Policy WATCH

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Growth with Employment

13th WTO MINISTERIAL CONFERENCE
ABU DHABI - UAE
2024

In this issue

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RAJIV GANDHI
INSTITUTE FOR CONTEMPORARY STUDIES

1) Editorial

The Rajiv Gandhi Institute for Contemporary Studies (RGICS) works on five themes:

1. Constitutional Values and Democratic Institutions
2. Governance and Development
3. Growth with Employment
4. Environment, Natural Resources and Sustainability
5. India's Place in the World

This issue of Policy Watch deals with the theme Growth with Employment. The month of February saw a number of announcements about the economy – the quarterly and revised annual estimates of GDP growth; employment data from the periodic labour force survey, the poverty data based on household consumption expenditure survey and the agenda and outcome of talks at the MC13 – the 13th WTO Ministerial Conference at Abu Dhabi. The latter was important in light of the significance of exports in boosting growth and employment.

Unfortunately, the tendency of the Indian government to paint all news as good news takes away from the sanctity of such official statistics or press releases. The recent spurt in the GDP growth led to a record rise in the stock market but within a few days the numbers were being widely questioned.

We carry two articles on this – one an interview with former Chief Statistician of India, Dr Pronab Sen which appeared in the Financial Express and another from the Economic Times which cites various economists, all of whom are expressing doubts and questioning the basis for these buoyant estimates of GDP growth, when GVA growth is far behind (70 basis points, a record gap) and growth in consumption is also training,

In a similar vein, the article by Prof Santosh Mehrotra which appeared in the Wire, also questions the employment claims of the government. As he points out this is because the PLFS uses definitions not in compliance with globally agreed protocols of the ILO. "The lack of ILO-compliant definitions by NSO has the following effect: NSO regards unpaid family labour as employment, which CMIE does not. Nearly 100 countries of the world do not treat unpaid family labour as employment."

Next we carry daily reportage by CUTS-CRIER and the main outcomes of the recently concluded WTO MC13 at Abu Dhabi. Here again, the claims made by Union Minister Piyush Goyal are at variance with the outcomes on agriculture and issue of MSP.

Finally, as microfinance is the fuel for India's 70 million plus microenterprises, we carry a detailed report on it from the India Inclusive Finance Report, 2023. It shows how this sector has been greatly successful – in terms of access, operational health and financial sustainability.

We hope the readers find this issue of Policy Watch useful and enjoyable. Feedback is welcome.

Vijay Mahajan,
Director, Rajiv Gandhi Institute for Contemporary Studies

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2) 'Huge gap between GDP and consumption inexplicable' says Dr Pronab Sen former Chief Statistician of India

Interviewed By Priyansh Verma and KG Narendranath[1]

'Historically, consumption growth has nearly been at the same level as GDP growth, or slightly lower.'

Pronab Sen, the chairman of the Standing Committee on Statistics, and former chief statistician of India (Express Photo)

GDP growth in Q3 came in at 8.4%, much higher than forecasts. The findings of the recently released Household Consumption Expenditure Survey (HCES) 2022-23 said monthly per capita consumption grew by roughly 1.5 times since 2011-12, in both rural and urban areas, with a narrowing of the urban-rural gap, and a drop in food's share in the consumption basket. Pronab Sen, the chairman of the Standing Committee on Statistics, and former chief statistician of India, speaks about these sets of data to Priyansh Verma and KG Narendranath. (PV&KGN)

(PV&KGN): *It's normal for national income data to get revised over time, but this time around, the revisions are substantial, of unusual magnitude…*

Pronab Sen: Yes, the revisions have been unusually large. Revisions are a normal process, because when quarterly estimates are made for a year, the only real-time data in hand is that from the Securities and Exchange Board of India on listed corporates. Once the year is over, data on unlisted companies starts coming in from the Ministry of Corporate Affairs, requiring revisions of the estimates. The current revision suggests that listed firms outperformed the unlisted ones by a wide margin. But this is a pattern that will likely be repeated. So for the current data print, I expect a downward revision once new information comes in.

(PV&KGN): Subsidy allocation dropped 54% in Q3, and this jacked up GDP when the gross value added (GVA) was on expected lines. [GVA plus taxes less subsidies equals GDP]

Pronab Sen: Yes, the subsidy drop is huge.

[1] https://www.financialexpress.com/policy/economy-huge-gap-between-gdp-amp-consumption-inexplicable-3411036/

(PV&KGN): *Private final consumption expenditure (PFCE) is still weak, with growth of just 3.5% in Q3 upon a low base of 1.8%, and 2.4% in Q2…*

Pronab Sen: Yes, it's worrisome. Historically, consumption growth has nearly been at the same level as GDP growth, or slightly lower. However, the current gap is much wider, at nearly 5 percentage points. This has never happened before, and is completely inexplicable.

(PV&KGN): *Consumption growth was found to be below the GDP expansion, even by the latest household consumption expenditure survey…*

Pronab Sen: In HCES, the growth in consumption is usually significantly below the GDP growth. So I won't read too much into that.

(PV&KGN): Has a new private investment cycle started?

Pronab Sen: Not yet. A lot of investment is being driven by public capital expenditure. The bulk of private capex taking place at this point is corporate capex, and is already pretty high. But MSMEs are not undertaking any capex. There is no sign of a revival of MSME investments. Since 2020, MSME capex has been very low. This has to be revived.

Corporates don't face a financing problem (for investments), while MSMEs do. MSMEs are dependent on moneylenders, banks and NBFCs. The banking data tell you the flow of finances to MSMEs is low.

(PV&KGN): *There is a sharper drop in exports from labour-intensive sectors. What needs to be done about this?*

Pronab Sen: We are looking at a world in which a lot of developing countries have slowed down. They have a lot of excess capacity. So the competition in the export markets has become much more intense than it was. That's one part of the problem on the demand side. On the supply side, I suspect a lot of MSMEs, which used to be export-oriented, have suffered and have not come back fully yet.

(PV&KGN): *What do you attribute the decline in agriculture GVA in Q3 to?*

Pronab Sen: I am a little surprised with the figure. Crop production has suffered a little bit, but it still doesn't justify the contraction in total GVA. One has to look further into the data.

(PV&KGN): *India's potential growth rate seems to be around 6.5%…*

Pronab Sen: With an investment rate hovering around 31-32% of the GDP, the growth rate will not be above 6-6.5% on a sustained basis. Private sector capex will have to pick up, and only then the potential growth will increase.

I don't expect much (additional contribution) from large corporates in terms of growth in capex. The MSMEs will have to drive investments. Private capex has to go up. Within private capex, corporate capex is already high, and can't be expected to go much up.

(PV&KGN): *In infrastructure sectors like highway projects, you don't see large corporate capex…*

Pronab Sen: The old model of concession agreements for highway projects, the BOT model is dead. Now, the government is constructing roads, and leasing it out, that this (monetisation of brownfield projects) doesn't count as investment. Only when a new road is built, investment occurs.

(PV&KGN): *You're saying large corporates are not investing in infrastructure building, but otherwise, they are… enhancing their capacities, while MSMEs are not investing…*

Pronab Sen: At the end of the day, how do you get higher growth except by pushing up capacity utilisation, and it's already at an all-time high. So where is the growth going to come from? New capacity has to be created (by MSMEs too).

(PV&KGN): *If PFCE growth doesn't rise meaningfully, won't the growth slow further?*

Pronab Sen: Consumption drives growth and investments follow consumption. Unless consumption is robust, private entities would not invest. Both consumption and investments comprise around 80% of GDP, and are interlinked.

(PV&KGN): *Rural consumption is particularly weak, and demand for premium products is more buoyant. Isn't there a structural issue of consumption?*

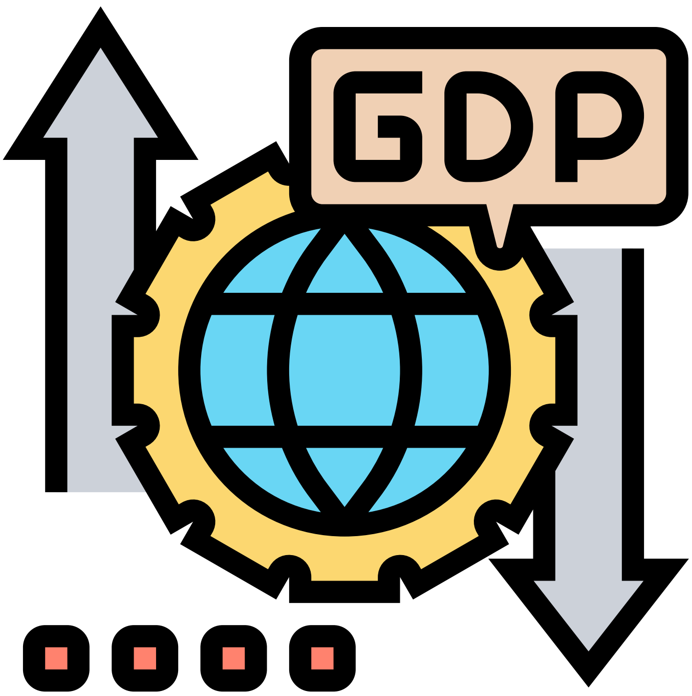
Pronab Sen: Since both agriculture and MSMEs are hurt, the overall demand for workers has moderated, which has put downward pressure on wages. It's worrisome if rural wages are going to rise.

