MEDIUM TERM OUTLOOK: A GROWTH VISION FOR NEW INDIA

05

CHAPTER

The direct benefit of a 'Viksit Bharat' is the dignity of our citizens and the improvement in their quality of life."

- Extracted from Hon'ble Prime Minister's reply to the Motion of Thanks on the President's Address in the Lok Sabha on July 2, 2024

The Indian growth story over the last decade has been one of resilience. The structural reforms undertaken by the Government of India since 2014 have put the economy firmly on a growth path, and India is soon set to become the third-largest economy in the world. In the medium term, the Indian economy can grow at a rate of 7 per cent plus on a sustained basis if we can build on the structural reforms undertaken over the last decade. Against this backdrop, the chapter identifies the areas of key policy focus as well as presents a six-pronged growth strategy to achieve this goal. The strategy elucidated in the chapter is premised on the understanding that the structural reforms of the last decade, focused on the supply side of the economy, have to give way to next-gen reforms that are bottom-up in nature to yield strong, sustainable, balanced, and inclusive growth.

SETTING THE CONTEXT

5.1. In 1993, the Indian economy was valued at less than USD300 billion in dollar terms at current prices. Fast forward to 2024, and it is estimated to have reached a staggering USD 3.6 trillion. This represents a remarkable 12-fold increase despite the Indian rupee depreciating by around 3 per cent annually between 1993 and 2024. Moreover, this has been achieved without a big rise in the country's overall indebtedness, indicating an efficient utilisation of capital. India's per capita current dollar GDP has increased from 301.5 in 1993 to 2,484.8 in 2023,[1] which indicates a substantial improvement in the standard of living.

5.2. India is a historical and long civilisation. It provided answers to many questions that humankind faced and still faces. It is a country with a big land mass and a huge population. It rightly aspires to be reckoned with as a great power in economic and other terms. China, India's neighbour to the Northeast and a nation of comparable size and population and antiquity of civilisation as India, has grown to become a major global economic and political power in less than a generation. India, too, has now set for itself the goal of becoming a developed nation within a generation by 2047, the hundredth year of independence.

1 World Bank, 2023 (https://tinyurl.com/yeksmbde)

5.3. Today, the world faces several major fault lines. We have arrived at a multipolar world. It is more difficult than the bipolar world that we were used to for nearly five decades after the War ended. Therefore, mini and significant geopolitical conflicts are likely in the coming decades.

5.4. At a cultural level, the rise of what is called the 'Far Right' by mainstream media in advanced nations is, in effect, a clash of priorities between globalist elites and others whose fortunes are bound by and tied to their national geographies. This clash of priorities transcends economics. It includes cultural and social preferences and values. Therefore, along with economic stagnation and geopolitical conflicts, societies in advanced nations are fracturing from within, too. The literature analysing long political, social, and civilisational cycles has warned us of a fairly to severely turbulent three decades until the middle of the century.

5.5. The idea of economic globalisation has run its course. It may not be reversed fully, but it has peaked. It will continue to face obstacles as economic policies worldwide pivot to the promotion of national champions for reasons too well-known to bear repetition here. Along with the peaking of globalisation, there is also a rethinking of the role of government in national economic strategy as inequality, poverty, and indebtedness have become pressing issues in the aftermath of the Covid pandemic. The clamour for easy answers to these global and generational challenges has provided an excuse for interventionist policies despite their poor empirical record in achieving prosperous or more equal societies.

5.6. Lastly, there is the crisis posed by climate change and global warming. Developed countries are pushing for a reduction in the emission of greenhouse gases into the atmosphere. With their policies having questionable effectiveness in achieving emission reduction in their own countries, they are ramping up pressure on developing nations. Developing nations are struggling to restore economic growth and reduce poverty and debt in their countries, all of which have been amplified by the COVID-19 pandemic. They lack both technology and financial resources to undertake the necessary transition to cleaner fuels. Developed nations are generous with pledges and parsimonious in delivering on them. Further, there are huge uncertainties as to the efficacy of drastic measures to combat climate change and their economic impact over the next half to a full decade. Slower growth, stagnation, or outright contraction might trigger social unrest and exodus of people to the West.

5.7. This is the global backdrop to India's growth, prosperity, and superpower aspirations for the next quarter century. In contrast, during its rise, China did not face many of these challenges, and even the ones they faced were fairly milder, in comparison. For realising India's aspirations, despite the changed circumstances, a good place to start is to acknowledge and recognise that the terrain has changed to be able to traverse through it and reach the destination.

5.8. India has to sustain its economic growth rate over a quarter century and do it sustainably, keeping the environment and climate in mind. Water stress looms large, as does air pollution. Life expectancy, much higher now than in the past, has stagnated in recent years. It has to educate and skill its youth to stay ahead of the curve so that they can work with emerging technologies while overcoming the accumulated education and skill deficits, accentuated by the pandemic, that make it harder to raise productivity even with the current state of technological progress. It is required to maintain a constant vigil on its borders both in the Northwest and in the Northeast. With the digitalisation of the Indian economy, cybersecurity assumes a much higher degree of importance and urgency. Therefore, providing financial resources for national security is imperative. Fiscal resources have to increase without compromising on economic growth.

5.9. The capacity in terms of numbers and the capability of the State in terms of competence, skills, and attitude are additional factors that would determine the outcomes of India's economic and social goals. Economic policies have to be crafted in such a manner that they do not address issues narrowly or incompletely while rendering problems in other areas more intractable. Goals for a higher share of renewable power with its implications for land usage and dependence on inimical powers for resources are one example. The impact of farm sector policies on water security is another example.

5.10. With the global backdrop described earlier likely to come in the way of India boosting its exports at the same pace and level as East Asian countries and national security considerations likely to make foreign direct investment flows volatile year-to-year, India has to generate domestic resources mostly for its own investment and growth priorities. Geopolitics imposes its ceiling on external deficit and, consequently, external financing.

5.11. Against this background, the medium-term growth outlook for the Indian economy, which will be detailed in this chapter, is premised on the following key tenets:

- **First,** increasing **geoeconomic fragmentation and the consequent resource nationalism have significant growth-limiting impacts** on countries. It has given rise to a trade-off between efficiency and resilience that did not exist a decade earlier. Ensuring the security of supply through building buffers and slack has replaced the ability to operate at the frontiers of efficiency. 'Just in case' has replaced 'Just in time'.
- **Second, a global trust deficit is driving countries to pursue policies focused on enabling them to become self-reliant** and protect them from external shocks, especially in sectors of strategic importance. Therefore, the balance between inward-looking policies versus outward-looking policies needs to become more nuanced going forward;
- **Third, the integration of climate change strategies into national development policy and planning is not merely an environmental imperative but more,** as it impacts socio-economic stability, public health, banking, and public finances. Climate change imposes costs and requires policymakers to balance adaptation to climate change and emission mitigation. It also necessitates a trade-off between energy security and economic development on the one hand and energy transition on the other.
- **Fourth, for better and worse, technology is emerging as the biggest strategic differentiator** determining the economic prosperity of nations. Its productivity-enhancing potential is beyond doubt, but the social impact of emerging technologies such as Artificial Intelligence (AI) via labour market disruptions and labour displacement is barely understood. It also has the potential to skew the capital and labour shares of income in favour of the former.

- **Fifth, countries across the board have limited policy space to manoeuvre**, given the multiple crises confronting the global economy. Therefore, recognition and acceptance of trade-offs have become more necessary than before for policymakers.
- **Sixth**, in the last decade (2014-2024), the Government of India has pursued big-ticket reforms focused on restoring the health of the economy, elevating the potential growth by relieving supply-side constraints and strengthening its capabilities, capable of fulfilling the growth aspirations of the people in the present and the Amrit Kaal. The next stage is to ensure that these reforms are implemented correctly and this will require intense engagement with state governments, the private sector, and civil society. **Going forward, the Government's focus must turn to bottom-up reform and the strengthening of the plumbing of governance so that the structural reforms of the last decade yield strong, sustainable, balanced, and inclusive growth.**

KEY AREAS OF POLICY FOCUS IN THE SHORT TO MEDIUM TERM

5.12. Based on the state of the play of the Indian economy, both at a macro level and sectoral level, that has been elaborated in the rest of the chapters of this Survey, the present section draws out some of the key areas of policy focus to ensure that India's growth continues unimpeded, crossing the milestone of becoming the third largest economy of the world in short order, on its way to scaling greater heights.

