Distributed renewable energy (DRE) based technologies are promoting local entrepreneurship, innovation and economic growth in rural and semi-urban areas, such as this solar-powered loom in Gujarat.

Image: Abhishek Jain/CEEW

1. A new social contract: jobs, growth and sustainability

India is beset with a perfect storm of shocks. The COVID-19 public health emergency has led to an unprecedented, months' long lockdown of 1.3 billion citizens, which has displaced millions of migrant workers, put the economy under severe stress and stretched administrative capacity.

It is evident that going beyond immediate relief measures to counter the COVID-19 crisis, India needs a major economic recovery plan to counter the short- to medium-term adversities.

Such a plan will need deep pockets. The Government of India has already announced a special economic and comprehensive package of INR 20 lakh crore (USD 263.5 billion), equivalent to 10 per cent of India's GDP in 2019-20, which includes interventions for immediate relief, liquidity, and payment deferrals. These announcements have been made in phases, starting with a relief package of INR 1.70 lakh crore (USD 23 billion) in March 2020 under the *Pradhan Mantri Garib Kalyan Yojana* (PMGKY) to provide food and cash in hand to the poorest of the poor; interventions by the Reserve Bank of India (RBI) worth INR 6.5 lakh crore (USD 86 billion) — 3.2 per cent of GDP — to support businesses, in particular to micro, small and medium enterprises (MSMEs), and the broader, economy-wide interventions declared in mid-May[1] .

The package of INR 1.7 lakh crore of in-kind and cash relief included: free 5 kg wheat or rice and 1 kg of preferred pulses per month for the next three months to 800 million poor people; INR 500 (USD 6.67) per month for the next three months to 200 million women *Jan Dhan* account holders; a front-load of INR 2000 (USD 26.54) to 87 million farmers under the existing *Pradhan Mantri Kisan Yojana* (PMKY), and an increase in daily wages from INR 182 (USD 2.4) to INR 202 (USD 2.7) under the *Mahatma Gandhi National Rural Employment Guarantee Scheme* (MGNREGS), which would benefit 136.2 million families. These funds were credited into beneficiary accounts via direct benefit transfer (DBT) to eliminate leakage, improve efficiency and minimise the movement of people during the lockdown. The interventions by the RBI were aimed at injecting liquidity in the economy, facilitate and incentivise bank credit flows, ease financial stress, and normalise markets.

In his address to the nation on 12 May, Prime Minister Narendra Modi launched the *Aatma Nirbhar Bharat Abhiyan* (Self-reliant India Movement), exhorting citizens to be '*vocal for local*', indicating the strategic shift in focus to a robust domestic production and supply chain, and a cautious outlook towards international trade.

Aatma Nirbhar Bharat Abhiyan will build on the pillars of economy, infrastructure, technology-driven systems, demography and demand

A significant portion of the stimulus is directed towards India's mammoth MSME sector, which employs 40 per cent of India's total 450 million informal workers. The stimulus addresses both demand and supply constraints of MSMEs and takes a systemic view to boost demand for this sector through enhanced local procurement via public tenders and virtual market linkages. A suite of financial and regulatory measures has also been offered to meet this demand.

The stimulus also aims to create additional liquidity for non-banking financial companies (NBFCs) and microfinance institutions (MFIs), so that businesses across the board have access to more debt. Emergency liquidity measures were also extended to alleviate short term distress for electricity utilities to maintain the viability of the power sector.

In parallel, the government has partially restarted bus and train services to allow migrants to return to their villages, and special flights to repatriate citizens stranded abroad. Some essential industries have also been permitted to operate, with restrictions, only employing workers already available in those districts, and housing them within industrial compounds.

Despite the right intentions, implementing these measures will not be easy. Financial aid to MSMEs would not be effectively distributed because of challenges with identifying and targeting those most in need. The challenge of millions of contract labourers and daily wage workers losing their livelihoods raises systemic choices: Will they return to the cities and, if not, what kinds of gainful employment could they find in the villages? The persisting social distancing and sanitisation directives will continue to disrupt supply chains, impede cash flow and cash recoveries, and make it difficult for businesses to resume normal operations.