(PV&KGN): *A 7% growth in FY25 seems possible as the base (FY24) has now become high…*

Pronab Sen: As the next year data comes, this year's will be revised downwards, so we may get a 7% growth after all.

(PV&KGN): ***Is the consumption survey for 2022-23 strictly comparable with the previous survey?***

Pronab Sen: No it's not. There have been changes in the sampling design, questionnaire, and methodology of data collection. All the estimates of poverty reduction based on the new survey are wrong, because the present poverty line is based on an old survey.



3) Digging deeper: Do India's stunning 8.4% Q3 GDP numbers have more to it than what meets the eye

Anand JC [2]

3.1 The Indian economy grew at 8.4 per cent in Q3FY24, a six-quarter high

Trumping economists' expectations of a 6.6 per cent growth, the Indian economy grew at a mouth-watering rate of 8.4 per cent in Q3FY24, a six-quarter high. Digging deeper, economists say one must interpret the headline growth figure with caution, as there is more to it.

The headline GDP figures for the first and second quarters of the ongoing financial year have been revised to 8.2 per cent and 8.1 per cent each, up from 7.8 per cent and 7.6 per cent respectively. Moreover, based on the Second Advance Estimate, the Centre now expects the Indian economy to grow at 7.6 per cent in FY24, higher than the previous estimate of 7.3 per cent.

These figures may be key to the Narendra Modi government's pitch for a potential third term in the government, ahead of the Lok Sabha elections. The government has been lauded by economists, India Inc. and politicians alike. Dalal Street rose 700 points on Friday, buoyed by the reading.

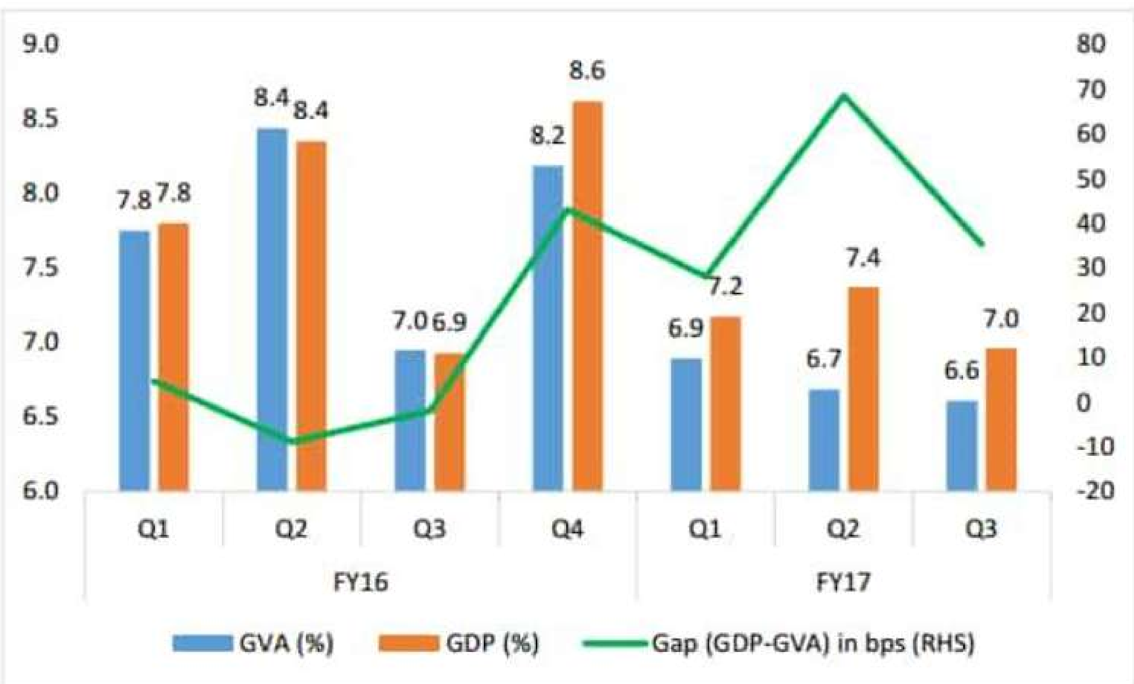
[2] https://economictimes.indiatimes.com/news/economy/indicators/digging-deeper-is-indias-stunning-8-4-q3-gdp-growth-rate-hiding-something-contradictory/articleshow/108127525.cms?from=mdr

Sectoral Growth (% Y-O-Y)

	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Agriculture, forestry & fishing	5.2	5.5	3.5	1.6	-0.8
Industry	0.6	6.3	6.0	13.6	10.4
Mining & Quarrying	1.4	4.3	7.1	11.1	7.5
Manufacturing	-4.8	4.5	5.0	14.4	11.6
Electricity, gas, water supply & other utility serv.	8.7	6.9	3.2	10.5	9.0
Construction	9.5	10.4	8.5	13.5	9.5
Services	7.2	6.9	10.7	6.0	7.0
Trade, hotels, transport, communication & broadcasting	9.2	9.1	9.7	4.5	6.7
Financial, real estate & proffessional services	7.7	7.1	12.6	6.2	7.0
Public administration, defence and other services	3.5	3.1	8.2	7.7	7.5
GVA (at basic price)	4.8	6.5	8.2	7.7	6.5

3.2 GDP-GVA numbers say: High divergence

Chart 1: Gap between GDP and GVA (%)



Source: SBI Research

The numbers released by the Ministry of Statistics and Programme Implementation (MOSPI) show a 10-year high divergence that economists see as contradictory. Apart from the Gross Domestic Product (GDP), it is the Gross Value Added (GVA) that helps decipher how well a country's economy is performing. GVA helps calculate the performance from the supply side of things. Simply put, GVA is GDP excluding indirect taxes and subsidies.

India's GVA growth moderated to 6.5 per cent on an annual basis in Q3FY24, in line with economists' expectations. India's GVA has slowed down in Q3 from 8.2 per cent in Q1FY24 and the upward revised figure of 7.7 per cent in Q2FY24. The gap between GDP and GVA had averaged 20 bps in the last eight quarters. It has now widened to 190 bps this time around. Economists see this divergence normalising in the coming quarters.

In essence, this divergence can be attributed to the large jump in net indirect tax growth.

Citi's Samiran Chakraborty held a similar view, saying that the above-8 per cent reading must be read with caution. "The above-8 per cent real GDP print should be read with caution given the large gap with GVA, decline in agriculture activity and two-paced economic growth (investment far outpacing consumption)," he wrote in a note.

3.3 India sees uneven economic growth

Indian industries fared well in the December quarter, with manufacturing and construction growing 11.6 per cent YoY and 9.5 per cent YoY respectively, reflecting the public capex support push.

The services sector too fared well, with recovery seen in the Trade, Hotel, Transport, and Communication segments, in addition to Financial, Real Estate, and Professional Services. However, in line with the narrative, private consumption growth in India leaves much to be desired, having grown 3.5 per cent in Q3.

"Although a pickup in private consumption was anticipated, owing to the festive season buoyancy that proxy indicators had pointed towards, the extent of upside was underwhelming for sure," news agency Reuters reported Yuvika Singhal, an economist at QuantEco Research as saying.

Interestingly, the government's spending declined sharply as it contracted 3.2 per cent in Q3FY24, having grown 13.8 per cent in Q2.

Gross Fixed Capital Formation (GFCF), or fixed investment, continued to drive growth, up 10.6 per cent in Q3. The reading in Q2 stood at 11.6 per cent. Monsoon disappointment meant that agriculture GVA growth contracted 0.8 per cent in Q3, down from 1.6 per cent in Q2.

Economists at Nomura have said that India's economic growth will continue to remain resilient. However, if one considers 'core GDP', which is GDP excluding valuables, discrepancies and inventories (volatile components), then India's underlying growth has in effect slowed to 4 per cent in Q3 from 4.7 per cent in Q2.

“The Q4 GDP growth reading, while superlative, should not be interpreted as evidence of strong growth. The moderation in core GDP growth and in GVA growth suggests growth remains uneven,” wrote Sonal Varma and Aurodeep Nandi, economists at Nomura in a note.

They note that the Indian economy continues to be primarily supported by strong public capex growth, while private consumption and private capex remain subdued.

“The sustainability of investment growth in the medium-term hinges significantly on the imperative need to strengthen consumption growth. The escalation of global geopolitical tensions and slowing external demand can further add to the downside risks to external sector,” said Rajani Sinha, Chief Economist at CareEdge.

3.4 FY25: The stage is set

The Central government and the Reserve Bank of India expect the country to register an above-7 per cent growth rate for the third straight year in FY24, a record that the Modi government would keenly cherish, given that the feat has been achieved in a volatile global environment, putting India in a ‘Goldilocks’ zone.

Source: Image

4) Ten-Year Record on Employment: Does the Reality Match the Promises or Claims?

Prof Santosh Mehrotra [3]

Source: Image

The current regime started with pretty impressive promises in 2014 with respect to employment (two core jobs a year). If realised, by March 2024, 40 crore new jobs should have materialised. Have they? If not, what is the reality?