5.13. **Generating productive employment:** Productive jobs are vital for growth and inclusion. India's workforce is estimated to be nearly 56.5 Crore, of which more than 45 per cent are employed in agriculture, 11.4 per cent in manufacturing, 28.9 per cent in services, and 13.0 per cent in construction[2]. While the services sector remains a major job creator, the construction sector has been rising in prominence lately, driven by the government's push for infrastructure. However, since construction jobs are largely informal and low-paid, there is a need for avenues for the labour force leaving agriculture. Meanwhile, the manufacturing sector employment creation has been subdued in the past decade due to the legacy of bad loans and appears to have rebounded since 2021-22. According to UN population projections, India's working-age population (15-59 years) will continue to grow until 2044. The chapter on Employment (chapter 8) estimates that the Indian economy needs to generate nearly 78.51 lakh jobs annually in the non-farm sector to cater to the rising workforce. However, to create these many jobs, there is a need to create the conditions for faster growth of productive jobs outside of agriculture, especially in organized manufacturing and services, even while improving productivity in agriculture.

5.14. **Skill gap challenge:** Sixty-five per cent of India's fast-growing population is under 35, and many lack the skills needed by a modern economy[3]. Estimates show that about 51.25 per cent of the youth is deemed employable. In other words, about one in two are not yet readily employable, straight out of college. However, it must be noted that the percentage has improved from around 34 per cent to 51.3 per cent in the last decade[4]. The 2022-23 Annual Report of

2 Ministry of Health and Family Welfare
3 Helping India build a skilled, inclusive, workforce for the future, World Bank, 2023 (https://tinyurl.com/2tp4xpab)
4 Bardhan, A and Routh, V. (2024). Tackling India's unemployment problem: Services, skills and symmetry, Observer Research Foundation, (https://tinyurl.com/3uudbkms)

the Ministry of Skill Development & Entrepreneurship (MSDE) highlights that "as per NSSO, 2011-12 (68th round) report on Status of Education and Vocational Training in India, among persons of age 15-59 years, about 2.2 per cent reported to have received formal vocational training and 8.6 per cent reported to have received non-formal vocational training". The Annual Report further goes on enumerate the challenges in the skilling and entrepreneurship landscape in the country, such as ": (i) Public perception that views skilling as the last option meant for those who have not been able to progress/have opted out of the formal academic system. (ii) Skill development programmes of the Central Government are spread across more than 20 Ministries/Departments without any robust coordination and monitoring mechanism to ensure convergence. (iii) Multiplicity in assessment and certification systems that leads to inconsistent outcomes and causes confusion among the employers. (iv) Paucity of trainers, inability to attract practitioners from industry as faculty. (v) Mismatch between demand and supply at the sectoral and spatial levels. (vi) Limited mobility between skill and higher education programmes and vocational education. (vii) Very low coverage of apprenticeship programmes. (viii) Narrow and often obsolete skill curricula. (ix) Declining labour force participation rate of women. (x) Pre-dominant non-farm, unorganized sector employment with low productivity but no premium for skilling. (xi) Non- inclusion of entrepreneurship in formal education system. (xii) Lack of mentorship and adequate access to finance for start-ups. (xiii) Inadequate impetus to innovation driven entrepreneurship. (xiv) Lack of assured wage premium for skilled people". The Chapter on employment (chapter 8) provides a detailed analysis of the skill gap challenge and the efforts underway to address the same.

5.15. **Tapping the full potential of the agriculture sector:** Despite its centrality in India's growth trajectory, the agriculture sector continues to face structural issues that have implications for India's economic growth. The foremost concern confronting the sector pertains to sustaining agriculture growth without letting food price inflation rise beyond acceptable limits while incentivising farmers to raise production.[5] There is also a need to improve price discovery mechanisms for agriculture products, increase efficiency, reduce disguised unemployment, address the fragmentation of landholding, and increase crop diversification, among a host of other issues. All of these call for the upgradation of agricultural technology, the application of modern skills in farm practices, enhancing agricultural marketing avenues, price stabilisation, the adoption of innovation in farming, lowering wastages in the use of fertiliser, water, and other inputs, and improving the agriculture-industry linkages. The chapter on agriculture (Chapter 9) discusses the policies being pursued by the Government to enable agriculture to tap its full potential.

5.16. **Easing the compliance requirements and financing bottlenecks confronting MSMEs:** MSMEs have played a key role in defining the economic trajectory of some of the major economies, such as Germany, Switzerland, Canada, China, etc. In India, the Government has been paying focused attention to enabling the MSME sector to occupy the centre stage in India's economic story. However, the sector continues to face extensive regulation and compliance requirements and faces significant bottlenecks with access to affordable and timely funding being one of the core concerns. Licensing, Inspection, and Compliance requirements

5 Chand, R. (2019). Transforming Agriculture for the challenges of the 21st Century, 102 Annual Conference Indian Economic Association (IEA) (https://tinyurl.com/4dpu7f9e)

that MSMEs have to deal with, imposed particularly by sub-national governments, hold them back from growing to their potential and being job creators of substance. Threshold-based concessions and exemptions create the unintended effect of incentivising enterprises to cap their sizes below the thresholds. Therefore, threshold-based incentives must have sunset clauses. Further, many MSMEs struggle to secure the necessary funds to start, operate, or expand their business due to a variety of reasons including lack of collateral or credit history, high interest rates, complex documentation requirements, and long processing times, etc. The Lok Sabha Standing Committee on Finance, in its April 2022 report on 'Strengthening Credit Flows to the MSME, noted that the credit gap in the MSME sector is estimated to be around Rs 20-25 lakh crore. The government has launched several schemes, such as the Pradhan Mantri Mudra Yojana and the Credit Guarantee Fund Trust for Micro and Small Enterprises, aimed at providing affordable credit to MSMEs. The initiatives have shown considerable promise in addressing these challenges. The Chapter on Industry (Chapter 10) discusses these issues in detail.

5.17. **Managing India's green transition:** India has committed to reducing its greenhouse gas (GHG) emissions by 33-35 per cent (from 2005 levels), increasing the share of non-fossil fuel-based electricity to 40 per cent and enhancing forest cover to absorb 2.5 to 3 billion tonnes of carbon dioxide by 2030[6]. However, the path of green transition in India needs to (a) ensure the consistency of the E-Mobility policy with the required and optimal energy mix between traditional and renewable source; (b) ensure grid stability for E-Mobility to become pervasive; (c) develop or acquire storage technology at affordable costs for the share of renewable energy in power generation to rise; (d) reckon with the opportunity cost of land and capital being used for renewable energy given that India's needs for land and capital far exceed their availability; (e) decide on the role and the share of nuclear energy in the energy mix; (f) recognise and deal with challenges posed by dependence on China for critical minerals, which are crucial raw materials needed for E-Mobility and renewable energy generation; (g) examine the implications of phasing down coal for bank balance sheets; (h) recognise and estimate the impact of phasing out of coal-fired thermal plants on the freight revenues of the Indian Railways and (i) study implications of replacing internal combustion engine vehicles with e-vehicles particularly on the sale of petrol and diesel and the tax revenues that such sale generates for the Union and State governments. Last but not least, India not only has to deal with climate change and undertake energy transition but also deal with the protectionism of the developed countries. Europe is on course to implement its Carbon Border Adjustment Tax and both the United Kingdom and the United States are in different stages of imposing their versions of it in due course. These taxes are in contravention to the spirit of the Paris Agreement that recognised 'Common But Differentiated Responsibilities'.

