



# YOJANA

March 2016

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## UNION BUDGET 2016-17



### Union Budget 2016-17: A Shot in the Arm for Agriculture

CSC Shekhar

#### FOCUS

#### Infrastructure Provisions

G Raghuram

#### Why a Conservative Growth Estimate

DH Pai Panandiker

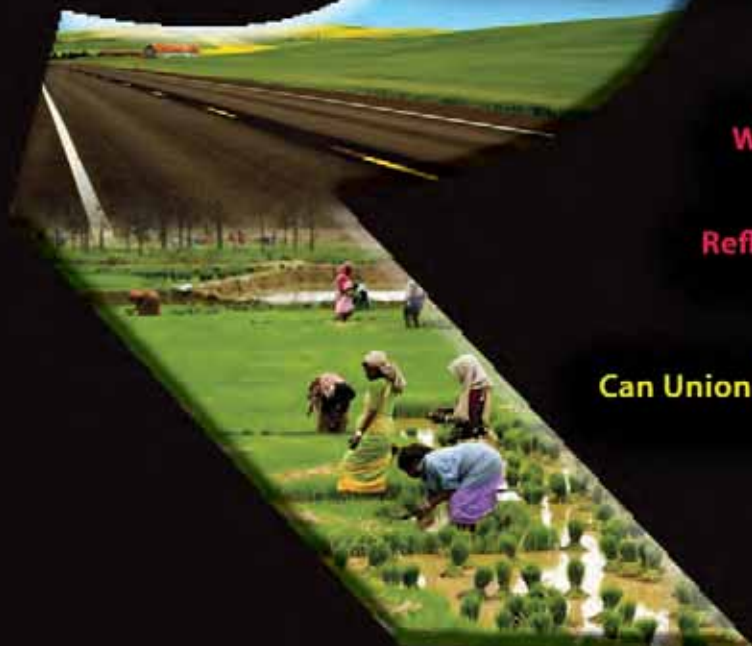
#### Reflections on Railway Budget 2016-17

Shanti Narain

#### SPECIAL ARTICLE

#### Can Union Budget Revive the Banking Sector?

NR Bhanumurthy



# Union Budget 2016-17 - Highlights

- ❖ Growth of Economy accelerated to 7.6% in 2015-16
- ❖ **Allocation for Agriculture and Farmers' welfare** is Rs 35,984 crore. 'Pradhan Mantri Krishi Sinchai Yojana' to be implemented in mission mode. 28.5 lakh hectares will be brought under irrigation. ♦ Implementation of 89 irrigation projects under AIBP, which are languishing for a long time, will be fast tracked ♦ A dedicated Long Term Irrigation Fund will be created in NABARD with an initial corpus of about Rs 20,000 crore.
- ❖ **Allocation for rural sector** - Rs 87,765 crore. A sum of Rs 38,500 crore allocated for MGNREGS. ♦ 100% village electrification by 1st May, 2018. ♦ A new Digital Literacy Mission Scheme for rural India to cover around 6 crore additional household within the next 3 years. ♦ New scheme Rashtriya Gram Swaraj Abhiyan proposed with allocation of Rs 655 crore.
- ❖ **Allocation for social sector** including education and health care – Rs 1,51,581 crore. ♦ Rs 2,000 crore allocated for initial cost of providing LPG connections to BPL families. ♦ 3,000 Stores under Prime Minister's Jan Aushadhi Yojana will be opened during 2016-17. ♦ 'National Dialysis Services Programme' to be started under National Health Mission through PPP mode ♦ “Stand Up India Scheme” to facilitate at least two projects per bank branch. This will benefit at least 2.5 lakh entrepreneurs. ♦ National Scheduled Caste and Scheduled Tribe Hub to be set up in partnership with industry associations.
- **Education** - 62 new Navodaya Vidyalayas will be opened ♦ Regulatory architecture to be provided to ten public and ten private institutions to emerge as world-class Teaching and Research Institutions ♦ Higher Education Financing Agency to be set-up with initial capital base of Rs 1000 crores ♦ Digital Depository for School Leaving Certificates, College Degrees, Academic Awards and Mark sheets to be set-up.
- **Skill Development** ♦ Allocation for skill development – Rs 1804. crore. ♦ 1500 Multi Skill Training Institutes to be set-up. ♦ National Board for Skill Development Certification to be setup in partnership with the industry and academia ♦ Entrepreneurship Education and Training through Massive Open Online Courses .
- Total investment in the road sector, including PMGSY allocation, would be Rs 97,000 crore during 2016-17. To approve nearly 10,000 kms of National Highways in 2016-17. ♦ Allocation of Rs 55,000 crore in the Budget for Roads. Additional Rs 15,000 crore to be raised by NHAI through bonds. ♦ **Total outlay for infrastructure** Rs 2,21,246 crore.
- Allocation of Rs 25,000 crore towards **recapitalisation of Public Sector Banks**. ♦ Target of amount sanctioned under Pradhan Mantri Mudra Yojana increased to Rs 1,80,000 crore.
- Amendments in Companies Act to improve enabling environment for start-ups. ♦ **Price Stabilisation Fund** with a corpus of Rs 900 crore to help maintain stable prices of Pulses. ♦ “Ek Bharat Shreshtha Bharat” programme will be launched to link States and Districts in an annual programme that connects people through exchanges in areas of language, trade, culture, travel and tourism.
- 100% deduction of profits for 3 out of 5 years for **startups** setup during April, 2016 to March, 2019.





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*Let noble thoughts come to us from all sides*

*Rig Veda*

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## Building Bharat

**P**ro-farmer, Pro-poor and pro-growth is what the Budget 2016-17 has largely been termed as. And why not? Agriculture continues to play a very significant role in overall economy of the country by contributing nearly 17 per cent to GDP and engaging 50 per cent of the country's workforce. Government's intention to double the farmers' income by 2022 may seem to be a little far fetched but with an allocation of Rs 45,000 crores, for agriculture and farmers' welfare, nearly double the last year, the budget definitely aims to give back a sense of income security to the farmers.

After what the farmers suffered due to two consecutive years of poor rainfall, these measures were highly called for. The announcement of 'Pradhan Mantri Sinchai Yojana' attempts to address the issue of irrigation by proposing to bring additional 28.5 Lakh hectares under irrigation in a mission mode. While setting up of a dedicated irrigation fund worth Rs 20,000 crore under NABARD is also a big move in this direction, an allocation of Rs 5,500 crore under Prime Minister's Fasal Bima Yojana takes care of crop failures due to hostile weather.

Rather than being populist, the budget attempts to focus on the fundamentals of economy with allocations being made purely on economic considerations giving each sector what it needs. The major thrust of the budget is development of Rural sector with an increased allocation of Rs 87,765 crores as a whole. The biggest take away from the budget is for Gram Panchayats with a sum of Rs. 2.87 lakh crore being given as Grant in Aid to Gram Panchayats and Municipalities, a quantum jump of 228 per cent compared to the previous five-year period. This will mean an average assistance of over Rs. 80 lakh per Gram Panchayat and over Rs. 21 crore per Urban Local Body. The non-farm rural sector also gets benefitted with Rs 38,500 crore allocated under MGNREGS which will help in transforming villages and small towns. Allocation of funds for rural roads under Pradhan Mantri Gram Sadak Yojana, greater expenditure in infrastructure and social sector are sure to have positive impact on farmer's welfare and promote rural economy.

With the intention of giving big push to social sector including health, women and child development, the government has increased budgetary spending on women by 55 per cent across ministries. Doubling the allocation under National Mission for Empowerment of Women, enhanced allocation under Nirbhaya scheme, Rs 2000 crore being set aside for providing LPG connection in the name of women members of rural households and allocation of Rs 500 crores for SC/ST and women entrepreneurs under Stand up India scheme are all aimed at bringing about social and financial empowerment of women of the country.

Reiterating its' commitment to make India the skill capital of the world, the budget announced setting up of 1500 Multi Skill Training Institutes across the country for which Rs 1,700 crore has been set aside. The step highlights Government's endeavour to create job opportunities by bringing entrepreneurship to the doorstep of youth through Pradhan Mantri Kaushal Vikas Yojana (PMKVY).

On the Corporate front, there were expectations that the base tax rate will be reduced from the current level of 30 per cent to 25 per cent in a phased manner following the announcements in the last budget. But with the intention to contain fiscal deficit, no tax rate cut has been proposed however to promote "Make in India" and to further generate employment, three years tax exemption has been given to the start ups. While marginal relief has been given for self employed low income individual tax payers by way of raising the HRA exemptions, an additional surcharge of 3% has been imposed on the super-rich, the top 1 per cent of individual tax payers. By avoiding retrospective amendments and simplifying tax procedures by way of removing tax officers' discretion, government has taken a step further in the direction of bringing about tax certainties to rebuild investors' confidence.

Considering the fact that a strong infrastructure is also a prelude to inviting investments, the budget has allocated Rs 2.21 lakh crore, a major share of the total allocation, for boosting infrastructure. This increased focus on improved network of roads, rail, ports and airports will provide stimulus to growth, and employment generation. Targeted focus on affordable housing with tax exemptions for developers and individuals will also help in growth of the sector.

Clearly the nine pillar approach adopted by the government with push to rural economy, ease of doing business and simplification of tax procedures, has tried to address the Real concerns of Real India and has created a road map for its long term growth! □







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# A Shot in the Arm for Agriculture

*C S C Sekhar*



*Many new initiatives, particularly related to irrigation, have been introduced to address the long-run issue of agricultural growth. This budget comes in the backdrop of a sluggish performance of the agricultural sector in the last two years because of the two consecutive drought years*

**T**he Union Budget 2016-17 is highly encouraging as regards agriculture and rural development. Many new initiatives, particularly related to irrigation, have been introduced to address the long-run issue of agricultural growth. This budget comes in the backdrop of a sluggish performance of the agricultural sector in the last two years because of the two consecutive drought years.

After an encouraging performance during the XI Five Year Plan period, agricultural growth has stuttered somewhat, with a growth rate of 1.5 per cent in 2012-13, followed by growth rates of 4.2 per cent and -0.2 per cent in the subsequent two years. The latest estimates from the CSO indicate that 2015-16 will be only marginally better with a projected growth rate of 1.1 per cent. Notwithstanding two consecutive droughts, structural problems ranging from irrigation to input provision to marketing are responsible for this deceleration. The present budget attempted to address some of these long-standing issues faced by agriculture. The positive initiatives proposed broadly relate to irrigation, rural infrastructure and marketing.

The positive implications of

the budgetary allocations become clear when placed in the context of overall agricultural growth, food production and food inflation. The country faced problems of stagnating agricultural growth and decelerating food production in the mid-1990s. The growth rate of the agricultural GDP during 1997-98 to 2004-05 averaged just 2.2 per cent per annum. This is almost the same as the pre-green revolution growth rate. The food production also decelerated at a rapid rate. This adverse situation was largely due to continuous decline in capital investment in agriculture, aggravated further by reduced input usage due to decline in farm profitability. The first signs of turnaround came in 2005-06, with improvement in input usage, aided by some positive state action. Some of the subsequent programs launched in 2007-08 helped maintain and further accelerate this growth momentum. Programs to increase investment in agriculture by states (RKVY) and targeted increase in food production (NFSM) helped this process<sup>1</sup>. These programs helped agriculture in improving its growth performance over the last few years. However, production uncertainty and marketing bottlenecks still continue to plague the sector. The present budget attempted to address some of these long-standing issues.

The author is currently Associate Professor at the Institute of Economic Growth (IEG), Delhi University. His research interests include agriculture, international trade and applied econometrics. He has published in journals of national and international repute. He received the Fulbright-Nehru Senior Research Fellowship in 2012-13 and the D.K. Desai Award in 2003 for the best research paper in Agricultural Economics. He was also a medal finalist for outstanding research on development at the fifth and ninth Global Development Network (GDN) conferences in 2004 and 2008.



**Irrigation:** One of the major problems facing Indian agriculture is its excessive dependence on monsoon. Only about 45 per cent of the cropped area in the country is irrigated, which results in wide-spread production uncertainty. This budget attempted to address this issue in a major way through the Pradhan Mantri Krishi Sinchai Yojana (PMKSY). This major irrigation program, with an outlay of ₹ 17000 crores, aims to bring new area of about 28 lakh hectares under irrigation. There are also proposals to reinvigorate 89 defunct irrigation schemes under the Accelerated Irrigation Benefit Program (AIBP), which is expected to benefit about 81 lakh hectares. Harnessing groundwater resources is proposed to be undertaken at a cost of Rs 6000 crores. There are also complementary programs to improve farm ponds, desilting and dug wells under MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme). All these initiatives, together with the proposed long-term irrigation fund of 25,000 crores, are certain to be highly beneficial to agricultural growth.

**Credit and Insurance:** Credit constraint is an important bottleneck in agriculture. Although, the ratio of agricultural credit to agricultural GDP has increased from 10 per cent in 1999-2000 to 38 per cent in 2012-13, the share of long-term credit has declined sharply in recent years, falling from 55 per cent in 2006-07 to 39 per cent 2011-12. This needs to be arrested in the long-run interest of the sector. Perhaps with this objective, the target for agricultural credit in the current budget has been increased to 9 lakh crores from 8.5 lakh crores in the previous year. In addition, a provision of about Rs 15,000 crores has been made to provide relief to the farmers in the form of interest subvention. However, much will depend on the access to credit of the actual cultivators, which depends on the legal right to land or formal tenancy. Crop losses due to vagaries of climate is debilitating to the farmers. A revamped insurance program has been announced recently to address this (PMFBY or *Prime Minister's Fasal Bima Yojana*). An

allocation of Rs. 5,500 crores has been made to this new crop insurance scheme. This scheme aims to provide insurance in case of crop failures at a reduced premium of about 2 per cent for foodgrains and oilseeds and 5 per cent for horticultural crops and cotton. The attractive feature of the scheme is that there is no cap on premium and therefore, there is no reduction of the sum assured. A pilot project of Direct Benefit Transfer of fertilizer subsidy has also been proposed, wherein the fertilizer subsidy is transferred directly into the bank account of the beneficiary. All these are positive steps but the actual implementation depends upon the formal right to land or nature of tenancy. We will return to this issue in more detail a little later.

**Procurement, Distribution and Marketing:** One of the interesting proposals is to encourage more states to take up decentralized procurement through online procurement and a transparent mechanism. A buffer stock of pulses is also proposed to be built through procurement. There is also a proposal to automate 3 lakh fair price shops (out of a total of about 5.35 lakh FPS in the country). A scheme for setting up a National Agriculture Market (NAM) through Agri-Tech Infrastructure Fund (AITF) was approved by the cabinet in July 2015 with a budget of Rs 200 crores. The current budget proposes to connect about 585 regulated markets under this scheme. However, there are significant barriers to this. To implement this, all the states need to amend their respective Agricultural Produce Marketing Committee Acts (APMC). This also involves evolving system with a single license valid across the state, single point levy of market fee and provision of electronic auctioning system for price discovery. At present, only 12 states have amended the APMC Acts and speedy action is needed from other states to fully operationalize this.

A major problem that the horticulture sector in India faces is that of post-harvest wastages. It is estimated that more than 20-22 per cent of the total production of fruits in

India is lost due to spoilage at various post harvest stages (APEDA, 2007). Even the latest estimates show that the wastage in fruits and vegetables is about 15 per cent (*Economic Survey 2015-16*, Vol 2, pp 115). The extent of wastage is clearly high and needs to be brought down. The decision to allow 100 per cent FDI in marketing of food products produced and manufactured in India should give a boost to the food processing industry, which can help in reducing these post-harvest wastages to some extent.

**Rural Development:** The total allocation to the rural development has been increased to about 87,765 crores, out of which about Rs 38,500 crores is allocated to MGNREGS. By far, the biggest allocation for the rural sector comes from the increased grants-in-aid to Gram Panchayats and Municipalities to the tune of about 2.87 lakh crores. This is likely to translate into Rs 80 lakhs per gram panchayat, which is substantial. The increased allocation for rural roads under PMGSY (*Prime Minister's Grameen Sadak Yojana*) is also a step in the right direction. The rural non-farm sector in general and rural construction, transportation and services in particular, have been the main sources of rural non-farm employment in the recent past. These increases in allocations should have a positive effect on spending in the rural non-farm sector, which in turn, should have positive effect on rural employment.

