BTI 2016 | India Country Report

	scale	score	rank	trend
Status Index	1-10	**6.96**	# 28 of 129	
Political Transformation	1-10	**7.75**	# 23 of 129	➜
Economic Transformation	1-10	**6.18**	# 44 of 129	➜
Management Index	1-10	**6.16**	# 23 of 129	

Key Indicators

Population	M	1295.3	HDI		0.586	GDP p.c., PPP	$	5707.7
Pop. growth[1]	% p.a.	1.2	HDI rank of 187		135	Gini Index		33.9
Life expectancy	years	66.5	UN Education Index		0.473	Poverty[3]	%	58.0
Urban population	%	32.4	Gender inequality[2]		0.563	Aid per capita	$	1.9

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.10 a day at 2011 international prices.

Executive Summary

India is a long-established democracy whose elected representatives govern nationwide with the exception of Kashmir, parts of the northeast, and those regions in central India which are controlled by the Naxalite rebels. However, during the period under review, the performance of democratic institutions and the government's steering capability were hampered by a range of factors, among them the blockade of parliament by the opposition, which hindered the introduction of important reforms. The generally positive assessment of Indian institutions must be qualified by the fact that structural deficits persist. Among them are the overburdened judicial system and a degree of corruption which undermines good governance at all levels.

The period under review comprised the final phase of the United Progressive Alliance (UPA) government under the leadership of the Indian National Congress, and the initial phase of the National Democratic Alliance (NDA) government, which came to power after the Hindu-nationalist Bharatiya Janata Party (BJP) won an absolute majority in the 2014 general election. The year 2013 was characterized by the weakness of the UPA government, which proved unable to deal with a range of corruption scandals. With the exception of a new law on land acquisition, it furthermore failed to promote meaningful reforms due to its dependence on coalition partners with disparate interests. As a result, significant expectations were placed on the new BJP-led government, which came to power in May 2014 with a clear mandate for change. While it has the necessary majority in the lower house of parliament to promote bold reforms, the new government has focused on individual issues like the promotion of sanitation or the streamlining of bureaucratic procedures - disappointing to some observers who had hoped for an immediate focus on a broad set of reforms. Nevertheless, the new government has taken bolder measures in the abolishment of the National Planning Commission in favor of a new body that is supposed to work more efficiently, especially in the coordination of central government and individual states. In the economic field, the focus of the government of Prime Minister Narendra Modi was on growth and the promotion of foreign direct investments (FDI). Some reforms, like the opening of additional

sectors to FDI and the reduction of fuel subsidies, were promoted. After a phase of stagnation, India's economic indicators improved, thanks to a mix of increased market optimism and favorable circumstances. According to the World Bank, GDP growth rose to 5.6% in 2014, the rupee could be stabilized by the Reserve Bank of India, and inflation was reduced.

Despite these positive developments, there are some indicators that growth might not be inclusive enough to lift millions out of poverty. The new government continued carrying out existing welfare programs, but did not put great emphasis on developing new ones, and income inequalities have deepened over the past years. The government's approach to sustainability has been mixed, promoting alternative energy yet loosening environmental clauses, e.g. in the construction sector. The second half of 2014 also saw an increasingly heated rhetoric along religious lines. Prime Minister Modi is a divisive figure due to his alleged role in deadly Hindu-Muslim clashes that shook Gujarat under his government in 2002. His electoral success is partly due to the support of hardline Hindu-nationalist groups that gained increasing influence after the BJP victory. The government will have to withstand pressure from these groups towards discrimination of non-Hindus within a Hindu majoritarian discourse, if it wants to keep intact the fragile equilibrium that characterizes Indian society.

History and Characteristics of Transformation

The democratic political transformation of India dates back to colonial times and to the progressive introduction of self-governance and voting rights. This tradition was nurtured and expanded in independent India, interrupted only by a brief interlude of the emergency government regime, from 1975 to 1977. Electoral democracy has become the only game in town; even radical political forces abide by its rules and do not try to gain power outside parliamentary boundaries. Elections are free and fair; extra-constitutional veto powers are almost nonexistent; the military is under strict civilian control; the media enjoy considerable freedom of expression; and civil society is vibrant yet its roots in society are somewhat shallow. Civil rights are guaranteed, even though with major exceptions in conflict-prone regions. Since independence, substantive democracy has suffered from limited electoral choice, the predominance of the Indian National Congress Party at every political level and the concomitant mobilization and recruitment of local notables into the party system. This diminished the access of less-privileged sectors of society to positions of political power and obstructed structural social reforms. However, India has undergone a dramatic (second) democratic upsurge in the last two decades, with the economic empowerment of lower castes following the green revolution and their later integration into the high command of traditional parties and governmental agencies and/or the launching of new (regional) parties. The result of this development were unstable coalition governments both at the center as well as in selected states, and a growing tendency to dispense patronage along caste lines. State governments became increasingly autonomous and other institutional veto players (the Supreme and the High Courts, the Election Commission and the president of India) grew to fill political voids. India's transformation to a full-fledged market economy is more recent. The country followed the path of

import substitution and state-led industrialization for decades, giving rise to private enterprises as junior partners of the state. A first, hesitant liberalization came into effect in 1985 and a market-friendly turnaround was propelled as a result to a severe balance of payments crisis in 1990 – 1991. The reforms since that crisis have transformed India into a vibrant and dynamic market economy, even though some sectors are still closed to private enterprise and international investment. India's new economy is driven by considerable improvement in factor productivity, the rise of world-class enterprises and – recently – by a massive increase of the savings and investment rate. However, considerable reform deficits remain, most notably in outdated labor regulations, a lack of sustained progress in privatization and the absorption of public resources by non-meritorious subsidies, wage and interest payments to the detriment of public investment in infrastructure and the improvement of health and education services. After 2004, when a minority government was backed from outside by leftist parties, hardly any progress could be made with regard to the more difficult second-generation reforms. However, a range of inclusive social policies were instituted (Education for All, National Rural Health Mission, National Rural Employment Guarantee Scheme, loan waiver for small- and medium-sized farmers) – some of a more populist character but all intended to make growth more inclusive. After the 2009 elections, the United Progressive Alliance government was nearly paralyzed in its reform efforts, due to its dependence on small coalition partners, and it was unable to convincingly address the growing issue of corruption. Ultimately, the widespread dissatisfaction with the UPA government and the hope for change and economic reforms led to the electoral defeat of the Congress in the 2014 general election.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

India only suffers minor stateness problems, if we conceive of stateness as of the state's monopoly on the use of force on its territory. Some exceptions are areas controlled by Maoist-inspired rebel groups called Naxalites in central India; areas of insurgent activity in Kashmir; and some areas in the northeast of the country, where several smaller rebel groups are still operating.

The Naxalites are running parallel administrations in some of the regions under their control. While their movement was weakened in recent years due to some major episodes of violence in 2009-2010, during the review period the Naxalites were still active. In the Northeast, several violent incidents took place, among others ethnic clashes in the state of Assam in 2014. These were attributed to the rebels of the National Democratic Front of Bodoland and led to dozens of civilian deaths and around 10,000 displaced.

The vast majority of the Indian population accepts the Indian nation-state as legitimate. Only in remote areas where the state and its institutions are virtually absent is the legitimacy of the nation-state called into question. These areas are mainly those inhabited by tribal people and characterized by the presence of Naxalites in central India; and some remote areas in the northeast, which are inhabited by small ethnic groups and tribes and are also characterized by the presence of rebel organizations.

The Indian Constitution stipulates that the state is secular. Correspondingly, neither the legal order nor the political institutions are defined by or derived from religious dogmas. A notable exception is family law, which includes Hindu, Muslim and Christian law.

However, after the 2014 general elections, the secularist Congress-led United Progressive Alliance government was replaced by a new government under the

leadership of Narendra Modi of the Hindu-nationalist Bharatiya Janata Party (BJP), which gained an absolute majority in the lower house of parliament. While the new government does not openly call into question the secular principles enshrined in the constitution, its first months in office were characterized by an increase of signals hinting at the incipient establishment of a Hindu majoritarian culture. These included a push towards the re-introduction of Sanskrit in school curricula; the classification of the Bhagavad Gita as a "national book"; single instances of forced conversions of Christians and Muslims to Hinduism, accompanied by the discussion of a law prohibiting conversions (to Christianity or Islam); and the introduction of "Good Governance Day" on 25 December. These are still relatively minor episodes, but they are indicative of the growing influence of extremist Hindu groups associated to the BJP and potentially able to undermine the secular credentials of the country in the longer term. The growing influence of Hindu nationalists on academic institutions is equally worrying. Example giving, in 2014 a debate sparked about the appointment of the head of the Indian Council of Historical Research, the research funding institution in the field of history, when the new government appointed a historian who argues that religious texts are an adequate source for the derivation of ancient history. In light of this and other episodes, several observers fear a Hinduization of research and a diffusion of teaching that emphasizes the superiority of Hindu values.