5.18. Further, the overarching climate actions to achieve Intended Nationally Determined Contributions (INDC) goals require massive financial resources. Preliminary estimates indicate that the aggregate investment support required by India to achieve its 2070 net-zero target will

6 These goals are articulated in the government's Intended Nationally Determined Contributions (INDCs) under the United Nations Framework Convention on Climate Change (UNFCCC) in Conference of Parties (COP 21) in Paris in 2015.

be USD 1.4 trillion at an average of USD 28 billion per year[7]. Raising financial resources for climate change adaptation and mitigation actions of this scale is an unprecedented challenge, especially given that India's climate action has been largely financed through domestic resources and the flow of international finance has been very limited. As per the Reserve Bank of India, bridging this substantial funding gap necessitates allocating 2.5 per cent of India's annual GDP to green finance. A 2022 report by the Climate Policy Initiative[8] found that domestic sources accounted for the majority of green finance in India, at 87 per cent and 83 per cent in fiscal years 2019 and 2020, respectively. While international sources are increasing (from 13 per cent in FY 2019 to 17 per cent in FY 2020), they are still insufficient to meet India's net-zero target[9]. Mobilising substantial capital from traditional sources presents multifaceted challenges in emerging economies like India. The perceived sovereign risks associated with EMDEs and the capital-intensive nature of such projects, coupled with lengthy gestation periods and evolving regulatory frameworks, can create misalignment between investor expectations and project timelines. It is also pertinent to note that the flows of global capital to developing countries have been impeded by high costs of capital. Despite securing a good rating on its green bond framework, Indian sovereign green bonds have hardly received any 'greenium'[10] from private investors. It is more a 'wall of capital' than a 'flood of capital' that is waiting to fund energy transition in EMDEs. It just isn't mobile. All of these together have severely hampered the flow of finance for green transition projects. The issues related to climate finance and India's green transition are discussed in detail in the chapter on Climate Change and Energy (chapter 6).

5.19. **The Chinese conundrum:** The dynamics of India-China economic relations continue to be extremely complex and intertwined. The Chinese domination over the global supply chains across product categories is a key global concern, especially in the wake of supply disruption accompanying the war in Ukraine. Even though India is the fastest-growing G20 country and is now recording growth rates that outpace China's, India's economy is still a fraction of China's. In the context of energy transition, China's near-monopoly over the production and processing of critical and rare earth minerals has already been a cause of global concern. It will also have significant repercussions for India's renewable energy programme, which is vulnerable because of its massive dependence on imported raw materials[11]. Against this background, it may not be the most prudent approach to think that India can take up the slack from China vacating certain spaces in manufacturing. Indeed, recent data cast doubt on whether China is even vacating light manufacturing. The questions that India faces are: (a) Is it possible to plug India into the global supply chain without plugging itself into the China supply chain? and (b) what is the right balance between importing goods and importing capital from China? As countries attempt to reshore and friendshore, India's policy choices concerning China are exacting.

7 Singh, V and Sidhu, G. (2021). Investment sizing India's net zero target, Council on energy, Environment and Water (https://tinyurl.com/yfz6wzdw)

8 Landscape of green finance in India, Climate Policy Initiative, 2022 (https://tinyurl.com/3p74wnb7)

9 Report on Transition Finance by the Expert Committee on Climate Finance, International Financial Services Centres Authority, 2024 (https://tinyurl.com/465yxd63)

10 The 'greenium', or green premium, refers to pricing benefits based on the logic that investors are willing to pay extra or accept lower yields in exchange for sustainable impact. Source - UNDP, 2022 (https://tinyurl.com/yks7cyr7)

11 How renewables are shaping the India-China relationship, Institute of Peace and Conflict Studies, 2023 (https://tinyurl.com/3u6rav84)

Box V.I: The Chinese Manufacturing Juggernaut: A Threat to EMEs[12]

It is increasingly seen that emerging economies are introducing import restrictions on Chinese goods while accelerating a push for free trade elsewhere to protect their domestic manufacturers.

These protectionist measures directed against Chinese products are emerging due to the threat that the overcapacity in China's manufacturing sector is posing to other countries, especially in the EMDEs. China’s manufacturing trade surplus has been ballooning since 2019 due to weak domestic demand and expanding industrial capacity. The mismatch between domestic supply and demand in China has widened in the past few years, leading to Chinese companies exploring additional markets overseas. This is leading to prices collapsing globally and driving other national producers out of business, especially in product categories where China dominates. For instance, the poor performance of China’s property sector since 2021 created significant overcapacity leading to a collapse in global steel prices, which now puts significant pressure on producers in India, Vietnam, Brazil, and other countries. Estimates show that China’s steel product exports are surging again—by 27 per cent so far in 2024—after 35 per cent growth last year.

China’s dominance over a large number of product categories creates a risk of economic coercion, where the government restrains access to crucial inputs for political leverage. This is most evident in the case of the export of rare earth and critical minerals which are of high priority in the green transition efforts of countries. China’s dominance also has led to monopolistic practices which has considerably limited the space for new entrants to emerge as new manufacturing powers. Recent research by Rhodium Group observes that “The Chinese government can encourage companies to partner together, merge and consolidate, coordinate to gain market shares, raise prices, restrict access to products where they already have substantial market power, or favour domestic firms in their suppliers and client networks.”

It is also interesting to note that "while China still needs to import high-tech products from rich industrialized economies, it imports very few low-tech goods, where developing countries would have a comparative advantage. This is largely a result of deliberate policy interventions, which have intensified in recent years."

All these above factors have together played a key role in constraining the manufacturing sector of EMDEs. While EMDEs are resorting to import restrictions as a policy option to deal with the Chinese challenge, it is pertinent to note that some Chinese goods are so cheap that no amount of tariff can reduce their price competitiveness. Further, some Chinese products can move past these restrictions without being noticed since they are packaged in third countries. Meanwhile, China has started retaliating against these import restrictions which has further complicated the manufacturing landscape for EMDEs. For instance, in

12 The contents of this Box is based on the article “Brazil, India and Mexico are taking on China’s exports” that appeared in The Economist issue dated May 23, 2024 and the research from Rhodium Group on “How China’s Overcapacity Holds Bank Emerging Economies” accessed at https://tinyurl.com/4kkdhctz

response the India's anti-dumping probe against Chinese entities, China has been quietly blocking India's access to solar equipment. Given this, dealing with the Chinese manufacturing juggernaut will test the policy mettle of EMDEs. Developing countries will have to figure out a way of meeting the import competition from China and, at the same time, boosting domestic manufacturing capabilities, sometimes with the collaboration of Chinese investment and technology.

As the Rhodium group research points out, Brazil and Turkey recently raised tariffs on the import of E-Vehicles from China but, at the same time, took steps to attract Chinese FDI in the sector.

India has a similar decision to make, given its large bilateral trade deficit with China. It makes India vulnerable to potential abrupt supply disruptions. Replacing some well-chosen imports with investments from China raises the prospect of creating domestic know-how down the road. It may have other risks, but as with many other matters, we don't live in a first-best world. We have to choose between second and third-best choices.

In sum, to boost Indian manufacturing and plug India into the global supply chain, it is inevitable that India plugs itself into China's supply chain. Whether we do so by relying solely on imports or partially through Chinese investments is a choice that India has to make.

5.20. **Deepening the corporate bond market:** Going forward, the investment needed to steer India's economic growth has to be through a multitude of financing options beyond bank financing. India needs both banks and capital markets to provide the required finances sourced from a sustained high level of household savings. An active corporate bond market becomes critical in this context. An efficient corporate bond market with lower costs and quicker issuing time can offer an efficient and cost-effective source of longer-term funds for corporates. However, the size of the corporate bond market in India, scaled by GDP, remains small compared to other major Asian emerging markets such as Malaysia, Korea, and China.[13] The Indian corporate bond market lacks depth since it is dominated by highly-rated issuers and a limited investor base of domestic institutions.