### Shortcomings in the Budget

The Budget falls short of expectations mainly on the following aspects.

The first relates to the incentives for states to invest in agriculture. After all, agriculture is a state subject and the states need to step up investment to achieve growth in the sector. There is a distinct slowdown in investment in agriculture in recent years. Gross capital formation in agriculture (as a percentage of the gross value added in agriculture) has declined from 18.3 per cent in 2011-12 to 15.8 per cent in 2014-15. This sharp fall in investment during the last few years is in sharp

contrast to the rapid increase since 2004-05. Some of the deceleration in growth in the last few years could be attributed to this slowdown in investment. The Budget is lacking in effective proposals / incentives to encourage states to invest more in agriculture.

The second issue relates to the top-down approach. India is a heterogeneous country with large differences in agro-climatic conditions. The massive irrigation program, crop insurance program or any other programs proposed in the current Budget will need to be tailored to local conditions to be successful. The predominantly top-down approach underlying these major programs may not be conducive to the growth of the sector. The region-specific inputs contained in the District Agricultural Plans (DAPs), prepared by the various states under RKVY, may be utilized for this (Sen, 2016).

Another important issue that has a bearing on the success of many of the proposed initiatives such as credit, DBT or insurance is the tenancy reforms and modernization of land records. Success of many of these proposed initiatives hinges crucially

on the correct identification of the beneficiaries. Modernization of land records, establishment of secure property rights and undertaking tenancy reforms is *sine qua non* to the success of many of the proposed initiatives. Reforming tenancy laws is urgently needed to make tenancy agreements formal. This will make the access to credit easier for the actual cultivator. Easier identification of intended beneficiaries of programs such as crop insurance and direct benefit transfers are other benefits of tenancy reforms. At present, these benefits accrue to the *de jure* owner rather the *de facto* cultivator. A related, but important reform is modernization of land records for proper establishment of land rights. Digitization and synchronization of land revenue, land registration and land litigation records by the states is urgently needed (NITI Aayog, 2015).

The last issue is related to the modernization of extension services. There is little focus in most of the recent Budgets, including the current one, on this important aspect of agriculture. A large part of the non-adoption of technology, non-utilization of government schemes etc can be traced

to lack of awareness on the part of farmers because of poor extension. It is imperative that extension services need to be vastly improved to put agriculture firmly on a higher growth path.

### Readings

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### Endnotes

1) Rashtriya Krishi Vikas Yojana (RKVY) focussed on the issue of public investment in agriculture by states (since agriculture is a state subject). *National Food Security Mission* (NFSM) laid emphasis on increasing food production substantially in a short span of five years. □

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# Infrastructure Provisioning: Strategic with Implementation Challenges

*G Raghuram*



*While there is a focus on revised estimates and actuals vs budgeted at a macro level, it would help know what the allocations to specific activity heads were, along with the supporting policy, and what was actually spent. For example, an earlier budget had significantly more allocation to Inland Waterways. ... Going further, the outcomes achieved need to be reviewed on a continual basis, to enable directed spending of infrastructure*

**T**he 2016-17 Union Budget has moved in the right direction for infrastructure development in the country. With an allocation of Rs 2.2 trillion (220,000 cr) rupees as the central budget share, it augurs well. The biggest spend is Rs 70,000 cr towards National Highways, of which Rs 15,000 cr would be raised by bonds.

In terms of allocations towards other infrastructure domains, it is not clear what figures have been reported, at least in the media. Are the figures just the Central Budget amounts or inclusive of the Railway Budget and the Budgets of the States? I believe that there obviously would be clarity within the Finance Ministry since it involves fund flows against different heads. The external communication is the one that is obfuscating.

I believe the actual total figure available would be higher, since there are spends by states, and then local bodies, and also in the Railways, for which the central budget allocation is Rs 45,000 cr. Other sources are Railway's own internal generation, bonds and other debt financing, and PPP sources.

Some of the allocations would

catalyse tied spending by States like the PMGSY where the central allocation of Rs 19,000 cr would bring in a further Rs 8,000 cr from States, and also Metro Projects where Rs 10,000 cr have been allocated.

Other major infrastructure projects for which funds have been allocated are:

The maximum emphasis has been on Road and Rail, followed by Housing, Swachh Bharat Abhiyan, Metro, Power and Urban Development. With these significant allocations, there are challenges, especially in terms of bandwidth and capability of the various stakeholders.

## Challenges

The first challenge is whether the Government has the bandwidth for oversight and releasing funds as required. While in the road sector, there has been a good institutional experience through the National Highway Authority of India (NHAI) and the National Rural Road Development Agency (NRRDA), the Inland Waterways Authority of India (IWAI) does not seem to have geared itself for the expenditure. This is reflected in the reduced allocation to IWAI. The same is the case in terms of the Sagarmala concept, where

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Sr No	Other than Road, Rail and Metro	BE 2016-17 (Rs cr)
1	Pradhan Mantri Awas Yojana	20075
2	Swachh Bharat Abhiyan	11300
3	Deendayal Upadhyaya Gram Jyoti Yojana and Integrated Power Development Scheme	8500
4	Urban Rejuvenation Mission (AMRUT and Mission for Development of 100 Smart Cities)	7296
5	National Rural Drinking Water Programme	5000
6	National Investment and Infrastructure Fund	4000
7	Nuclear Power Generation	3000
8	National Industrial Corridors	1448
9	Inland Waterways	800
10	Sagarmala	450
11	Revival of upto 160 Airports (each)	50 to 100

there are grand plans, but institutional capabilities are still lacking. In a Road Transport Excellence Award event on March 4, 2016, it was interesting to hear the Transport Minister who holds both the portfolios of Minister of Road Transport and Highways, and Minister of Shipping, that the nation seeks to prioritise water, rail and road, in that order, in deference to the climate and environmental impact. In the road sector, based on past experience and the future profile of roads, a hybrid model has been evolved for attracting promoters. However, there is still homework required for appropriate PPP frameworks for the Inland Waterways and for Railways.

The second challenge is whether there are contractors and PPP promoters who have the capability and willingness to deliver. Over the last five years, many of the promoters had backed out in the road and metro sectors, due to a variety of entanglements in the concession agreements, including environmental clearances and land

acquisition issues. The revised hybrid framework in roads is now expected to attract a lot of interest. However, the same is not clear in many of the other sectors, since many of the contractors are getting choosy. Some players like L&T would rather do only the 'Build' rather than 'Build and Operate'.

The third challenge is whether there is legal and judicial bandwidth to deal with disputes effectively and speedily. Many infrastructure projects have been delayed due to legal issues. In this context, the Finance Minister has announced the setting up of a *Public Utility (Resolution for Dispute) Bill*, for dispute resolution in infrastructure projects. Further, there is provision for a review of the concession agreements and contracts. Credit is due to the

**it was interesting to hear the Transport Minister who holds both the portfolios of Minister of Road Transport and Highways, and Minister of Shipping, that the nation seeks to prioritise water, rail and road, in that order, in deference to the climate and environmental impact.**

current Government for unravelling legal knots in a large number of road projects and getting them back on track.

The fourth challenge is of debt financing of infrastructure projects through banks, especially the public sector banks. These banks have accumulated more than desirable non-performing assets, including infrastructure assets. While the FM has provided Rs 25000 cr for recapitalisation of public sector banks, it is felt that this amount is far from required and would not easily enable such banks from financing infrastructure.

The fifth challenge is of institutional capability. Training, education, and research and development are critical here. While training capacity has increased including in the management institutions over the years, there is still a lack of good 'education' for this domain. To my knowledge,

Mumbai University, a few private universities and the Adani Institute of Infrastructure Management have post graduate programs in infrastructure. Beyond this, there is lack of research and development. Given that India is the world's largest PPP market place, the conceptualization of experience in various aspects is less than desirable. As per the Kelkar Committee Report, on 'Revisiting and Revitalising Public Private Partnership Model of Infrastructure', submitted in November 2015:

*Every stakeholder without exception has strongly emphasised the urgent need for a dedicated institute for PPPs as was announced in the previous Budget. The Committee strongly endorses the "3PI" which can, in addition to functioning as a centre of excellence in PPPs, enable research, review, roll out activities to build capacity, and support more nuanced and sophisticated models of contracting and dispute redressal mechanisms. A dynamic 3PI can support a dynamic process of infrastructure design, build, and operate in India and thereby help deliver on the promise of reliable infrastructure services for all citizens.*

As per my study of various infrastructure projects, the issues that need to be researched include project structuring, risk assessment and management, social cost benefit analysis, financial viability assessment, bid documents preparation, tendering and bidding processes, concession agreements, financial engineering, regulatory issues, and mergers and acquisitions.

### Policies

With the objective of value for money, it is important that there are good policies that support the budgeting and resolution of challenges. As already mentioned, the government has a clarity on various priorities. However, in reality, the easier and more visible activities get done earlier.

For example, the focus on National Highways, including the proposed increase in the National Highway road length to 200,000 kms from the current 96,000 kms, bringing it to 4 per



cent of the total road length from the current 2 per cent, is welcome. On the other hand, a much required will for an integrated policy focus on Inland Waterways and Coastal Shipping is still lacking. Key elements of an integrated policy are focus on multi modalism, easing regulation and cutting duties, and performance based subsidies to kick start the activities. My view is that the Inland Waterway vision is larger than what is realistic. A focused approach to road expenditures like the Setu Bharatam involving removal of all railway level crossings on the National Highways is a good strategy.

Regarding the Railways, the focus on station redevelopment through PPPs is a good step. The problem still is with the bidding process and agreements. As of now, seven stations are listed on the Indian Railway Stations Development Corporation website, of which three have some documentation. The proposal for redeveloping 400+ stations is to be attempted through the Swiss Challenge route, in which any entity can bid to improve upon a project proposed by a rival. There are issues with this mechanism, which have also been raised by the Kelkar Committee report, with the recommendation that Swiss Challenge is not the way to go.

There has been emphasis on setting up the Rail Development Authority, a much needed independent regulator, to enable separation of policy making and regulation. Regarding its scope, powers and independence, we will have to wait and see when the Bill is ready and gets passed by Parliament. Separation between policy making and operations will still need focus.

Clarity in policy regarding 100 per cent rural electrification (remaining 13010 villages by 1<sup>st</sup> May 2018) and road connectivity (remaining 65,000 villages by 2019 instead of the earlier 2021) has rightly driven resource allocation in this budget, and also, in the housing domain.

I am less sure about the allocation for Swachh Bharat Abhiyan, Smart Cities, and Airport revival, since there is still a lack of sharpness in the policies towards effective implementation. Bringing about behavioural change will be critical in the context of Swachh Bharat Abhiyan. Smart City concepts and objective still need to evolve. It is not clear as to why we need to revive so many airports, especially since many of the existing airports are underutilized and running at a loss.

An interesting policy announcement was regarding passenger transport:

*Abolition of permit-raj will be our medium term goal. Government will enact necessary amendments in the Motor Vehicles Act and open up the road transport sector in the passenger segment. An enabling eco-system will be provided for the States which will have the choice of adopting the new legal framework. Entrepreneurs will be able to operate buses on various routes, subject to certain efficiency and safety norms. The major benefits of this game changing initiative will be provision of more efficient public transport facilities, greater public convenience, new investment in this moribund sector, creation of new jobs for our*

*youth, growth of start-up entrepreneurs and other multiplier effects. These measures will take us faster down the road to development.*

While this policy recognizes that the States will have the choice, it may amount to nothing more than what already exists, since this is a State subject.

In the past, there have been policies which have not been well thought out. Two examples are the first come first served allocation of the 2G spectrum leading to a scam, and the sequentiality policy in determining eligibility of bidding for port PPP terminals causing significant delays due to consequent judicial processes.

## Review

Overall, while the Economic Survey gives the state of the economy on an annual basis, a review of the previous budgets is rarely analysed and presented. While there is a focus on revised estimates and actuals vs budgeted at a macro level, it would help know what the allocations to specific activity heads were, along with the supporting policy, and what was actually spent. For example, an earlier budget had significantly more allocation to Inland Waterways. It is not clear what the actual spends were.

Going further, the outcomes achieved need to be reviewed on a continual basis, to enable directed spending of infrastructure. □

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## Encouragement to Study Space Science

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The Department of Space has also established Indian Institute of Space Science and Technology (IIST), Deemed University at Thiruvananthapuram, to provide specialised education in the areas of space technology. The institute is the first of its kind in the country to offer high quality education at the undergraduate, graduate, doctoral and post-doctoral levels in the areas related to space science & technology and its applications.

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# Tax Maths for the Common Man, Corporate Sector & States

*Jayanta Roy Chowdhury*



*Budget for 2016-2017 is an exercise which does have merit in it, as it heralds a much awaited move towards rationalisation of taxes, and tantalisingly holds promises of further rationalisation which could lower taxes while abolishing exemptions in the years ahead*

**T**he Union Budget for 2016-2017 can well be described as an exercise which has some merit in it, as it heralds a much awaited move towards rationalisation of taxes, and tantalisingly holds promises of further rationalisation which could lower taxes while abolishing exemptions in the years ahead. Even though the budget, like the proverbial reluctant soldier, refused to bite the bullet of speedier reforms.

It was perhaps an opportune moment for the Finance Minister to come out with bold taxation measures taking advantage of the all-time low crude oil prices which have resulted in steadily plummeting subsidy pressures which could also address the need to give Indian economy stimulus which could prop up its growth engine in the face of a global slowdown.

Lowering of taxes – both corporate and personal, an increase in income slabs attracting taxes, given the fast paced inflation India has faced in the past few years – could have won not merely plaudits from the market electorate and pundits, but a possible Laffer curve effect on direct tax revenues of raising it, even as rates softened.

However, that said, the Finance Minister's Taxation Budget for 2016-2017 is an exercise which held

something for every class of tax payer.

## **Relief for Individual Tax Payers**

The budget does grant marginal relief for small tax payers by raising the amount which can be sought as tax deduction for staying in a rented accommodation, while not receiving house rent allowance, from a mere Rs 2,000 to Rs 5,000 per mensem for citizens whose income does not exceed Rs 5 lakh annually.

An additional annual deduction of Rs 50,000 for interest paid on housing loans during the financial year 2016-17 for first-time home buyers has also been brought in. Given the depressed state of the realty market, this should help not only new home buyers, but also the real estate sector. The riders on this move are that the cost of the house should not exceed Rs 50 lakh and the loan taken to fund the purchase should not exceed Rs 35 lakh.

The time period for completion of construction or acquisition of self-occupied house property for availing the deduction for mortgage interest has also been increased to 5 years from a current 3-year limit.

## **Super-Rich Tax**

The budget has this year increased the surcharge on those earning more than Rs 1 crore from 12 per cent to 15 per cent in an attempt to bring about

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greater equity in tax treatment. The tax dubbed as the 'Super-Rich tax' is in line with global treatment, where increasingly those who earn more are being targeted after realisation that they often use tax shelters to escape taxes that hound their middle class fellow citizens and as Governments scramble to find new avenues of taxation in an era of economic slowdown.

In another move which could be seen as anti-rich, though not necessarily pro-poor, is a proposal to tax dividends at 10 per cent of gross dividend pay-out to individuals, Hindu undivided Families and firms who earn more than Rs 10 lakh as dividend annually.

Similarly, possibly to tap into India's craze for cars which shows signs of reviving, a tax at source at the rate of 1 per cent on purchase of luxury cars exceeding value of Rs 10 lakh and purchase of goods and services in cash exceeding Rs 2 lakh has also been brought in. Though many financial experts point out that cars costing ` 10-15 lakh can hardly be branded 'luxury'. However, in a nation where a significant section of the populace is still unable to earn enough to have two square meals a day, it can also be well argued that an expenditure of Rs 10 lakh on a car or cash spending of Rs 2 lakh on goods in one go, does draw attention to it.