India's administrative and bureaucratic structure stems from the British colonial empire. The state has a differentiated administrative structure which includes jurisdiction, tax authorities and law enforcement. However, huge difficulties are found in the provision of basic services, especially in rural and remote areas. In several sectors the administration is highly understaffed. Among the big deficiencies in services provision are those in transport infrastructure as well as the provision of basic services such as water, education and health. According to the 2011 census, only 31% of rural households in India have access to tap water and a toilet. However, the improvement of hygiene standards are high on the agenda of the new government. Whether these programs will be more successful than previous ones, which were marred by poor governance and corruption, remains to be seen.

Basic administration

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2 | Political Participation

India has had free and fair elections for nearly seven decades since independence, with only a minor interruption in the 1970s. Universal suffrage by secret ballot is ensured, a large number of political parties are able to run and political posts are filled according to the outcomes of elections. Parliamentary elections in India are a huge exercise. The general election of 2014 was the largest democratic exercise in the world, with over 800 million people eligible to vote.

Free and fair elections

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Elections are managed by an independent and impartial Election Commission whose members are appointed by the president and can be removed from office by

parliament. Since the late 1990s, the Election Commission has undertaken several efforts to improve the electoral process, including the introduction of electronic voting machines and the digitalization of electoral rolls. Overall, this has improved the transparency of registration procedures for voters. However, some problems remain in several states, where electoral rolls were cleaned strategically to remove politically relevant voter groups. While polling procedures are generally considered to be conducted in a transparent, impartial and correct manner, re-polling was necessary at several polling stations during the 2014 elections due to rigging, booth capturing, and the missing of names from electoral rolls. The bribing of voters is still a widespread practice among political parties in India.

Democratically elected political representatives have the effective power to govern in India. There are few veto powers that undermine democratic procedures by retaining prerogatives independent of democratically elected representatives. Among them are rebel groups in circumscribed geographic areas such as pockets in the northeast, Kashmir, and the Naxalite-held areas in central India. The Indian military has never exceeded its competencies and has always remained under strict civilian control – unlike in other countries in the region. Other potential veto players have chosen democratic procedures to express their discontent with government policies. External actors are unable to manipulate domestic politics in India, given the state's strong performance and the high value it attaches to the principles of sovereignty and non-interference.

Effective power to govern

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The Indian constitution guarantees the freedom to assemble peacefully, even though the state can impose restrictions in the interest of public order or to preserve the sovereignty and integrity of India. In practice, the right to demonstrate is mostly guaranteed. Given the low degree of internal democracy in political parties, demonstrations are frequently used by civil society as a tool to forward demands to the government. While protests are rarely repressed, there are some reports of intimidation and harassment, for example against protesters and activists demonstrating against coal mining projects in Madhya Pradesh in 2014. The formation of interest groups is legally granted. This has led to the emergence of a large number of NGOs operating in a range of fields, from the promotion of women's and minority rights to ecological and social issues. While most of these NGOs are fragmented, only weakly institutionalized and often dependent on political parties, they actively contribute to a thriving civil society. However, the government has become increasingly restrictive concerning the activities of foreign NGOs and foreign-supported Indian NGOs.

Association / assembly rights

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Freedom of expression in India is guaranteed by the constitution. A large number of national and local newspapers and television channels contribute to the dissemination of information and to the diffusion of a plurality of opinions on most issues. Most journalists tend to conform to official government positions and practice a certain degree of self-censorship where matters related to foreign policy are concerned, but

Freedom of expression

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are outspoken about domestic affairs. Moreover, there are reports of cases of intimidation of journalists and even of arrests on charges of sedition. The Indian government has continued to act in a restrictive manner over the dissemination of information through the internet and social media. Most requests for blocking contents on Facebook come from the Indian government, and India is second only to the US as far as the number of requests on user data to Facebook is concerned. Between January 2014 and June 2014, Facebook restricted access to 4,960 pieces of content reported by law enforcement agencies and the India Computer Emergency Response Team under Indian laws that prohibit criticism of a religion or the state. Moreover, in January 2015 the Indian government blocked several websites, including for example Vimeo and Pastebin, allegedly containing terrorist propaganda.

3 | Rule of Law

The horizontal separation of powers is guaranteed and implemented through a system of checks and balances. The legislative's control over the executive is hampered mainly by structural factors such as the limited competence of many members of parliament and short parliamentary session periods. Moreover, the workings of parliament are also hampered by the frequent interruptions of sessions and walkouts by opposition parties. The judiciary has historically played a major role in the consolidation of Indian democracy. As far as the vertical separation of powers is concerned, the autonomy of state governments in the federal system is guaranteed in the fields envisaged by the constitution. The system of fiscal federalism strengthens the autonomy of the union states by providing for transfers from the central government to state governments. Moreover, representative bodies at the local level have a certain degree of administrative autonomy and allow for political representation down to village level.

Separation of powers

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The Indian judiciary is institutionally differentiated and largely independent from the legislative and executive branches. The Supreme Court enjoys a high degree of recognition in India. Over the past years, it has played a major role in fields like the persecution of human rights violations, for example by declaring unconstitutional the Salwa Judum militia that had been created to fight Naxalite rebels in the state of Chhattisgarh in 2011. However, since India's independence there has been continuous tension between the legislative and the judiciary. In 2014, the new BJP-led government passed the National Judicial Appointment Commission (NJAC) Bill, which introduces new rules for the appointment of judges to the Supreme Court and high courts. While judges were previously appointed by a collegium of other judges, under the new law, the NJAC is formed by three judges (the ex-officio chief justice and two senior-most judges of the Supreme Court), the law minister, and two "eminent persons" who are nominated by a committee formed by the prime minister,

Independent judiciary

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the chief justice of India and the leader of the opposition. A veto placed by any two members of the Commission is sufficient to block an appointment. While proponents of this system applaud its greater transparency, opponents highlight that the new NJAC gives the executive a greater say in the appointment of judges. To what extent this will compromise the independence of the judiciary remains to be seen.

As far as judicial accountability is concerned, the Judicial Standards and Accountability Bill of 2010, which is supposed to create a framework for addressing complaints against judges, has not been approved yet. In 2014, new reports on corruption in the judiciary emerged.

Its limited functional operability, mainly due to understaffing, continues to pose a problem. According to an article in The Indian Express, India has a ratio of 15 judges per million people. This leads to massive delays in the hearing of cases - the backlog currently amounts to over 3 million cases - and to extremely long periods of detention when awaiting trial. Over two thirds of India's prisoners are awaiting trial, and prisons are overcrowded to a point where the average occupancy rate is 112%, in the state of Chhattisgarh even 252 %. The poorer population have limited access to courts, while wealthier or influential people have opportunities to delay judgments by appeal. As a result, the more privileged tend to be convicted more rarely, while justice is frequently denied to large parts of the population.

The rule of law in India is massively undermined by political corruption. Officeholders who engage in corruption often slip through political, legal or procedural loopholes and are not effectively persecuted. However, a massive anti-corruption movement, which started in 2011, has generated an entirely new awareness among the population, for the first time openly challenging the widespread culture of corruption and leading to increasingly adverse publicity for politicians involved in corruption cases. In 2013, the Aam Admi Party (AAP), which emerged in late 2012 from the anti-corruption movement under the leadership of Arvind Kejriwal, managed to become the second largest party in the Delhi legislative state assembly elections. However, the AAP resigned after a mere 49 days as minority government in Delhi when facing opposition to its proposals for an anti-corruption law. In the 2014 general election, the AAP secured only 4 seats in parliament.

The topic of corruption nevertheless played a major role in the 2014 election campaign. The dramatic failure of the Indian National Congress was related, among other things, to the UPA government's inability to decisively tackle issues of corruption. Narendra Modi, by contrast, managed to present himself as a "clean" candidate. However, his government's initiatives on this topic have so far been limited, despite calls for a less corrupt system. Among them was an effort to disclose information on so-called black money accounts. The Lokpal and Lokayuktas Act came into force in January 2014, but the anti-corruption bodies that the act regulates have not been formed yet. Public officers continue to operate under significant

Prosecution of office abuse

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discretion. A major problem in the prosecution of office abuse by public servants is that it must be authorized by a minister prior to an appeal, a condition which regularly inhibits judicial prosecution.

De jure, civil rights are guaranteed in India, with the exception of areas where emergency laws are in force. The Armed Forces (Special Powers) Act (AFSPA) is applied in so-called disturbed areas, among others in Jammu and Kashmir and in the northeastern states. The AFSPA allows for the arrest without a warrant of anybody suspected of having committed an offence and protects soldiers from prosecution, virtually allowing them to act with impunity. The AFSPA has been the object of much controversy in India against the background of repeated abuses by the security forces. The government instituted a working group that recommended repealing the law, and international bodies have repeatedly asked the Indian government to do so. While the government has been considering the introduction of amendments to the AFSPA, the army has reportedly staunchly opposed them. However, in November 2014 a military court sentenced seven Indian soldiers to life imprisonment for killing three youths in Kashmir.

