala bonds in international markets, as well as creating an enabling regulatory policy for the growth of the Bond market.

Other financially lucrative PPP models can be followed to ~~see~~ tap the interest of the private

Sector. The New Exploration and Licensing policy (NELP) is a step in the right direction.

b) Solving regulatory issues :

The gradual reform of GST to move towards the goal of one nation, one tax, as well as easing the regulatory processes such as quarterly filing etc., will improve the business conditions.

Using the route of futures and options, in the case of power purchase agreements, will give a hope of financial turnover to the loss ridden power sector.

Odisha government's recent step to create a landpool for future industrial projects is a double strike against delays, by making clearances redundant, and is solving issue of land takeover, rehabilitation of locals, etc.

c) Exploring Other Collaborations:

The private sector, itself is going through the phase of recovery from economic downturn and therefore, other routes such as Govt to Govt collaboration (ODA, South-South cooperation), Collaborating with NGOs to improve awareness about digital infrastructure and Strategic Partnership models (such as in the defence sector) are some unconventional ~~optis~~ alternatives to PPPs.

d) Overcoming infrastructure as a bottleneck: Even though infrastructure creation is a long term process, it must not stand in the way of progress. Use of CSCs in villages to impart agriculture, health, education related information

is a novel method to overcome the lack of separate infrastructure for each requirement. The human resource development, through this initiative, will reduce the dependence on infrastructure and funding ~~for~~ in the long run. Other options such as video conferencing, Tele law, etc. enable people to acquire these services at the comfort of their house.

Way Ahead

India has embarked on an exciting journey to propel itself into an industrialized & developed nation, and the citizens as well as the govt should come to the discussion table to come up with novel ideas and experiments that can tackle any challenge that has the potency to slow down the progress.

SECTION - B

Q → Is democracy the best setting for strong economic growth?

Ans → It is often said that "A poor person in a democracy feels worse than his counterpart in a non-democratic state". At first glance this statement seems absurd, but a closer analysis of the relationship between democracy and economic growth, brings light to its true meaning.

Economic growth is a relative concept, that holds different meanings for different sections of the society. In order to understand the appropriate conditions or environment that nurture economic growth, it is quintessential to look at the

different perspectives on the meaning of economic growth.

Economic growth - A mirror of social stratification

Economic growth, according to economists, refers to improvement in the economic conditions across the country on a macro as well as a micro basis.

The various perspectives on economic growth are seen as follows:

- a) Rich v/s poor : Economic growth, in general, does lead to income inequalities, even in the case of democracies and thus has different meaning for a poor person as compared to so others. People living on subsistence view economic growth of the country, as the

assurance that they can have 2 meals a day, through PDS or other govt schemes.

whereas for the rich investors or the top management executives, it is associated with an increasing stock price, high investor confidence, robust credit market etc.

For the middle classes, the meaning as well takes the middle path, with the focus on both subsistence as well as the ability to move towards a higher standard of living with time.

Such differences of perception are highlighted when we see the phenomenon of Jobless Growth, salary ratios of over 100 between the lowest ranked employee & the top management executive in a company, etc.

b) State v/s market: Another lens through which economic growth can be viewed is the role of state in the process of growth.

Historically, fascism (a form of totalitarianism) was quoted by political scientists as the most extreme version of capitalism.

The general perception across economies has been that state intervention leads to lesser inequalities and slower economic growth, whereas liberal economies, where the invisible hand of demand-supply works in full force, see faster growth rates.

There have been exceptions to this rule as well. China, with its communist regime has been able to pull millions out of poverty and still ensured a

prolific growth rate.

India as the other exception, went through both a state dominated as well as a market dominated economy. Being a democratic polity, India's actions when regards to the extent of state intervention, were guided by the welfare of people, and thus it would not be wrong to say, that the primary concern for democracy is to ensure sustainable rather than inequitable growth.

In order to identify whether democracy indeed provides the optimum environment for economic growth, it is important to recognise the factors of economic growth & then see whether they exist in a democracy or not.

The various parameters that affect economic growth are:

a) Gout. policies: Being the first and foremost consideration for any business entity, gout. policies provide a sense of security to the businesses to invest in a country.

The World Bank's ease of doing business index looks at policy factors such as contract enforcement, insolvency, fair policies (without nepotism) etc.

Unlike gout. policies in a democracy are mostly guided by populist tendencies, a democratic gout's stance can change from pro-business to pro-poor depending on the timing of elections, poverty limits, trust on gout, etc.