### **Black Money Tax**

Given its political commitment to draw down black money in the economy, the government has introduced an 'Income Declaration Scheme 2016' for domestic 'Black Money', providing one-time opportunity to taxpayers to declare their undisclosed income and paying tax at 30 per cent plus a surcharge of 7.5 per cent and a penalty of 7.5 per cent, which would sum up to a total of 45 per cent on undisclosed income.

This follows a similar window offered last year for undisclosed wealth stashed away abroad.

### **EPFO Funds**

The Finance Ministry had sought to tax a part of the provident fund savings in the Employer's Provident Fund when withdrawn by investors, post April 1, 2016. However, later,

the Government decided to withdraw the tax measure in response to pleas by salaried citizens. About 8 days after the Budget was placed before Parliament, the Union Finance Minister stated in the Lower House that he was withdrawing the proposal, adding that it had not been the government's intention to rake in revenue from this budget proposal but rather to nudge private sector employees towards a pension system.

In the Budget, it was announced that 60 per cent of savings in Employees Provident Fund, the largest savings fund in the country with a corpus of Rs 6.5 lakh crore, made from the financial year 2016-2017, will be taxable when pulled out. Unless, this money was reinvested into an annuity scheme which pays a pension to the citizen. All contributions and interest accrued to EPF before April 1, 2016, will, of course, not attract any tax on withdrawal.

However, the Government had made it clear that the majority of people for whom EPF scheme was created earn equal or less than the statutory wage limit of Rs.15,000 per month, and they would be allowed to withdraw their EPF savings without any taxes being levied, even if the new measure was introduced.

The move in this year's budget to partly tax it on withdrawal was justified as necessary partly to move people towards a pensioned society and party to bring parity in rules impacting the New Pension Scheme, the Government pension plan for civil servants which is also open to other subscribers. The proviso given by the Government was that the tax could be saved if the withdrawn money was re-invested in an annuity scheme, which paid out a regular pension.

However, with the withdrawal of the earlier proposed tax on EPF, an anomalous tax situation has now arisen since the government has decided to extend a tax waiver to only 40 per cent of the withdrawals from the National Pension System (NPS) that covers bureaucrats who joined service after April 2010. Lumpsum withdrawals from the NPS above that threshold will be taxed. The NPS has since been

extended to other employees on a purely voluntary basis.

### **Corporate Tax-Maths**

Keeping its promise of softening tax rates for corporations in line with global norms, the Budget for 2016-2017 does make a beginning by reducing headline corporate tax rates for small companies.

Headline tax rate of 29 per cent has been proposed for companies having a gross turnover of less than Rs 5 crore during Financial Year 2014-15. Further, to pave the way for new start-ups, tax rate of 25 per cent has been proposed for new firms.

A tax-holiday of three years was also announced for start-ups set up between April 2016 and 2019, provided they do not claim any tax deductions on investment and protection of any sort.

In a bid to encourage individuals and Hindu United families to set up a start-up company, the budget also proposes that long term capital gains arising from transfer of a residential house property will be exempt provided such capital gains are invested in shares of a start-up company and the individual or HUF holds more than 50 per cent of shares of the company, and that the new company utilizes the money invested in shares towards purchase of new assets.

### **Phasing out Exemptions**

However, as the Government had warned earlier, the rationalisation of taxes will come hand in hand with phasing out of exemptions which has made the Income Tax act a nightmare for the novices and a delight for chartered accountants searching for tax shelters for their clients. A roadmap for this has been announced.

Currently, the Indian Government grants area and investment based tax-holidays to a variety of sectors ranging from power generation, distribution and transmission, special economic zones and telecommunications as well as for manufacturing units set up in the North-East and some special category states like Jammu and Kashmir and Himachal Pradesh.



The idea is to reduce litigation and rationalise taxation methodology. Currently, because of various exemptions, the effective tax rate is about 23 per cent while the statutory rate is far higher at 30-33 per cent. The revenue foregone as a result of these exemptions today stands at more than Rs. 62,000 crore.

### MAT for offshore

Controversy on how Minimum Alternative Tax (MAT) plays out in the case of foreign companies claiming treaty benefits or foreign companies earning capital gains with no presence in India (other than FIIs) has now been proposed to be put to rest.

The Budget for 2016-2017 proposes to do away with applicability of MAT provisions to a foreign company retrospectively from 1 April 2001, if the firm is a resident of a country with which India does not have an agreement or if the firm is not a Private Equity Investor under Indian law.

### 'Google Tax'

A surprise inclusion in the Budget for 2016-2017, is the introduction of a new 'Equalisation levy', similar to the 'Google Tax' which the United Kingdom has already introduced. This will impose a 6 per cent tax on payments made by Indian residents while making online payment to foreign corporations including E-Commerce platforms towards services such as online advertisements etc..

### Punishment

Interestingly, a new section on penalties in case of under-reporting of income to be charged at up to 50 per cent of the tax payable from April 1, 2016 has also been introduced. For misreporting of facts, penalties could be 200 per cent. Currently, penalties are at the discretion of income-tax officers and can range between 100 per cent and 300 per cent for concealment or misreporting of income.

### STATES REVENUES

In a boost to fiscal federalism, the

total resources to be transferred to the State Governments are also forecast to rise by a healthy 12 per cent in the Budget estimates for the year 2016-17 BE when compared to the revised estimates for the year 2015-16.

However, the increasing trend of imposing cesses whose revenues do not have to be shared with the states, skewing the percentage of total revenues which could have devolved to states and could be considered by states to be a challenge of sorts.

The newly minted Krishi Kalyan cess on services which is budgeted to yield Rs 5000 crore will devolve solely to the Central Government, as well as the infrastructure cess on cars that is estimated to yield Rs 3,000 crore. In 2016-17, such levies are estimated to add up to over Rs 1.9 lakh crore. Or about 12 per cent of the total money collected from all central taxes and nearly a fifth of the Centre's own share in these taxes. □

(E-mail: jrchowdhury@yahoo.com)

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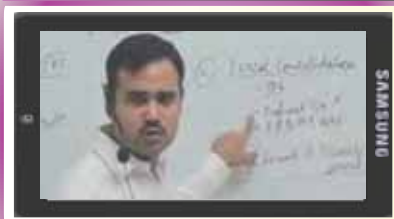
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# Union Budget 2016-17 – Is Fiscal Consolidation On Course?

*B V Madhusudhan Rao*



*Going by the budget of 2016-17, it appears that the Government of India is treading a path towards fiscal consolidation though not in a structured manner.*

*The fiscal deficit target of 3.9 per cent for the year 2015-16 is likely to be met while the target for the 2016-17 is fixed at 3.5 per cent of GDP.*

**B**udget Deficit refers to the difference between the total expenditure and total receipts of a government with total expenditure being higher than that of the total receipts in a financial year. When it is for the ensuing year, it is an anticipated deficit. Fiscal Deficit refers to the difference between the total expenditure and total receipts excluding debt receipts. This is also referred to as Gross Fiscal Deficit. Revenue Deficit is referred to as the difference between revenue receipts and revenue expenditure wherein, the revenue expenditure is higher than the revenue receipts. Combined Fiscal Deficit is the deficits of the Union Government of India and States put together.

The concept of deficit financing or the deficit budget came from the famous English Economist John Maynard Keynes who advocated for the deficit financing at the times of recession. Keynes who published his work, *The General Theory of Employment, Interest and Money* in 1936 advocated the need for deficit financing to stimulate growth and employment. This was contrary to the earlier belief which assumed

that economy existed in equilibrium, wherein the consumers' needs were always higher than that of the capacity to produce goods and services; and all goods and services produced eventually will be consumed once an appropriate price is reached. Keynes argued that the prevailing unemployment was a result of the situation where all the goods and services were not consumed resulting in contraction of the economy. He also argued that the savings by individuals that are not invested on goods and services forced the economy to operate at a sub optimal level than to its potential. Keynes advocated that government spending would help in increasing the aggregate demand and reduce unemployment. Reducing the interest rates (monetary policy) and increasing the government expenditure more than its revenue (fiscal policy) became the tools for stimulating the economy. This was embraced by USA in 1937 under F.D. Roosevelt, and by other countries later.

## **Whether Deficit is Good or Bad?**

While there is no clear answer, it is true that the deficit financing does help in stimulating the economy by improving the demand. Deficit financing would be beneficial only when the financing is for investment

The author is Research Adviser, Centre for Budget and Policy Studies, Bengaluru. He has been working in the field of decentralisation for past 12 years, worked extensively on budgets of state and local governments (panchayat raj institutions and urban local bodies), capacity building of local governments through budget analysis and budget related research. Currently, he is involved in development research involving budget analysis and field research.

and the returns it generate is higher than that of the interest rates payable for financing the deficit. The expansionary fiscal policy, by increasing the government expenditure will take place with increased borrowings at higher interest rates. This can increase the interest rates in the market and reduce the credit availability for the private sector. It is also argued that instead of expansionary fiscal policy which requires a longer duration for the effect to be visible, tax cuts would be a better measure which can decrease costs, bring back businesses into profit, improve employment as well as easy to administer (both in terms of giving tax cuts as well as increasing them at a later stage).

### Financial Crisis

During 1980s, the borrowings (international borrowings) of Latin American countries exceeded their capacity to service them since loans were largely used for consumption purposes rather than capital investment. This led to mediation by IMF and the World Bank which advocated structural adjustment programs by way of spending cuts (decreased social sector spending, cutting wages and jobs and decreasing/cutting subsidies), trade liberalization, removal of price controls and promoting the domestic and foreign investment. This condition necessitated the fiscal prudence backed up with legal framework.

India faced a financial crisis during 1991 during which the combined fiscal deficit of union and states rose to 11.24 per cent of GDP and the balance of payment problems became acute. Structural adjustment reforms were undertaken followed by devaluation of rupee against major foreign currencies. Though the combined deficit was contained to 8.17 per cent of GDP during 1996-97, consequent to the Fifth Pay Commission award in 1997, the fiscal deficit again rose to 11 per cent. The revenue deficit of states which was below 3 per cent increased to 4.6 per

cent in 1999-2000 mainly because of increase in revenue expenditure. With revenue deficit accounting for more than 60 per cent of the fiscal deficit, largely driven by increased subsidies and salary expenditure, it became apparent that the deficits could not be controlled without a binding legal framework.

### Maastricht Treaty and target of Fiscal Deficit

The European nations signed a treaty at Maastricht in Netherlands to form European Union (EU) in 1992. This was to evolve a single currency – the Euro for the European nations.

It is often said that India borrowed the targets of fiscal deficit and total debt from the Maastricht Treaty. Though there are no official basis for the fiscal deficit target of 3 per cent, Rangarajan and Subbarao (former governors of RBI) interpreted the estimated savings of India to be about 13 per cent of which 5 per cent and 2 per cent being consumed by corporate and public sector respectively resulting in about 6 per cent which is the cumulative deficits of central and state governments (3 per cent each).

With the common currency, individual countries would seignorage<sup>1</sup> power and the only way the monetary union would thrive was by way of critical commitments by the EU members. Thus, the EU members agreed upon the need to contain the inflation, fiscal deficit and the total debt and fixed targets for the same. It was agreed that the member countries would contain inflation within 1.5 per cent of the average of three member countries with lowest inflation. Similarly, it was agreed that a member country's public debt would not be more than 60 per cent of its GDP and fiscal deficit will

be maintained within 3 per cent of the GDP. The reality, however is that, of the 12 member countries, 10 countries breached the 3 per cent limit during 12 years i.e.1999-2011.

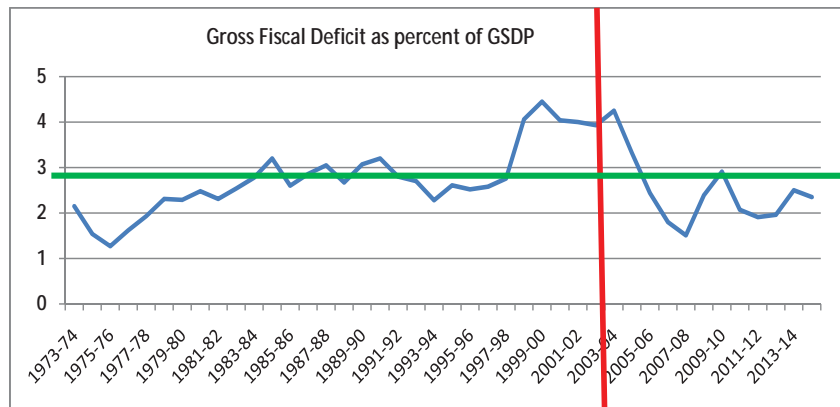
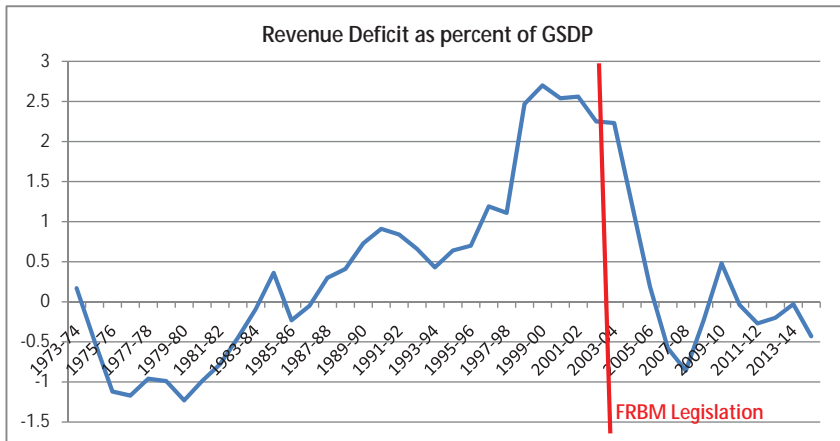
It is often said that India borrowed the targets of fiscal deficit and total debt from the Maastricht Treaty. Though there are no official basis for the fiscal deficit target of 3 per cent, Rangarajan and Subbarao (Former Governors of RBI) interpreted the estimated savings of India to be about 13 per cent of which 5 per cent and 2 per cent being consumed by corporate and public sector respectively resulting in about 6 per cent which is the cumulative deficits of central and state governments (3 per cent each).

### Fiscal Responsibility and Budget Management Act 2003 and its Aftermath

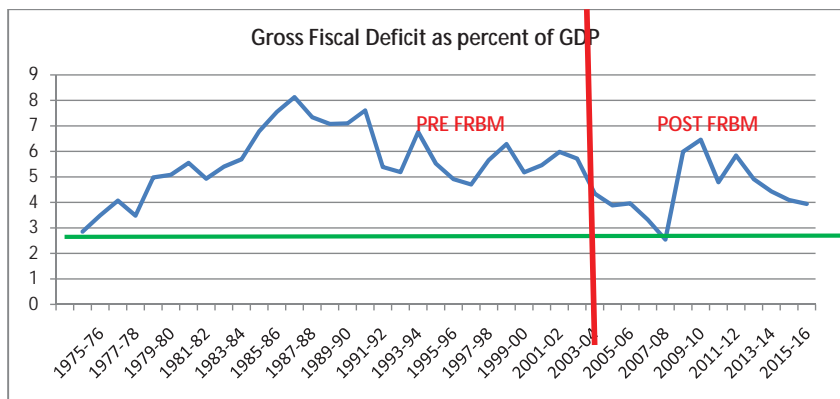
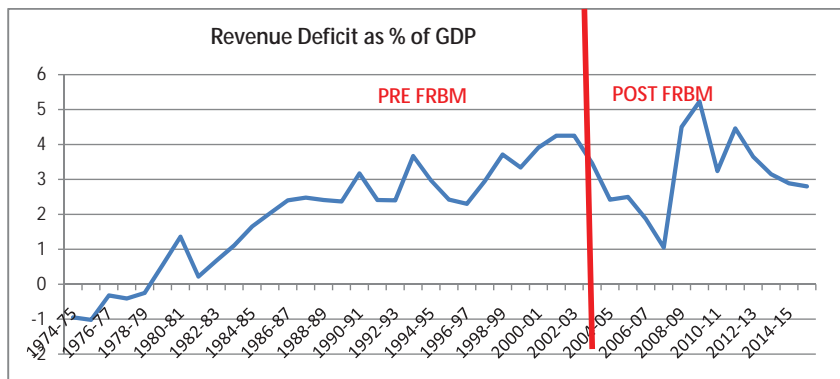
Government of India set up a committee to recommend draft legislation for fiscal responsibility. Based on the recommendation, the Government introduced the Fiscal Responsibility and Budget Management Bill in December 2000. The bill was referred to the Parliamentary Standing Committee which examined and gave suggestions. Based on the suggestions, the revised bill was introduced in Lok Sabha during April 2003 followed by Rajya Sabha in August 2003. The Fiscal Responsibility and Budget Management (FRBM) became an Act after President's assent in 2003.