5.21. **Tackling inequality:** Globally, widening inequality is emerging as a crucial economic challenge confronting policymakers. The 2022 State of Inequality in India report[14] observed that in India, the top 1 per cent accounts for 6-7 per cent of the total incomes earned, while the top 10 per cent accounts for one-third of total incomes earned. The Government places significant focus on this issue and all the critical policy interventions being undertaken with a focus on creating jobs, integrating the informal sector with the formal sector, and expanding the female labour force are aimed at effectively addressing inequality. Tax policies on the treatment of capital and labour incomes will likely play a more important role in the coming years, especially since the deployment of technology like AI may have a more deleterious impact on employment and income.

13 https://www.bis.org/review/r220824c.pdf
14 The State of inequality in India, Institute for Competitiveness, 2023 (https://tinyurl.com/8ruecubn)

5.22. **Improving the quality of health of India's young population:** The Indian Council for Medical Research, in its latest Dietary Guidelines for Indians published in April 2024[15], estimates that 56.4 per cent of the total disease burden in India is due to unhealthy diets. The report also goes on to observe that the upsurge in the consumption of highly processed foods laden with sugars and fat, coupled with reduced physical activity and limited access to diverse foods, exacerbate micronutrient deficiencies and overweight/obesity problems. Estimates show that the adult obesity rate in India has more than tripled, and the annual rise in children's is the steepest in the world for India, behind Vietnam and Namibia, according to the World Obesity Federation[16]. The National Family Health Survey, 2019-2021 presents a very penetrating portrait of the health status of India's population (Box V.2). If India needs to reap the gains of its demographic dividend, it is critical that its population's health parameters transition towards a balanced and diverse diet.

Box V.2: India's expanding obesity challenge: Observations from National Family Health Survey (NFHS-5), 2019-2021

Obesity is emerging as a serious concern among India's adult population. According to National Family Health Survey 5 (NFHS-5), the percentage of men facing obesity in the age bracket 18-69 has increased to 22.9 per cent in NFHS-5 from 18.9 per cent in NFHS-4. For women, it has increased from 20.6% (NFHS-4) to 24.0% (NFHS-5). The spatial distribution of India's obesity challenge as per NFHS-5 vis-à-vis NFHS-4 reveals the following:

- In Tamil Nadu, for men, it is 37.0% (vs. 28.2% in NFHS-4), and it is 40.4% for women (vs. 30.9% in NFHS-4).
- In Uttar Pradesh, for women, it has gone up to 21.3% (NFHS-5) from 16.5% (NFHS-4), and for men, it has gone up to 18.5% (NFHS-5) from 12.5% (NFHS-4).
- In Kerala, for women, it has gone up to 38.1% (NFHS-5) from 32.4% (NFHS-4), and for men, it has gone up to 36.4% (NFHS-5) from 28.5% (NFHS-4).
- In West Bengal, for women, it has gone up to 22.7% (NFHS-5) from 19.9% (NFHS-4), and for men, it has gone up to 16.2% (NFHS-5) from 14.2% (NFHS-4).
- In Karnataka, the increase over NFHS-4 is 7% points for women (30.1% vs. 23.3%) and nearly 9% points (30.9% vs. 22.1%) for men.
- In Andhra, it is 36.3% for women (vs. 33.2%). However, for men, the number has dropped to 31.1% (vs. 33.5%).
- At 30.1% and 32.3%, respectively, the proportion of women and men who are overweight in Telangana has increased from 28.6% for women to 24.2% for men in NFHS-4.
- In Maharashtra, for women, it has remained the same across NFHS-4 and NFHS-5 at 23.4%, while for men, it has gone up to 24.7% (NFHS-5) from 23.8% (NFHS-4).

15 Dietary guidelines for Indians, ICMR- National institute of nutrition, 2024 (https://tinyurl.com/ts6xejc4)
16 Junk food's USD 30 Billion opening India's next health crisis, Bloomberg, 2023 (https://tinyurl.com/52wtd7r9)

- In Madhya Pradesh, for women, it has gone up to 16.6% (NFHS-5) from 13.6% (NFHS-4), and for men, it has gone up to 15.6% (NFHS-5) from 10.9% (NFHS-4).
- In Jharkhand, for women, it has gone up to 11.9% (NFHS-5) from 10.3% (NFHS-4), and for men, it has gone up to 15.1% (NFHS-5) from 11.1% (NFHS-4).
- In Bihar, for women, it has gone up to 15.9% (NFHS-5) from 11.7% (NFHS-4), and for men, it has gone up to 14.7% (NFHS-5) from 12.6% (NFHS-4).
- In the NCT (Delhi), the proportion of women with obesity is 41.3% (vs 33.5%), and for men, it is 38.0% (vs 24.6%).

At the All-India level, a quick perusal of the data shows that the incidence of obesity, as per NFHS5, is significantly higher in urban India than in rural India (29.8% vs. 19.3% for men and 33.2% vs. 19.7% for women). Combined with an ageing population in some states, obesity presents a concerning situation. Preventive measures must be taken to enable citizens to have a healthier lifestyle. Here, it is pertinent to note that the NFHS-5 Survey overlapped with the Covid-19 pandemic. Therefore, with restrictions on outside activities and lockdowns, sedentary lifestyles may have become more entrenched, resulting in the obesity proportion going up much more in NFHS-5. If the trend reverses in NFHS-6, it will be a healthy sign.

GROWTH STRATEGY FOR *AMRIT KAAL*: STRONG, SUSTAINABLE AND INCLUSIVE

5.23. The policy reforms that the Government of India has been following over the past decade have laid the foundation for sustained moderate to high growth in the coming years. To sustain growth for nearly a generation up to 2047 or more and to ensure that it makes people's lives better and fulfills their aspirations, bottom-up reforms are necessary. This section presents a six-pronged growth strategy that can guide the bottom-up reform process going forward.

5.24. **Strategy for boosting private sector investment:** India's private gross fixed capital formation must accelerate in Machinery & Equipment and Intellectual Property products so that quality jobs can be created. The focus of the Government should be on creating an enabling policy and regulatory environment for the upgradation of capacity and know-how of component manufacturers, increasing the availability of trained human resources, addressing resource bottlenecks and regulatory impediments, etc. Capital formation in the private sector, after the consolidation in the second decade due to balance sheet issues, has begun to recover post-Covid. Nonetheless, there is significant scope for boosting India's private investment, especially in the context of investment requirements facing the Indian economy in the areas of infrastructure, green transition, etc. The Government of India has undertaken significant initiatives in this direction, which include Aatmanirbhar packages, the introduction of the Production Linked Incentive (PLI), investment opportunities under the National Infrastructure Pipeline (NIP) and National Monetisation Pipeline (NMP), India Industrial Land Bank (IILB), Industrial Park

Rating System (IPRS), the soft launch of the National Single Window System (NSWS)[17], etc. The focus needs to be on the implementation of these measures with a target of putting the Private Sector Non-Residential Investment (including equipment, structures, software, and R&D) on a sustainable footing so that it can catalyse the efforts towards increasing investment to 35 per cent of GDP.

5.25. **Strategy for the growth and expansion of India's Mittelstand[18]:** Strengthening India's MSME sector is central to India's growth in the coming years. MSMEs are the backbone of the Indian economy, contributing approximately 30 per cent of the country's GDP, 45 per cent of manufacturing output, and providing employment to 11 crore of India's population[19]. The Government of India has been proactive in boosting the growth of the MSME sector, through initiatives such as the allocation of ₹ 5 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS) for businesses, including MSMEs; equity infusion of ₹ 50,000 crore through the MSME Self-Reliant India Fund; New revised criteria for the classification of MSMEs; rollout of Raising and Accelerating MSME Performance (RAMP) programme with an outlay of ₹ 6,000 crores over 5 years; Launch of Udyam Assist Platform (UAP) on 11.01.2023 to bring the Informal Micro Enterprises (IMEs) under the formal ambit for availing the benefit under Priority Sector Lending (PSL)[20]. These initiatives have been formulated keeping in mind the key challenges the sector faces, primarily for access to timely and affordable credit. Important though it is, however, financing is only one of the key challenges that the sector faces.