Civil rights

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All over India, custodial killings and police abuse are regularly committed, including torture and rape during custody. Underprivileged groups remain particularly affected by the limited enforcement of protection laws and by the extremely slow functioning of the judicial system. Discrimination and violence against women remain major issues in India. According to a study by the University of British Columbia, every year 100,000 women succumb to death by arson – often committed as dowry crimes – and another 125,000 to the consequences of serious injury, rarely are reported as homicide. Sex crimes and rape are extremely widespread. In 2013, the Ministry of Home Affairs registered over 33,000 cases of rape, but dark figures are much higher. The problem of violence against women in India came to the fore after a case of rape in Delhi in late 2012, leading to a broader discussion about the prosecution of crimes against women and the safety of women in general. Also, ethnic discrimination remains widespread in India, despite protections for all minority groups. Religious discrimination could become a major issue if extremist Hindu groups close to the BJP gain influence, e.g. in the before mentioned debate on religious conversions. With regards to discrimination based on sexual orientation, in 2013 the Supreme Court overthrew a decision by the Delhi High Court, which had decriminalized consensual homosexual activity. Homosexual activity has thereby been made illegal and may be punished with life imprisonment. The so-called third gender, a term ascribed to a social group whose members are neither male nor female, received legal recognition in 2014, an improvement in anti-discrimination law.

4 | Stability of Democratic Institutions

Overall, democratic institutions in India perform their functions in an effective manner. However, tensions between institutions at different levels often lead to counterproductive friction. Under the UPA government, the instability of the governing coalition and its dependence on smaller coalition partners with particularistic interests was a major source of friction. The repeated disruptions of parliament sessions by opposition parties hampered the adoption and approval of laws and reforms.

The new BJP-led government with its stable majority has greater capacity to promote reforms. However, since the opposition has a majority in the Rajya Sabha, the upper house, parliament was disrupted again in late 2014.

Moreover, vertical coordination between the national and the state level is problematic, with multiple social programs operating at different levels. A lack of incentives regarding state officials and corruption remain an issue.

Democracy is well-established in India. No actors effectively challenge the democratic nature of the state. The army has been effectively kept under civilian control since independence and only small armed groups, especially the Naxalites, aim to overturn the democratic credentials of the Indian state. A minor exception are various insurgent groups in the state's periphery, including Maoist rebel groups and ethno-nationalist armed groups in Kashmir.

Performance of democratic institutions

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Commitment to democratic institutions

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5 | Political and Social Integration

The Indian party system is fairly stable, socially rooted and institutionalized. A huge number of parties expressing particular interests exist at the national and state levels. Social groups entertain relatively stable ties with political parties.

The relevance of coalition politics was reduced in the 2014 general election, in which the BJP gained an absolute majority in the lower house of parliament, as well as in several state-level elections. The electoral victory of the BJP was, among other factors, related to a rejection of "dynastic" politics such as those pursued by the Indian National Congress, dominated by the Nehru-Gandhi family.

The clear victory of the BJP and the massive defeat of the Congress party in the 2014 general elections, but also the emergence of the Aam Admi Party and its success at the Delhi legislative assembly elections in 2015, reveal the volatility of the Indian party system.

Party system

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The BJP has strong internal structures compared to most parties, characterized by informal procedures, factionalism, clientelism and weak internal democracy. The financing of parties and of their electoral campaigns is highly opaque. While party finance regulations are in place, their implementation remains ineffective. Candidates regularly spend much higher sums for their campaigns than those stipulated by the Election Commission. According to the Centre for Media Studies in Delhi, India's 2014 general election was the second most expensive in history (after US elections in 2012), with total costs amounting to 4.9 billion USD. According to The Economist, only 2.2% of total party financing was raised through electoral trusts, which were introduced in 2013 in order to increase transparency in party financing. Considerable sums must therefore be a result of cash donations of "black money," or unreported illegal funds.

While a large number of interest groups exist in India, only a small share of the population belongs to or actively participates in the activities of associations. Labor unions are only partly autonomous because they are affiliated with political parties and their performance depends on the electoral success of the latter. However, social movements of different kinds have become more and more assertive, and the number of NGOs has been steadily increasing. These organizations are frequently promoted by intellectuals and members of the middle class, but they often fight for the rights of marginalized social groups.

Interest groups
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According to conservative government estimates, in 2014 there were more than two million NGOs in India. Shortly after the BJP-led government took office in 2014, a report by the Intelligence Bureau was leaked which accused foreign-funded NGOs of hampering India's growth and threatening "national economic security". This has led to serious concern among several NGOs that have been opposing large projects potentially dangerous for the environment. This more restrictive attitude towards NGOs, however, is not a feature of the new government alone. In 2013, Human Rights Watch accused the UPA government of trying to repress critical groups by cutting their funding, while government officials were harassing advocacy groups "in apparently deliberate efforts to curtail dissent."

The electoral victory of the BJP has led to increased popularity of Hindu-nationalist groups. Example giving, the Rashtriya Swayamsevak Sangh (RSS) has been growing rapidly in the recent past. While it received 1,000 membership requests per month in 2012, in August 2014 that figure rose to 13,000 requests. According to most analysts, RSS has a huge influence on BJP policies. Correspondingly, there is concern that Hindu-nationalist groups will come to dominate politics, further polarizing Indian society.

The Indian elite is proud of the country's achievements as the world's largest democracy in terms of population and as one of the most stable democracies among post-colonial states. Democratic principles are also firmly rooted in the Indian

Approval of
democracy
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population. According to the 2010-2014 World Values Survey (WVS), 72% of Indian respondents consider a democratic political system "very good" (41.4%) or "fairly good" (30.6%). 57.3% of Indians, moreover, have "a great deal" or "quite a lot" of confidence in parliament as an institution. Even poorer parts of society believe in the weight of their vote and take part in elections. In fact, it is commonly acknowledged that Indian elections are substantially determined by the votes of the rural population. 29.4% of the lowest income decile of the population in India consider it "absolutely important" to live in a country that is governed democratically. Interestingly, however, members of the growing middle class increasingly express their disaffection with politics and with the "political class" in general. In some cases, this even leads to praise for the Chinese model, which is seen as attractive due to its higher degree of efficiency. According to the 2010-2014 World Values Survey, a political system with "a strong leader who does not have to bother with parliament and elections" is considered "very good" by 40.9% of Indian respondents and "fairly good" by 29.5%. Approval of democratic performance is mixed, according to WVS responses on the belief about how democratically India is being governed, and considering that 36.4% of Indians argue that there is "not much" or "no" respect "at all" for human rights in their country.

Overall, however, no veto powers seriously challenge democracy in India. Fringe groups, such as ethno-nationalist insurgents and Maoist groups fight, as they put it, for the rights of the poor and landless rural population, however are not part of the pro-democratic consensus of Indian politics and society.

The extremely hierarchical character of Indian society continues to impede the formation of a sense of solidarity across different social groups. According to a survey carried out in 2014, 27% of the Indian population still practice untouchability – interestingly, not only Hindus, but also Sikhs, Muslims and Christians. However, over the past years things have improved thanks to increased social mobility and the diffusion of civil society organizations. The large number of associations, some of them led by leftist intellectuals and lawyers, has contributed to create some degree of social protection for vulnerable social groups. While the anti-corruption movement and protests against rape and violence against women have been mainly driven by the middle classes, they are an expression of a growing solidarity on topics that cut across and affect all parts of the Indian society. A large number of initiatives also take place at the grassroots level, with local groups collectively organizing to carry out strikes and protests. Tribal groups have a long tradition of resistance and protests since the colonial period. Moreover, local communities have become increasingly vocal, for example in resisting mining projects and land acquisitions. These self-help organizations are sometimes manipulated for political purposes, but they often act in an autonomous manner to promote the interests of their communities.

Social capital

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II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality in India are pronounced and partly structurally ingrained. India is still the country with the largest absolute number of poor people worldwide. With the $2-per-day poverty line as a point of reference, in 2011 some 60.6% of the Indian population would have been considered as poor. Moreover, poverty has increasingly affected a range of states that were largely left untouched by the economic boom and have been plagued by bad governance in past decades, among them Uttar Pradesh, Orissa and Madhya Pradesh. With an HDI score of 0.554 in 2012, India ranks 136 among 186 countries worldwide in terms of human development and high levels of discrimination and inequality remain. HDI score and ranking, however, have been steadily improving over the past decade.

India's Gini index rose from 33.4 in 2005 to 33.9 in 2009, reflecting an increase in inequality, measured by consumption. According to the Global Wealth Databook 2014 published by Credit Suisse, the wealth share of the top decile of India's population rose from 65.9% in 2000 to 74% in 2014; the wealth share of the top percentile rose from 36.8% to 49% in the same period.