The Act specified that the government would take necessary steps to reduce fiscal deficit to 3 per cent of GDP and revenue deficit in such a manner so as to eliminate revenue deficit by 31<sup>st</sup> March 2008 and to build revenue surplus thereafter. It also specified that the annual targets are fixed in order to reach the desired limits of deficit. The Act also specified that the government would place before the two Houses of parliament the three statements every financial year along with Annual Financial Statement and Demand for Grants.





Source: RBI Study of State Finances



Source: RBI Fiscal indicators of Central Government 2015-16.

The three statements are i) medium term fiscal policy statement ii) fiscal policy strategy statement and iii) Macroeconomic framework statement. The Act required the Finance Minister to make a quarterly review of the receipts and expenditure of the government in relation to budget and place before both the Houses of Parliament. All states also passed similar Acts in the state legislature in an attempt to contain the revenue and fiscal deficit.

A review of the FRBM Act and its impact indicate that states have adhered to the FRBM and have posted revenue surplus after passing of the Act in their respective legislature except for the year 2009-10 which was relaxed due to global recession. Similarly, the target of 3 per cent fiscal deficit is also being adhered to by the Indian states.

Similarly, the analysis of finances of Government of India reveals that it breached more than it adhered to.

### Fiscal Consolidation Efforts at the State Level

Fiscal consolidation effort at the state level was multipronged and also facilitated by the Government and the Finance Commission. The passing of the Act was followed by the Debt Swap Scheme (DSS) which allowed the states to borrow money from the market at a lower rate and to retire the loans from Government of India which was at 13 per cent. An amount of Rs. 1.03 lakh crore was repaid by states during the period 2002-03 to 2004-05. Similarly, the 12<sup>th</sup> Finance Commission recommended Debt Consolidation and Relief Facility (DCRF) which was to restructure the loans payable to GOI into 20 equal installments with an interest rate of 7.5 per cent. Several States also created Consolidated Sinking Fund (CSF) and Guarantees Redemption Fund (GRF) to cushion the repayments of loans as well as contingent liabilities. Other measures include the restructuring of power utilities, introduction of New Pension Scheme and improvements in the tax

effort which also contributed for the fiscal consolidation at the state level.

### Fiscal Consolidation Efforts at Union Government Level 2016-17

Going by the budget of 2016-17, it appears that the Government of India is treading a path towards fiscal consolidation though not in a structured manner. The fiscal deficit target of 3.9 per cent for the year 2015-16 is likely to be met while the target for the 2016-17 is fixed at 3.5 per cent of GDP. Two important items of expenditures namely the one rank one pension (OROP) for defence personnel and the 7<sup>th</sup> Pay Commission reward for employees of GoI has increased the fiscal strain on the government.

It appears that no concrete plans have been put in place to address the fiscal deficit issue. The gravity of it is of more concern since revenue deficit constitutes 66 per cent (2016-17 BE) of the fiscal deficit indicating that large amount of borrowings is not going for investment and capital asset creation. This is evident from the fact that Finance Minister hinted about the formation of a committee to review the FRBM achievements and to recommend a range instead of a number. While fiscal deficit is not a bad phenomenon, borrowing for undertaking revenue expenditure is going to put severe fiscal strain in the coming years owing to interest burden. The interest repayments as a proportion of fiscal deficit have increased from 79 per cent in 2014-15 to 92 per cent in 2016-17 BE. Interest repayments constitute 37 per cent of non-plan

revenue expenditure which is higher by one per cent as compared to 2014-15. Interest payments as a per cent of net tax revenues has increased from 44.5 per cent in 2014-15 to 46.7 per cent in 2015-16 RE as well as 2016-17 BE.

### GoI Efforts

Subsequent to 14<sup>th</sup> Finance Commission recommendations which increased the states' share of divisible pool of taxes, GoI has trimmed the number of schemes (both central sector schemes and centrally sponsored schemes). Giving the legislative backup to Aadhar is another step for enhancing the routing of subsidies and benefits through DBT. The provision of fertilizer subsidy through DBT is being attempted in few districts in 2016-17. The subsidy budget which crosses over Rs 1 lakh crore is targeted to be trimmed in the coming years.

The fiscal consolidation during the year 2015-16 was strongly influenced by declining crude oil prices at international level, coupled with 8-10 times increases in the excise duty of the fuel. This trend is likely to be continued in 2016-17 as well. Similarly, the auction of Spectrum during 2015 yielded Rs. 56000 crore while the estimated amount was Rs. 42800 crore. The target for 2016-17 is fixed at Rs. 98995 crore.

The taking of cess route to increase revenue which is not shared with the States has also helped GoI in deficit management. The infrastructure cess of 1-4 per cent on cars, krishi kalyan cess of 0.5 per cent, clean energy

cess on coal doubled to 400 rs/ton, (which also has severe impact and can push the power tariff across all consumers) along with swacch bharaat cess is likely to garner around Rs. 35000 crore.

It appears that GoI is hoping for the fiscal prudence without doing anything concrete about it other than effort towards streamlining of subsidies. The denominator factor (GDP) is subject to variation (decrease than estimated) and in such a situation, it could pose new challenges in containing deficit targets for which there are no obvious signs of preparation.

### Readings

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2. Gurumurthy S, Fiscal Deficit: Story of the magic '3' percent. [http://www.newindianexpress.com/columns/s\\_gurumurthy/Fiscal-DeficitStory-of-the-Magic-3-Per-cent/2016/02/25/article3295514.ece](http://www.newindianexpress.com/columns/s_gurumurthy/Fiscal-DeficitStory-of-the-Magic-3-Per-cent/2016/02/25/article3295514.ece)
3. Reserve Bank of India, State Finances: A study of Budgets (different years)
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### Endnotes

- 1 Power of the nation to print its currency or borrow from Central Bank.

*(The author acknowledges inputs from Dr. Jyotsna Jha, Director, CBPS and Mr. A. Srinivas, Senior Adviser, CBPS.)* □

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# YOJANA

## Forthcoming Issue

April  
North East



# Why a Conservative Growth Estimate?

*D H Pai Panandiker*



*The Survey has approached the development issues on basic economic and equity considerations based on a long term view of the development potential. Even so, the measures suggested above would go a long way to create the right environment for high and stable growth*

**T**he Economic Survey outlines the background against which the budget is framed. The Survey is more objective and reviews the present economic situation and also indicates broad policies that can put the economy on a sound footing. The budget goes a little beyond economics and is influenced by political considerations as well in prioritizing expenditures and mobilizing resources. The Survey and the Budget enshrine the views of the Finance Ministry though by different Departments.

The Survey has set 7-7.5 per cent growth target for 2016-17 after its expectations for the current year proved to be too ambitious. Perhaps, the present grim global economic situation was not anticipated which may turn either way next year. Amidst that uncertainty, India still emerges as a 'refuge of stability' with a steady and relatively high growth. The long run potential has been estimated at 8-10 per cent.

The picture elsewhere is dismal. Japan and Europe are bordering on recession. The US growth shrank last quarter of 2015. Even the BRICS countries are having problems. Growth in Brazil and Russia was down to minus four per cent and equally

disturbed in South Africa. China is at 6.5 per cent from its earlier over 10 per cent growth.

No country can remain insulated from the rest of the world. Countries are inextricably linked through trade and investment. Countries that used the export channel to drive their growth are the first to drop out of the race. India's initial development strategy was based on import substitution which, in spite of best efforts after 1999 reforms, could not be effectively changed to export promotion and has now taken a more diversified form of 'Make in India'. Due to the dependence on domestic drivers, our link with the rest of the world is a little tenuous. The Survey points out that one percentage point decline in world economic growth squeezes India's growth by 0.2 percentage point. But extreme events like the crisis of 2008-09 can be disastrous.

What is it that has sustained India's growth in a gloomy international environment? The Survey refers to a number of small incremental stimuli like near elimination of corruption at the Centre, opening up of more areas for FDI, reducing cost of doing business, Jan Dhan Yojana, and other socially important schemes. But these measures have not resulted in any significant increase in investment.

The author retired as Secretary General of FICCI and is currently working as President of RPG Foundation, a private sector think tank which brings out a monthly publication titled 'State of Business'. He is also Chairman of ILSI-India, a branch of International Life Sciences Institute with headquarters in Washington, and is a scientific institution which addresses issues like food and nutrition security, environment and risk assessment. He is also on the Board of Governors of International Management Institute (IMI) Delhi.

Industry has been relatively static with its share in GDP at 15-16 per cent. The corporate sector was able to merely maintain its performance but lost its profitability in the current year. It is saddled with excess capacity for lack of demand. Corporate sector and consequently banks from which it borrowed, are now faced with stressed assets.

Some sectors have undoubtedly shown much greater dynamism. The services sector has been fueling the economy with Finance and Distribution displaying tremendous verve. The Start Ups have discovered a new base in India. FDI has kept pace, though the increase is not substantial. What really kept the economy going was possibly the multiplier effect of higher investment in earlier years.

To gear up the economy once again, it is important that steps are taken to generate demand. One effective way is for the public sector to invest in infrastructure for which there is tremendous scope and which has a strong multiplier effect.

One reason for slowdown in private sector investment is the high rate of interest. The RBI had raised the rate earlier because of the high level of inflation which had overcome the economy in the four years following 2010-11. In this period, investment had also been high though there was no overheating of the economy. Inflation arose primarily from insufficient supply of agricultural commodities, mainly horticulture.

Inflation has moderated in the last two years. At the wholesale level, it is negative and at the retail level it has come down to less than 6 per cent. The RBI has consequently reduced the repo to 6.75 per cent though the cut has not been adequately passed on by the commercial banks to borrowers. The Survey suggests a lowering of policy rate and easing liquidity conditions for robust growth.

Although India did not or rather could not use exports as a driver, exports are still important because, in industry, they make up about 12 per

cent of sales, on average. In the past 14 months, there has been a significant drop in exports resulting from drop in world income. Besides, the increase in interest rate by US Federal Reserve and indication that it will increase it in future has depreciated almost every other currency, some more than others. The rupee has tumbled almost to its earlier low but is helping us in no way to export more. That is because we gain no advantage against our competitors with their depreciated currencies. The RBI has to manage the rupee amidst this currency war to an extent that we do not lose our competitive edge. The Survey expresses apprehension against such tail risk scenario.

**Some sectors have undoubtedly shown much greater dynamism. The services sector has been fueling the economy with Finance and Distribution displaying tremendous verve. The Start Ups have discovered a new base in India. FDI has kept pace though the increase is not substantial. What really kept the economy going was possibly the multiplier effect of higher investment in earlier years.**

In spite of the fall in merchandise exports, the current account deficit is only about 1.1 per cent. That is partly because service exports (IT and IT related services) provided some support and partly because imports have been falling mainly due to drop in international crude oil prices. The Survey anticipates that oil prices for India basket will be \$35 per barrel in 2016-17 against \$45 in the current year.

The basic question is what policy initiatives are necessary to maintain and even accelerate growth. It cannot be assumed that growth will continue because it is likely that the multiplier will wear out and investment will decline. The Finance Minister has made a clear choice in favor of budget consolidation and reduced the budget deficit, as planned, to 3.5 per cent

of GDP. But the need of the time is demand generation through public expenditure and an aggressive reforms agenda.

The 2016-17 Union Budget had to provide for expenditure on 'One Rank One Pension' and the increase wage and salary payment recommended by the Seventh Pay Commission. It is however, the quality of expenditure that is critical for development. The Survey identifies three areas where expenditure had to be increased and which the budget actually provides for.

The first is education. Without education, the jobs that workers will perform will be less productive and consequently less paying.

The second is health. A healthy person is more productive, has to spend less on medication and will have a higher spending power.

Education and health together form the software of development and as the Survey points out, has to really precede growth. This has been the experience of most countries.

Third is agriculture. The Survey calls for genetically modified crops along with improved irrigation, farm mechanization, markets and inputs, to increase productivity and food security.

There is no effort made in the budget to curb non-productive or less productive expenditures, particularly subsidies. The Survey has addressed this issue and suggested elimination of subsidies which do not benefit the targeted weaker sections.

Two important suggestions have been made in the Survey. First, a number of subsidies which benefit the well-off should be withdrawn. These result from concessions in respect of small savings schemes, tax subsidies on cooking gas, railways, power, aviation fuel, gold and kerosene, which together amount to about Rs.1 lakh crores.

Second, taxation of agricultural incomes mainly of rich farmers and rationalization of fertilizer subsidies



Apparently, these suggestions may not have been palatable to the Finance Minister who has to face a determined opposition in Parliament and his Party to contest in forthcoming Assembly Elections. Even some of the important and progressive reforms which needed to be implemented in the interest of national development were not accepted by the Rajya Sabha.

Expenditures need to be funded from tax revenue to the extent possible and from borrowing when inevitable. India, it appears from the data presented in the Survey, is the least taxed country. The ratio of tax revenue to GDP is 16.6 compared to other BRICS countries i.e. 19.4 in China, 23 per cent in Russia, 28.8 in South Africa and 35.6 in Brazil. But tax ratio in comparison to the per capita income is not certainly low. The Survey brings out convincingly that in the past 25 years, the exemption limit has increased much faster than the per capita income.

Four reforms in particular can make a dramatic change to the development process. Land Bill has come in the way of investment both by the public sector as also private enterprises. Nearly 25

per cent of the projects have been held up because of problems in land acquisition. GST has been debated for far too long and the Bill remains in suspense holding back progress. With GST alone, GDP growth would have jumped at least 1 per cent. One of the barriers to FDI is exit policy. Free entry also presumes free exit. In the absence of the latter, entry also becomes difficult. Last, the labour policy, as the Survey indicates, needs to be changed to generate better quality jobs.


What then is the way to accelerate growth and ensure stability? Some of the policy measures identified in the Survey are:

- Growth has to depend more on domestic demand which should be boosted by spending more on infrastructure;
- Scaling back some of the subsidies implicit in taxation of gold, administered rates on small savings, pensions, etc. amounting to Rs.1 lakh crores since they benefit the well-to-do.
- Tax base should be expanded which implies that the threshold for exemption in personal income tax should not be increased


- High priority areas for expenditure should be education, health and agriculture;
- Rich farmers should be taxed by bringing agricultural income within the tax net;
- Fertilizer subsidy should be rationalized since it benefits mainly the large farmers;
- RBI should reduce its equity capital to 16 per cent and the money used to recapitalize the banking sector; and
- Labour laws should be reformed to generate better quality jobs.