5.26. Going forward, for the *Mittelstand* to expand, **deregulation is a vital policy contribution.** That is why the revival or creation of institutional mechanisms for dialogue with states on required policy changes is essential. Much of the action has to happen at the level of sub-national (state and local) governments. **Physical and digital connectivity (industrial and freight corridors), infrastructure upgrade and development, the introduction of bullet trains,** and the manufacture of semiconductor chips will contribute to the growth of the sector through the supply-chain network and the growth of ancillary industries that they catalyse, apart from the inspirational effects that projects such as building semiconductor fab and introducing a bullet train will have when they are operational. MSME entrepreneurs also need training in critical areas of enterprise management, such as human resource management, financial management, and technology. These interventions have to be targeted, tailored to the circumstances of each sector, and practical rather than academic. The productivity of owner-entrepreneurs unleashed by such training will be immense.

5.27. Export strategy is also a crucial component of elevating the manufacturing share of GDP and growing the country's *Mittelstand*. For instance, **'Make in India Mittelstand (MIIM),'** a collaboration between India and Germany, focuses on driving innovation and enhancing economic cooperation by encouraging small and medium-sized German companies to invest

17 PIB press release of Ministry of Commerce & Industry dated 9th Aug, 2023 (https://tinyurl.com/yaxwv8xy)
18 Mittelstand commonly refers to a group of stable business enterprises in Germany, Austria and Switzerland that have proved successful in enduring economic change and turbulence. It is usually defined as a statistical category of small and medium-sized enterprises with annual revenues up to 50 million Euro and a maximum of 500 employees, (https://tinyurl.com/mrxkz5sm)
19 Invest India, 2023 (https://tinyurl.com/56393ekz)
20 PIB press release of Ministry of Micro,Small & Medium Enterprises dated 7th Aug, 2023 (https://tinyurl.com/4m465t7c)

and manufacture in India. Since its inception in September 2015, the MIIM programme has supported more than 151 German Mittelstand companies, resulting in a total declared investment exceeding €1.4 Bn in India[21], as of August 2021. A majority of these investments came in the automotive, renewables, construction, consumer goods, electronics and electricals, chemical, and waste/ water management sectors. Striking the right balance between the trilemma of trade with China, investment by China, and India's territorial and non-territorial integrity and security is part of the strategy of growing India's Mittelstand.

5.28. **Strategy for removing the growth impediments in the agricultural sector:** The importance of the agriculture sector in the Indian economy and the impediments confronting the sector have been discussed in detail in the literature. Agriculture is at the nexus of three of the greatest challenges of the 21st century – sustaining food and nutrition security, adaptation and mitigation of climate change, and sustainable use of critical resources such as water, energy, and land. Agriculture and allied sectors such as horticulture, livestock, fisheries, and dairy and activities such as food processing hold significant potential for gainful employment. Given the geopolitical and technological threats that both manufacturing and service sectors face, it makes immense sense to do whatever it takes to realise the latent employment potential in agriculture. It is both urgent and important for India to re-imagine the contours of its primary sector for the next generation. India may have to abandon the old development playbook of moving on from agriculture to industry and services as economic development matures. Far from fading away with economic development as has happened with other countries in the past, in the changed geopolitical and evolving climatic circumstances, it may have a very important role to play in India's physical, food, and economic security.

Box V.3: A farmer-friendly policy framework

The Indian agriculture sector is a success story. The country has come a long way from being a food deficit and importing country in the Sixties to being a net exporter of agricultural products. At the same time, it is important to recognise that India has a good scope to enhance value addition in agriculture and make employment in agri-value chains both remunerative and attractive among Indian youth. Unlike East Asian economies and developed countries of the West, India has yet to fully exploit the potential of agriculture to contribute to economic growth and employment generation.

Indian agriculture is not in a crisis now but requires a serious structural transformation because climate change and water criticality loom large in the times to come. The surge in agricultural employment in Covid years due to reverse migration, the decline in the growth rate of value addition in agriculture in FY24, and an extremely hot summer in the Northwestern and central regions of the country in the summer of 2024 with rising water stress and energy consumption make a serious and honest stock-taking of India's farm sector policies imperative. If we grasp the nettle, then the chances of enhancing the contribution of the farm sector to national food and nutritional security, as well as economic prosperity in rural India, go up considerably. Higher and well-shared prosperity in the rural economy can

21 Invest India, 2024 (https://tinyurl.com/23nsxy4b)

help spur much-needed demand for industrial goods, thus spurring a manufacturing sector take-off. Thus, agriculture has a much higher multiplier effect on overall GDP than indicated by its direct contribution.

In a growing economy, the share of agriculture declines over time. That is normal. That is considered progress. Households, as their incomes rise, do not consume more food proportionately. The share of food in their consumption expenditure goes down, famously regarded as Engel's law. However, it does not mean that food is less consequential to their well-being. Within food, the expenditure on nutritious food (protein and vitamins) such as livestock products (milk and meat), fish, fruits, and vegetables goes up, which is in line with what is known as Benette's law.

Agriculture and farmers matter for a nation. Most countries understand that. India is no exception. India subsidises their water, electricity, and fertilisers. The former two are provided virtually free. Their incomes are not taxed. The government offers them a minimum support price (MSP) for 23 selected commodities. Monthly cash support is offered to farmers through the PM-KISAN scheme. In the past and in some cases, even now, Indian governments – national and sub-national – have waived their loans. So, governments in India spend enough resources to look after the farmers well. Yet, a case can be made that they can be served better with some re-orientation of existing and new policies.

Farm products are doubtless subject to the interplay of market forces. If anything, the relative inelasticity of food consumption works in their favour. This creates a conundrum. Prices rise when weather or other factors adversely impact the harvest. Farmers respond by increasing the area under cultivation for the next year, leading to a glut in supply, which drags down prices. On both occasions, farmers fail to reap any rewards – because of inadequate produce in the first instance and lower prices in the second.

Another risk for farmers is when output drops due to drought or drenching at harvest time. Prices rise, but the farmer is unable to benefit from the produce because it is inadequate. So, farming needs insurance. The challenge is to figure out the best forms of insurance and price support for farmers that do not distort incentives and create other costs for the economy, such as excessive water consumption, depletion of groundwater, soil quality erosion, and, equally, health costs through indirect encouragement of excess consumption of carbohydrates.

In theory, this insurance can come in the form of price support or income support. Price support interventions include direct price floors like the Minimum Support Price (MSP) or price-gap support like the Bhavantar Bhugtan Yojana that Madhya Pradesh experimented with in one season but gave up subsequently. Income support in the form of direct benefit transfers (DBT) like the PM KISAN is the preferred form of agriculture subsidy in many developed countries. Crop insurance, like the Prime Minister's Fasal Bima Yojana (PMFBY), is another form of income support, though it has a mixed record globally.

Given the vagaries of weather and the inherent difficulties of responding to prices promptly, there is an economic and moral case for farmers to be supported when market prices fail them. At the same time, farmers must have the freedom to benefit from market prices when market prices operate in their favour.

This often puts governments in the horns of a dilemma because, in relatively low-income countries, the interests of low-income consumers matter. Therefore, in addition to supporting farmers, governments are forced to intervene in the market to stabilise prices through policies like open market sales, trade controls, and measures against hoarding and speculation. In India, these measures come on top of the massive Public Distribution System (PDS) that underpins food security for the vast majority of the population, especially the poor and vulnerable.