4.1 The reversal of employment growth in non-farm sector

The reality is the following. First, *open unemployment was barely 2.1% in 2012* (the last year for which data was available before the BJP came to power). It had already nearly *tripled to 6.1%* in 2018 (National Survey Organization's Periodic Labour Force Survey (PLFS), conducted annually since 2017-18), the highest rate in 45 years of India's labour force surveys.

The total number of unemployed was one crore (2012) before the BJP came to power – but it had tripled by 2018 to three crore.

The youth unemployment rates went through the roof for: those with middle school (class 8) education it rose from 4.5% to 13.7%; with secondary education (class 10) from 5.9% to 14.4%; those with higher secondary (class 12) education from 10.8% to 23.8%.

Educated unemployment worsened sharply. For graduates, the unemployment rate rose from 19.2% to 35.8%; and for post graduates from 21.3% 36.2%. All this did not deter the Government of India (GOI) from announcing a New Education Policy 2020 that higher education enrolment should rise from the prevailing 27% (for the relevant age cohort of 18-23 year olds) to nearly double to 50% by 2035. How are these new higher education graduates supposed to be employed, if the current crop of graduates face rising unemployment.

[3] https://thewire.in/economy/what-we-know-about-indias-post-covid-economy-recovery-and-rising-inequality

4.2 And little progress in Skill India

If anything, the India Skills Report 2021 argues that *nearly half of India's graduates are unemployable,* i.e. education quality in our colleges/universities has deteriorated sharply, most noticeably after the massification of higher education in the last two decades. Two developments underlie this phenomenon. First, the number of affiliated colleges (attached to universities, where the exam is conducted by the state or central university) has grown in India from around 10 000 in the early 2000s to 42 000 to 2020.

The Universities (let alone the University Grants Commission) have limited capacity to regulate or monitor the activities of such colleges; yet they have grown at a rate of 4 new colleges per day, without a weekend break. Two, most of these colleges are private, set up by builders and contractors, in connivance with local politicians, who are often elected to high offices. If this pattern of private college growth, the quality is unlikely to improve, so unemployment may remain much the same – if non-farm jobs do not grow fast enough to absorb new entrants.

Skill India has been flaunted as part of a new National Skills Policy in 2015. It laid out the goal of skilling 40 crore workers by 2022. The outcome? The workforce share that was formally vocationally educated/trained in 2012 was 2.3%. In 2022-23 that share had barely moved to 2.4%.

Meanwhile, in administrative data reported by GOI for the Pradhan Mantri Kaushal Vikas Yojana (PMKVY): in its three versions**, the total trained were 1.8 million, 4.5 million, and 0.4 million in PMKVY 1, 2, and 3. In each PMKVY, from 2018-2023, cumulatively 14%, 43% and 7% were placed in jobs.** That tells us what the quantitative reach plus qualitative outcome is of these schemes. This is a short term training scheme (maximum 3-4 months), and a significant share of these "trained and certified" numbers are for Recognition of Prior Learning, lasting mostly two days at best.

Unemployment rates for those with formal vocational education had been 18.5% in 2012; it had shot up to 33% in 2018. For those with technical degrees unemployment rose from 18.8% to 37.3% in six years to 2018.

Yet, BJP can turn around and say that the share of youth voting for BJP in 2019 Lok Sabha elections was larger than in 2014 (CSDS Surveys). How do we explain this phenomenon? Two probable explanations apply: one, that the worsening of unemployment was too recent to not be internalised by youth by 2019; two, the GOI adroitly did not allow the 2017-28 PLFS data of unemployment to be released before 2019 elections results were out, but released the data a week after it had won national elections. (Of course, Pulwama-Balakot nationalism likely trumped any discomfort unemployment was causing.)

4.3 This decade current jobs crisis is deepening for three large groups…

There are three groups who need non-farm jobs, whose numbers are constantly growing – so we have both a high stock plus rising flow problem with unemployment. First, the stock of unemployed in 2023 October is 42 million (at 10% of the workforce, according CMIE), a stock to which every month a flow of a few hundred thousand get added.

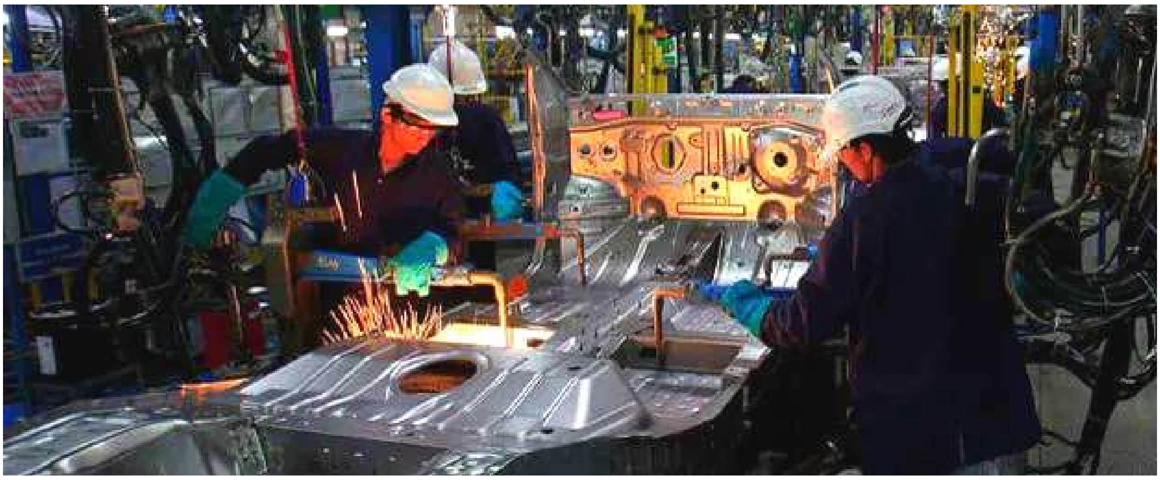
Second, there is a regular flow of young people (turning 15 or over) who are looking for work, who number at least eight million (or 80 lakhs), and their numbers grow each year, as the share of the working age population rises at an accelerating pace each year (at least till 2030, after which it will still rise but at a decelerating pace).

An important and growing share of these young are girls, whose educational levels have grown sharply in the last two decades, as demand for education rose. India achieved secondary enrolment of 85% for 15-16 year olds in 2015 (rising from 58% in 2010), with gender parity.

A third group in need of jobs is a stock of *under-employed workers in agriculture*, constituting 46% of the WF in 2023, who contribute only 15% of India's GDP. In 1970 the average farm plot size was 2.25 hectares; which fell, due to rising population to 1.25 ha in 2010, and continues to fall. These plot sizes are too small to achieve economies of scale, and adopt new technical inputs, so productivity and yields on these farms remain low, and hence drives down agri-incomes, forcing migration for non-farm livelihood.

Tragically, government policies since 2016 have not only reduced the number of new non-farm job creation till Covid. More importantly, starting April 2020, after a sudden, national lockdown of very high stringency (by international metrics, as determined by Oxford University's Blavatnik School of Governance), millions were forced to migrate back to migrant 'origin' states from 'destination' states: *a dramatic six crore (60 million) workers were added to agriculture between April 2020 and June 2023*.

4.4 Reversal of structural change: Agriculture rising and manufacturing falling



Source: Image

Structural change in India should consist of not only the share of industry in GDP rising, but also the share of workers in agriculture falling. In India we have seen the opposite since 2020: the share of agriculture has risen, and even worse, the absolute number of farm workers, which began falling for the first time since independence from 2004 (on account of rapid growth and rapid non-farm jobs growth), and which continued till 2019, has been reversed in a matter of <3 years.

This constitutes a reversal of the process of structural change, but it is the opposite of what was promised by GOI on assuming power: increasing the share of employment in manufacturing by 100 mn and a rise in share of its contribution to GDP from 17% to 25%.

Two points are in order here. The first is that for 25 years preceding 2015, the share of manufacturing in GDP had remained stable at around 17%.

Thanks to poorly designed and badly implemented policy decisions (demonetisation at four hours' notice of 86% of Indian currency, a national Goods & Services Tax with five rates introduced without adequate systems planning) manufacturing began shrinking from 2016 onwards, falling to all time low of 13% of GDP in the next four years.

Simultaneously, labour intensive manufacturing particularly collapsed, mainly in the unorganised sector. This happened despite the hype about 'Make in India'.

Employment in manufacturing also collapsed: it fell not only as a share of total employment (from 12.8% in 2012 to 11.5% in 2018), which is way below that of Bangladesh (16% of employment). This completed the reversal of structural change which will take years to correct.

While *manufacturing employment has only risen by 2022 to just above the level of total manufacturing employment prevailing in 2012,* manufacturing contribution to GDP has also only just climbed back up to pre-Covid levels (17%) – a lost decade for structural change.

The second point is that this reversal was happening with *economic growth slowing to 5.7% over the last 9 years compared to 8% pa over 2014-14*. This slowdown is structural, mostly already was occurring pre-Covid. There are several signs of this slowdown.

First, the number of job growth in non-farm employment had dropped to 2.9 mn (or 29 Lakh) per year over 2013 to 2019 from 7.5 million (75 lakhs) pa between 2004-5 to 2012. Due to fast non-farm job growth in the earlier period, real wages were rising, while they have been flat both between 2013-2019 as well as since Covid till 2023.