The Survey has approached the development issues on basic economic and equity considerations based on a long term view of the development potential. Even so, the measures suggested above would go a long way to create the right environment for high and stable growth. The 7-7.75 per cent growth estimated by the Survey is apparently based on the view that these measures would not be implemented and the growth potential will not be realized. That is why the Survey prefers to be cautious and not to err once again. □

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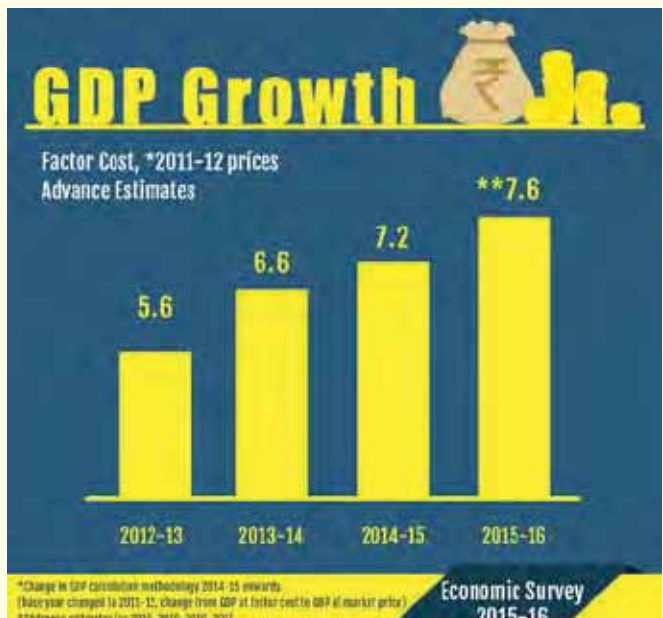
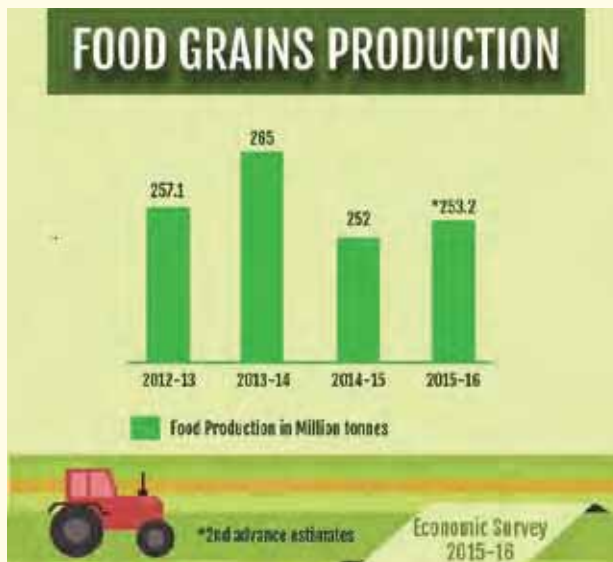
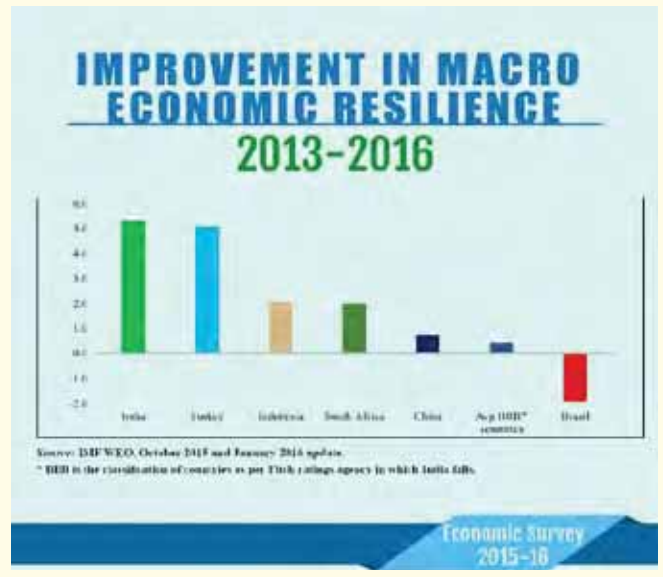
  
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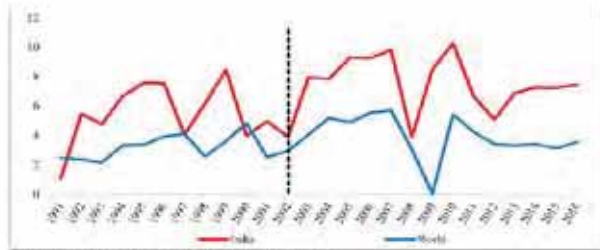
# ECONOMIC SURVEY 2015-16-SOME FACTS & FIGURES





# ECONOMIC SURVEY 2015-16-SOME FACTS & FIGURES

## INDIA AND WORLD GROWTH SINCE 1991 (%)



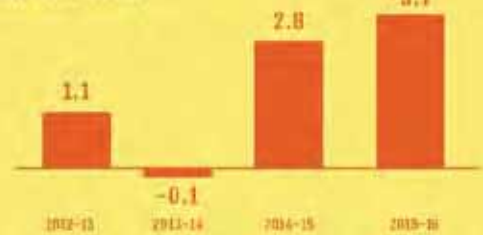
Source: World Economic Outlook (WEO), January, 2016 update

Economic Survey 2015-16



## INDUSTRIAL GROWTH

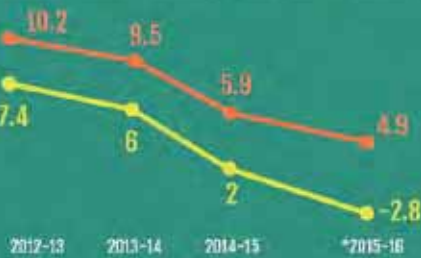
% change in Index of Industrial Production  
Base Year: 2004-05



\*Till Dec, 2015

Economic Survey 2015-16

## INFLATION (Average in %)



— CPI (COMBINED)  
— WPI

\* Till Jan, 2016

Economic Survey 2015-16

## UNEMPLOYMENT RATE (%)



■ 4th Annual Employment-Unemployment Survey 2013-14  
■ NSSO 2011-12

Economic Survey 2015-16

## UNEMPLOYMENT RATE (%)

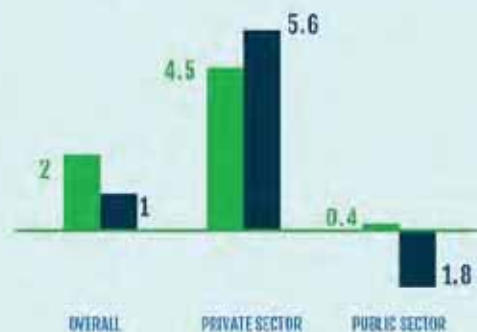


■ 4th Annual Employment-Unemployment Survey 2013-14  
■ NSSO 2011-12

Economic Survey 2015-16

## ORGANIZED SECTOR

% change in Employment Growth



■ 2012 OVER 2011 ■ 2011 OVER 2010

Economic Survey 2015-16

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# Can Union Budget Revive the Banking Sector?

*N R Bhanumurthy  
Manish Prasad*



*While the Budget has come up with some direct measures, the clarity and implementation of some of the recommendations that are already available to the government could help the sector to overcome the NPA problem at the earliest. The recovery in the investment cycle at the moment essentially depends on the strength of the bank balance sheets*

The Economy Survey has highlighted twin risks that India is facing at the moment. One is the weak balance sheet in the banking sector, especially in the public sector banks, and the other is the corporate sector. While both are inter-linked to some extent, to address this twin risks, there were expectations that the Union Budget-2016-17 would address the problems of the public sector banks. Consequently, the Budget did try to focus on reviving the banking sector through various measures – some are direct measures while a few are through indirect policy measures. Before discussing this, it is necessary to diagnose the problem.

## The Problem

Following the global financial crisis, like many other countries, India has also undertaken large stimulus measures especially on the fiscal side. While these measures helped the economy to recover, because of the unwise mix of fiscal measures, India ended up having large fiscal deficits. The consolidated fiscal deficits went up to double-digits from almost close to achieving FRBM targets in 2008-

09. Consequent upon such large fiscal deficits, due to its dynamic impacts on other macro variables, what India experienced is the decline in the GDP growth, large inflation, as well as the sharp increase in the current account deficits. This has also led to contractionary monetary policy of hike in the interest rates for a long time. All these factors have also led to rise in the economic vulnerability (instability) in the country and posed risks on the future growth.

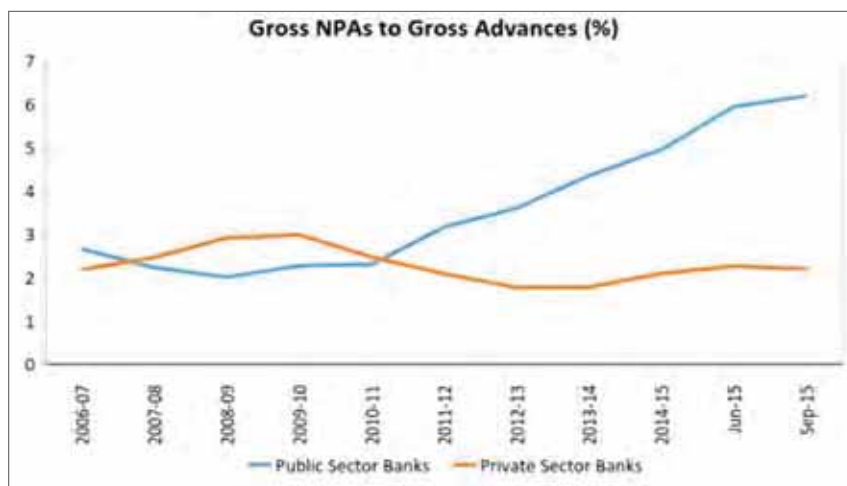
Given that banking sector is one of the important pillars of the financial sector and also links the financial sector to real sector, the instability in the real sector had a pass-through impact on the banking sector as well. This appears to have happened through two channels: first, through larger government borrowings followed by high fiscal deficits and second through stress in the corporate profitability following high interest rates. This has led to sharp reduction in the leverage ratio among the Indian public sector banks. The RBI has indicated a leverage ratio of 4.5 per cent while Basel –III norm mandated it to be at 3 per cent. However, many banks have ended up at well below the RBI indicative limits. The impact of violation of such norms,

Dr N R Bhanumurthy is currently working as Professor at NIPFP, New Delhi. Prior to this he worked as Associate Professor at Institute of Economic Growth, Delhi. He had brief stints at UNESCAP, Bangkok and at UNDP RCC at Colombo as Macroeconomist. He has been a consultant to UN-DESA (New York), UN-ESCWA (Beirut), UNDP-Nepal, UNDP-Bhutan, UNESCAP-SSWA (New Delhi), ILO, the World Bank, and ADB. He has served on various government committees and twice he was invited to Finance Minister's Pre-Budget Consultation with Economists. Dr Bhanumurthy has been the Secretary of the Indian Econometric Society since 2006 and also Managing Trustee of Indian Economic Association Trust for Research and Development since 2010. Manish Kumar Prasad is currently working as a Research Assistant at NIPFP, New Delhi.

as expected, has shown up in the banks' non-performing assets (NPAs).

It may be noted in the Graph 1 where the trends in the gross NPAs of both private and public sector banks were shown from the pre-crisis period to recent period. During the high growth period, both the group of banks had NPAs below 3 per cent with public sector banks having at least one percentage point less than the private sector banks. This could also be due to low fiscal deficits as well as positive government savings in the pre-crisis period. However, what we see in the post-crisis is the substantial increase in the NPAs in the public sector banks while private banks appear to be holding within the limits. This clearly indicates a strong fiscal-financial linkage, thus, suggesting that any worsening of fiscal indicators need necessarily to be transmitted to the financial markets through its dynamic impact. Currently, the NPA in the public sector banks is estimated to be at little over 6 per cent, which is quite alarming. Further, this would also affect the profitability of the

**Graph-1**



banks. For the third quarter of 2016-17, nearly 11 public sector banks have declared losses after a long time. Such negative trends appear to restrict the investment and, hence, growth recovery in the country.

Similar trends are found in net NPAs as well as in the restructured assets and written-off loans. Within the public sector banks, the sum of gross NPAs, already restructured

assets as well as written-off loans has increased substantially to 17 per cent of gross advances compared to about 6.7 per cent in private sector banks (see Table-1).

It is also important to understand which sectors led to such increase in NPAs. In Table-2, it can be noted that, contrary to the general expectations, the contributions of agricultural sector in banks NPAs is the lowest

**Table-1: Trends in Asset Quality in Public and Private Sector Banks**

	Public Sector Banks				Private Sector Banks			
	Mar 13	Mar 14	Mar 15	Sept 15	Mar 13	Mar 14	Mar 15	Sept 15
Net NPA ( per cent)	2.0	2.7	3.2	3.6	0.5	0.7	0.9	0.9
Restructured Assets (per cent)	7.2	7.2	8.1	7.9	1.9	2.3	2.4	2.4
Gross + Restructured Assets (per cent)	11.0	11.9	13.5	14.0	3.8	4.2	4.6	4.6
Gross+ Restructured + Written off Assets (per cent)	13.4	14.1	16.1	17.0	5.4	6.4	6.7	6.7

Source: RBI Website

**Table-2: Sectoral Contributions of Bad Assets**

	All Banks (Gross + Restructured + Written off Assets (%))			
	Mar 13	Mar 14	Mar 15	Sept 15
Agriculture	8.2	7.4	7.5	7.9
Industry (Micro)	10.2	10.0	10.5	12.3
Industry (Small)	13.2	13.3	14.8	16.8
Industry (Medium)	20.2	23.6	27.0	31.5
Industry (Large)	16.3	19.0	23.0	23.7

Source: RBI Website



and declining even during the slow growth period. However, in 2015-16, there appears to be an increase in agricultural loans as well, which may be due to two back to back droughts in the country. But in the industrial sector, especially in the MSME sector, the NPAs appear to have increased sharply. Continued slowdown in the industrial sector perhaps has contributed to such increases in this sector.

### The Impact

What is the impact of NPAs in the banking sector on the overall economy? It can be looked through credit channel and the interest rate channel. Recently, with the adoption of flexible inflation targeting regime and also quite substantially due to sharp fall in the international oil prices, the domestic inflation has come down to 5.6 per cent. Following this, there were expectations that the policy interest rates would be brought down. The RBI did reduce the repo rate by 125 basis points since December 2014 in a calibrated manner. However, the reduction in the lending rates by the banks (in this case, by both public and private sector banks) is just by about 40 basis points. This time even the reduction in deposit rates is also limited as the banks need to mobilize more savings to increase their leverage ratio. This suggests that there are constraints in the monetary policy transmission mechanism from repo to investments. In other words, repo rate reduction does not result in reviving investment cycle. What banks need at the moment is the liquidity (capital) to adjust their balance sheets. Following this break-up of interest rates – investment linkage, the RBI is showing hesitancy in further reducing the interest rates which is holding the private investments as well as growth.

The risks of higher NPAs have been very well articulated by the IMF in its latest report where it says that there is a rise in the vulnerabilities in the Indian financial system. The IMF report describes that “In India,

while external vulnerabilities have moderated and inflation has fallen faster than expected, persistently high inflation expectations and large fiscal deficits remain the key macroeconomic challenges. The monetary policy stance needs to remain tight to ensure a durable reduction in inflation and inflation expectations. Fiscal consolidation should continue, underpinned by comprehensive tax reform and further reductions in subsidies. Vulnerabilities in corporate financial positions and public bank asset quality could threaten financial stability if left unaddressed.” (International Monetary Fund, 2016)

### What has Union Budget done?

As the banks are in need of capital, the Union Budget, very rightly allocated Rs 25,000 crore as part of the re-capitalisation process while indicating that the Central Government could allocate more, if needed. While this is the direct measure, there are other measures that might have indirect impact on the banks. They are as follows:

- Introduction of a comprehensive Code on Resolution of Financial Firms;
- Amendments in the SARFAESI Act 2002 to enable the sponsor of an ARC to hold up to 100 per cent stake in the ARC and permit non institutional investors to invest in Securitization Receipts.
- Amendments to the Debt Recovery Tribunal laws and making them functioning on-line.
- Introduction of comprehensive central legislation to deal with the menace of illicit deposit taking schemes.
- Increasing members and benches of the Securities Appellate Tribunal.
- Increasing the amount sanctioned under Pradhan Mantri Mudra Yojana to ` 1,80,000 crore.

While the above measures would help the credit flow and remove credit constraints for real sector, is it sufficient enough to cure all the ills in the public sector? In our view, there is lot more that needs to be done to bring back the banking sector on a healthy ground. One important aspect that needs to be addressed is the overall governance in the banking sector. Here, there is already PJ Nayak Committee recommendations, which may be needed to be looked at seriously. Some of the main recommendations are presented in the box.