However, such price stabilisation measures aimed at consumers often conflict with income-support policies for the farmers. Governments have no option but to do a delicate balancing act. Here, the combination of policies becomes important. It is about a basket of policies that serve the interests of both farmers and consumers. There is a strong case here that both with farmers and consumers, income top-ups, i.e., direct cash transfers, are more effective. Direct transfers allow the markets to function.

How do we let the markets function in the interests of the farmer? What can governments do?

(1) **By not banning futures or options markets at the first sign of price spikes.** These markets do not hurt consumers or farmers at all times. The bar for such bans must be set so high that their recourse must be almost non-existent. The intelligent regulatory design of such markets can obviate the need for bureaucratic interference in the futures market for agricultural commodities.

(2) **By invoking export bans only under exceptional circumstances** and allowing domestic consumers to substitute, especially if the agricultural commodities in question are not essential consumption items such as foodgrains. Even in those cases, the government can allow substitution effects to play out before responding to domestic supply concerns. For example, if sugar prices rise, consumers can consume less of it or switch to jaggery. It may even be a good thing for their health. In general, it is far easier for consumers to substitute or pare back consumption than for farmers to endure big losses because of ad hoc export bans or huge imports.

Farmers should be allowed to benefit from higher international prices. Bans on food exports also need to be telegraphed in advance lest hunger and famine elsewhere in the world worsen.

(3) **By re-examining the inflation-targeting framework.** Food constitutes a very high portion of the consumer price index in developing countries. That is par for the course. Hence, when central banks in developing countries target headline inflation, they effectively target food prices. So, when food prices rise, inflation targets come under threat. Therefore, the central bank appeals to the government to bring down the increase in the prices of food products. That prevents farmers from benefiting from the rise in terms of trade in their favour. India's inflation targeting framework should consider targeting inflation, excluding food. Higher food prices are, more often, not demand-induced but supply-induced. Short-run monetary policy tools are meant to counteract price pressures arising out of excess aggregate demand growth.

Deploying them to deal with inflation caused by supply constraints may be counterproductive. Therefore, it is worth exploring whether India's inflation targeting framework should target the inflation rate excluding food. Hardships caused by higher food prices for poor and low-income consumers can be handled through direct benefit transfers or coupons for specified purchases valid for appropriate durations.

(4) Specifically, with reference to India, **by increasing the Total Net Irrigated Area**. Several states are well below the national average. Investment in irrigation may make monsoon-watching a non-event, but it would enhance farmers' income security. Not only that, as in the case of power generation plants where the plant load factor has scope for improvement, India's irrigation efficiency can also improve. It is only 30-40 per cent for surface water and 50-60 per cent for groundwater. This calls for better water utilisation farming practices and technologies like drip and fertigation. It will help raise productivity and cut down water and fertiliser use by almost 50 per cent.

(5) Besides these, **by making farming consistent with climate considerations**. India produces too much foodgrains and sugar, too few pulses, oil seeds, and other cash crops. Grains such as rice and sugarcane are water-guzzling crops. Water criticality is escalating in India. Further, among foodgrains, the cultivation of paddy gives rise to methane emissions. Its methane emission potential is considerable. Sometimes, and under some conditions, Direct Seeded Rice (DSR) or even organic farming for some crops could help save water and chemical fertilisers. It is also important to recognise that India has achieved relative self-sufficiency in basic staples and has emerged as the largest exporter of rice in the world (almost 40 per cent of world exports in 2022-23). Exporting 20 MT of rice means at least exporting 40 billion cubic meters of water. At home, the Food Corporation of India currently has rice stocks that are more than three times the buffer stock norm. Excessive production of rice results from large subsidies for power for irrigation, water, and fertilisers. The time has come to promote 'crop-neutral incentive structures.' That would imply that pulses, oilseeds, and millets that save on power, water, and fertilisers need to be rewarded with equivalent subsidies embedded in rice production.

Further, the need of the hour is to move from basic food security to nutritional security. We need more pulses, millet, fruits and vegetables, milk and meat for that. Importantly, their demand is growing much faster than that of basic staples. So, farm sector policies should align more with a 'demand-driven food system' that is more nutritious and aligned with Nature's resource endowments.

In sum, there is a need to take a holistic view of these diverse considerations, such that economic policies, in general, and farm policies, in particular, benefit farmers and are compatible with priorities related to health, water, and climate.

Given India's natural competitive advantages, agriculture and allied sectors have immense scope to contribute to employment and economic growth. Policies that enhance the economic viability of farming, ensure food and nutritional security, and place it on an economically, climatically, and environmentally sustainable footing will attract private sector investment and pave the way for higher value addition by the sector while allowing public resources to be deployed in health, education, and skilling.

Hence, striving to achieve consensus with wide stakeholder consultations on the various issues in the sector is a multi-bagger in terms of the economic and social returns on the investment of effort.

5.29. Strategy to secure the financing of green transition in India: Given the climate financing needs confronting India, there is a need to exploit the rapidly growing pool of global green capital from sovereign wealth funds, global pensions, private equity, and infrastructure funds. Ways to do so include addressing barriers to investment in transition projects, fostering a sustainable finance ecosystem, and diversifying funding sources. There is also the need for innovative and tailored approaches to effectively channel funds into green finance. For instance, blended finance, which strategically integrates public and private capital, holds the potential to attract private sector involvement, mitigate investment risks, and enable the rapid and scalable deployment of resources needed to successfully transition to a sustainable, low-carbon economy. Furthermore, as India shifts to low-carbon energy to meet its environmental goals, sector-specific financial institutions can also help to mobilize green funds. Their specialized knowledge of the sector (especially the hard-to-abate sector) enables them to create innovative financial products tailored to transition projects' unique requirements. By directing investment to green initiatives, these institutions can drive the transition to cleaner energy, contributing not only to reducing carbon emissions but also to a more sustainable and resilient energy future. There is significant potential for enhancing the role of the International Financial Services Centres Authority (IFSCA) which can act as a conduit for attracting international capital crucial to fill India's climate finance gap. The Report on Transition Finance by the Expert Committee on Climate Finance has submitted their recommendations which can provide a roadmap for IFSCA to develop a climate finance ecosystem and instruments. India also can engage with multilateral development banks and explore the use of new and existing instruments that they have to offer to raise necessary finance which can be ploughed back into financing India's green transition goals.

Box V.4: Leveraging Market Finance: India's Catalytic Use of Multilateral Investment Guarantee Agency (MIGA)

India's economic trajectory towards higher middle-income status is reflected in how the country is evolving in its use of development finance from the World Bank Group. As a founding member of the World Bank, India became the dominant user of the International Development Association (IDA) – the primary source of concessionary financing from the World Bank. With increasing income growth, India graduated from the IDA concessionary financing to accessing funding through the World Bank's more commercial IBRD window and, in the process, becoming a contributor to IDA. As India begins to approach the borrowing limits for an IBRD country and given the planned investments in human capital, climate transition, and infrastructure, the country now needs to again shift its approach on how to best use multilateral finance. Today India needs to access market finance at scale to fuel its economic growth. In this context, India is drawing on the Multilateral Investment

Guarantee Agency (MIGA) of the World Bank Group to directly access financial markets on competitive terms by using the multilateral as a mechanism to leverage market finance in addition to drawing on its traditional role as a lender of multilateral finance.

Two MIGA guarantee operations have already been completed this fiscal year. MIGA provided a credit enhancement guarantee to Japan's MUFG investment bank for their commercial loan of $100 million to the Dedicated Freight Corridor Corporation of India Limited (DFCCIL). It will enable DFCCIL to complete the Ludhiana-Khurja and Kanpur-Mughalsarai sections of the Eastern Dedicated Freight Corridor (EDFC), and the last mile connectivity between the freight corridor and multimodal logistics terminals. The commercial finance is being executed through GIFT City in Gujarat, where MUFG has opened a centre. In addition, MIGA provided credit enhancement guarantees to Citi, Standard Chartered Bank, and Credit Agricole for their commercial loans totalingtotaling US$200 million, which was used to partially replace an existing US$500 million IBRD loan to the State Bank of India (SBI). The IBRD loan was provided to SBI in 2016 as part of the Grid Connected Solar Rooftop[22] Program to deliver rooftop solar systems to commercial and industrial customers across India.