Hence, *private consumption – the first driver of growth – has only been maintained by cuts in household savings* (which have fallen as a share of GDP from 24% to 20%), and retail-level borrowing from banks has increased household debt levels. There are limits to sustaining private consumption based on expenditures by middle/upper classes.

The second driver of growth – investment to GDP – which was 31% (2013-14) when the current government came to power – has *never recovered to that level in the last decade.* It fell to 26% and is only just reached 29% in 2022-23. Public investment – has been unable to compensate for stagnant private investment (relative to GDP).

The third driver of growth – *exports – actually fell for the first time after 2014, for merchandise goods from its $318 billion level in 2013-14* – for the next five years, not recovering that level till the sixth year after 2014. It was held up by a rise in services exports.

The fourth driver of growth – government expenditure – had been in consolidation mode to bring the fiscal deficit down, as the slowing GDP growth was in turn slowing revenue growth. Hence, the GOI faced a silent fiscal crisis prior to Covid.

Yet GOI had no hesitation in reducing in one go the Corporate Tax Rate from 30 to 25% in 2019, losing 1.45 lakh crore per annum in CIT revenues. Not surprising that debt to GDP has risen from Rs 55 lakh crore in 2014 to Rs 172 lakh crore now; shooting up from <60% to now 81% of GDP.

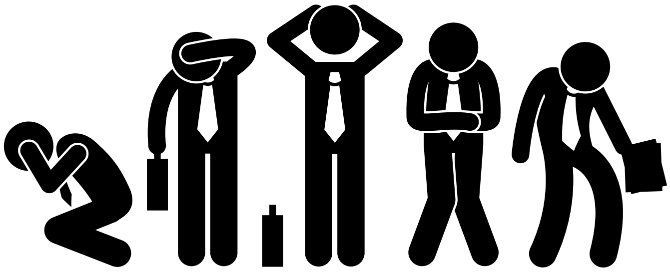
These dimensions of the structural crisis are keeping growth, after the rebound from the contraction of 6.6% in FY21, to just around 6% going forward (according to the IMF). This is nowhere close to the minimum of 8% pa needed to reduce poverty, let alone the 10-12 million new non-farm jobs needed every year.

4.5 GOI economists keep spinning new narratives

Not surprising, the GOI economists keep spinning new narratives about job growth in the last 10 years, every few months. The latest narrative is from HSBC, Morgan Stanley and S&P economists/equity analysts about the "New India" economy, based on a) digital infrastructure, based on the laudable India Stack; b) fin-tech, e-commerce, end-tech, logistics, and capital attracted to promote start-ups. However, this might at best be 15% of the economy. How this 15% will pull up the remaining 85% to take India to 8% pa GDP growth is left to the imagination.

The second effort of *spin doctors is to trash CMIE data on employment* – which is showing a 10% unemployment rate in October 2023, when the PLFS 2022-23 says it is 5.3% (according to Current Weekly Status, and lower by UPSS). The trashing of CMIE happens despite the following: the CMIE data uses internationally compliant definitions (which PLFS does not); its sample is actually larger than that of NSO's PLFS; and it covers both the organized an unorganised sectors, and both rural and urban areas.

The *lack of ILO-compliant definitions by NSO* has the following effect: NSO regards unpaid family labour as employment, which CMIE does not. Nearly 100 countries of the world do not treat unpaid family labour as employment, and despite the Standing Committee on Economic Statistics (I was a member 2020-2022), an expert body advising NSO for the last several years to revise its stand, it failed to do so.



The result: the >50 million increase in unpaid family labour in the last 6 years (as NSO shows) leads to a rising Labour Force Participation Rate and Worker Participation Rate, along with falling unemployment – the opposite of what the CMIE data shows, correctly. Hence, government economists continue to spin the narrative that employment has recovered post Covid.

A third effort of government economists is to *spin a narrative is that EPFO new registrations since 2017-18 are growing, so organized jobs have grown.* No serious economist outside the government considers EPFO registrations as an indication of new jobs, as opposed to, in some cases of some formalization of existing jobs.

A fourth effort such *economists is to claim that any comparison of PLFS data (which started from 2017-18) with earlier NSO labour force surveys* is not valid, as they are incomparable. We have shown above using the same comparison, that employment and wages were growing rapidly during 2004-12, compared to the period since then. However, this is about the silliest of the efforts to sell the government narrative, since even the NSO has in its 2017-18 compared its data to the period going back to 2004-5.

A *fifth narrative is that MUDRA and SVAnidhi loans have created millions of informal jobs*. It is true that self-employment share of total employment has grown from 52% to 58% in five years; but as we have seen, most of this increase is unpaid family labour, working with some own-account worker (whose numbers have also grown phenomenally). All this increase in self-employment is at the regular employment, which is most secure form of work. MUDRA loans, 95% of which are Shishu loans of maximum Rs 50,000, and average Rs 27,000.

All in all, GOI efforts to spin a jobs growth narrative has meant the following: it is not willing to recognise a glaring problem, and hence no concrete efforts are needed to change economic policy to make the growth pattern more labour-intensive. This means we are confronted with 'lost decade' of jobs, with barely 15-17 years left for the demographic dividend to end: a once in a lifetime opportunity in the life of any nation

Santosh Mehrotra is Research Fellow, IZA Institute of Labour Economics, Bonn.

5) Foreign Trade for Growth and Employment - MC13 – the 13th WTO Ministerial Conference at Abu Dhabi

CUTS-CRIER

Trade Ministers of World Trade Organization (WTO) members met in Abu Dhabi, UAE, for the WTO's 13th Ministerial Conference (MC13) between 26th Feb and 2nd March 2024. The Ministerial Conference is the WTO's highest decision-making body.

At Abu Dhabi, Ministers were to take up important issues such as the moratorium on e-commerce customs duties, dispute settlement reform, fisheries subsidies and agricultural trade, among others. All eyes were on the MC13 outcomes and the course they will chart for the future of the WTO.

5.1 Day-wise Report[4]

The 13th Ministerial Conference (MC13) of the World Trade Organisation (WTO) kicked off in Abu Dhabi, UAE on Monday, 26 February 2024. The MC13 motto is “Delivering for People through Trade”. We were all hoping for a successful Ministerial Conference which will reinforce people’s faith in the multilateral trading system with the WTO at its core.

The day 1 began with the ceremonial high-level Opening Session of MC13. The formal transmittal of work from Geneva to the Ministerial Conference was undertaken and a report of the WTO’s activities was presented to the Ministers.

A highlight of the opening session was the accession ceremony of Comoros and Timor-Leste, the latest countries to have formally joined the WTO. This now takes the organisation’s strength to 166. The formal entry of the two countries into the WTO, both Least-Developed Countries (LDCs), is a welcome development.

Later in the day, WTO Members participated in “Ministerial Conversations” on Trade and Sustainable Development, including Trade and Industrial Policy, Policy Space for Industrial Development, and Trade and Inclusion. The broad thrust of these sessions was to discuss how the WTO should cover these topics in its work.

Earlier on Sunday, 25th Feb, Ministers of a group of WTO Members issued a Joint Ministerial Declaration on the Investment Facilitation for Development (IFD) Agreement (WT/MIN(24)/17). This agreement seeks to improve the international business climate and facilitate the conduct of business by investors in all sectors.

The agreement marks an important recognition of the complementary nature of trade and investment and has the potential to enhance the transparency of investment measures and streamline administrative procedures. With the final text of the IFD Agreement now agreed, the focus will shift to its incorporation into the WTO Agreement.

Day 2 of MC13 began with an Informal Heads of Delegation Meeting, with Geneva-based Ambassadors of WTO Members reporting to Ministers on the agenda items. Two Working Sessions on fisheries subsidies and agriculture saw members make both progress and reversals.

Later, these sessions reconvened as convergence-building sessions, seeking to narrow down the major areas of differences among Members.

More working sessions on other important issue areas will be underway on Day3 as negotiators work to build consensus on elements of the Abu Dhabi package and the MC13 Declaration.

In another development, a group of WTO Members committed to implement disciplines on services domestic regulation, which seek to facilitate trade in services by enhancing transparency of services regulatory frameworks.

This outcome marks an important milestone in services trade regulation at the WTO. While these negotiations had been concluded by this group of Members earlier in 2021 (WT/L/1129), this development at MC13 now marks the incorporation of the new rules into Members’ services commitments, effectively translating into their entry into force.

These disciplines will be applied on a Most-Favoured-Nation (MFN) basis, which means that their potential benefits will accrue to the entire WTO membership. It remains open for all WTO Members to implement these disciplines.

[4] *Courtesy CUTS CRIER - CUTS Centre for Competition, Investment & Economic Regulation (CUTS CCIER)*

MC13 entered its business end on Day 3. The schedules of Ministers and their delegations remained packed, with sessions dedicated to dispute settlement reform, development and further consensus building on elements of the Abu Dhabi package and the MC13 Declaration.