Inequalities are also evident across regions, across different social groups as well as between skilled and unskilled workers. Social exclusion continues to affect the traditionally marginalized lower castes (the so-called Scheduled Castes, SCs) as well as ethnic minorities (the so-called Scheduled Tribes, STs) and Muslims. Gender inequality is still a major problem in India. With a Gender Inequality Index of 0.610 (2012), India rates extremely low in international comparison, even though with slight improvements (2010: 0.619). While women's rights and gender equality are officially recognized, women are de facto still largely discriminated. Discrimination ranges from the abortion of female fetuses (and corresponding numeric gender disparity) to the intra-familial discrimination of women in the access to food and sanitation. This is mainly related to the persistence of patriarchal family structures, especially in northern India. However, some improvements could be observed in women's access to education. Enrollment rates in primary education are now equal for boys and girls. However, disparities in secondary and tertiary enrollment have remained substantial, with a ratio of female-to-male enrollment of 94 and 78.1, respectively.

Economic indicators		2005	2010	2013	2014
GDP	$ M	834215.0	1708458.9	1861801.6	2066902.4
GDP growth	%	9.3	10.3	6.9	7.4
Inflation (CPI)	%	4.2	12.0	10.9	6.4
Unemployment	%	4.4	3.5	3.6	-
Foreign direct investment	% of GDP	0.9	1.6	1.5	1.7
Export growth	%	26.1	19.6	7.3	0.9
Import growth	%	32.6	15.6	-8.4	-0.5
Current account balance	$ M	-10283.5	-54515.9	-49226.0	-31288.8
Public debt	% of GDP	80.9	67.5	65.8	66.1
External debt	$ M	121195.5	291650.6	427561.9	-
Total debt service	$ M	23922.4	24412.6	41125.3	-
Cash surplus or deficit	% of GDP	-3.2	-3.4	-	-
Tax revenue	% of GDP	9.9	10.2	-	-
Government consumption	% of GDP	10.9	11.4	11.3	11.7
Public expnd. on education	% of GDP	3.1	3.3	-	-
Public expnd. on health	% of GDP	1.0	1.2	1.3	-
R&D expenditure	% of GDP	0.81	0.80	-	-
Military expenditure	% of GDP	2.8	2.7	2.4	2.4

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

In India, market competition has an institutional framework, but in several areas state intervention is still in place and several sectors of the economy are heavily protected. Market-based competition is widely absent in agriculture, a sector not affected by reforms in a significant way. There are forms of discrimination based on foreign versus local ownership as well as on private vs. public enterprises. State-owned companies were only partially privatized since the 1990s, and are still active especially in sectors such as energy, finance, and natural resources. The Modi government has been auctioning coal-mining licenses to private companies, after the Supreme Court canceled over 200 licenses that had been granted since 1993 due to

Market-based competition

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corruption in 2014. Moreover, the new government announced that it will allow private investment for up to 48% of state-owned banks' shares. Competition in many industry sectors is further hampered by a monopoly of a few big companies.

Subsidies are still in place in a range of sectors, from agriculture to fuel, even though diesel fuel subsidies were reduced by the Modi government.

The Indian government subsidizes exports, for example in the textile sector. In this particular area, other textile exporters have complained about Indian subsidies in the WTO resulting in the rise of Indian export competitiveness. As far as imports are concerned, there are massive trade barriers, both in terms of tariffs and customs procedures as well as taxes and financial regulations. Local content requirements in several sectors have led to disputes with other actors, for example with the United States in the field of solar energy.

Foreign direct investment is still prohibited in a number of sectors, among them agriculture. However, the new government has promoted a range of reforms at different levels. Besides the above-mentioned reforms are efforts to attract foreign investment, for example a relaxation of rules for FDI in the construction sector, which will allow for investment in smaller projects; an opening of the railway sector to up to 100% foreign ownership; and an opening of the defense sector (up to 49%). With his "make in India" campaign, Prime Minister Modi is trying to present India as an attractive manufacturing location and his government has promised to simplify procedures for entrepreneurs in India.

The informal sector is still large. According to a report by the National Sample Survey Organisation, in 2011-12, 75% of the working population in rural areas and 69% in urban areas were employed in the informal sector.

In 2009, new anti-monopoly laws were introduced, and the Competition Commission of India (CCI) became functional. While its activities are still hampered by a multitude of sectoral regulations, the CCI was rather proactive in the first years of its existence. For example, in 2013 it imposed a fine of over 8 million USD on the Board of Control for Cricket in India for adopting anti-competitive practices, denying market access to competitors. In 2013 and 2014, moreover, the CCI carried out investigations against Google for allegedly abusing its dominant position among internet search engines.

Anti-monopoly policy

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India is one of the original members of the WTO, strongly advocating multilateral trade and providing at least most favored nation treatment to WTO members as well as to other partners. Since the opening of its economy in 1991, India has been increasingly liberalizing trade. Its average tariff rate fell to 10.4%, but is still above the regional average according to a 2014 UN ESCAP report. The country has been unwilling to liberalize its agricultural sector, which is heavily subsidized. During WTO negotiations held in Bali in 2014, India refused to support the Trade Facilitation

Liberalization of foreign trade

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Agreement, but in bilateral negotiations with the US in November 2014, it induced the US to indefinitely refrain from challenging India's food security programs.

Several further exceptions remain to full trade liberalization. India's import regime, particularly its licensing and permit system and tariff structure, is extremely complex. Besides the tariff rate, importers have to pay a range of additional duties. In many cases, imports are subject to non-tariff barriers such as prohibitions, licenses, restrictions or sanitary requirements, which inhibit trade particularly with South Asian neighboring countries. Moreover, India has been actively using anti-dumping measures, especially in the chemical and textile sectors, and is generally still protectionist in an attempt to limit the deterioration of its balance of payments. According to the most recent trade statistics released by the Ministry of Commerce, in the period April-November of fiscal year 2014-15, India's merchandise trade deficit amounted to over $100 billion (as compared to $97 billion during the same period in the previous fiscal year). As far as services are concerned, India enjoys a surplus – in October 2014, this amounted to $6.2 billion. The new government puts great emphasis on export promotion – among other by pushing for the development of the manufacturing sector, the formation of several new Special Economic Zones (SEZs), and by trying to improve the infrastructure through measures like the Port Connectivity Highway Project at the Jawaharlal Nehru Port Trust in Mumbai, which was inaugurated in August 2014.

India's banking system has significantly evolved since the start of economic reforms in 1991 and was one of the few banking systems that was not seriously compromised by the global financial crisis. With the Banking Laws (Amendment) Bill 2012 coming into force in 2013, corporate houses were allowed to enter the banking sector. Overall, however, the system is still hybrid, being dominated by public sector banks, which have a 70% share in the banking sector. Foreign banks' shares amounts to just 5%. According to The Economist, Indian banks are forced to invest 23% of their deposits in government bonds and 4% with the Reserve Bank of India (RBI). Moreover, 40% of loans must go to priority sectors determined by the government, especially to the agricultural sector.

Banking system

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The share of nonperforming bank loans has risen to 3.8% in 2013 (as compared to 3.4% in 2012; 2.7% in 2011; 2.4% in 2010 and 2.2% in 2009), and the capital-to-assets ratio has remained stable at around 7% since 2006 (compared to 6.9% in 2013). Correspondingly, in November 2013, Moody's released a report providing a negative assessment of India's banking system, highlighting that asset quality would deteriorate and profitability would remain weak, hampering internal capital generation.

The RBI has worked on the implementation of Basel III for several years. In 2014, new norms were introduced by the RBI which will make it easier for private sector banks to increase their capital levels. Moreover, the Lok Sabha passed the Payments

and Settlement Systems (Amendment) Bill in 2014, which is expected to improve transparency and stability in India's financial market. Despite progress, Indian banks have problems in complying with Basel III requirements, mainly due to a lack of capital: $200 billion would be needed over the next five years to comply with the rules, according to an estimate by Fitch Ratings.

The new BJP-led government announced in 2014 that it would engage in reforms to promote "financial inclusion," thereby opening a bank account for every citizen. This reform is likely to impact the Indian banking system in the coming years.

8 | Currency and Price Stability

Inflation (consumer price index) was extremely high in 2013, rising to 10.9% after it had been reduced to 8.9% and 9.3% in 2011 and 2012 respectively. Overall, India's inflation is particularly related to commodity-price shocks, especially domestic food prices. However, a clear improvement came in 2014, when the RBI managed to reduce inflation to surprisingly low levels (6.46% in September 2014; 7.56% for food items), a success also related to falling oil prices. The RBI has set itself the target of limiting inflation to 6% in 2016. Moreover, the RBI has raised rates since mid-2013, thereby managing to stabilize the rupee and calm financial markets. The rupee had in fact fallen dramatically in July/August 2013, but experienced a re-appreciation since then and during 2014. According to RBI data, the provisional real effective exchange rate for March 2014 (base 2004/2005 = 100) was 106.21.

Anti-inflation /
forex policy
8

Narendra Modi's electoral victory and the prospect of a stable government willing to promote economic reforms have contributed to the improvement of the economic situation, attracting investments and increasing the confidence of the markets.