### Nayak Committee Recommendations of Review Governance of Boards of Banks in India

- Removal of Banking Nationalization Acts of 1970 and 1980, SBI Act and the SBI (Subsidiary Banks) Act.
- Incorporation of all banks under Companies Act and constituting a Bank Investment Company (BIC) for the government to transfer its holdings in banks.
- Appointment of whole time directors in three phases with the help of Bank Boards Bureau (BBB).
- Reduction of government stake to less than 50 per cent.
- Recommendation on HR policy that could bring younger people into top management.
- Upgradation of board deliberation to provide greater strategic focus.
- Government should cease to issue instruction to PSBs in pursuit of development objectives.
- Government should also cease issuing regulatory instruction applicable only to PSBs as dual regulation is discriminatory.

In addition to these measures, one important aspect that the government

may need to look at, is the role of Asset Reconstruction Companies and its regulation. There are proposals to institute a National Asset Management Company (NAMCO) so that stressed assets may be disposed at right price and right time. In addition, the government and the RBI has been discussing with the banks through *Gyan Sangam* (annual retreat of top officials from banks, Finance Ministry and the RBI) to understand and find solutions to the problems that banks are faced with. The recent *Gyan Sangam*, which happened immediately after the 2016-17 Budget, came up with some recommendations regarding banks consolidation and also on the debt recovery laws.

While the Budget has come up with some direct measures, the clarity and implementation of some of the recommendations that are already available to the government could help the sector to overcome the NPA problem at the earliest. The recovery in the investment cycle at the moment essentially depends on the strength of the bank balance sheets.

### Readings

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### UJWAL Discom Assurance Yojana (UDAY)

The Ujwal DISCOM Assurance Yojana (UDAY) was launched by the Government of India for operational and financial turn around of State owned Power Distribution Companies (DISCOMs). The Scheme aims to reduce the interest burden, reduce the cost of power, reduce power losses in Distribution sector, and improve operational efficiency of DISCOMs. It incentivizes the States by exempting State takeover of DISCOM debts from Fiscal Responsibility and Budget Management (FRBM) limits for two years; increased supply of domestic coal; coal linkage rationalization; liberally allowing coal swaps, allocation of coal linkages to States at notified prices and additional/priority funding in Schemes of Ministry of Power and Ministry of New & Renewable Energy, if they meet the operational milestones in the Scheme

So far, 17 States have given their 'in-principle' approval to join the Scheme UDAY. Out of these, the States of Chhattisgarh, Bihar, Jharkhand, Gujarat, Rajasthan and Uttar Pradesh have already signed MoUs under UDAY. The participating States along with the DISCOMs have to enter into MoU with Government of India and take over 50 per cent of outstanding debt a by 31st March, 2016.

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# Robust Eco-System to Spur Growth & Massive Employment

*Neeraj Bajpai*



*In India where about 65 percent population is below 35 years, the government is resorting to all means to create jobs but to create robust ecosystem to absorb huge unemployed youth is a major challenge and needs fair space of time*

“**R**ome was not built in a day” is a well-known adage. It symbolises likewise, emergence of a robust eco-system for start-ups, industrial units and other commercial ventures, capable of absorbing ever swelling ranks of unemployed which can not be accomplished in a short space of time.

The Finance Minister's recent budget narrative is indicative of the fact that the Government of the day is cognizant of ground reality and challenges ahead to meet India's leaping expectations and basic requirements.

The task becomes more tedious when the global economy is in serious crisis which has left financial markets battered and contracted global trade. Amid all these global headwinds, the country's economy has held its ground and the International Monetary fund (IMF) has hailed India as the only “bright spot”.

Unveiling the Budget 2016-17 proposals, the Finance minister thus summed up the country's economic scenario vis-a-vis international economic situation. He exuded

confidence to fulfil the government's commitments to implement successfully flagship programmes including Start-up India, Make in India, Skill development, creation of employment avenues and timely implementation of a large number of other plans despite the looming threat of further global slowdown and turbulence.

The Prime Minister has made it clear that his mantra is for Start-up India, Stand up India. “To provide a favourable ecosystem for start-ups, the budget has provided plans in the taxes. Our Dalit and tribal youth now wants to become entrepreneurs. They do not want to be job seeker anymore but a job creator. In order to realise their dreams, the government has decided to establish an entrepreneurial hub”, the PM commented, hailing it as the future economic agenda.

The Government, giving a big push to Make in India programme, now emerging as the main focus for employment generation, has announced a raft of tax incentives to boost domestic manufacturing.

Other sops include tax incentives and norms for easy business practices. Smaller industries will have maximum

The author is senior journalist and former member of the Press Council of India (PCI). He currently holds Joint Editor's post in United News of India (UNI). During his long and outstanding career in journalism, he has covered many national and international events. He has wide experience of covering major national, international and VVIP visits. He has won many awards for fair and impartial journalism. During his over three decades long career, he has the distinction of covering many parliamentary and state assemblies polls besides interviewing major news makers of the world.

advantage from these measures which also mitigate litigations and provide exit routes in case of failures.

Revised excise and custom duty rates are bound to give cost benefits to a slew of Make in India plans IT hardware, capital goods, textiles, defence production, and bunch of other goods, experts say.

For example, in the Telecom sector, the government has attempted to curb imports of the mobile handsets components by withdrawing customs and countervailing duty exemptions. The step is bound to impart a boosting impact on local production of mobile phones and peripheral products.

Now, both the central and many State governments are building up climate to attract investment which will help domestic industry, Start ups and Make in India initiatives. It will result in more employment. The concessions promised in the Budget will have positive cascading impact on overall financial and social growth.

Investor summits are being held both inside and outside the country. In one such global meet in Haryana recently, the Finance Minister called upon states to reform to attract investment as investors do not like policy paralysis and prefer destinations that offer more favorable business and political environment. He said that apart from co-operative federalism, India has also become a competitive federalism and the future would be competitive federalism because it's not Centre-state relation, but it is states and states competing with each other to attract investment. "those (states) who do not reform, people in those states are at a disadvantage and those who are in a position to offer more favourable economic, business and political environment to investors, could benefit." Reform or perish could not be more true than it is today", he added.

While presenting the General Budget in the Lok Sabha recently, the Finance Minister dwelled on Start -ups and said they generate employment,

bring innovation and are expected to be key partners in Make in India programme.

He has proposed to assist their propagation through 100 per cent deduction of profits for 3 out of 5 years for start-ups set-up during April 2016 to March 2019. MAT will apply in such cases. However, capital gains will not be taxed if invested in regulated/notified Fund or Funds and by individuals in notified startups, in which they hold majority shares.

He has also proposed a special patent regime with 10 per cent rate of tax of income from worldwide exploitation of patents developed

**...apart from co-operative federalism, India has also become a competitive federalism and the future would be competitive federalism because it's not Centre-state relation, but it is states and states competing with each other to attract investment. "those (states) who do not reform, people in those states are at a disadvantage and those who are in a position to offer more favourable economic, business and political environment to investors, could benefit."**

and registered in India. He said that customs and excise duty structure plays an important role in incentivising domestic value addition towards Make in India campaign.

The Government also proposed to make suitable changes in customs and excise duty rates on certain inputs, raw materials, intermediaries and components and certain other goods and simplify procedures so as to reduce costs and improve competitiveness of domestic industry in sectors like Information Technology hardware, capital goods, defense production, textiles, mineral fuels & mineral oils, chemicals and petrochemicals, paper,

paperboard & newsprint, Maintenance repair and overhauling of aircrafts and ship repair, etc.

To provide skilled hands to growing industry and generate employment, the Government has decided to set-up 1500 Multi Skill Training Institutes across the country for which Rs 1,700 crore has been set aside in the Budget. He made it clear that it is the endeavor of the Government to bring entrepreneurship to the doorstep of youth through Pradhan Mantri Kaushal Vikas Yojana (PMKVY).

According to him, the Skill India Mission seeks to capitalise the country's demographic advantage. Since its launch, the National Skill Development Mission has created an elaborate skilling eco-system and imparted training to 76 lakh youth. The government has decided to set-up a National Board for Skill Development Certification in partnership with the industry and academia ."We propose to further scale- up Pradhan Mantri Kaushal Vikas Yojana to skill one crore youth over the next three years."

Experts say if one crore youth are skilled over the next three years, it would certainly herald a new era of employment and productivity will increase substantially across the board.

As per the plans, entrepreneurship, education and training will be provided in 2200 colleges, 300 schools, 500 government ITIs and 50 Vocational Training Centers through Massive Open Online Courses. Aspiring entrepreneurs, particularly those from remote parts of the country, will be connected to mentors and credit markets.

Pursuing the agenda of employment, the government, in order to incentivise creation of new jobs in the formal sector, will pay the Employee Pension Scheme contribution of 8.33 per cent for

all new employees enrolling in EPFO for the first three years of their employment. The Scheme will be applicable to those with salary up to Rs.15,000 per month and a budget provision of Rs.1000 crore has been made for it. Further, the Finance Bill, 2016 proposes to broaden and liberalize the scope of the employment generation incentive available under section 80JJAA of the Income Tax Act.

Elaborating the Government's plan for job creation, the Finance Minister said a National Career Service was launched in July, 2015. Already 35 million jobs seekers have registered on this platform. In the new Budget, the Government proposes to make 100 Model Career Centers operational by the end of 2016-17.

It also proposes to inter-link State Employment Exchanges with the National Career Service platform. A Bill shall be introduced in the current Budget session of the Parliament in order to amend the Companies Act 2013. He said that this will remove the difficulties and impediments to ease of doing business.

The Bill would also improve the enabling environment for Start-ups. The registration of companies will also be done in one day. The Finance Minister said boosting employment generation, through economic growth, is a main objective behind these proposals.

Other objectives, he said, would be for incentivising 'Make in India', to promote measures for moving towards a pensioned society and for promoting affordable housing. Such provisions to boost economic growth and employment include-100 per cent deduction of profits for 3 out of 5 years for start-ups, during April, 2016 to March 2019, with certain riders.

Similarly to promote innovation, a special patent regime with 10 per cent rate of tax on income from worldwide

exploitation of patents developed and registered in India was proposed.

Non-banking financial companies shall be eligible for deduction to the extent of 5 per cent of its income in respect of provision for bad and doubtful debts. The corporate income tax rate for the next financial year of relatively small enterprises i.e companies with turnover not exceeding Rs. 5 crores (in the Financial Year ending March 2015) is proposed to be lowered to 29 per cent plus surcharge and cess.

The new manufacturing companies which are incorporated on or after March 1, 2016 are proposed to be given an option to be taxed at 25 per cent plus surcharge and cess, provided they do not claim profit linked or investment linked deductions and do

**The Bill would also improve the enabling environment for Start-ups. The registration of companies will also be done in one day. The Finance Minister said boosting employment generation, through economic growth, is a main objective behind these proposals.**

not avail of investment allowance and accelerated depreciation. Service tax on services provided under Deen Dayal Upadhyay Grameen Kaushalya Yojana and services provided by Assessing Bodies empaneled by Ministry of Skill Development and Entrepreneurship are also proposed to be exempted.

Retail sector is the largest service sector employer. The government is of the view that many more jobs can be created in the sector ,provided the regulations are simplified.

The Finance Minister said if the shopping malls are kept open all seven days of the week why not small and medium shops could follow the same? These shops should be given

the choice to remain open on all seven days of the week on voluntarily basis with full protection of workers' right of mandatory weekly holidays and number of working hours per-day.

The government proposes to circulate a Model Shops and Establishments Bill which can be adopted by states also on voluntarily basis.

In India where about 65 per cent population is below 35 years, the government is resorting to all means to create jobs but to create robust ecosystem to absorb huge unemployed youth is a major challenge and needs fair space of time.

The Budget proposal for levying interest on employees provident fund (EPF) had created suspicions in minds of scores of employees but it is being withdrawn now.

This is a good development and helps build up healthy environment for workers, backbone of industry.

Finance Minister has said the proposal for levying tax was brought with intention to encourage PF subscribers investing in pension schemes for ensuring more secured retired life. However, in view of representations received from several MPs and a number of organisations, he withdrew the proposal. He, however, clarified that tax proposal on the National Pension Scheme was being retained. In the Union Budget, it was proposed that from April 1 this year, 60 per cent of the amount deposited in the EPF account of the employee would be taxable at the time of withdrawal while 40 per cent would be tax free.

The government aims to transform India through measures like doubling Farmers' income in next 5 years; rural employment and infrastructure; healthcare, education, skills and job creation; infrastructure and investment; financial sector reforms; governance and ease of doing business; fiscal discipline and tax reforms. □

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### PRICE STABILISATION FUND

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As there was a decline in International and Domestic Prices of Tea, Coffee, Rubber and Tobacco during past few years, there was distress to the primary growers. So the Department of Commerce decided to set up a Price Stabilisation Fund that got its in-principle approval in June 2002 by CCEA. Later it got approval in February 2003 and the PSF Scheme was launched in April 2003.

This scheme involves the Principle of participation. Both the government and the grower make their contributions to this fund subjected to normal production, boom produce or distress of crops in an year. In a normal year, the Government deposits Rs.500 per grower, and each grower deposits Rs.500. But withdrawal is not permitted.

In a Boom Year, the grower deposits Rs.1000. But again, no withdrawal is permitted. However, in the event of a distressed year, the Government deposits Rs.1000/- per grower and the grower can withdraw upto Rs.1000. Every grower opens a PSF SB account in any of the assigned banks. By paying a deposit free of Rs 500, even a small grower can enrol himself under this scheme.

The scheme was operated for ten years, from 1st April 2003 to 31st March 2013. It had to be revised after five years. Initially, 3.42 lakh small growers were covered out of a total of 12.77 lakh, specially ones with operational holdings of 4 hectares or less land. The Corpus Fund for the PSF is deposited in the Public Account of Government of India. However, the Corpus Fund is not utilized. Only the Interest on Corpus Fund is utilised for the PSF Scheme.

In the Union Budget 2016-17, a corpus of Rs Rs.900 crore has been provided for the Price Stabilisation Fund to support market interventions. A buffer stock of pulses will also be created through procurement at Minimum Support Price and at market price through Price Stabilisation Fund.