Both operations reflect India's commitment to a green, economic growth strategy. The freight corridor is a much more efficient mode of transportation relative to road transport and reduces millions of tons of greenhouse gas emissions (GHG) each year. The SBI's financing of solar PV program provides clean, renewable energy and reduces greenhouse gas emissions by displacing thermal generation. For both programs, India used IBRD loans to finance the early phase of infrastructure development – allowing the operations to become commercially bankable – before replacing it with market financing backed by MIGA. In effect, IBRD investment helped the infrastructure investments cross the green-field risks, making the MIGA-backed market financing competitive with IBRD and, at the same time, allowing IBRD funds to be released for reinvestment in new development projects. The MIGA guarantee allowed DFCCIL to borrow internationally under commercial terms for the first time, thereby diversifying the SOE's financing options. For SBI, the guarantees also reduced its cost of borrowing and diversified its sources of funding. Importantly, in using MIGA, India is following one of the main recommendations of the report written under its G-20 Presidency, calling for the World Bank Group to play a greater role in leveraging market finance for middle-income countries.

5.30. **Strategy towards bridging the education-employment gap:** Skill development is at the centre of changes happening in education and labour markets amid the global megatrends, such as automation, action against climate change, the digitalisation of products and services, which are changing the nature of work and skills demands. With one of the youngest populations, a median age of 28, India can harness its demographic dividend by nurturing a workforce that is equipped with employable skills and prepared for the needs of the industry. Elevated levels and superior standards of skills help countries adeptly navigate the challenges and opportunities present in both domestic and international job markets. India has not only

22 MIGA Supports innovative solar rooftop systems in India, Press release by World Bank Group, 2024 (https://tinyurl.com/3x3yrj42)

recognised the potential of its young workforce but also the issues associated with skilling such a vast population. The National Policy on Skill Development & Entrepreneurship (NPSDE) focuses on bridging gaps, improving industry engagement, establishing a quality assurance framework, leveraging technology, and expanding apprenticeship opportunities. Prioritising equity, it targets marginalised groups and emphasises skill development and entrepreneurship for women. In the entrepreneurial domain, the policy educates potential entrepreneurs, facilitates mentorship, fosters innovation, enhances ease of doing business, and promotes social entrepreneurship. This, in combination with the National Education Policy (NEP), holds tremendous potential for bridging the education-employment gap in India. However, skills are acquired on the foundations built by the education system, especially at the schools. Therefore, schooling should focus on the basic requirement of foundational literacy and numeracy and the realisation of grade-appropriate learning outcomes. The NEP 2020 and NEP 2023 provides a good framework to realise this objective. It serves as a stimulus for reforming the educational system to increase the employability of the future generation. Implementing the NEP is key to achieving educational outcomes and preparing the youth for participating in the knowledge economy. In addition, new skilling initiatives and revamping the existing skilling initiatives should continue to be of high priority to the Government. The industry itself has much to gain from taking the initiative on this matter with academic institutions rather than leaving it only up to the governments – union and states – to do the heavy lifting. Indeed, it should be the other way around.

5.31. **Strategy towards building state capacity and capability:** Since 2014, India has made significant strides in delivering crucial infrastructure and implementing direct benefit schemes aimed at enhancing citizens' well-being. The civil service has been at the heart of these transformative efforts. The civil service's ability to design policies and ensure that initiatives reach all citizens has been critical to the success of these programs. However, sustaining and accelerating India's progress in the face of evolving challenges requires the state machinery to reimagine, reinvent, reinvigorate, and re-equip itself. After eighty years of relative stability post-WW II, it appears that convulsive change is in store in global affairs. It is unlikely to leave too many areas untouched – diplomacy, security, and domestic socio-economic development. At senior levels, the country will need the combined wisdom, knowledge and experience of both the generalists and specialists. Civil Service provides the former and the private sector the latter. In recent years, the Government has made a significant beginning in lateral entry into the senior ranks of Central Ministries through a transparent process. This needs to be substantially expanded. It is one way to plug the gap because the need for diverse skills and mindsets will only keep expanding in the coming years. Foundational and mid-career training for civil servants in all specialities has to be re-imagined for the recharging and rebooting of skills, aptitude and attitudes. Length of tenure too is critical to grow into the demands of, and be productive and purposeful, in senior roles. Accountability mechanisms and practices will become necessary, if not already, to ensure policy outcomes at scale and speed. Annual conversations on goals and measurement – at the beginning and the end of the year – at senior levels will usher in professionalism and accountability. While, in theory, the desirability of such a practice is not in doubt, these mechanisms and practices will themselves require many iterations for a better understanding of their feasibility, limitations, and utility to evolve before they are institutionalised more permanently.

Box V. 5: Mission Karmayogi's holistic approach to building state capacity in India

The First and Second Administrative Reforms Commission (ARC) reports had identified several barriers to improved capacity of the civil service. These included departments implementing policies in silos,[23] poor communication, strict information boundaries, and lack of collaboration which resulted in duplicate efforts and inefficient resource allocation.[24] Undergirding this structure was a personnel management system that hampered the capacity and motivation of civil servants to work efficiently. Under-resourced training institutes and infrequently updated training programs did not provide officials with the skills and specialisation they needed to grow professionally and meet the changing needs of public administration.[25,26] Performance management systems were not equipped with the proper mechanisms to assess, reward, and improve performance, and to align officials' capacities with the needs of the system.[27] Challenging work environments and lack of mentorship led to reduced motivation to excel at work.[28]

Addressing these problems has required looking beyond a single, definitive solution. In their seminal paper on the challenges of policy-making in diverse societies, Rittel and Webber (1973) propose that problems of public policy planning are 'wicked': they are inherently complex, multi-faceted, and resistant to straightforward solutions.[29] hey comprise multiple smaller problems and concern multiple actors, often with competing priorities. There is no clear point at which a problem of this nature can be said to be solved and no ideal solution for it. The government has responded to the wicked challenge of building state capacity by launching Mission Karmayogi, which deconstructs the problem into more tractable sub-components. The program endeavours to enhance state capacity using the 'Workforce-Work-Workplace' framework to address each level of the civil service as well as the linkages and interactions between them.[30] It provides a multi-pronged solution encompassing:

- Building the capacity of the **Workforce** centred on their roles and associated competency requirements at multiple career stages
- Improving the quality of the **Work** through role-based human resource management and decision-making
- Enhancing the **Workplace** through mentorship, better managerial practices, and improved physical infrastructure

23 First ARC, Report on Machinery of Government of India and its Procedures of Work, 1968, Chapter II, Section 2.2
24 Second ARC, Twelfth Report on Citizen Centric Administration: The Heart of Governance, 2009, Chapter 2, Section 2.6
25 Second ARC, Twelfth Report on Citizen Centric Administration: The Heart of Governance, 2009, Chapter 2, Section 2.6
26 Second ARC, Tenth Report on Refurbishing of Personnel Administration – Scaling New Heights, 2008, Chapter 4, Section 4.1
27 ibid., Chapter 5, Section 5.2
28 ibid., Chapter 7, Section 7.4
29 "Dilemmas in a General Theory of Planning," Horst W. J. Rittel and Melvin M. Webber, Policy Sciences 4, no. 2 (1973): 155-169.
30 Mission Karmayogi: A Silent Revolution,R.Balasubramaniam Journal of Governance 25 (July 2022), (https://tinyurl.com/ysevk6ut).