The Indian rupee is not pegged to any foreign currency. It is fully convertible on the current account. On the capital account, however, it is only partially convertible. Since the Reserve Bank of India (RBI) trades in the currency market to impact effective exchange rates, the currency regime amounts to a de facto controlled exchange rate. While in 2011 the RBI appointed a committee to prepare for fuller capital account convertibility, in 2014 the deputy governor of the RBI declared that this was not considered a major issue by his institution.

While the governor of the RBI can autonomously make decisions on interest rate changes, without the approval of a committee, the finance minister has the power to replace him or to order him to change the interest rate. So far, finance ministers have however not made use of this power and, de facto, the RBI has been able to set rates independently. The RBI played an important role in dealing with the financial crisis and is one of the few institutions in India that has not been accused of corruption.

RBI governor Raghuram Rajan has struggled for the independence of the central bank from government pressure, among others with his decision to hold rates in late 2014.

In 2003, India introduced the Fiscal Responsibility and Budget Management (FRBM) Act, which mandated a phased reduction in the fiscal deficit to 2.5% of GDP as well as the elimination of revenue deficit. The law generally increased fiscal transparency and responsibility by mandating that the government regularly issue reports to be discussed in parliament. According to the finance ministry, in 2014-15 the fiscal deficit target of 4.1% will be met. The government's fiscal and debt policies generally promote macroeconomic stability, but are sometimes prone to populist policy changes.

Macrostability

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In 2012, India's current account deficit amounted to $91 billion; its cash deficit amounted to 3.8% of GDP. Indian states, which have a certain degree of fiscal autonomy but are dependent on transfers from the central government, have traditionally pursued high-risk fiscal policies, which demand regular bailouts from the center. However, things have changed in recent years. The states' fiscal deficit, which amounted to 5% a decade ago, dropped to 1.9% of state GDP in 2011-12 and slightly rose to 2.3% in 2012-13. The combined fiscal deficit of the center and the states is still too high, and interest payments are still absorbing a large share of public expenditures. India's public debt declined steadily from over 80% in 2004 to 67.5% in 2010 and 61.5% in 2013. Public debt is mostly owned by domestic creditors. According to the Indian finance ministry, the country's external debt amounted to $461.9 billion in December 2014, with an external debt to GDP ratio stood of 23.2% and a slightly increasing tendency as compared to March 2014. India's total reserves have risen steadily to $276 billion in 2013.

9 | Private Property

Property rights in India are, overall, adequately defined and the main political actors do not call into question the principles of private property, private initiative and the need to attract foreign investment. In 2014, India ranked 46 of 97 countries in the International Property Rights Index, with some improvement in matters of copyrights protection and intellectual property protection. Important changes have been made by the new government concerning property rights for land. With an ordinance in late 2014, the Modi government amended the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act of 2013, which had come into force on 1 January 2014. The new ordinance facilitates land expropriations, has loosened clauses that demanded for unused acquired land to be returned to its original owners, and makes expropriation possible for all kinds of infrastructure projects, including the construction of hotels and tourism facilities.

Property rights

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A particularly problematic field is that of intellectual property rights (IPR), where conflicts with international companies have emerged especially in the pharmaceutical sector. According to Indian law, compulsory licenses can be issued to produce drugs without the patent holder's consent for otherwise unaffordable pharmaceuticals. The new government has set up a think tank on IPR and has pledged to address the issue through reforms. The need to balance internal demands and international pressures is however not expected to lead to a full adoption of international IPR standards.

According to the World Bank's 2015 Doing Business Report, India ranks 121st of 189 countries as far as the easiness of registering property is concerned. The new government has recognized the problems and aims to simplify procedures and reduce bureaucratic constraints in order to attract foreign investors.

Private companies in India are viewed institutionally as important engines of economic production and are given legal safeguards. While the role of the private sector has been strengthened since the beginning of economic liberalization in the 1990s, there are still huge bureaucratic and legal hurdles for private companies. Setting up a business in India requires 28 days and 14 procedures on average, according to the World Bank Doing Business 2014 data. The new Indian government came to power in 2014 with an agenda of development and growth that highlights the importance of the private sector and is generally seen as business- and private-sector-friendly. In October 2014, it announced that it would promote reforms to simplify entrepreneurship in India by streamlining bureaucratic procedures and providing online forms to replace paper applications, for example on environment clearances.

Private enterprise

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Nevertheless, India has a long tradition of state-owned enterprises, which still do and will continue to play an important role in the economy. According to an OECD report, in 2012/13 there were still 229 operating state-owned enterprises with 1.4 million employees. A reform of the worst-performing companies and the fight of corruption within them is required.

The Twelfth Five Year Plan (2012-17) seeks to promote the competitiveness of public enterprises, which are encouraged to garner funding on capital markets, to partner with the private sector, and to internationalize their operations. The privatization efforts of the new government mainly focused on selling stakes of public-sector businesses, instead of initiating a process of full privatization.

Over the past decades, public auctions and bidding procedures in India have been highly intransparent, resulting in the Supreme Court's order of September 2014 to cancel most coal licenses issued since 1993 due to corruption issues. Apparently, the sale of shares in Steel Authority of India Ltd (SAIL) in 2014 proceeded according to market principles.

10 | Welfare Regime

While social safety nets in India were traditionally mainly based on family structures, a range of reforms initiated in the mid-2000s substantially improved the chances of marginalized sections of Indian society to receive compensation for social risks. Programs like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) provide for the temporary employment of people living below the poverty line. Moreover, there are a range of other programs at the national and the state level addressing a variety of issues with different modalities of distribution. The Public Distribution System (PDS), for example, provides for the distribution of food grain staples to the poor through "ration shops." The program is managed by the government-owned Food Corporation of India. Regulation of the program is shared between central and state governments. The Integrated Child Development Services (ICDS) aims to address malnutrition and health problems for children and their mothers. UNICEF and the World Bank have assisted the Indian government in implementing this program. The Aajeevika-National Rural Livelihoods Mission (NRLM) is a program initiated in 2011 by the Ministry of Rural Development (MoRD) with support by the World Bank. It aims to empower the rural poor among others through the formation of self-help groups and the promotion of self-employment through the access to credit. However, the effectiveness of many of these programs is dubious, mainly due to corruption and leakages. The Public Distribution System is notorious for leakages, waste and corruption. Expenditures are not well targeted, since the poorest parts of the population do not get a fair share of these.

In 2012, public expenditure on health amounted to 1.3% of GDP, with a minimal increase over the previous decade. The ratio of doctors per 1,000 people is extremely low – just 0.6 as compared to 1.8 in countries like Brazil and China. Health infrastructure is equally poor, with only 1.3 hospital beds per 1,000 persons – the number recommended by the WHO being 3.5.

The Modi government in 2014 signaled its intention to dilute MGNREGA, provoking the protest of 28 leading economists, who emphasized the achievements of the scheme and the need to sustain it. During the review period, the Modi government did not advance any bold new initiatives on social safety. Its main new proposal was the Pradhan Mantri Jan Dhan Yojana, the program to eliminate "financial untouchability" by providing free bank accounts to everybody.

As far as health insurance is concerned, there are several schemes sponsored by the central government that are targeted at employees in the formal sector (Employees' State Insurance Scheme) or at civil servants (Central Government Health Scheme). Some major improvements in terms of population coverage of health insurance were made with the introduction of the Rashtriya Swasthya Bima Yojana (RSBY), a health insurance scheme for families living below the poverty line. According to the

government, 28.6 million families were participating in the program in 2012. The central government covers some 75% of the costs for RSBY, with the remaining 25% covered by state governments. While RSBY has represented an important improvement, the scheme suffers from underpayment of premiums and a rather low coverage of funding for health treatments.

The Modi government is planning to transfer the RSBY from the labor ministry to the health ministry as part of a new National Health Assurance Mission (NHAM), which is expected to provide healthcare and insurance to all citizens.

Despite this range of programs and their growing reach, a significant part of the population is still affected by poverty and social risks of all kinds.

Equality of opportunity in India remains a goal to be achieved. Members of the lower castes, Muslims, members of tribal communities and other marginalized social groups do not enjoy equal access to education and employment. There are, however, several forms of affirmative action aimed at promoting the participation of marginalized groups. Among them are reservations for members of Scheduled Castes (SCs), Scheduled Tribes (STs) and Other Backward Classes (OBCs) in the public sector and at universities. The Indian constitution also provides for the reservations of seats in elected bodies corresponding to the share of SCs and STs in the population of each constituency. The system of reservations has contributed to improving social mobility and to fostering the political empowerment of members of marginalized groups. In some cases, SC members have managed to attain leading political positions. At the same time, in many cases members of the lower castes and tribes are not able to fill the posts reserved for them, as their overall educational qualification is still too low. Improvements in education are necessary to guarantee a successful implementation of affirmative action.