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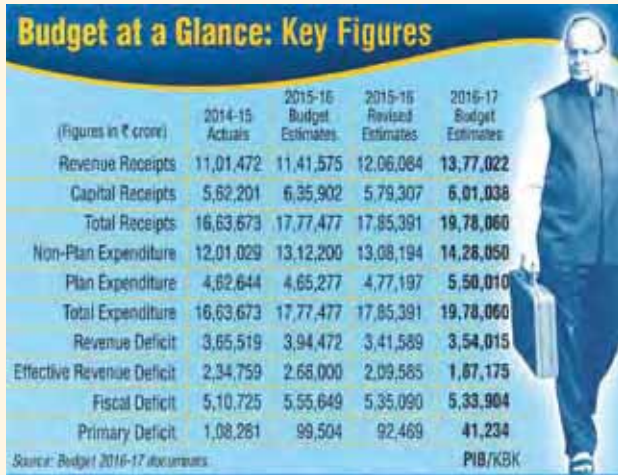
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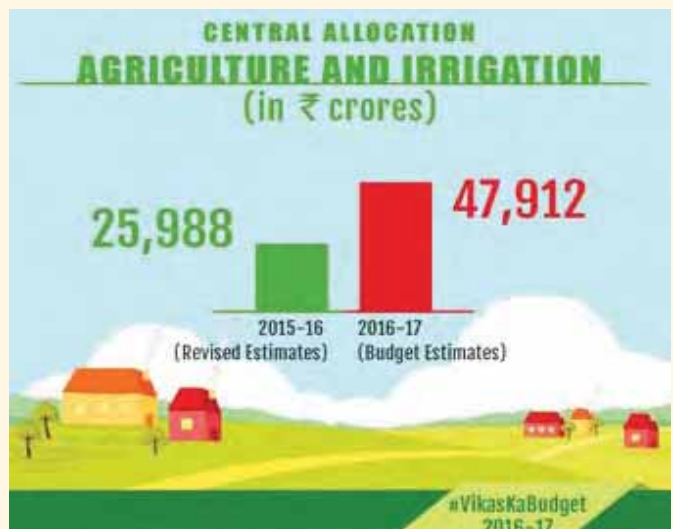
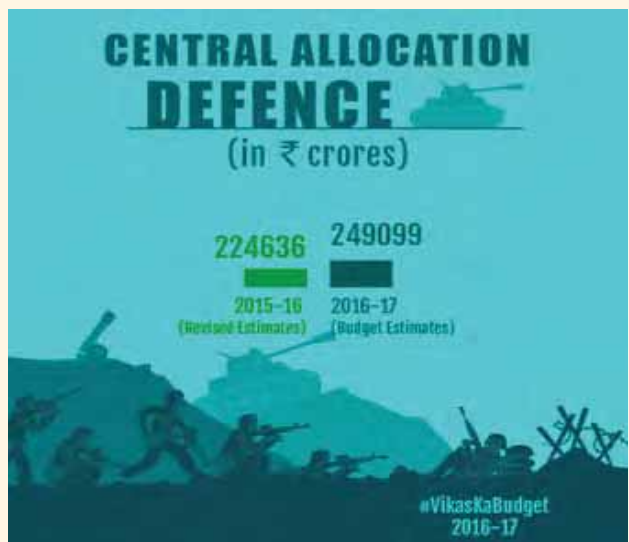
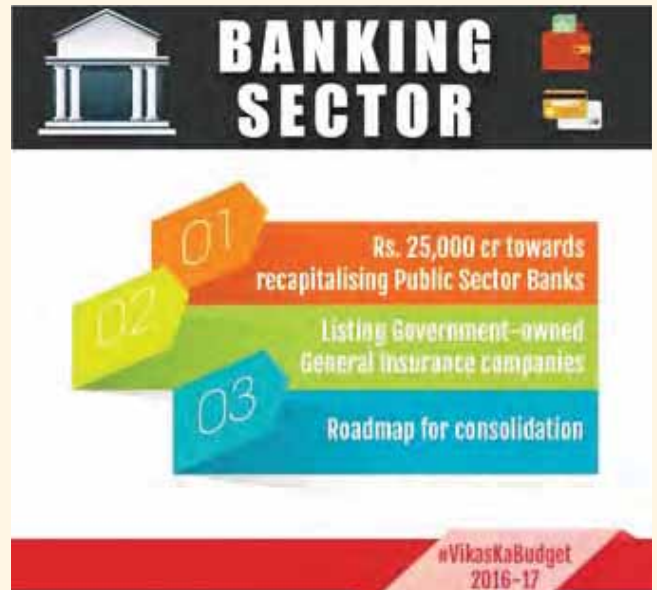


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# Rural Infrastructure and Electrification

*Hiranmoy Roy, Anil Kumar, Prasoom Dwivedi*



*...this year's budget provides a 'big bang' for the infrastructure and rural sector and clearly demonstrates the Government's intention to kick-start infrastructure investment development of rural areas. Indeed, by increasing public spending, creating new infrastructure funds and laying out the foundation for a stronger, more transparent PPP process, the Government seems committed to addressing the key challenges that have long been raised by international and domestic investors*

**I**ndian economy which has been growing at a steady pace of around 7 per cent, and as approved by International Monetary Fund which hailed India as a 'bright spot' amidst a slowing global economy which has slowed down from 3.4 per cent in 2014 to 3.1 per cent in 2015. India's growth story has largely remained positive, on the strength of domestic absorption, and the country has registered a robust and steady pace of economic growth in 2015-16 as it did in 2014-15.

While the recently-announced Budget Plan may be a 'big bang' as many expected. With focus on enhancing expenditure in priority areas of - farm and rural sector, social sector, infrastructure sector, employment generation and recapitalization of the banks. Indeed, with the budget announcement, Indian Government is clearly taking significant steps to demonstrate that it is willing to make big changes in order to deliver on its old promises to unblock the infrastructure pipeline.

**Vision 2016-17:**

The budget gives an overall outline about the expenditure of

the country for the next financial year. Typically, the budget has a lasting effect on the economy as the expenditure by the government for the following financial year gives an idea to the investors and other stakeholders about the vision for the financial year discussed. The budget under discussion (2016-17) gives the basic nine pillars for development and growth agenda as:

- i) Agriculture and Farmers' welfare
- ii) Rural Sector with emphasis on rural employment and infrastructure
- iii) Social Sector including health care
- iv) Education and Skill Development
- v) Infrastructure and Investment
- vi) Financial Sector Reforms
- vii) Governance and Ease of Doing Business
- viii) Fiscal Discipline
- ix) Tax Reforms

**Role of Infrastructure Sector:**

Infrastructure used to be the back-bone of any economy for growth and development. William J. Clinton, 42nd President of the

Dr. Hiranmoy Roy, is Assistant Professor (SG), Department of Economics and International Business, UPES. He has 15 years of teaching and research experience in Govt. and Corporate sectors. He also published 30 research papers and 4 books. Dr. Anil Kumar is Prof. & HoD, Department of Power and Infrastructure, UPES. Prof. Kumar has an experience of 34 years in organizations like Tata and NPTEL. Dr. Prasoom Dwivedi Sr. Associate Prof. and HoD, Department of Economics and International Business, UPES has 17 years of teaching and research experience. He has completed several research and consultancy projects from organizations like UNDP, UCOST etc.

United States once said “It turns out that advancing equal opportunity and economic empowerment is both morally right and good economics, because discrimination, poverty and ignorance restrict growth, while investments in education, infrastructure and scientific and technological research increase it, creating more good jobs and new wealth for all of us.” It fits in today’s Indian context where infrastructure has not just turned important, but a need for the future especially for the rural areas which has been clearly visible in the Union Budget 2016. The role of Infrastructure Sector cannot be belittled in this budget for the coming financial year which plays a dominant role in the budget as close to Rs. 2.21 lakh crores of financial allocation has been done for railways, roadways and other infrastructure sectors put together. The role of infrastructure is also indispensable as all sectors require the improvement of the basic infrastructure for their development.

#### **Budget for Physical Infrastructure:**

Approximately, 10 per cent of GDP used to come from construction in infra-sector which required almost \$ 1 trillion investment in five years and half of them should come from private sector investment. So, the budget is crucial for them. Housing sector may be reviving with additional tax and interest benefits.

#### **Road Sector:**

The total allocation of Rs 97,000 crore was done for the roads sector. An allocation of Rs 55,000 crore has been made by the Government, while National Highways Authority of India (NHAI) can raise tax free bonds of Rs 15,000 crore. This amount includes the Rs.27, 000 crore that has been allocated for rural roads under the Pradhan-Mantri Gram Sadak Yojna (PMGSY) and the contributions by the state governments.

A new credit rating system for

infrastructure shall be developed to rate the infrastructure projects for easy funding systems. The government has also fixed that about 10,000 kms of road shall be constructed during the FY 2016-17 and the clearance of 10,000 kms shall also be provided. A new reform shall be brought for the control of “Passenger Traffic in the Roads” after amendment of Motor Vehicle Act. This amendment shall encourage the entrepreneurs to operate services between various routes subject to certain efficiency and safety norms.

**The role of Infrastructure Sector cannot be belittled in this budget for the coming financial year which plays a dominant role in the budget as close to Rs. 2.21 lakh crores of financial allocation has been done for railways, roadways and other infrastructure sectors put together. The role of infrastructure is also indispensable as all sectors require the improvement of the basic infrastructure for their development.**

Infrastructure cess, of 1 per cent on small petrol cars, LPG cars, CNG cars, 2.5 per cent on diesel cars of certain capacity and 4 per cent on other higher engine capacity vehicles and SUVs shall be imposed. Neither credit of this cess will be available, nor credit of any other tax or duty be utilized for paying this cess. Thus, the budget encourages the utilization of petrol, LPG, CNG & electric vehicles.

#### **Power & Energy Sector:**

The power and the energy sectors are also the basic infrastructure for any establishment in the country as both power (electricity) and energy are indispensable for any establishment of a country. The Budget states that the Government has achieved the highest coal production growth in over

two decades, highest ever capacity addition in generation, highest ever increase in transmission lines and in distribution of LED bulbs.

#### **Rural Electrification & Renewable Energy:**

As on April 1<sup>st</sup>, 2015 a total of 18542 villages were not electrified. The Prime Minister in his address to the nation has announced that the remaining villages will be electrified within 1000 days. However, Government’s focus on 100 per cent rural electrification by May 2018, coupled with higher funding under Deen Dayal Gramen Viduytikaran Yojana (DDGVY) and Integrated Power Development Scheme (IPDS), which is likely to improve energy demand and off take and hence increase in Plant Load Factor levels for Generation Companies. To achieve the target of 100 per cent rural electrification, Rs. 8500 crores have been provided for Deen Dayal Upadhyay Gram Jyoti Yojana and Integrated Power Development Scheme. From Budget the renewables could get the reduction of accelerated depreciation, which is negative that will cause wind power tariffs in particular to go up for projects set up after March 2017.

#### **Nuclear Power:**

The budget has fixed a goal to develop the nuclear power capacity of India in the next 15-20 years. This acts as a step forward towards a green power initiative and a sustainable source of power for India due to the abundant resources of Thorium. A budget of Rs. 3000 crores has been allotted for development of nuclear power in India.

#### **Clean Energy Cess:**

In addition, ‘Clean Energy Cess’ has been levied on coal, lignite and peat renamed to ‘Clean Environment Cess’ and rate increased from Rs. 200 per tonne to Rs. 400 per tonne. This shall discourage the expansion of coal based power plants and support

the expansion of alternative fuel sources.

### **Oil and Gas Sector:**

In order to improve the feasibility of the new oil and gas exploration from deep sea and deep water reserves, the exploration is incentivized. This may lead to interest of more players in the indigenous production of oil and gas, which may reduce the import burden of the economy and a more competitive pricing of the oil and gas resources of our country.

### **Public Private Partnership (PPP):**

The Public Private Partnership (PPP) is one of the key drivers of the present budget. The investments from private players and the expertise of the private players in all the sectors facilitate the rapid development of all major infrastructure projects that have large gestation periods. The PPP model also reduces the financial burden and the risk of the public sector investments as the private counterparts are cheaper and more efficient. Even though, the PPP model is still in its nascent stages, the Government of India is taking rapid strides towards making the PPP model more flexible and renegotiable.

### **Steps to Re-vitalise PPPs:**

- Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17;
- Guidelines for renegotiation of PPP Concession Agreements will be issued;
- New credit rating system for infrastructure projects to be introduced;

(The above points on PPP are part of Kelkar Committee Report on Revisiting and Revitalizing PPP model)

Proposed guidelines for renegotiation of PPP contracts is a positive for generation companies which have been affected by unviable

tariffs quoted in past bids and long lasting infrastructure projects,

- To augment infrastructure and power sector spending further, Government will permit mobilization of additional finances to the extent of Rs 31,300 crore by NHAI, PFC, REC, IREDA, NABARD and Inland Water Authority through raising of Bonds during 2016-17.

### **Dispute Resolution:**

Separate Dispute Resolution legal frameworks are suggested to be introduced in the present budget. This

**The Public Private Partnership (PPP) is one of the key drivers of the present budget. The investments from private players and the expertise of the private players in all the sectors facilitate the rapid development of all major infrastructure projects that have large gestation periods. The PPP model also reduces the financial burden and the risk of the public sector investments as the private counterparts are cheaper and more efficient.**

also allows more flexible, transparent and a speedy system for grievance redressal system in the PPP model of projects.

### **FDI Policies:**

The policies for Foreign Direct Investments (FDIs) are also proposed to be changed. A 100 per cent FDI shall be allowed in the Food Processing and Storage Industry as it provides a cheaper capital with lesser risks for the Government. This also attracts a lot of foreign investors who are interested in investing in the Indian Economy.

### **Infrastructure in Agriculture:**

Close to 50 per cent of the man-power in India are employed by the agriculture sector (including pisciculture, horticulture, etc.). The following infrastructure in the agriculture sector has to be improved for the development of the sector.

- Improvement of Storage and Cold Chain Infrastructure for food security.
- Procurement of organic manure and fertilizer for the productivity improvement.
- Improvement of sustainable infrastructure to reduce the ground water requirement.
- Irrigational infrastructure to be developed for unirrigated farmlands.
- Online selling and procurement of infrastructure for direct revenue of farmers.
- Direct Cash Benefit Transfers for Fertiliser subsidy proposed in this budget.

### **Infrastructure in Rural Sector:**

The rural population constitutes 72.2 per cent of the total population of India. Still, many infrastructure is not available for them due to the fact that they are not financially viable to build and maintain such infrastructure unlike in urban areas where the population is denser and the literacy is also high. But, the Gram Panchayats are now empowered both financially and functionally.

- 300 Rurban (Rural and Urban) Clusters - developed under the Shyama Prasad Mukherjee Rurban Mission.
- 100 per cent village electrification by 1<sup>st</sup> May, 2018.
- A new Digital Literacy Mission (DISHA) for 6 crore additional households within the next 3 years.
- Priority allocation from Centrally Sponsored Schemes, reward



villages that have become free from open defecation.

- India is implementing the Pradhan Mantri Gram Sadak Yojana (PMGSY) as never before. This Scheme had suffered in the past because of underfunding. The allocations in 2012-13 and 2013-14 were only ₹ 8,885 crore and ₹ 9,805 crore respectively. The Government has substantially increased the allocation in the last two years and has now allocated ₹ 19,000 crore in 2016-17. Together with States' share, totally about ₹ 27,000 crore will be spent on this Yojana in 2016-17. The goal is to advance the completion target of the programme from 2021 to 2019 and connect the remaining 65,000 eligible habitations by constructing 2.23 lakh kms of

roads. Accordingly, the pace of construction which is currently 100 kms per day, as compared to the average of 73.5 kms during 2011-14, will be substantially stepped up.

#### Conclusion:

Overall, this year's budget provides a 'big bang' for the infrastructure and rural sector and clearly demonstrates the Government's intention to kick-start infrastructure investment development of rural areas. Indeed, by increasing public spending, creating new infrastructure funds and laying out the foundation for a stronger, more transparent PPP process, the Government seems committed to addressing the key challenges that have long been raised by international and domestic investors.

Analyzing this budget hints about Government willingness to use public money for more long term gains and so they decided to drive economic growth via infrastructure investment. It is quite clear from the budget that Government is not just willing to develop only urban infrastructure, but also rural infrastructure with improved policy frame work. In the past, many infrastructure projects did not see the light of the day or have stalled half way for the lack of private funding. The Budget also included increased commitments through private sector enterprises for infrastructure investment. The budget seems to be a well-rounded budget, covering almost all the areas. The budget presents a transformative agenda with more clear-cut focus on initiatives for farmers, rural, social and infrastructure development. □

(E-mail:h.roy10@gmail.com)

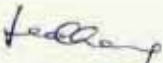
#### FORM IV

(Statement about ownership and other particulars about newspaper Yojana (English))

1. Place of Publication : New Delhi
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5. Editor's Name, Nationality & Address : **Mrs. Shyamala Mani Iyer**  
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6. Names and addresses of individuals who own the newspaper and partners of shareholders holding more than one percent of the total capital : Wholly owned by Ministry of I&B  
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I, Dr. Sadhana Rout hereby declare that the particulars given above are true to the best of my knowledge and belief.

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(Dr. Sadhana Rout)  
Signature of Publisher

#### Mahila e-Haat launched

"Mahila e-Haat" is an online marketing platform for women, where participants can display their products. This initiative is for women across the country as a part of 'Digital India' and 'Stand Up India' initiatives. It will provide access to markets to thousands of women who make products and are spread all over the country but have little access to markets. This unique e-platform will strengthen the socio-economic empowerment of women as it will mobilize and provide better avenues to them. More than 10000 Self Help Groups (SHGs) and 1.25 Lakh women beneficiaries would be benefited from launch of the site.