It looked unlikely that Members will be able to finalise the work on dispute settlement reform in Abu Dhabi. At MC13, Ministers are likely to recognise the work done so far and reaffirm the MC12 mandate to achieve a fully and well-functioning dispute settlement system accessible to all Members by 2024, tasking their Geneva-based officials to continue discussions.

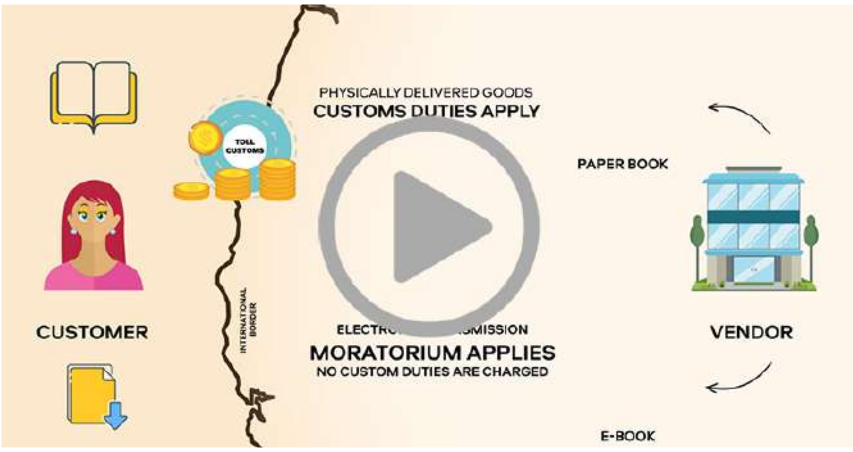
In effect, the future of the "core features" of the WTO dispute settlement mechanism (DSM), including the appellate process, remains uncertain.

[CUTS organised a side event on the scope of revival of the DSM with experts from UK, Zambia, Germany, Switzerland and India. See the last section for a report on this.]

Landing zones on agriculture, development and the extension of the moratorium on imposing customs duties on electronic transmissions remained elusive on Day 3. While there is optimism of finding convergence in some areas, results in others are likely to be limited to a recognition of the work done till date and possible outcomes left until the next Ministerial (MC14).

The last (scheduled) day 4 of MC13 saw hectic consultations among smaller groups of Members in a range of different configurations. The facilitators were engaged in finding landing zones and coming up with agreeable texts. It will then be up to the entire WTO membership to decide the way forward on these.

On electronic commerce, there seems to be broad agreement on taking forward the mandate of the 1998 Work Programme on Electronic Commerce (WT/L/274), but differences remain over the future of the moratorium on levying customs duties on electronic transmissions.



Source: Image

Both versions (one seeking to renew the moratorium, another to terminate it) remain on the table. Ideas around renewing the moratorium with some measure of fine-tuning for greater clarity on its coverage may also come up for further discussion.

Efforts for consensus building on the MC13 Declaration and the remaining elements of the Abu Dhabi package also remain underway.

In the last few hours, many new Statements by various countries, groups and negotiating coalitions were submitted to the Ministerial Conference. These included a Ministerial Declaration on the Contribution of the Multilateral Trading System to Tackle Environmental Challenges (WT/MIN(24)/28), and **a Ministerial Statement by India marking its formal objection to any proposal to include the adoption of the Investment Facilitation for Development Agreement for consideration at MC13** (WT/MIN(24)/24), among others.

As expected, late on 29 February, the WTO announced that MC13 would be extended by one day to give Members more time to resolve outstanding issues. Negotiators had a long night ahead of them. An informal Heads of Delegation Meeting on all issues would be held on Friday morning, with the formal closing pushed to later in the afternoon on Friday. The moot question was - will the additional hours be enough to produce some outcomes or like in the past unsuccessful conferences like in Seattle and Cancun the talks shifts to Geneva?

Day 5 of MC13 once again saw negotiations spill over till late evening. The final Heads of Delegations meeting was rescheduled multiple times to give delegations a few more precious hours to resolve impasses.

By the time of the closing session late on Friday night, WTO Members had finally agreed to the Abu Dhabi Ministerial Declaration (WT/MIN(24)/W/12/Rev.1) and its accompanying Package.

5.2 Overall, MC13 outcomes can be considered modest

The stalemate in the two-tier WTO dispute settlement process continues. MC13 could not lay out any concrete path forward for the restoration of the appellate mechanism, which is disappointing. The Ministerial Decision on Dispute Settlement Reform (WT/MIN(24)/W/22) makes no specific mention of the Appellate Body, only containing a reference to “issues regarding appeal/review”.

In a notable achievement, given the differences that had to be bridged, Members agreed to renew the practice of not imposing customs duties on electronic transmissions (“ecommerce duties moratorium”) till MC14 or the end of March 2026, whichever falls earlier (WT/MIN(24)/W/26/Rev.1).

There was also some encouraging news on developmental aspects. As a step towards their commitment to special and differential treatment (S&DT) of developing and least-developed Members, WTO Members agreed to a Declaration (WT/MIN(24)/W/23) which seeks to make S&DT provisions of the Agreements on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) and the Agreement on Technical Barriers to Trade (TBT Agreement) more precise, effective and operational.

In sum, although the success of such high-level inter-governmental plenaries should only be seen partially from the lens of the number of negotiations closed and agreements sealed, incremental progress is important. It is worrisome when legacy issues at the WTO remain unresolved even after many years, which in turn hinders progress on emerging issues. This is a vicious cycle.

5.3 What was agreed at WTO negotiations in Abu Dhabi?

WTO MC13 has again exposed both the traditional and emerging faultlines among world powers when it comes to the rules of (and the role of) trade in a fast-changing world.

WTO negotiators in Abu Dhabi failed to reach major reforms despite prolonged talks. A moratorium on tariffs on digital goods was extended until the next ministerial conference, but e-commerce discussions were hindered by countries like India and South Africa. Disputes over the WTO's top court persisted, impeded by U.S. opposition.

No deal was made on agriculture, particularly India's call for a permanent solution on public stockholding. Fisheries subsidies, aimed at preventing overfishing, saw no resolution.[5]

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[5] *South Africa formally accepts Agreement on Fisheries Subsidies: WTO DG Okonjo-Iweala praised South Africa's acceptance of the Agreement on Fisheries Subsidies at MC13, emphasising its significance for ocean sustainability. Including South Africa, 71 WTO members have accepted the Agreement, requiring 39 more for it to take effect. The Agreement, adopted at MC12, establishes global rules to combat harmful fishing subsidies, addressing issues like illegal fishing and overfishing. It also considers the needs of developing nations, providing a fund for assistance. Negotiations will continue at MC13 in February 2024 to enhance the Agreement's disciplines further.*

Negotiations on these issues will continue in 2024, highlighting the challenges of achieving consensus on crucial global trade matters.

MC13 ended with decisions on dispute reform, development; commitment to continue ongoing talks. On March 2, WTO members adopted a Ministerial Declaration outlining a reform agenda for the organisation, capping the 13th Ministerial Conference in Abu Dhabi.

A number of ministerial decisions were also made by the ministers, such as reaffirming the goal of having a fully operational dispute settlement system by 2024 and enhancing the application of the special and differential treatment (S&DT) provisions for developing and least developed nations (LDCs). At MC13, they also decided to carry on talks in every area where convergence was elusive.

Source: Image

5.4 No deal was made on agriculture – public procurement at MSP and stockpiling

Added by RGICS: [Although Union Minister Piyush Goyal praised India's adept handling of crucial issues at MC!3, citing "the successful protection of farmers…", the facts speak for themselves:

Under the global trade norms, a WTO member country's food subsidy bill should not breach the limit of 10 per cent of the value of production based on the reference price of 1986-88.

In the Peace Clause, WTO members agreed to refrain from challenging any breach in the prescribe ceiling by a developing nation at the dispute settlement forum of the Geneva-based organisation. This clause is there till a permanent solution is found to the food stockpiling issue.

Indian farmers and civil society groups, including the Samyukta Kisan Morcha, expressed concern at developed nations and farm exporters' stance, blocking the developing countries' demands for a permanent solution to food stockpiling.

Around 80 nations, including India, called for action on public stockholding, emphasising food security as a national concern. Yet no deal was made on agriculture, particularly India's call for a permanent solution on public stockholding and procurement at minimum support price (MSP).]

5.5 CUTS International MC 13 Side Event

CUTS International organised an MC13 Side Event on the topic "Why Should the WTO's Dispute Settlement System be Put Back on Track?" The event brought together a group of experts to present their thoughts and vision for the future of the two-tiered WTO Dispute Settlement Mechanism (DSM).

The Panel featured speakers from around the world and was moderated by Pradeep S Mehta, Secretary General, CUTS. Experts agreed on the need to preserve an accessible and well-functioning DSM to maintain certainty, predictability and stability in the administration and enforcement of trade rules. However, they cautioned that it would be challenging to restore the two-tiered WTO DSM, given the systemic fractures in the past few years.

5.5.1 Key takeaways

- The Appellate Body (AB) crisis is a reflection of a more fundamental problem of countries indicating that they will not be constrained by the enforcement of WTO disciplines. It is only one of the manifestations of a larger trend, and the apprehension is that it will affect the entire WTO ecosystem if not resolved.