Discrimination of women remains a major issue in India. Especially in the still extremely patriarchal north of India, women tend to be discriminated from birth or early childhood. Within poor families, this means they are subject to worse access to food and sanitation. As far as access to education is concerned, some substantial progress has been made in primary and secondary education; in tertiary education, too, the ratio of female-to-male enrollment has improved, but it still amounts to 78.1%. Despite improved education, the participation rate of India's female labor force has decreased. According to World Bank data, it amounted to 29% in 2013. Women still play a subordinate role in politics, too – albeit with some notable exceptions. Only 65 of 545 MPs in the Lok Sabha are women. Recent years have seen a debate on the introduction of quotas for women in the national parliament and state legislative assemblies. While the so-called Women's Reservation Bill, which guarantees a 33% quota, was passed by parliament's Rajya Sabha, or upper house, in

Equal opportunity

4

2010, it was not voted on in the Lok Sabha and lapsed after the dissolution of parliament. During the review period, the bill was not discussed in depth.

The more general topics of the role of women in society and women's rights has, however, come center stage after a rape case in 2012 sparked public outrage, and it has remained in the media since then. While it will take many years to achieve a change in the general attitude towards women, a new awareness seems at last in place.

11 | Economic Performance

After several years of decline, the Indian economy has in recent years experienced an upward trend. In 2012, GDP growth had reached a low of 4.7%, but it recovered to 5.0% in 2013. The October 2014 World Economic Outlook published by the World Bank projects a growth of 5.6% for 2014 and 6.4% for 2015. India's recovery, according to the report, is a result of the increase of exports and investments as well as effective policies and a renewed confidence that followed the formation of a stable government at the center. In late 2014, India was faring better than most other emerging powers. This positive development was partly due to fortunate circumstances such as falling oil prices and India's limited dependence on exports to instable markets in western countries.

In 2012, India's current account deficit rose to $91 billion. According to World Bank estimates, its increase amounts to 1.7% of GDP in 2013 to 2.1% in 2014 and 2.2% in 2015.

The RBI managed to control inflation after a period of worryingly high rates, but according to the World Bank, inflation will continue to decline only slightly, to 7.5% in 2015. Foreign direct investments rose to 1.5% of GDP in 2013 as compared to 1.3% in 2012. During the review period, companies like Unilever and GlaxoSmithKline increased their investments in India, and the Modi government hopes to attract even more investments by addressing corruption and reducing bureaucratic barriers. Sectors like insurance retain an FDI share limited to 49%, showing India's ambivalence towards the opening of all sectors to foreign investors. Despite promoting some reforms, the government still has to address a range of pressing issues – among them a reform of the taxation system, with the introduction of the long-postponed Goods and Services Tax (GST). India's tax revenue remains extremely low at 10.7% of GDP in 2012.

According to a January 2014 report by the National Sample Survey Office, the unemployment rate (usual status) in 2011/12 was about 2% for both men and women in rural areas; and 3% for men and 5% for women in urban areas.

Output strength

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12 | Sustainability

India faces a range of environmental problems, from air and water pollution to water scarcity, waste management issues, soil degradation and biodiversity loss. India is also one of the largest emitters of greenhouse gases. In 2014, India ranked 155 among 178 countries on the Environmental Performance Index of the Yale Center for Environmental Law and Policy (2012: rank 125 of 132 countries).

Environmental regulations such as the Air (Prevention and Control of Pollution) Act of 1981 are in place, and monitoring and enforcement agencies such as the Central Pollution Control Board exist. Nevertheless, the Central and State Pollution Boards are heavily understaffed and insufficiently proactive in pursuing the reduction of air and water pollution. The Supreme Court has promoted action plans with regards to the reduction of air pollution, while the National River Conservation Plan aimed to reduce the industrial pollution of rivers and to build sewage treatment facilities. Among the population, awareness of the environment is extremely low. Air pollution is a major problem in big cities – according to a recent WHO report, Delhi's air was the most polluted in the world during the years between 2008 and 2012.

In the field of climate change, India has only recently started to develop proper policies, among other with the publication of a National Action Plan on Climate Change in 2008. The inclusion of low-carbon development goals in the 12th Five Year Plan (2012 – 2017) indicates some willingness on the part of the government to address the issue of climate governance, despite India's reluctant negotiation position on this issue in international forums. During a visit by US President Obama to Delhi in January 2015, Prime Minister Modi stressed for the first time that India has an own genuine interest in addressing climate change.

However, the government's attitude on the topic of environmental protection is ambivalent, and the focus is clearly on growth and investment as well as on a diversification of energy sources. The government aims to promote solar and other forms of renewable energy. Investments in this sector increased to $7.9 billion in 2014 – a 13% rise as compared to 2013 – and renewable sources of energy are expected to account for 15% of total energy consumption by 2017, and to 20% by 2030. At the same time, the government has also pushed for the construction of several new nuclear power plants and for further coal extraction in order to address India's growing energy needs. Moreover, the BJP-led government has loosened environmental clauses in several areas, for example for projects in the construction sector, and it has simplified environmental clearances, introducing the possibility of self-certification for companies.

Environmental
policy
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India's education policy contributes to a system of education and training that is mostly sub-standard, with some notable exceptions. With a literacy rate of 62.8% and a gross enrollment ratio of 68.5% in secondary education and 24.8% in tertiary education, there are still massive deficits in the access to education, even though with signs of improvement. The biggest issue is the low level of educational achievements, with pupils unable to fulfil basic tasks required on the job market. The parallel systems of private and government schools contribute to deepening the gaps in education among social groups. According to the Annual Status of Education Report (2014), 29% of children aged 6 - 14 attend private schools, as compared to 18.7% in 2006. India has however made progress in the field of education in recent years. According to World Bank data, the pupil-to-teacher ratio shifted from 41:1 in 2003 to 35:1 in 2011, and the Right to Education Act, effective since 2010, has made education a basic right and is an initiative towards better quality of education. As far as tertiary education is concerned, there are a number of high-class colleges and universities, especially for natural sciences. India has experienced significant human capital flight in the academic field. With expenditures for education amounting to 3.4% of GDP in 2012 and expenditures for research and development at a stable rate of around 0.8% of GDP over the past years, India still ranks low in international comparisons. According to a study by PricewaterhouseCoopers, India would need to triple its R&D expenditure during the next twenty years in order to increase its GDP growth to 9%, which would be needed to build the $10 trillion economy required to create a sufficient number of jobs for India's growing population.

Education policy / R&D

6

Transformation Management

I. Level of Difficulty

The management performance of the Indian government is limited by a range of structural constraints. Over 20% of the population still lives under the national poverty line and the share was much greater if we considered alternative measurements such as the $2-per-day poverty line, according to which in 2011 some 60.6% of the Indian population could be considered as poor. Child malnutrition is still extremely widespread. While India has a growing reservoir of young, well-trained and English-proficient workers, the persistent low degree of literacy and the lack of a structured vocational-training system imply an immense loss of potential. While India is relatively well-equipped to deal with natural disasters, as its response to the 2004 tsunami has shown, one of the main structural obstacles limiting the management performance of the government is the country's extremely poor infrastructure. The economic growth of past years has increasingly burdened India's infrastructure, pushing it to its limits in several areas, especially the power sector, as has been revealed by repeated massive blackouts. According to a study by McKinsey & Company, the growth of the manufacturing sector, increasing domestic consumption and the connection of further thousands of villages to the electricity grid will contribute to making the country's power infrastructure deficits an even more serious problem in coming years. The economy also suffers from problems in road, rail and port infrastructure.

Structural constraints

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While figures like Mahatma Gandhi demonstrate that India has a tradition of civic engagement, social trust is still relatively low. However, things have been changing over the past decades and India now has hundreds of thousands of NGOs operating in a range of issue areas, including environmental groups, human rights groups and so on. Unions and employer associations remain relatively fragmented and are often affiliated with political parties. The government is also promoting the formation of self-help groups in rural areas through schemes like the Aajeevika-National Rural Livelihoods Mission, which was initiated in 2011. A civic culture of participation in public life has always been rather strong, and the large number of demonstrations that take place all over India on any subject shows that also people from marginalized social groups take to the streets and organize to make their voice heard.

Civil society traditions

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A range of cleavages exist in Indian society. They concern caste and social status, ethnicity, religion (especially tensions between Hindus and Muslims), and gender. Since these cleavages rarely overlap and reinforce each other, however, no major nationwide armed conflict has taken place in recent decades, and episodes of violence have remained relatively limited. Among exceptions are the insurgency in Kashmir, the Naxalite conflict in central India and the activities of rebel groups in the northeastern states, which continued during the review period. Under the new BJP-led government, the influence of Hindu-nationalist groups has increased and there is a risk of the establishment of a majoritarian Hindu culture as well as further marginalization of minorities, especially of Muslims.