By connecting workplace roles and workers' competencies, Mission Karmayogi builds a much-needed bridge between capacity building and human resource management systems. Competencies are the attitudes, skills, and knowledge that are essential for a civil servant to perform their role successfully. As officials evolve in their careers, the competencies they are required to possess also evolve. Through Mission Karmayogi, the government is delineating the competency requirements for all civil servants in terms of their roles and duties, as well as the four Gunas or overarching virtues of civil servants as highlighted in the Karmayogi Competency Model.[31] Competencies then become a key tool for enhancing the performance of civil servants. Once competencies have been specified, they can be assessed using several measures, including workplace performance assessments, data from digital MIS systems, and 360-degree feedback mechanisms. This would enable the government to provide calibrated capacity-building support and identify the right person for the right role in government.

Capacity-building programmes, both in terms of pre-service training and ongoing professional development, can be designed to build the specific competencies that a civil servant needs to perform their role well. This also creates the space to expand beyond conventional training programs to draw on a range of approaches that are grounded in evidence-based adult learning principles, such as immersion programs, exposure visits, case studies (through the use of Amrit Gyaan Kosh[32]), and self-paced and technology-enabled learning. To achieve this at scale, technology-enabled capacity building will allow officials across cadres, states, and seniority to steer their professional development. The iGOT Karmayogi platform is rapidly shaping into a central node that enables civil servants to access tailored and need-based capacity-building modules, track their competency requirements and gaps, and share knowledge and learnings across departments.

In tandem with capacity building, Mission Karmayogi is also introducing a role-based human resource management system that would allow the government to match civil servants with roles based on the competencies they possess and the requirements of the role. Decision-making around postings, transfers, and promotions can then be guided by civil servants' demonstrated competencies and experience. This is a significant shift from the current rule-based approach, which will generate better incentives for performance among civil servants. Access to the universe of capacity-building resources - and not just what is considered relevant for their level - will enable civil servants to proactively plan their professional journeys within government in a manner that aligns with their areas of interest and expertise.

31 The Karmayogi Competency Model is a public human resource management framework developed by the Capacity Building Commission of India. The framework is built on four elements: self-awareness of one's own strengths and weaknesses, collaboration and inclusion of diverse voices towards a shared goal, transparency and compliance with the rules and regulation as well as Knowledge of systems and processes, and citizen-centricity and the motivation to transform citizens' lives through one's work.

32 Developed by the Capacity Building Commission of India, Amrit Gyaan Kosh is a dedicated knowledge bank for civil servants which houses teachable case studies, policy simulations, and interactive and immersive learning resources.

> Civil servants with enhanced capacities and improved fit for their roles will constitute high-performing and efficient teams. This will be accompanied by investments in building great workplaces for civil servants, characterised by a culture of motivation, shared purpose, and trust, and supported by stronger knowledge management systems. Senior civil servants will provide mentorship and guidance to early-career civil servants. Some of this is already happening in pockets but these practices will be more widely institutionalised. Upgrades to physical infrastructure will also support civil servants to boost their performance, while technology-enabled workplaces will improve efficiency and collaboration. Further, technological infrastructure, data, and workflow systems will strengthen institutional memory, providing a knowledge base to plan and implement a long-term vision for the social and economic performance of the nation.

OUTLOOK IN THE MEDIUM TERM

5.32. The Indian growth story over the last decade has been one of resilience. The country has weathered the onslaught of multiple global crises because the government dealt with them deftly by forging a recovery strategy that was uniquely designed to address the concerns of citizens while ensuring that the growth momentum continued to be sustained through a wide range of structural reforms. India’s strength has always been its institutions, and, many a time, the institutional strength has enabled the country to wade through multiple challenges.

5.33. The structural reforms undertaken by the Government of India over the course of the last decade have put the economy firmly on a growth path, thanks to which India is soon set to become the third largest economy in the world, following the US and China. In its April 2024 World Economic Outlook, the IMF has raised India's growth forecast for 2024-25 to 6.8 per cent from 6.5 per cent on the back of strong domestic demand and a rising working-age population, making India the fastest-growing G20 economy. It is in line with our expectations for economic growth, as mentioned in Chapter 1. India has graduated from being a low-income country to a low-middle-income country. As it journeys further towards middle and upper-middle-income status, aspirations of the people keep rising. Satisfaction with past progress fades away from memory quickly, and newer expectations take their place. The measurement of achievements in the present against rising aspirations leaves society appear restless and discontented. But, this is creative and not destructive. The latent energy of such aspirations needs to be harnessed even as they have to be met. This has to be carried out in a country of India’s size and within a democratic framework. There are no historical precedents and templates to follow for the complexity it entails. What has brought the economy to its present state from where it was three decades ago may not take us to the next destination. Awareness of the unique nature of India’s circumstances and its goals is necessary to prepare ourselves to participate in and contribute to its socio-economic progress. Our knowledge and attitudes have to continually evolve to keep up with the requirements that the project, ‘Viksit Bharat @2047’ entails. Open minds are a good place to start.

5.34.Given the above, the present chapter presents a six-pronged growth strategy premised on the understanding that the structural reforms of the last decade, focused on the supply side of the economy, have to give way to next-gen reforms that are bottom-up in nature to yield strong, sustainable, balanced and inclusive growth. Primary amongst these strategies is to ensure that capital formation in the private sector grows organically and steadily, delivering endogenous growth in jobs and a fair share of income for workers. Second, financing green transition for India is an area where public-private partnerships will be critical. There need to be innovative financing instruments that can help mobilise private capital towards India's transition efforts. Third, as far as MSMEs are concerned while bridging the credit gap remains a crucial element, the focus also needs to be on deregulation, enhancing physical and digital connectivity, and putting in place an export strategy that enables MSMEs to broaden their market exposure and scale up. Fourth, the potential of agriculture to be an engine of growth, development, and equity has to be exploited through intelligent farmer-friendly policies that are environmentally and climatically sustainable. Fifth, India's education policies and skill policies should adopt a laser-like focus on learning and skilling outcomes and need to be aligned with each other, as well. We can draw lessons from global experiences on how this could be achieved, such as the EU Cohesion Policy[33]. Lastly, enhancing state capacity and capability is critical to ensure that the growth strategy suggested in this chapter achieves fruition. Sustaining and accelerating India's progress in the face of evolving challenges requires dedicated investment in state machinery to reinvent and reinvigorate itself.

5.35. In Chapter 2 of 'The Indian Economy: A Review', published in January 2024, we wrote that there was considerable scope for the economy to grow at or above 7 per cent on a sustained basis if we could build on the structural reforms undertaken since 2014. The strengthening of the banking system, the creation of an Insolvency and bankruptcy framework, the institution of a nationwide Goods and Services Tax, and the expansion of the country's physical and digital infrastructure are but a few of them. The strategies presented in this Chapter seek to build on these policy initiatives.

5.36. The new government at the helm of affairs signifies continuity as well as change as India progresses towards the collective goal of ViksitBharat@2047. As envisioned by Prime Minister Modi, "*We need to walk the roadmap of progress, and it won't be solely determined by the government; the nation will shape it. Every citizen will have to give his input and actively participate in it. 'Sabka Prayas', meaning everyone's effort, is a mantra that turns the biggest resolutions into reality. Whether it's the Swachh Bharat Abhiyan, Digital India campaign, dealing with COVID-19, or the idea of Vocal for Local, we have all witnessed the power of 'Sabka Prayas'. It is through 'Sabka Prayas' that a 'Viksit Bharat' will materialise*[34]."

33 Education, training and lifelong learning remain a priority in the 2021-2027 period in EU cohesion policy. Overall, EUR 33.6 billion of EU planned allocations have been allocated to measures directly targeting education, training and skills development. The combination and coordination of measures supported by these funds will allow Member States and regions to strengthen their efforts towards more inclusive and quality education and training systems in an integrated manner, as well as support reforms in these areas, https://tinyurl.com/wsuwjsdj)

34 PIB press release of Ministry of Commerce & Industry dated 11th Dec, 2023 (https://tinyurl.com/yc2r4ate)

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