Therefore, a democracy by itself doesn't guarantee .

economic growth in monetary terms, as it depends on the political environment as well as the level of development in the country. For example, USA can reduce corporate taxes, completely liberalise its economy due to its developed stage, whereas India has to make provisions for loan waivers, subsidies, pro-poor initiatives, which put a demandward pressure on economic growth.

b) Demand creation : Since the primary concern for democracy is to improve the living conditions of the citizens equitably, it automatically ensures a rise in demand for expensive goods & a better lifestyle overtime.

An autocratic regime on the other hand, may or

may not focus on citizen
welfare, and thus cannot
ensure demand creation. For

example, Venezuela, Zimbabwe,
are countries which have
faced severe economic crises
under dictatorial regimes,
leading to hyperinflationary
conditions, whereas China has
been able to maintain a decent
growth rate.

c) Dispute Settlement: Just like
every citizen in a democracy
has a right to constitutional
remedies to protect his/her
rights, corporations/MSMEs etc
also prefer to have a robust
dispute settlement mechanism to
ensure their business related
rights as legal entities.

For example, advanced
democratic nations, like in EU

have robust mechanisms wherein companies can sue the govt in case of injustice whereas China has been notorious for IPR thefts, and business blockades on corporations such as Google.

d) Corruption / illegal activities :

Increased corruption levels, influence of black money, underground economy, severely hamper the trust of companies to invest. Shell companies, tax evasion practices, insider trading further erode the credibility of a country's economy.

Though such illegal practices are found in both democracies and non-democracies, a democracy has to ensure an

accountability mechanism to
check them. For example,
India carried out demonetisation
& GST reforms which increased
investor confidence, It did lead
to a few hiccups for MSMEs &
unorganised sector, but the
long term gains of clean money
and sustainable growth were
worth the efforts.

On the other hand,
report by transparency international
found that the legislators of
Chinese Communist party were
together worth \$340 billion in
2018. Even the awareness of
such irregularities cannot
ensure action being taken in a
non-democratic country.

e) Human Resource: Economic
growth is quantified by various

approaches and one of them is the human capability approach, propounded by Amartya Sen. He put forward the theory that development of human capabilities in terms of education, health, safety, etc. is a necessary precondition for sustained economic growth. On the other hand, Jagdish Bhagwati claimed that the liberalization of an economy automatically ensures a trickle down effect, leading to human resource development. Irrespective of which approach is correct, it is agreed upon that human development is necessary for economic growth to maintain its trajectory.

The four of Nordic countries, which are regularly ranked at the top of UNDP's Human Development Index, has allowed them to become developed

even with a low resource base.
The case of Japan, where
hardworking is a symbol of its
pride, is another appropriate
example.

Africa, on the other hand
provides the perfect counter
example, where despite the
high population, abundant natural
resources and trade potential,
most countries have suffered
from droughts, hyperinflation,
civil wars etc. under autocratic
governments.

Thus, we observe that
though all the factors of
economic growth may not be
favourably present in every
democratic country, but a
democratic polity, ensures that
the country works in the
direction of progress under a

System of transparency,
accountability and checks &
balances.

In order to find out,
what factors of a democracy
can be changed, within the
definition of democracy, so
that economic growth can be
propelled, we can learn
from the best examples across
the world.

The case of China shows
that strong decision making
and focus on creating basic
infrastructure, can lay the
foundation for economic growth.

The problem of delays in
decisions under coalitions in
democracies, severely hampers
investor confidence & doesn't
ensure a stable policy outlook.

This is also proved in the case of Brexit, where the delay in finalising a deal with EU, has increased fears among corporations, of a hard Brexit without a deal, and has thus led to shifting of their resources to favourable countries.

The case of Bhutan has shown that the focus on environmental conservation, leads to an increase in the

happiness of the population (~~the~~ SDSN's world happiness index), which inherently improves human development & thus economic growth.

The case of Singapore has shown that an investment friendly environment can propel a country towards strong

economic growth, irrespective of
the law resource base.

Way Ahead

from the above examples, it becomes clear that democracy by itself doesn't guarantee strong economic growth, but it does create an enabling environment to create the necessary conditions for such growth to take place.

By learning from the development experiences of every political regime, even the autocratic ones, a democratic polity must evolve into a nurturing, growth friendly, economic powerhouse, that can polish its sharp edges and fuel the engines of growth.

X