Conflict intensity

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II. Management Performance

14 | Steering Capability

Question
Score

During the first phase of the review period, the Indian National Congress-led United Progressive Alliance (UPA) government showed a recognizable ability to set strategic priorities. While the focus on large social programs has been pursued in a rather consistent manner, the approach to economic reforms has sometimes been shortsighted and inconsistent. This was related to a weakening of the UPA government after a series of corruption scandals and to turbulent coalition politics. The current government that came to power after the April/May 2014 elections enjoys a clear majority in the Lok Sabha and is not dependent on regional coalition partners, which enables it to implement necessary reforms. The focus is clearly on the promotion of growth through the attraction of FDI, the promotion of the manufacturing sector, a further liberalization and the reduction of bureaucracy. In late 2014 and early 2015, Prime Minister Modi faced criticism of a protracted implementation of the reforms he had promoted. The government furthermore seems to be struggling to control extremist Hindu groups whose particularistic agenda might further social unrest, which may in turn undermine the growth agenda.

Prioritization

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The UPA government was not able to effectively implement its reform policies. Delays in the implementation of public schemes and welfare programs, corruption, and the tapping of benefits by non-target groups are still widespread and limit the effectiveness of governmental social policies. The central government has tried to address these problems by strengthening the supervision of policy implementation. Within the Ministry of Statistics and Program Implementation, the Department of Program Implementation has the task of monitoring the implementation of social schemes. Moreover, the central government has in past years tried to streamline existing programs to increase their efficiency. Poor budget management by single

Implementation

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states has made their implementation more difficult. For example, Uttar Pradesh spent only 52% of its fiscal allocations in 2012.

Policy implementation under the new government remains to be evaluated. Many of its initiatives seem to have been geared explicitly towards the media – e.g. the "Clean India" campaign with its images of Prime Minister Modi sweeping a street. The actual impact of such initiatives will become visible only in the coming years.

In the development of new social schemes, Indian governments have generally demonstrated an ability to resort to a range of learning opportunities, from cooperation with international partners to the consultation of (academic) experts and civil society representatives. As far as the new government is concerned, it has displayed a clear awareness about the need for change and reforms across sectors and a willingness to introduce meaningful changes. Modi has announced that his government will promote reforms across several areas of concern, improving the efficiency of existing programs and putting pressure on the bureaucracy. The government has also set up committees to improve the services of the Indian Railways and to reform the Food Corporation. However, massive resistance to bold policy changes can be expected, especially when it comes to curtailing the privileges of established players. Flexibility in policymaking in India is, in fact, often limited by the sheer magnitude of government programs and inefficient policies in many cases are not improved because powerful political actors or interest groups have a stake in maintaining the status quo.

Policy learning

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The new government has displayed a willingness to learn from experts, for example by including experts and part-time members in the NITI Aayog, the body that replaces the Planning Commission. At the same time, it has been highly skeptical about cooperating with foreign or foreign-funded NGOs, suggesting that there will be limits to its willingness to accept advice from international partners.

15 | Resource Efficiency

The Indian government makes only partially efficient use of available human, financial and organizational resources. The Indian state has inherited from the British colonial government an efficiently organized bureaucratic system based on recruitment and promotion on merit. While formally recruiting procedures are transparent, a large number of quotas and reservations for disadvantaged social groups as well as politically motivated dismissals and appointments seriously impact the efficiency of the system. Institutions geared to reform public administration exist and have become increasingly vocal. The new BJP-led government, in particular, has made a more efficient use of assets one of the main topics of its reform agenda. Some reforms include tighter controls on the work of bureaucrats. More importantly, Prime Minister Modi in 2014 announced that he would eliminate the National Planning

Efficient use of assets

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Commission, considered to be inefficient and a relic of the times of planned economy. A new body called National Institution for Transforming India (NITI) Aayog was introduced in early 2015. The NITI Aayog is supposed to serve as a think tank for the government. The new body will allow for an early consultation of states in policymaking, ideally increasing efficiency and fostering "cooperative federalism," as the government puts it. It will not have the power to allocate funds, which will remain with the Ministry of Finance. To what extent this restructuring will make a difference in terms of efficiency remains to be seen.

The use of budget resources has been hardly efficient. The budget deficit of the central government and the states absorbs resources that cannot be invested in sectors such as infrastructure or social services. The budget announced by the new government in July 2015 envisaged a fiscal deficit of 4.1% of GDP, even though this will be a target difficult to meet. On other topics like the cutting of costly subsidies, Finance Minister Jaitley has been rather vague. Defense spending has been increased by 12% to 38 billion USD, so that India will remain the largest importer of weapons worldwide.

In 2012, tax revenue amounted to 10.7% of GDP – a slight improvement as compared to previous years. The UPA government made major efforts to reform the tax system, but did not manage to introduce the long-awaited Goods and Services Tax (GTS). While the new government has announced the introduction of the GST, at the time of this writing, it was unclear when this would take place. According to Global Financial Integrity, India was one of the largest exporters of illicit capital between 2003 and 2012, losing on average $43 billion per year in illegal funds or "black money." The Modi government has promised to address this issue, but it is too early to assess its success in combating black money outflows.

The Indian government has only limited success in its coordination of conflicting policy objectives and interests. Within the United Progressive Alliance (UPA) coalition, smaller parties have been pursuing the particularistic interests of their regional and caste-based constituencies. The new government has good prospects of improving policy coordination thanks to its clear majority in the lower house of parliament and significant support in the population. Several efforts have been made to improve coordination among ministries and between national and state-level governments.

The newly created ministry of skill development and entrepreneurship is in charge of coordinating and implementing vocational training - an area that has previously been managed by different ministries such as those of labor, rural development, textiles and human resources development. Whether the creation of this new ministry will prove helpful or just amount to a further complication of existing structures remains to be seen. As far as the efforts to improve coordination between center and states are

Policy
coordination

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concerned, the NITI Aagoy, the new "planning" government think tank, is supposed to give a greater say to state governments than the old Planning Commission.

The issue of corruption took center stage in India in 2011, when a broad popular movement led by social activist Anna Hazare called for the introduction of the Jan Lokpal Bill (Citizens' Ombudsman Bill) to establish independent institutions to investigate corruption. The Lokpal and Lokayuktas Act, 2013, ultimately came into force in early 2014, but the anti-corruption bodies that the act was supposed to introduce have not been formed at the time of this writing. Overall, the complete inability of the UPA government to manage a series of corruption scandals and the anti-corruption movement contributed to the electoral defeat of the Indian National Congress in 2014.

During the election campaign, Modi presented himself as a clean alternative to the corrupt Congress, and after his election he announced that his government would forcefully address the issue of corruption and be more transparent than its predecessor. On the first day in office, Modi set up a special investigation team on black money. However, the credibility of Modi's transparency drive is called into question by the composition of his own cabinet: 20 of his 64 ministers face prosecution, 11 of them for serious crimes. It remains to be seen to what extent the Modi government will be able to substantially tackle issue of corruption beyond the individual measures geared towards the media.

Anti-corruption policy

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16 | Consensus-Building

The democratic principles of the Indian state are not seriously undermined by any relevant political actor.

A huge debate over economic reforms exists over a range of issues, from trade liberalization to the abolition of subventions or the creation of special economic zones. Among the actors opposed to a reform course are a number of regional parties, some leftist parties and members of the bureaucracy who fear they might lose their privileged positions. However, after the remarkable electoral victory of the BJP, forces opposing economic liberalization have been largely marginalized.

Consensus on goals

9

Democratic principles are deeply rooted in India and there are no significant actors who seriously challenge the democratic principles of the Indian state. The main exception are the Naxalites, Maoist-inspired rebels who are fighting for the rights of the landless and the tribal population in central India and whose declared goal is the subversion of the Indian state. While they were defined as the single biggest internal security threat by Prime Minister Manmohan Singh in 2006, they do not represent a political force that effectively challenges the Indian state as a whole. While the Naxalites still control portions of territory and even run parallel administrations in

Anti-democratic actors

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some areas of the state of Chhattsgarh, their influence has weakened over the past few years due to a mix of repression and developmental policies pursued by the government.

Indian society is characterized by the existence of multiple cleavages related to caste, religion and ethnicity. The Indian constitution provides for a mitigation of potential conflicts, given the prominence of the principle of secularism, the federal structure of the state, and the provisions for the political representation of otherwise marginalized social groups. However, the year 2013 saw bloody Hindu-Muslim riots erupting in Muzaffarnagar, Uttar Pradesh. With the 2014 general election and the landslide victory of the BJP, the government's willingness to reduce cleavages and manage conflicts has further declined. Prime Minister Narendra Modi has been among the most divisive figures in Indian politics for several years, after up to 2,000 Muslims were killed in deadly riots in Gujarat in 2002, where he was chief minister. While Modi has adopted a conciliatory rhetoric since he has become prime minister, his government has not actively mitigated existing religious tensions. Instead, in 2014 several BJP members contributed to propagate rumors about "love jihad" – a strategy allegedly employed by Muslim men to seduce Hindu women and convert them to Islam – thereby fomenting fears among the Hindu population. The topic of conversions was also debated in 2014, together with the issue of defining Indian citizenship and culture with reference to Hinduism.

