

BUILDING BACK BETTER: TOWARDS A GREEN RECOVERY OF INDIAN ECONOMY

Impact of COVID-19 on India's Economic Condition

The ongoing COVID-19 pandemic and containment measures have already caused a disruptive impact on India's economy. The estimates by different agencies including the Reserve Bank of India (RBI), The World Bank, International Monetary Fund (IMF) and credit rating agencies have put India's GDP growth forecast in the negative territory of 3.2% to 6% (contraction) for the fiscal year 2020-2021, the lowest India has seen since India's economic liberalisation during 1990s.

Massive challenges are being presented by abrupt shut-down of economic activities, physical distancing norms, lack of social-security safety-nets for hundreds of millions of unorganised sector and migrant workers, change in demand patterns of consumers on discretionary spending and a reverse migration of workers triggered by sudden loss of livelihoods. Under the imposed lockdown (March 25-May 31), it is estimated that less than a quarter of India's \$2.94 trillion economy was functional. There has been a major disruption in the supply chain due to shortage of workers and shutdown of logistics. As per an ILO study, "The COVID-19 crisis has the potential to push around 400 million informal sector workers in India deeper into poverty, with the lockdown and other containment measures affecting jobs and earnings". As per ILO,¹ in India, over 90 per cent of the total workforce (or around 419 million workers based on the 2017-18 PLFS) is informal (i.e. workers without any social protection). Of these, 121 million informal workers, are in urban areas and are most vulnerable to the direct effects of the COVID-19 crisis. Up to 53% of businesses have reported adverse impact of shutdowns due to COVID-19 on operations. The unemployment rose from 6.7% on March 15, 2020 to 27% on May 11, 2020 (CMIE <https://unemploymentinindia.cmie.com/>) with an estimated 140 million people losing employment. In survey of over 46,000 MSMEs in June 2020, conducted by All India Manufacturers Association, 1 out of 3 MSMEs indicated that their business was beyond recovery, representing a potential of some 20 million MSME closures during current fiscal year. The effects of the pandemic on the rural economy have been severely debilitating due to double whammy of disruptions in farm sector and allied activities including micro enterprises and the unprecedented tragedy of large-scale reverse migration to rural areas under duress. The exponential rise in unemployment requires major policy interventions at national and sub-national levels and several states have started working on their response packages to this end.

Inclusive Green Recovery

Policy and investment decisions taken for economic recovery from COVID-19 will determine if future threats to humanity and economies are mitigated or amplified. The United Nations while announcing the Guiding Principles for the rollout of the UN framework for the immediate socio-economic response to COVID-19 at country level, has included a focus on building back better and beyond the immediate needs so that the response steers recovery towards more sustainable trajectories, guided by the 2030 Agenda and its Sustainable Development Goals. It is imperative upon the nations that the recovery from COVID-19 is facilitating transition towards Green Economy. The key aspects of 'Building Back Better' entail delivering new jobs and businesses through a clean, green transition; achieving green jobs and sustainable growth; de-risking through a shift from the grey to green economy; investing in the future; incorporation of climate risks and opportunities into the financial system as well as all aspects of public policy making and the international community coming together to forge co-operations.

The "UN framework for the immediate socio-economic response to COVID-19" (page 18) states that to "Support on strategies to green fiscal stimulus packages, the United Nations Development System will mobilize the Partnership for Action on Green Economy (PAGE) that provides integrated support on green jobs, economic and environmental issues to plan early response and recovery phase of the crisis. The document also states that "The collective know-how of UN is being mobilized to implement this framework over the next 12 to 18 months".

India's Stimulus Package for Revival and Recovery

India's response to the COVID-19 crisis has been timely and comprehensive. It is a judicious mix of relief packages and systemic liquidity infusion measures announced for immediate relief of different affected socio-economic groups and sectors; and several transitional as well as structural and transformational reforms for medium to long term. The Prime Minister in his address to the nation on May 12, 2020 announced an economic recovery package of Rs. 20.90 lakh crore [≈ \$ 0.29 trillion (*1 crore=10 million)] which works out to be approximately 10% of India's pre-COVID GDP. The five pillars of the recovery stimulus efforts are:

¹ ILO (forthcoming) "Rapid Diagnostics of the Impact of COVID-19 on the Economy and Labour Market: India"

1. Quantum jump in economy
2. Infrastructure
3. Tech driven system
4. Vibrant demography
5. Sustained demand and the supply chain to meet the same.