- Any proposed dispute settlement reforms must be solution-oriented (addressing the existing differences) and should not add more layers to an already complex issue. Reforms must equip the DSM to tackle emergent tensions arising from the proliferation of unilateral measures.

- Reforming the AB must remain central to DSM reform. Alternatives to the two-tiered system and strategies for its realistic reform need to be undertaken in parallel.

- While a well-functioning DSM is ideal for a robust multilateral trading system, there remains immense value in the deliberative function of the WTO even without a two-tiered DSM. The WTO's functions and its role in global trade must not be seen as a zero-sum game.

Source: Image

6) Fuel of Microenterprises - Micro Finance Marching on

N. Srinivasan [6]

The performance of the microfinance sector, in the year under review 2022–23, has fully validated the optimistic forecast from the previous year with institutions acquiring new skills, adapting to the new regulatory environment, and expanding sensibly.

Globally, the Indian microfinance sector is perhaps the second largest Table 1.1) after China.3 The number of borrowing customers in India is about three times the next biggest market— Indonesia. The Indian microfinance coverage (self- help groups or SHGs and joint liability group or JLG-based microfinance institutions or MFIs) is more than 50% of households and 10% of the Indian population.

Table 1.1. Comparison of Microfinance Markets

Country	Savers (millions or mn) and Savings (Local Currency)	Borrowers (millions or mn)	Outstanding loans (Local Currency and USD)	Providers
India (March 2023)	SHGs 161 mn₹ 0.59 Tn	SHGs 83MFIs 73	₹ 1.88 Tn$23.5 bn₹ 3.52 Tn$ 44 bn	Banks, MFIs, non-bank finance companies (NBFCs), co-operatives, non-profits, SHGs
Bangladesh (June 2022)	66.4 mnBDT 800 bn	44.6	BDT 1594 bn$ 17.4 bn	Non-profit MFIs, government agencies /programs, banks
Cambodia (December 2022)	2.7 mnKHR 19.4 tn	2.1	KHR 39.9 tn$ 9.70 bn	Deposit taking and non-deposit MFIs
Philippines (December 2020)	-	17.0	Peso 365 bn$ 7.6 bn	Banks, microfinance NGOs, co-operatives
Indonesia (December 2019)	-	56.8	Rupia 28.9 tn$ 2.1 bn	Non-banks, MFIs, co-operatives
Pakistan (March 2023)	98.1 mnPKR 487 bn	9.25	PKR 509 bn$1.8 bn	Deposit taking andnon-deposit taking MFIs, MFBs

Source: Data from different sources such as industry associations, central bank websites, and academic publications

[6] *Srinivasan is a former CGM of NABARD. From his chapter in the Inclusive Finance India Report 2023, published by Access Development Services, New Delhi.* https://globalinclusivefinance.org/
Permission to reproduce the abridged version is thankfully acknowledged.

Table 1.2. The Broad Microfinance Sector

Indicators	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	Growth % FY 23
Outreach—loan a/cs (mn)	76	96	110	112	124	137	10.5
Outreach unique clients (mn)	46	56	63	60	61	73	19.7
Loan Outstanding in ₹ bn	1373	1885	2342	2538	2898	3523	21.6
Amount disbursed in ₹ bn	1416	2075	2411	1733	2586	3311	28
PAR 30+ days %	7.7	5.6	6.6	9.7	5.3	2.2	--
Unique clients to loan accounts ratio	1.65	1.71	1.75	1.87	2.03	1.88	--

Source: Data from Sa-Dhan reports several years, from 2008 and the latest report is that of 2023

Microfinance sector (comprising all players, both profit and non-profit) had 137 million active loan accounts, an increase of more than 10% over the previous year (Table 1.2). During the financial year (FY) 2023, MFIs acquired 13 million new clients, which was well above the previous year's level of about 12 million. The addition of new clients' points to the continuing inclusion efforts of the sector and offers hope for the remoter and underserved geographies. The number of unique clients grew by almost 20% over the previous year, reversing the trend of declining unique clients to active loans ratio.

Number of unique clients rose to 73 million, with 12 million enrolled during FY 2023 as compared with 1 million in the previous year. The number of loans per unique clients has been increasing from 1.65 in FY 2018 to 2.03 in FY 2022, indicating multiple loans at individual borrower level. In FY 2023, the ratio declined to 1.88, perhaps in response to the revised microfinance sector guidelines of the Reserve Bank of India (RBI).

Loan portfolio outstanding registered 21% growth reflecting both the confidence and the robust demand from the field. Disbursements increased by 28%. Microfinance loans as a proportion of non-food bank credit formed about 2.57% in March 2023 (2.21% in March 2022), which is a significant step up from less than 0.25% of bank credit about 10 years back.

COVID-19 impacted impaired loans came to the surface during the last year and by the end of the year (March 2022), delinquencies came under a measure of control to 5.27% (Portfolio at Risk/PAR 30 days). This registered a steep decline to 2.16% by March 2023. A detailed analysis of delinquencies is made in a later section.

The microfinance sector has been undergoing a structural change again post-COVID. Between 2018 and 2021, banks had increased their share of microfinance loans. MFIs, after a decline in market share in 2019–20, were stagnating at around 30.00% share (Figure 1.1). In the last two years, MFIs have fully reversed the trend. **By end-March 2023, MFIs had 39.60% share of the loans.**

Small finance banks (SFBs) seem to be conceding market space with their share declining continuously over the last six years. The share of all banks (including SFBs) decreased to 50.7% in FY 2023 from that of 56% in the previous year.

Source: Image

The microfinance sector grew at a faster pace post the AP crisis4 in 2010–11 (Figure 1.2). As observed in last year's report, the sector was severely affected by demonetisation disruptions in 2016–17 and the COVID-19 pandemic lasting almost two years (2019–21). These disruptions left a deeply negative impact on the vulnerable livelihoods of typical microfinance clients. In terms of impact on client and credit outreach, the pandemic did not have a very serious impact. The data shows that customer acquisition stagnated for a year before resuming the growth path.

Outstanding credit continued to increase, helping both the moratorium on loans that kept current loans outstanding and the top-up loans provided to ensure continued livelihood activity. The impact on the microfinance sector was the higher credit losses, which was felt fully in FY 2021 and FY 2022 and to a limited extent in FY 2023. Despite the pandemic ceasing to be a major factor in the health and economic activity of vulnerable people in the second half of FY 2022, the microfinance sector was dealing with COVID-19 impacted loans. During FY 2023, the sector signalled that the problems from COVID-19 have been left behind and growth and profitability returned to normalcy with improving credit quality and collection rates.

6.1 Performance of MFIs

The geographical coverage of MFIs extended to 730 districts by March 2023, across all the states. The number of branches of Non-Banking Financial Company (NBFC)-MFIs increased by about 16% (compared to 11% in FY 2022). There was a net increase in staff employed by all MFIs by 13%, taking the number of staff to 174,000. 5 About 67.5% of the portfolio outstanding was 'own' portfolio of MFIs, indicating a marginal fall of about 1.5% from the previous year. The average loan size increased by about 25%.

6.2 Financial performance

Operating costs increased during the year on account of the changed processes in loan origination and appraisal to comply with the regulatory requirements imposed during the year. As the COVID-19 funding shelters were retracted, the cost of funds started to creep upwards in a tightening liquidity environment with increasing interest rates. The performance and profitability ratios during FY 2023 provide a picture of good health and improving prospects of the industry as a whole. The industry managed to pare operating costs while retaining finance costs at more or less the same level as that of previous year.

Table 1.3. Select Indicators of MFIs

Indicator	2023	2022	2021	Growth rate FY 2023
No of loan accounts (million)	53.6	44.8	42.2	20%
Gross loan portfolio (₹ billion)	1,396	1,246	1,134	12%
Of which own portfolio (₹ billion)	944	852	781	11%
Average loan ticket size (₹)	43,200	38,850	18,894	25%

Source: The data used in this section is drawn from Bharat Microfinance Report 2023

Table 1.4. Select Indicators of Financial Performance

Indicator	FY 2021 (%)	FY 2022 (%)	FY 2023 (%)
Operating cost	6.40	6.96	6.58
Financial cost	10.92	10.65	10.70
Yield	16.80	16.50	20.65
Margin	8.40	9.04	10.30
Return on assets (ROA)	0.64	1.11	2.49
Operational Self Sufficiency (OSS)	105	114	116

Source: Cited from Bharat Microfinance Report 2023, Sa-Dhan

There was a significant hike in yield (more than 4%), with a resultant increase in margins by 1.26%. **Return on Assets (ROA) at 2.49% is a comfortable level for most MFIs regardless of form (Table 1.4).** Bharat Microfinance Report (BMR) 20238 points out that the ROA was highest for MFIs in the medium category (loan portfolio of ₹ 5 bn-2.0 bn); Small MFIs (₹ 1 bn to 5 bn loans) had the lowest ROA at 1%. BMR 2023 also reported that 11 MFIs were unable to cover their full costs with revenues (with OSS of less than 100).

6.3 Geographical Spread

Seventy four percent of Microfinance loans were in rural areas; this was marginally less than the previous year's level of 75%. While southern and eastern regions were well placed, northern, western, and north-eastern regions had shares of 9%, 9%, and 3%, respectively of the client base. These shares were well below their share of the national population.