Besides religious tensions, also caste-based or regional-based conflicts have long existed in India. In 2014, after massive protests and violence – and leading to further protests – the state of Telangana was formed. In this case, the UPA government played a major role in promoting the formation of this new state out of Andhra Pradesh, apparently with the aim of gaining electoral support.

The fact that no major violent conflicts have broken out in India is therefore not a consequence of depolarizing policies pursued by political actors, but rather the result of the multiplicity of cross-cutting cleavages, which mostly do not overlap, thereby preventing the formation of large opposition coalitions.

A large number of nongovernmental organizations of all kinds exist in India. The political leadership allows for civil society participation, even though in many issue areas policymaking is still quite centralized. However, civil society is extremely active and has been increasingly able to compensate for a lack of formal access to policymaking by mobilizing large numbers of supporters in huge nationwide demonstrations. While the anti-corruption movement of 2011 and the protests against rape and violence against women of 2012 were short-lived, they contributed to change the awareness of the broader population on these topics. According to an OXFAM study, civil society representatives have over the past years been involved

Cleavage / conflict management

5

Civil society participation

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in policymaking as never before: a consultation process with civil society actors accompanied the formulation of the 12th Five Year Plan.

Regarding the activities of foreign NGOs and foreign-supported Indian NGOs, the government has however become increasingly restrictive. In 2013, the Congress-led government revoked the permission to place foreign funds with approximately 4,000 NGOs. In 2014, a report by the Intelligence Bureau identified several foreign-funded NGOs as hampering growth due to their "anti-development" activities. In early 2015, an Indian Greenpeace employee was not allowed to leave the country despite holding a valid visa. In January 2015, however, the high court in Delhi ruled that the freeze of Greenpeace's funds was illegal and ordered the government to unblock them.

India has not experienced major civil wars calling for the establishment of mechanisms to promote reconciliation, but smaller instances of conflict and acts of injustice abound. While the government has displayed its readiness to rehabilitate victims of past injustices, rehabilitation is often not pursued expeditiously. This is due, on the one hand, to the overburdened justice system and, on the other, to delays (and sometimes to major flaws) in police investigations. The dealing with atrocities committed in Kashmir as well as with atrocities against Muslims and members of Scheduled Castes (SCs) has been extremely poor. The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, which came into effect on 1 January 2014 and provided for compensation for land acquisitions and for special clauses concerning Scheduled Castes (SCs) and Scheduled Tribes (STs), was partially amended through an Ordinance by the Modi government.

Reconciliation

6

17 | International Cooperation

The Indian National Congress-led United Progressive Alliance (UPA) government explicitly aimed at promoting a policy of economic reforms and "inclusive growth." Corresponding policy programs were promoted – among them the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) which was launched in 2006 and guarantees 100 days of employment per year to adult members of any rural household; the National Rural Health Mission (NRHM), launched in 2005; or the Rashtriya Swasthya Bima Yojana (RSBY), a health insurance scheme for families living below the poverty line. In its development efforts, the Indian government has been increasingly stressing its self-sufficiency and autonomy. Correspondingly, in 2003 India declared that it would accept bilateral development assistance only from a limited number of states: Germany, Japan, Russia, the United Kingdom and the United States. The new government has continued with this policy. Indian institutions are often perceived as "difficult" partners to deal with in a bilateral setting by international donors. India's focus on sovereignty and non-interference does not imply, however, a general unwillingness to cooperate with international partners,

Effective use of support

7

particularly with multilateral institutions or to seek support in the field of development. Some of the social programs promoted by the Indian government have been developed with international assistance.

Generally speaking, India has been able to generate a high degree of confidence as a credible and reliable partner in its relations with the international community and in its reform efforts. While India's democratic credentials and the United Progressive Alliance (UPA) government's willingness to implement development policies were not called into question, Modi's election as new prime minister gave rise to some concern among foreign countries. Following the Gujarat riots, Modi had been denied a visa to travel to the US for several years. His visit to the US in October 2014 has improved relations between the two countries. Modi's economic reforms are not as radical as was announced, but nevertheless substantial, and have generated significant confidence among investors. They include a liberalization of FDI in the defense and insurance sectors, easing of FDI rules in the construction sector, granting of licenses to new banks, allocation of coal licenses, reduction of subsidies for diesel and gas and an increase of ticket prices of the Indian Railways. The Indian government has furthermore launched a highly visible campaign called "Make in India" aimed at attracting foreign investors. In 2014, total FDI inflows increased by 26%. At the same time, India continues to pursue an often inflexible negotiation strategy within fields of global governance such as trade or climate issues.

India has had tense relationships with many of its neighboring countries over a long period of time. The longstanding conflict with Pakistan substantially challenges any meaningful forms of multilateral regional cooperation. The charter of the South Asian Association for Regional Cooperation, for example, explicitly excludes the discussion of "contentious and political issues," thereby limiting the operational possibilities and the relevance of this regional organization. Since the 1990s, India has pursued a somewhat more cooperative policy toward neighboring states, leading, for example, to trade concessions with most of its neighbors. Moreover, India has tried not to overtly interfere with the domestic affairs of neighboring states, even though there are reports of covert Indian influence, for example in Nepal's troubled transition to democracy. A large number of contentious issues remain in place with small neighboring states like Bangladesh and Nepal, which still harbor suspicions toward India and increasingly prefer China as an economic and political partner. India, for its part, has not displayed a credible and sustained interest in the strengthening of relations with its neighbors or in acting as a regional leader to deepen regional integration. Prime Minister Modi has put serious emphasis on positive relations with neighboring South Asian countries by inviting all heads of state and government to his inauguration to New Delhi. The Indian government has intensified relations with the new Sri Lankan government in power since the presidential election in January 2015. Moreover, the BJP initially seemed willing to promote the Constitution (119th Amendment) Bill, which would implement an agreement on the

Credibility

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Regional cooperation

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settlement of border disputes with Bangladesh, which was signed in 2011. However, the Constitution (119th Amendment) Bill has not been approved yet, and serious opposition is likely to further impede its approval. Moreover, relations with Pakistan worsened in 2014, with an intensification of gunfire exchanges on the disputed border.

Strategic Outlook

India has been largely successful in promoting transformation in recent decades. India's democracy has proven to be stable and political participation by previously marginalized groups has increased. Economic liberalization has led to a growth success story, which seems bound to continue after a phase of some stagnation. However, the lack of employment opportunity hinders India's growth as much as the poor performance of agriculture and growing regional disparities. Overall, economic growth has only marginally contributed to poverty reduction, while disparities among social groups have increased. In the longer term, these trends might contribute to a deterioration of the country's social fabric. India continues to face significant challenges with regards to the functioning of key institutions, which often are subject to quarrels among political actors, unbridled corruption and abuse of office. The new government came to power with a clear mandate for change in these issues. The streamlining of bureaucratic procedures and structures as well as the fight to corruption are high of the agenda of the Modi government, but it remains to be seen to what extent the government will be able to move beyond piecemeal initiatives with great media visibility towards more substantial and long-term reforms. A resolute anti-corruption campaign would have positive implications over a whole range of issues. In economic terms, it would increase the confidence among foreign investors, making India a more attractive destination for foreign direct investment. It would improve the implementation of infrastructure projects, which India urgently needs to foster its economic development. It would also contribute to make existing social programs more effective by improving the access of marginalized sections of society to health services and education.

A further important area to address for the new government is the inclusiveness of growth. While this topic was high on the agenda of the Congress-led government, it seems to play a mainly rhetorical role for the Modi government. It will need to address this issue if it wants to live up to the high expectations of millions of voters who hoped for a tangible change in their living conditions. Similarly, the sustainability of growth should be further prioritized by the BJP-led government. There have been recent indications that the government's strong focus on a growth agenda could compromise its very environmental sustainability.

In economic terms, the Indian government will need to proceed on its reform path to best employ the optimism of foreign investors and revived economic dynamism. The reduction of fuel subsidies and the relaxation of the limits on foreign ownership in the railways and defense sectors were steps in that direction.

To successfully proceed on the path of democratic transformation, India will need to improve its civil rights situation. A reform of the Armed Forces (Special Powers) Act is long overdue. Persistent violence against marginalized groups, and especially against women, needs to be addressed. Moreover, incipient tendencies to act restrictively on the dissemination of information through the internet and social media need to be brought to a close in order to guarantee freedom

of expression. A strengthening of the hopelessly understaffed judicial system and a thorough reform of the police would increase citizens' confidence in institutions.

The trend towards the establishment of a majoritarian Hindu discourse bears the risk of polarizing Indian society along religious lines in a medium to long term. This will be the main challenge for the government in the coming years: finding a balance between the pressures of hardline Hindu-nationalist groups that have contributed to the electoral victory of the BJP and are gaining strength, and the need to abide by the principle of secularism enshrined in the Indian Constitution.