Even as the immediate attention remains on the humanitarian emergency — for health services and relief to stranded workers and vulnerable communities — India has now set out to implement a credible recovery-cum-stimulus strategy.

The credibility and efficacy of the strategy would rest on it promoting a recovery that is inclusive, equitable, and fiscally and environmentally sustainable.

Faced with the dilemma of containing the outbreak and saving lives, on one hand, and preserving businesses and livelihoods, on the other, the government has devised fiscal and monetary policy responses to cover two planning horizons: Immediate, to address relief measures to cushion the nationwide lockdown; and medium- to long-term, to deal with the socioeconomic aftereffects in terms of public healthcare, priorities for state expenditure, and regulations to operate businesses and establishments. This road to recovery also critically depends on the exit strategies from the lockdown.

The new social contract would rest on a commitment to jobs, growth, and sustainability; and a razor-sharp focus on tail-end risks

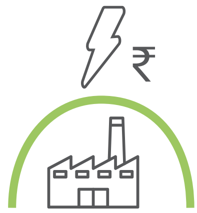
A new social contract

The COVID-19 pandemic gives us an opportunity to shape the economic recovery in a manner that would deliver a new social contract between the state, citizens, and enterprise. **This new social contract would rest on two pillars: commitment to jobs, growth, and sustainability; and a razor-sharp focus on tail-end risks.**

Policymakers usually dismiss the trinity of jobs, growth, and sustainability as 'impossible'. Often, public policy interventions prioritise two out of these three objectives. Building a new social contract rests on squaring this impossible trinity by reorienting the economic structure from being exclusionary to making sustainable development much more people-centric and inclusive.

The question: How do we ensure jobs, growth, and sustainability in these challenging times?

- **Informed decision-making**: The challenge is to predict, forecast and plan in the absence of information as traditional data sources will take at least another year to survey and collate findings. In the interim, can rapid assessment surveys or other proxies provide viable insights?
- **Equity**: How do we deliver at least minimum support to targeted beneficiaries?
- **New drivers of investment and growth**: How do we ensure that planned investments go ahead and do not fall back, and find new avenues, for example, with MSMEs as drivers of employment and, therefore, growth, especially in smaller towns and rural areas?
- **Greenfield opportunities**: How do we convert this crisis into an opportunity to invest in and develop new areas which would be more resilient against widespread environmental and health shocks?



Tap greenfield opportunities that are more resilient to environmental and health shocks

Towards these ends, India should:

- **Identify green sectors** with high employment coefficients for new greenfield investment, given the low interest rates and liquidity injected by the RBI. This would stimulate the first pillar under the *Aatma Nirbhar Bharat Abhiyan* i.e. the economy.
- **Define project and non-project risks for sustainable investments** and institutionalise mitigation tools to address traditional investor conservatism and wariness due to the COVID-19 crisis. This approach would be particularly important to trigger additional investment under pillar two of the *Aatma Nirbhar Bharat Abhiyan*, namely infrastructure.
- **Use fiscal stimulus to drive entrepreneurial green activities** linked to agriculture, water, energy systems, healthcare, and industry. The entrepreneurial energy of India's citizens can be tapped to build resilient infrastructure (centralised and distributed), leverage latest technologies, create jobs and lengthen local supply chains, thus driving economic growth.
- **Leverage low oil prices** (and consequently higher tax revenues) to subsidise / give tax rebates for pollution mitigating equipment in power plants and industries. The increased tax revenues from duties on petroleum products could be deployed towards making India's energy infrastructure more environmentally sustainable.
- **Build resilience** in infrastructure and governance systems to respond to low-probability but high-impact tail-end risks. This is critical because, as the pandemic shows, such tail-end risks can bring the economy to a halt, imposing far greater costs than what would be otherwise spent to increase resilience. Climate risks are non-linear and could trigger shocks across many parameters — food, water, heat stress, vector-borne diseases, extreme weather events, etc. — compounding the pressures on weak infrastructure. Building resilience against tail-end risks would have to be the foundation of the five pillars of India's self-reliant recovery.
- Drive a strong and sustained push for **attitudinal and behavioural change**. A social contract comes with responsibilities of citizens, especially the more privileged, towards the state and each other. The stimulus proposed by the government and many of the institutional and governance reforms suggested in this document will depend on behavioural nudges for private citizens and economic actors. A new culture of discipline would have to rely on adherence to rules without exception, mindfulness on how individual irresponsible actions adversely impact others, and a consciousness on how minor behavioural shifts can transform the landscape.