The top five states accounted for 55% of total microfinance outstanding loans in the country. The western states, despite their size, are absent from the top five list (Table 1.6). **Bihar has taken the lead and it has done so within a short period of time (about three years),** considering the fact that the southern states had occupied the leader board for about two decades. Madhya Pradesh, which was in the top five list last year dropped out and Karnataka made a re-entry.

Table 1.6. Top Five States by Microfinance Portfolio

State	Loan Outstanding (₹ bn) Mar 2023	Share of State 2023
Bihar	494.32	14.0%
Tamil Nadu	469.21	13.3%
Uttar Pr	338.98	9.6%
W Bengal	324.96	9.2%
Karnataka	322.71	9.2%
India	3,523.39	

Source: Bharat Microfinance Report 2023, Sa-Dhan

Client and credit penetration ratios were calculated across the different states (Table 1.7). The client penetration ratios are arrived at by comparing the proportion of the national population in a state with the proportion of microfinance clients in the state.

The credit penetration ratios are computed by comparing the proportion of national population in a state with proportion of microfinance loans outstanding in the state. A ratio of more than one means that the state has a greater concentration of clients or credit compared to the rest of the country. Very high numbers might indicate vulnerabilities on account of excessive coverage of people and high levels of debt.

Low numbers in ratio may indicate: (i) a large market space is available in the state both for client acquisition and credit expansion; (ii) the environment in the state is not attractive to MFIs in comparison with other states; and (iii) the state has credit discipline issues and/or high cost of operations, making MFIs hesitant to enter.

Table 1.7. High Penetration States – Client and Credit (March 2023)

State/UT	Client Penetration Ratio			Credit Penetration Ratio		
	FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023
Tamil Nadu	2.30	2.05	1.85	2.17	2.11	2.11
Tripura	2.56	1.97	1.73	4.13	2.72	1.92
Karnataka	1.74	1.53	1.45	1.69	1.68	1.75
Puducherry	1.94	1.59	1.60	1.74	1.50	1.66
Odisha	1.61	1.56	1.54	1.74	1.69	1.65
Kerala	1.48	1.32	1.24	1.57	1.52	1.48
Bihar	1.41	1.39	1.55	1.29	1.36	1.45
West Bengal	1.43	1.10	1.03	2.12	1.44	1.21
Jharkhand	0.98	1.03	1.14	0.91	0.97	1.00
Madhya Pradesh	1.10	1.05	1.02	1.01	0.95	0.95

Source: Author's calculations - See Appendix A.1.1. to this chapter

Both client and credit penetration in Tamil Nadu have been at high levels; the state has been among the top three states in both ratios over the last three years. In FY 2023, it occupied the top position in both client and credit penetration ratios. While the client penetration ratio is declining in Tamil Nadu, the credit penetration ratio remains at the same level as that of last year. Tripura, which had high penetration ratios last year, has seen some moderation in FY 2023. **Bihar and Jharkhand witnessed increasing penetration during FY 2023, reflecting the faster pace of expansion of microfinance in these states.**

Large states such as Uttar Pradesh and Maharashtra have much lower penetration ratios indicating that there is space in these markets (See Appendix A.1. 1 at the end of this chapter for state-wise details). During FY 2023, these two are the large states in which the ratio saw an increase from the previous year's level. Telangana and Andhra Pradesh, with client penetration ratios of 0.32 and 0.18 respectively, continue to exhibit (even after 13 years) the after- effects of the AP microfinance law and the difficult business environment created for the microfinance sector. It is worth noting that these two states are at the forefront of the SHG Bank linkage movement with coverage of a high proportion of rural adult women.

State-wise analysis of the number of unique clients covered as a percentage of the population (See Appendix A1.2 at the end of the chapter) reveals that Tamil Nadu had the highest coverage of 10.5% followed by Odisha, Bihar, Karnataka, and Kerala.

At the country level, the unique client-to- population ratio was 5.5%. Ten states had a higher coverage of population compared to the national average. The ratio reflected the bias in favour of southern states in the geographical spread of microfinance, despite the earnest efforts to explore new markets.

In terms of districts, Bharat Microfinance Report 2023 observes: The top ten districts accounted for 8% of the total portfolio, indicating that there is a huge potential outside these states to grow the microfinance sector in the country. Similarly, the top 25 districts accounted for 17% of the share in the total sectoral portfolio.

The top ten districts (1.4% of all districts covered by microfinance) accounted for 8% of the loans outstanding. The top 25 districts (3.4% of total districts covered by microfinance) accounted for 17% of loans across the country.

Of the top ten districts, five were in Bihar, two each in Tamil Nadu and West Bengal, and one in Karnataka. Looking at the different ratios, the potential for credit concentration risk in Bihar, Tamil Nadu, Karnataka, Odisha, and West Bengal needs close monitoring. The skew in the flow of microfinance loans persists, but it should be noted that the skew is moderating with each passing year with more expansion in the underserved districts.

6.4 Quality of Loan Portfolio

During FY 2023, good progress in enhancing portfolio quality has been achieved. The sector in general and MFIs in particular have been able to rein in defaults, improve recoveries, and deal with more chronic cases through settlements and write-offs.

Table 1.8. Portfolio at Risk Comparison between Sector and MFIs

Indicator	2019	2020	2021	2022	2023
PAR30+ days (Sector)	0.92	1.78	9.01	5.27	2.16
PAR30+ days (MFIs only)	1.05	1.77	7.12	8.35	1.6
PAR90+ days (Sector)	0.41	0.88	4.1	2.48	1.06
PAR90+ days (MFIs only)	0.66	0.75	2.03	3.08	0.93
Karnataka	322.71	9.2%			
India	3,523.39				

Source: Bharat Microfinance Reports 2021, 2022, and 2023, Sa-Dhan

The PAR 30+ ratios for both MFIs and the sector in general (Table 1.8) are moving towards pre-COVID levels, but are still short of the lowest delinquency ratios achieved in FY 2019. The industry monitors loans past due for more than 30 days as the bellwether indicator of portfolio quality as it shows the initial symptoms of a tendency towards default rates.

A deeper analysis is made of PAR buckets of more than 60 days past due and more than 90 days past due. When the loan remains unpaid beyond 180 days from the due date, it is normally treated as non- performing assets (NPA) and fully provided for.

While PAR30+ includes the subsequent buckets of PAR60+ and PAR90+, it does not include the PAR180+ bucket, which is monitored separately as assets under the bucket have been provided for and have no provision implications for the profit and loss account.

In FY 2023, all institutional segments in microfinance made considerable progress (Table 1.9) in reducing default rates measured by PAR30+. Loans in the PAR180+ bucket did not show a significant fall across the sector (except in the case of non-profits).

The CRIF-Highmark analysis shows that during FY 2023 the MFIs have been able to reduce forward flows of impaired loans from one bucket to the next in the case of 30, 60, and 90 days PAR.

However, the forward flows in the 91 to 180-day buckets increased for MFIs and banks. This bucket in PAR usually results in credit losses and hence is fully provided or written off.

Given the changes in regulation that examine excessive debt from repayment capacity rather than the multiplicity of loans, most credit bureaus do not carry out multiple-loans analysis anymore.

[Source: Image]

With the proposal by RBI to harmonise the guidance on avoidance of excessive debt across all microfinance providers, including banks, this problem is likely to come under a measure of control.

The move to determine the eligibility of the borrower for microfinance loans and the size of loans through analysis of debt service capacity will also reduce risks.

The improved credit quality and declining impairment levels in the credit portfolio during FY 2023 validate this. Geographically, the eastern region seemed to exhibit vulnerability, with two large states, West Bengal and Odisha, figuring in the top five states having high PAR30+ levels.

West Bengal is among the top five states in terms of loan portfolio, accounting for 9.2% of country-level loans outstanding. West Bengal also has a high PAR 180+ level, indicating credit losses are likely to be high in the state.

Table 1.10. Five States with highest PAR

State	PAR 30+ %	State	PAR 180+ %
West Bengal	4.1	Maharashtra	16.0
Rajasthan	2.9	West Bengal	14.7
MP	2.8	MP	10.7
Odisha	2.6	Odisha	10.4
Kerala	2.4	Kerala	10.1

Source: Microlend, Quarterly Publication on Microfinance Lending, Volume XXIII, March 2023, CRIF High Mark.