As stated by the PM, the focus of the announced package would be self-reliance- to empower local economies through local enterprises, particularly MSMEs, and agriculture. Land, Labour, Liquidity and Laws are to be the four components of the multipronged strategy. India can play a larger role in global supply chain by ensuring efficiency and quality of produce. It needs to churn out global brands – ‘from local to global’ and hence to be ‘vocal for local’ (i.e. propagate local produces) is the mantra. Speaking of the structural and policy reforms, some of them include:

Policy Reforms and easing credit availability for MSME Sector- The definition of MSME Sector has been revised upwards in all the 3 segments, Micro (investment <Rs.10 million, turnover < Rs.50 million); Small (investment <Rs.100 million, turnover < Rs.500 million) and Medium (investment <Rs.500 million, turnover < Rs.2.5billion). This will enlarge the gamut of the MSME sector and make a much larger number of units eligible for the benefits available to MSME sector, and vice versa, encourage businesses to grow thereby achieving economies of scale and improvements in quality without fear of losing MSME preferences. Automatic collateral free loans to MSMEs; Emergency Credit Line; equity infusion for MSMEs through Fund of Funds, Subordinate Debt for Stressed MSMEs, Partial Credit Guarantee Scheme 2.0 for NBFCs; E-market linkage for MSMEs and disallowance of global tenders in Government procurements up to Rs. 200 crores are measures to ease out credit availability and strengthen demand.

Strengthening Agricultural Infrastructure, logistics and capacity building: ‘Agri Infrastructure Fund’ that will finance projects at the farm-gate and aggregation points for efficient post-harvest management of crops has been announced with provision of Rs. 1 lakh crore for aggregators, farmers producers’ organisations (FPOs), primary agri-cooperative societies, agri-entrepreneurs and start-ups. Besides this, funds have been earmarked for schemes for micro food enterprises, cold-chains, cattle and dairy sectors, fisheries, herbal plantation, beekeeping, horticulture, organic and nutritional products.

Labour Code: Universalization of right of minimum wages, introduction of statutory concept of National Floor Wage, fostering formalization among unorganised sector workers; Occupational Safety & Health (OSH) Code made universally applicable to establishments engaged in hazardous work; modification in the definition of inter-state migrant worker; portability of welfare benefits for migrant workers; re-skilling fund introduced for retrenched employees and special credit facility for street vendors are some of the recovery measures aimed at the welfare of both formal and informal labour-force in India.

Policy reforms to fast-track investment – Fast-tracking of investment clearance through empowered group of secretaries, ranking of states and incentive schemes for Promotion of New Champion Sectors such as solar PV manufacturing; advanced cell battery storage; etc. are some of the important measures spelt out.

Mining/Energy Sector Interventions- To give a boost to the coal sector government has announced introduction of commercial mining in coal sector; fostering competition, transparency and private sector participation through revenue sharing mechanism, opening-up of the markets, and liberalised entry norms. Coal Gasification / Liquefaction will be incentivised through rebate in revenue share which will result in significantly lower environmental impact and will assist India in switching to a gas-based economy.

Private and Foreign Investment - FDI limit in the defence manufacturing under automatic route has been raised from 49% to 74%. Several ‘opening up’ measures have been announced such as private participation in space research and atomic power. Revamped Viability Gap Funding Scheme has been announced to boost private sector investment in Social Infrastructure. Further, privatization of distribution in power utilities is likely to revamp the power distribution and improve the profitability of DisComs.

Allocation from CAMPA for environmental activities - Compensatory Afforestation Management & Planning Authority (CAMPA) was set up under *Compensatory Afforestation Fund Act, 2016*. Plans worth Rs 6000 crores will be approved shortly for activities like afforestation and plantation works (including in urban areas), artificial regeneration, assisted natural regeneration; forest management, soil & moisture conservation works; forest protection, forest and wildlife related infrastructure development, wildlife protection and management etc. which are also aimed at benefitting tribal communities.