Proposing credible relief and recovery strategies

The Council on Energy, Environment and Water (CEEW) and the National Institute of Public Finance and Policy (NIPFP) have collaborated to assess various economy-wide and sectoral strategies, deployed through direct/indirect fiscal measures, regulatory support, or in-kind incentives.

We have evaluated several aspects of the recovery process while proposing these measures, including:

- **Identifying the solutions**: A crisis of this scale presents infinite problems across geographies, communities, industries, administrative agencies, and support services. We have curated a set of economy-wide and sectoral issues that need policy and structural interventions to solve urgent crises and/or create resilient systems that can withstand future emergencies. The solutions cover the gamut of using existing tools to solve new problems, or innovating ways to address long-standing issues exacerbated by the pandemic. We have also proposed ways for the Indian government to stay the course of sustainable development, with continued focus on resource security, cleaner energy options, and decarbonisation. Each solution has been evaluated on its potential to impact jobs, growth and sustainability. Some solutions have trade-offs and have been selected judiciously as the better option in the current situation.
- **Income or in-kind support**: It is difficult to plan relief and recovery amidst a rapidly unfolding global emergency of uncertain scope and duration. Fiscal solutions could cost money to implement, and/or save money through policy changes and process improvements. The government must balance financial and in-kind support from limited resources to provide safety and food, water, energy, and income security to people. We have asked the question: Is it enough to provide monetary handouts and bailouts for immediate relief, or should we invest in sustainable systems that offer long-term benefits?
- **Timeline**: Each solution is defined as an immediate, medium, or long-term fiscal or strategic measure. We have taken a time horizon of eight quarters from April 2020 to March 2022 for this analysis, although some proposals would continue to be implemented beyond that date.
- **Central versus state action**: The COVID-19 crisis has put the spotlight on India's federal structure. There have been high points of success of centre-state collaboration, like the strict countrywide lockdown that helped contain the spread of the virus and kept fatalities low, as well as friction, as seen during the unexpected, unprecedented, chaotic and, at times, tragic migration of millions of informal workers and urban poor back to their home states.

  Cash-strapped states have repeatedly petitioned the Centre for billions of rupees in aid and in-kind support such as bus and train services, medical equipment and staff, security personnel and emergency service workers, and rations and essentials, even though the Centre has little scope for intervention at the state-level. Each state has also set its own priorities and designed state-specific solutions ranging from on-ground assistance to people to monetary handouts, irrespective of directives from the Centre to standardise certain initiatives across states.

  We have accounted for these pros and cons of the federal structure while proposing our interventions, by clearly stating the scope of each initiative, existing and proposed policy and legislative measures, implementing authorities, and potential sources of funds.

- **Institutional interventions:** The proposed measures require coordination between multiple existing institutions, and/or setting up of news ones, ranging from temporary task forces to permanent agencies. While recommending the creation of any new institution, we have considered its explicit and unique purpose; time, effort, and cost to set up and operate; responsibilities and authority levels, and linkages with existing bodies.

- **Managing the public emergency**: The lockdown has disrupted lives and livelihoods, caused fear and anxiety, and led to social isolation, stigma and prejudices against certain professions and communities. The exodus of migrant workers has underlined the urgent need to build resilient communities, with avenues for economic support, mixed income groups, decentralised co-working spaces, targeted amenities and open areas[26].

  We have proposed certain urban planning tools and disaster management plans that can establish connectivity for essential supply chains, relief distribution, and evacuation. We recommend a participatory approach to accelerate decentralised economic revival, create a social net for migrants, and provide a buffer against further adversities and economic downturn (such as a second wave of COVID-19).

- **Exit strategies:** All temporary recovery measures undertaken to combat the immediate crises must have appropriate exit strategies. Embarking on well-intentioned but poorly planned ventures can lead to misuse and wastage of resources, and foster rent-seeking behaviour, thereby adversely impacting people, businesses and communities, and causing loss of trust and goodwill. We have proposed a clear timeline for the implementation of each initiative.