Table 1.10. Five States with highest PAR

Type of Institution	PAR FY 2021 (%)				PAR FY 2022 (%)				PAR FY 2023 (%)			
	30+	60+	90+	180+	30+	60+	90+	180+	30+	60+	90+	180+
NBFC-MFIs	3.45	2.53	1.65	7.77	3.75	2.65	1.89	7.35	1.60	1.30	0.93	7.61
Banks	7.10	5.22	2.25	12.75	6.43	4.31	2.92	11.82	3.03	2.35	1.47	12.53
SFBs	5.36	3.33	2.02	10.88	6.89	4.53	3.05	10.05	2.46	1.75	0.92	10.34
NBFCs	2.51	1.67	1.02	3.61	3.20	1.89	1.18	4.25	0.98	0.70	0.44	2.75
Non-profits	3.29	1.91	1.30	11.13	2.41	1.26	0.80	8.82	1.56	1.25	1.02	1.59

Source: Quarterly Monitoring Report, Multiple Issues (BMR, 2023), Sa-Dhan

6.5 Sources of Finance for MFIs

Of the total resources deployed by MFIs, about 21% were in the form of owned funds. Equity constituted 9.2% of total funds at ₹131.8 billion. During FY 2023, 70 MFIs raised ₹16 billion in fresh equity, with most of it raised by the top ten MFIs in the industry. There was an increased flow of funds to MFIs reflecting the overall improvement in the credit environment and the increased attractiveness of MFIs as an asset class. The outstanding borrowed funds of MFIs increased to ₹1,133 billion in March 2023

Banks were the dominant funding source for MFIs. ICICI Bank was the top lender to the MFIs (Table 1.11). Of the top five lenders, two were public sector banks and of the three private sector banks, two were new generation banks. But many banks were taking microfinance loans directly on their books through the BC route or securitisation/assignment structures. The amount of securitisation transactions were of the order of ₹262 billion.

Table 1.11. Largest Lenders to MFIs

Bank	₹ (Bn)
ICICI Bank	67.86
SBI	54.17
IDFC First Bank	49.83
Bank of Maharashtra	42.70
Bandhan Bank	34.26

Source: Bharat Microfinance Report 2023, Sa-Dhan

6.6 Challenges

MFIs continued to face problems of high staff attrition rates. During FY 2023, of the average staff strength of 191,000 in MFI in different forms, about 98,000 left, necessitating fresh recruitments. The attrition rate was, thus, about 49%. The attrition was the highest (64%) in MFIs with a loan portfolio between ₹ 5–20 billion. These high attrition rates reflect both the competition for staff and the arduous nature of work at the field staff level.

The industry has been managing these high levels of attrition and the associated high operating costs for a long period of time. An industry level effort to understand the cost implications of the high attrition rates and measures to reduce attrition levels is needed.

At the customer level, there was good demand for loans from MFIs. The MFIs seemed to have increased the interest rates to price the risk costs incurred during COVID-19. While finance costs generally declined after the third quarter of FY 2022, interest rates increased and decreased alternatively, before ending at 23.29% at the end of FY 2023. The difference between finance costs and interest rates was 9.7% in Q3 of FY 2022 and increased gradually over six quarters to 13.02 in the fourth quarter of FY 2023.

Normally, MFIs were passing on any finance cost savings to customers. During FY 2023 it seems that the higher operating costs arising from the reset of regulations and the need to recover past losses had an influence on interest rates. The sector should be circumspect about the negative image it might create among the people of being high-cost institutions.

6.7 Conclusion

The sector has matured after the disruptions of the last few years. Equity investors are back in the market with more MFIs issuing new equity and listing the same in the stock exchanges (Fusion). MFIs are also able to raise debt funds through the public issue of bonds and non-convertible debentures or NCDs. RBI's level of comfort with the sector has rubbed off onto others, such as equity investors and lenders.

The current business models seem to have achieved a steady state. The pathways for MFIs to transition into banks are well laid out. There are also several acquisitions of MFIs by banks and other non-banking finance companies (NBFCs), which show a clear path forward for MFI evolution. The future of growing MFIs through expansion, or merger into larger entities or transitioning to banks is well and truly signaled.

The MFI customers do not have such much clarity on their way forward when they grow out of MF loans. They have to disrupt their existing relationship with MFIs and look for a bank loan. The size of loans for a graduating MFI customer is not in favour with the banking sector. These loans fall in the infamous 'missing middle' category.

The previous reports made a plea to allow MFIs to continue to finance graduating customers with larger loans, by allowing up to 50% of the portfolio being utilised for such purposes. This would enable the MFI's transition into quality financial institutions, with a better product mix. The customers will be able to seamlessly pursue their aspirations with a familiar financier.

In case the MFI looks at the option of becoming a small finance bank (SFB), it will have most competencies within the assets side of the balance sheet, necessary for diversified business. RBI should examine the feasibility of reducing the qualifying asset's threshold with the caveat that the extent of reduction should be fully reflected in enterprise loans given to graduating customers.

The digitisation effort is expanding exponentially. Metrics such as percentage of 'repayments made digitally' occupy the mind space during discussions. There is a need to ensure that the customer is digitally literate and can operate digitally without extra costs.

With cash continuing to be 'king' in several rural hinterlands, digitising customer- originated transactions can impose real physical and cost burdens on customers. The potential problems must be anticipated and addressed with suitable remedies.

The sector has shown resilience and has absorbed the costs of high risks at its level and to a large extent at customers' levels too. The sector has also been successful in establishing a good base to lobby for appropriate policy change and benevolent regulatory oversight. The sector should now deliberate on how to take the gains to the next level and ensure that microfinance becomes the most reliable sector for vulnerable and underserved people.

APPENDIX A.1.1. Client Penetration and Credit Penetration Ratio

State/UT	Client Penetration Ratio			Credit Penetration Ratio		
	FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023
Tamil Nadu	2.3	2.05	1.85	2.17	2.11	2.11
Tripura	2.56	1.97	1.73	4.13	2.72	1.92
Karnataka	1.74	1.53	1.45	1.69	1.68	1.75
Puducherry	1.94	1.59	1.60	1.74	1.5	1.66
Orissa	1.61	1.56	1.54	1.74	1.69	1.65
Kerala	1.48	1.32	1.24	1.57	1.52	1.48
Bihar	1.41	1.39	1.55	1.29	1.36	1.45
West Bengal	1.43	1.1	1.03	2.12	1.44	1.21
Jharkhand	0.98	1.03	1.14	0.91	0.97	1.00
Madhya Pradesh	1.1	1.05	1.02	1.01	0.95	0.95
Maharashtra	0.82	0.81	0.83	0.79	0.79	0.86
Haryana	0.97	0.96	0.89	0.86	0.87	0.78
Rajasthan	0.85	0.86	0.86	0.8	0.77	0.76
Punjab	0.98	0.94	0.85	0.82	0.77	0.74
Chhattisgarh	0.92	0.89	0.84	0.83	0.77	0.73
Assam	1.33	0.77	0.52	1.67	0.9	0.67
Uttarakhand	0.6	0.59	0.62	0.65	0.59	0.56

State/UT	Client Penetration Ratio			Credit Penetration Ratio		
	FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023
Sikkim	1.02	0.79	0.67	1.3	0.76	0.56
Gujarat	0.67	0.64	0.64	0.55	0.54	0.56
Uttar Pradesh	0.53	0.55	0.65	0.45	0.5	0.55
Goa	0.52	0.43	0.43	0.56	0.38	0.40
Mizoram	0.46	0.3	0.40	0.33	0.25	0.28
Dadra & NagarH	0.26	0.24	0.28	0.32	0.22	0.27
Telangana	0.3	0.31	0.32	0.1	0.16	0.17
Chandigarh	0.19	0.17	0.17	0.12	0.14	0.16
Manipur	0.35	0.26	0.23	0.25	0.18	0.13
Delhi	0.2	0.15	0.14	0.18	0.14	0.13
Andhra Pradesh	0.15	0.15	0.18	0.08	0.08	0.11
Andaman & N	0.12	0.16	0.18	0	0.15	0.10
Meghalaya	0.24	0.17	0.13	0.23	0.12	0.10
Arunachal Pradesh	0.1	0.11	0.13	0.08	0.08	0.09
Nagaland	0.2	0.15	0.09	0.21	0.16	0.09
Himachal Pradesh	0.09	0.1	0.11	0.06	0.08	0.08
Jammu & Kashmir	0.03	0.03	0.03	0.07	0.07	0.02

Source: Data on population from Registrar General – Census statistics, Client and Loan data from Bharat Microfinance Reports , Sa-Dhan 2021, 2022, 2023.

6.8 References and End Notes

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End Notes

1. ‘Inclusive Finance India Report 2022’, Chapter 1 – Access Development Services.
2. ‘Journey towards an inclusive and responsible microfinance sector’, Speech by Shri Rajeshwar Rao, Dy Governor, RBI on 4 November 2022, at MFIN.
3. Data on China microfinance is difficult to access from any one source with multiplicity of lenders and differing categories of formal, informal, and direct government loans, being a complex market.
4. The government of then undivided Andhra Pradesh had brought in a law that made microfinance business very difficult; leading to stoppage of business and closure of some MFIs, high level of unrecovered MF loans, and a large haircut for banks that had provided bulk funds to MFIs. There was negative growth in customers and portfolio in the aftermath.
5. Cited from Micrometer Synopsis Q4 FY 2023 – MFIN, 2023.
6. Cited from Bharat Microfinance Report 2023, Sa-dhan November 2023.
7. Bharat Microfinance Report 2023 – Sa-Dhan November 2023.
8. Bharat Microfinance Report 2023 – Sa-Dhan November 2023.
9. Andhra Pradesh Micro Finance Institutions (Regulation of Moneylending) Act, 2010, October 2010, later replaced by Andhra Pradesh Micro Finance Institutions (Regulation Of Money Lending) Act, 2011 (Act No. 1 OF 2011).
10. ‘Microlend’, *Quarterly Publication On Microfinance Lending,* Volume XXIII, March 2023, CRIF-Highmark.
11. Status of Microfinance 2023 NABARD.

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