Greening of Economic Recovery

Due to the existential crisis confronting the economy, there is a possibility that national attention will be focused primarily on economic recovery running the risk of veering away from the green economy transition. However, the inclusive green economy approaches must be seen as complementing the transformational recovery for a

sustainable future. The economic recovery measures are also an opportunity to flatten the climate curve by aligning them with SDGs and Nationally Determined Contributions (NDCs) as part of the revival process with an understanding that the poor and vulnerable are at greater risk with deprioritization of climate and ecological concerns. There is evidence from the 2008 financial crisis that green economic recovery policies pursued through green stimulus packages did facilitate large-scale public and private investment in sectors like energy and environment and thereby kick-started a more resilient and sustainable economic recovery. Countries/Regions like the Republic of Korea, European Union and China which invested more on green technologies, present compelling examples. Responding to the economic crisis unleashed by COVID19, Germany has called for economic recovery programs to invest in jobs that are future-proof in the sense of environmental implications as well as their nature. According to a proposal floated by the Netherland, EU recovery funds should be guided by a regional ‘green finance taxonomy’ which should aim at rewarding investments in clean technologies.

From India’s perspective, it will be important to promote inter alia, sustainable agriculture, sustainable public procurement; resource efficiency and circularity across sectors and supply chains, green jobs and green local enterprises. This is also an opportunity to link recovery efforts with the clean energy transition, nature-based solutions and India’s NDC, such as through e-mobility or promoting off-grid renewable energy for applications such as agricultural and vaccine cold storages. Additionally, designing a package for development of MSMEs in COVID-sensitive sectors (e.g. with high workers’ intensity in workplace (e.g. construction, garmenting, etc) or with exposure to infection risks such as waste management) and supporting their transition to formality along with green entrepreneurial skills, and environmentally sound management of biomedical and municipal waste, including the heightened plastic pollution as a COVID-19 fallout could be important for green recovery.

PAGE is a joint UN initiative that aims to unleash green economy transition to foster SDGs and the agenda 2030, aligned with national priorities. It presents evidence-based approaches to demonstrate that ‘green’ stimulus packages based on elements like resource efficiency and green jobs can lead to cost savings and stimulate economic growth and can prove to be the cornerstones of crisis recovery and resilience. Green recovery investment packages are means to make recovery work for transitions towards green growth, resource efficiency and climate resilience. The COVID-19 situation can be used as an opportunity not only to help the economic sectors to regain momentum but also to ensure that the recovery is environmentally sustainable and socially responsible.

Some of the questions which need deliberation at this juncture are:

- ✓ How we can reform our fiscal and monetary policies to support, encourage, catalyze, and reward the inclusive green transitions towards co-existence and self-reliance.
- ✓ What regulatory/fiscal/monetary policy changes are required to raise productivity of natural resources?
- ✓ Can schemes for revival in rural demand generating rural employment, such as under Mahatma Gandhi National Rural Employment Guarantee Act, be aligned with green goals?
- ✓ Can we support the MSME sector to not only economically recover but also rebuild on cleaner production, resource efficiency and circularity principles? Can we leverage schemes like ZED (Zero Effect, Zero Defect) certification, Eco-mark, Credit Linked Capital Subsidy and Technology Upgradation Fund and reorient them towards green development?
- ✓ Should we assess whether current public support for the agriculture sector is delivering good value for money. Can we identify opportunities to repurpose ineffective/inefficient subsidies and direct them towards strengthening smallholder farmers and scaling up nature-based farming practices to ensure food security and resilience of rural communities during future pandemics?
- ✓ With several measures to foster credit availability for MSME and other sectors, can green bonds be potentially utilised to dovetail with the revival schemes announced?
- ✓ What policies are needed to encourage the value addition at local enterprises as an incentive for resource efficiency, conservation and equitable sharing?
- ✓ Can we build manufacturing systems with ability to quickly adapt to similar disruptions in future?
- ✓ How can the government spending on infrastructure, including on rural infrastructure required to boost the economy and employment can be aligned to a green roadmap?
- ✓ Can incentive schemes for Promotion of New Champion Sectors such as solar PV manufacturing be linked with sectors such as health care and be leveraged for generation of scalable green jobs?
- ✓ Can the credit packages and investment measures announced be used for creation of local green enterprises at decentralised level to creation of in-situ employment in underdeveloped geographies?
- ✓ Can the Government make affordable housing projects align with green building standards to reduce future energy needs?
- ✓ What policy strengthening is required in the coal sector to align it with sustainability principles and goals in wake of significant privatisation and commercialisation measures?