The initiative is unique since this is the first time that the government will help women to sell products online. In its second stage, it will be integrated with e-commerce portals to provide a larger platform for selling and buying, ultimately culminating into Women's Entrepreneurs Council. The Mahila e-Haat portal can be accessed at <http://mahilaehaat-rmk.gov.in>.



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YE-306/2015



The special edition of December 2015 issue of Yojana is worth reading about climate change. It gives all valuable knowledge in its 75 pages. There is one more suggestion also that diverse topics about different aspects can be added in the issues of Yojana

UTKARSHA UTPAL, BIHAR

Thanks for providing us cost effective and authentic magazine on monthly basis. My sincere regards for eminent personalities who contributed their articles and upgraded our knowledge. In this regard following are my suggestions-

1. India is a diverse country in terms of culture and its traditional values. Can you please include an article on art and culture of a particular region in every issue of Yojana. It will help a lot to Yojana readers

2. Like "Do you know " series you can also start "Do you know this place" where you can describe any place of India which has historical/cultural importance or currently highlighted in news.

At last I am also thankful to the "Editorial Team of Yojana", that have been working for a long time to provide us this monthly magazine in timely manner.

Yati Balmike, DTRTI, Ahmedabad

First of all, thank you so much for presenting such an informative book for us. I have suggestion that if you can add more charts or tables then it will be very easy for us to understand it. Now, its long and paragraphic content sometimes seems boring. Hope you will consider my point. Again thank you so much for it.

Rajendra Chaudhury

#### Response from Yojana Team

Thank for your valuable feedback, especially the suggestions given on introducing a column of 'Know your Places" and use of more charts and graphs to enhance the textual content. We will definitely consider these suggestions positively. We are also thankful for your appreciation of the editorial team's contribution to the the successful bringing out of Yojana. As readers, your encouraging words and support mean a great deal to us. Kindly keep writing in with suggestions/ comments and words of appreciation. Thanks once again!

Your feedback is valuable to us in planning our issues.

#### YOJANA WEB- EXCLUSIVES

Yojana publishes articles on various topics in its 'Web-Exclusives' column for the benefit of its readers on the website of Yojana : [www.yojana.gov.in](http://www.yojana.gov.in). Announcements about the articles under the Web-Exclusives section are carried in the Yojana magazine of the month.

We are carrying the following articles under the Web-Exclusives section of Yojana for March 2016

1. Regional Rural Banks –What went wrong? by Dr.Rakesh Gupta
2. Under Performance in Agricultural Exports by Dr. S.S. Chhina

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Neetu Singh

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YE-300/2015

## Gender Budgeting : Provisions

*Shahin Razi*

“To call woman the weaker sex is libel; it is man’s injustice to woman. If by strength is meant brute strength, then, indeed, is woman less brute than man. If by strength is meant moral power, then woman is immeasurably man’s superior. Has she not greater intuition, is she not more self-sacrificing, has she not greater powers of endurance, has she not greater courage? Without her, man could not be. If nonviolence is the law of our being, the future is with woman.”  
– Mahatma Gandhi



*...the budget serves as a timely course corrector. The emphasis is on strengthening of key institutions, adequate investments for schemes that address gender concerns and the effective implementation of those schemes*

**T**he Union Budget 2016-17 continues with Prime Minister’s programme for broad-based inclusion of – and appeal to – the farmers, the poor, women and significant segments of the middle class, including small and medium entrepreneurs. With its ‘nine pillar’ theme, it aims to boost economic growth while at the same time ensuring inclusive growth of the Indian economy.

The Finance Minister gave equal importance to all sectors of the economy – investment in the social and rural sectors through focus on infrastructure investments, health insurance, farmer income schemes as well as education and skills development. He also focused on much needed fiscal and regulatory measures such as financial reforms, policy changes to improve the ease of doing business, fiscal discipline and tax reforms.

Budget 2016-17 has also stressed that concerted efforts are needed to ensure that planning, budgeting and auditing processes contribute to gender equality.

Gender inequality poses a significant development challenge

in India. The Global Gender Gap Index 2014 ranked India at 114 out of 142 countries. The ranking is based on a country’s ability to reduce gender disparities in four areas : economic participation and opportunity, education, political empowerment and health and survival. Violence against women and girls persist, both in private and in public spaces.

As a response to these challenges, India adopted ‘Gender-Responsive Budgeting’ (GRB) in 2005. Put simply, GRB is a method of planning, programming and budgeting that helps advance gender equality and women’s rights. It also serves as an indicator of government’s commitment to meeting these objectives. So far, 57 government Ministries/Departments in India have set up Gender Budgeting Cells – a major step that would potentially impact the lives of crores of women.

Gender Budgeting is a powerful tool for achieving gender mainstreaming so as to ensure that benefits of development reach women as much as men. The rationale for gender budgeting arises from the recognition of the fact that national budgets impact men and women differently through the pattern of resource

The author is an economist and an academician. She is also a U.G.C Emeritus Fellow. Besides long teaching experience at graduate and Post Graduate level, she is actively engaged in research work. She has also addressed a large number of conferences and seminars, both at the national and international levels. A prolific writer, she has published research articles and written books. Engaged in social work she loves to work for the underprivileged sections of society

allocation. Women constitute 48 per cent of India's population, but they lag behind men in many social indicators like health, education, economic opportunities, etc. Hence, they warrant special attention due to their vulnerability and lack of access to resources. The way Government budgets allocate resources has the potential to transform these gender inequalities. In view of this, Gender Budgeting as a tool for achieving gender mainstreaming has been propagated.

Addressing gender inequality is essential to implement the Finance Minister's Budget agenda of 'Transform India'. Markers like allocations for women's ministries and Gender Budget Statement (GBS) can help assess the gender responsiveness of the Budget 2016-17.

While the allocations to National Mission for Empowerment of Women have doubled to Rs. 50 crore, there has been an increase also for Ministry of Women and Child Development and National Commission for Women. The GBS shows how ministries prioritise gender concerns.

Critical issues faced by women, such as violence, need to be reflected in budgetary priorities. Allocations for schemes to combat trafficking and empowering adolescent girls have increased.

Women's declining participation in the labour market is another area of concern. Cuts in social sector spending disproportionately affect women by increasing their care work. Allocations to core Integrated Child Development Services and Indira Gandhi Matritva Sahyog Yojana (IGMSY) have also been given importance.

In 2013, cash incentives provided under IGMSY were increased from Rs. 4,000 to Rs. 6,000 to comply with the minimum maternity entitlement provision of the National Food Security Act (NFSA), 2013. Given

the need for maternity entitlements to be universal, the current fund allocation (Rs. 400 Crore) will be done. The current proposal is to implement it in 200 pilot districts.

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has proved to be an important Employer of Women with 55 per cent of all workers being women. Its budget has increased to Rs. 38,500 Crore.

The rural job scheme, MGNREGA, which was reportedly on the verge of shutting down in many states in the last quarter, saw an increase of 11 per cent in the budgetary allocation for 2016-17.

**Women's declining participation in the labour market is another area of concern. Cuts in social sector spending disproportionately affect women by increasing their care work. Allocations to core Integrated Child Development Services and Indira Gandhi Matritva Sahyog Yojana (IGMSY) have also been given importance.**

"Rs. 38,500 crore have been allocated for MGNREGA in 2016-17. If the total amount is spent, it will be (the) highest budget spend on MGNREGA." the Finance Minister, said.

The current allocation for Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is Rs. 3,900 crore higher than the allocation of Rs. 34,600 crore in 2015-16. In its first year in office, 2014-15, the present government had allocated Rs. 34,000 crore.

The budget's pro-women focus is also seen in the announcement of a special mission to provide LPG connection in the name of women members of poor households.

In the 2016-17 Union Budget, Rs. 2,000 crore have been earmarked to meet the initial cost of providing these LPG connections.

The government aims to resolve two critical issues through this initiative. First, address the health concerns of women, especially those in rural areas who use traditional biomass fuel such as wood, dung or agricultural residues for their daily cooking and second, reduce the existing high levels of indoor pollution.

This measure will empower women and protect their health. It will reduce drudgery and the time spent on cooking. It will also provide employment for rural youth in the supply chain of cooking gas.

Various studies by government and advocacy groups have revealed that household air pollution is actually responsible for around five lakh deaths in India every year.

Dr. Arindam Dutta, Fellow, Earth Science and Climate Change Division, TERI, said : "The Union Budget 2016-17 addresses the key issues of indoor air pollution in rural households by emphasizing on improved access of subsidized LPG to BPL rural families".

The government expects the mission to benefit about 1.5 crore households below the poverty line (BPL) in 2016-17. The scheme will continue for at least two more years to cover five crore BPL households.

This will ensure universal coverage of cooking gas in a country where traditionally, gas cylinders were considered an upper middle class luxury. The Finance Minister said that though gradually, the luxury is spreading to the middle class, the poor still do not have access to cooking gas. However, the BPL families are now being provided with a cooking gas connection supported by a government subsidy.



A Rs. 2,000 crore scheme, Ujjwala, to provide clean fuel connections to 1.5 crore women from below poverty line (BPL) families in 2016-17 will help improve women's health, especially in rural areas, and the environment.

This was the first time the Budget had allotted money for subsidising LPG connections to poor. The government will provide Rs. 1,600 as subsidy for each connection, which will be given in the name of the lady of a BPL household.

So far, this was being done with Corporate Social Responsibility (CSR) funds of state fuel retailers. The scheme will be continued for at least three years so that at least 5 crore BPL families can be covered by 2018-19. While providing the new connections to BPL households, priority would be given to states where coverage is poor, especially in the east. The government has made it to the Guinness record with PAHAL – the direct subsidy

transfer scheme for LPG – as the world's largest such scheme. But the government wants to increase its LPG coverage from about 60 per cent of the population currently, with a World Health Organisation estimate saying about 5 lakh women die in India due to unclean cooking fuels.

To empower the Schedule Caste and Schedule Tribes through entrepreneurship, the Budget 2016-17 allocated Rs. 500 crore under the 'Stand Up India Scheme'. It proposed setting up a National Scheduled Caste and Scheduled Tribe hub in the micro small and medium enterprises ministry.

"SC and ST entrepreneurs are beginning to show great promise in starting and running successful business enterprises", the Finance Minister said.

Keeping in mind at least 2.5 lakh entrepreneurs, it will also benefit Women Entrepreneurs and facilitate at least two projects per

bank branch. The proposed hub will be set up in partnership with industry associations and provide professional support to SC/ST entrepreneurs to fulfill obligations under the Central Government procurement policy of 2012. We are celebrating the 125<sup>th</sup> birth anniversary of Dr. B R Ambedkar. This must become the year of economic empowerment for Schedule Caste, Schedule Tribe and Women Entrepreneurs.

In conclusion, the budget serves as a timely course corrector. The emphasis is on strengthening of key institutions, adequate investments for schemes that address gender concerns and the effective implementation of those schemes.

Budget 2016-17 aims to ensure that India will remain a 'bright spot' in a world beset with economic slowdown. And, there is no tool for development more effective than the empowerment of women and addressing gender equality. ■

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### Provisions for Education Sector

*Protiva Kundu*



*...education is in the Concurrent List, which implies a shared responsibility of the Union and State Governments towards this sector; it is therefore imperative for both levels of Government to step up public investment in education, paying adequate attention to the quality quotient*

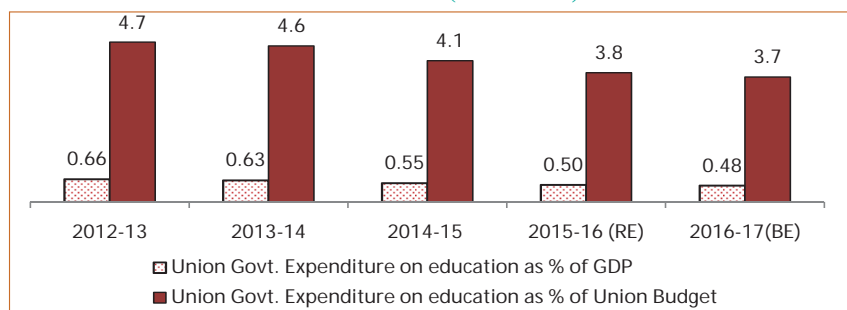
The year 2015-16 was vital for the Indian economy in the domain of fiscal policy. Certain fundamental policy measures like acceptance of the Fourteenth Finance Commission recommendation on increased devolution of central taxes to states ; reduction in Union Government's Plan grants for states; abolition of Planning Commission etc. have impacted the overall fiscal architecture of India. In wake of these significant changes, it is important to see, what Union Budget 2016-17 has to offer for the education sector.

#### i. Budgetary Provision for Education Sector

Presenting his third budget in Lok Sabha, the Finance Minister outlined nine distinct pillars that will transform India. Instead of inclusion within the third pillar of social sector, 'Education, Skills and Job Creation' has been mentioned as an exclusive fourth pillar by the Minister.

For 2016-17 (BE), Union Government's expenditure on education is budgeted at 0.48 per cent of GDP, which was 0.50 per cent in 2015-16(RE). The share of education in the total Union Budget has also declined from 3.8 per cent to 3.7 per cent (see Figure 1).

**Figure 1: Union Government's Budgetary Spending on Education (in Percent)**



Note: Union Governments' expenditure on education covers expenditure by MHRD only; BE-Budget Estimate, RE-Revised Estimates, GDP figures are at current market price (2011-12 series, 2nd RE)

Source: Connecting the Dots, An Analysis of Union Budget, 2016-17, CBGA

The author is working with Centre for Budget and Governance Accountability (CBGA) as a Senior Research Officer. She has earlier worked with the Infrastructure Development Finance Company (IDFC) Ltd. and the National Institute of Public Finance and Policy (NIPFP). Her areas of research have been education, gender and rural development. Presently, her research in CBGA focuses on government financing of education and the issues relating to multi-lateral policymaking for a such as G20 and BRICS.



Ministry of Human Resource Development (MHRD) contributes around 70 per cent of the Union Government's allocation for education (MHRD, 2014). In 2016-17 (BE), MHRD has been allocated Rs. 72394 crore, 60 per cent of which is allocated for Dept. of School Education and Literacy and 40 per cent for Dept. of Higher Education. Over time, the distribution of MHRD budget shows clear signs of reprioritisation towards higher education (See Figure 2).

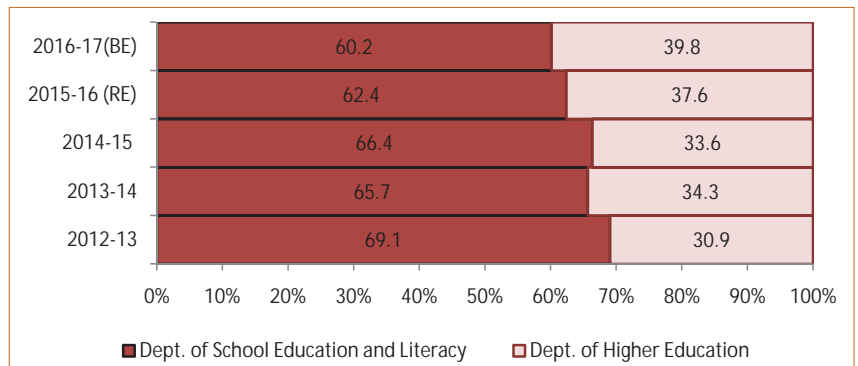
## ii. Budgetary Provision for School Education

Finance Minister, in his budget speech, mentioned about universalisation of primary education with an emphasis on "quality education as the next big step forward". Surprisingly, the budget proposal does not talk about Right to Education or secondary education.

Though India has achieved the goal of universal primary enrolment (Class I-V), but enrolment figures do not reveal the true story as data shows around 4.3 crore children of 6-14 age group are still out of school (Census 2011). They constitute about 18 per cent of the total 6-14 age group children.

Not only enrolment, the shortfalls in quality of school education, has been a major concern for some years now, especially in the context of public financing of education. Providing free and compulsory 'quality' education to all children in a time-bound manner is enshrined in the RTE Act, 2009. However, even after half a decade of its existence, only 8 per cent schools comply with the entire infrastructure norms mentioned under RTE Act; there is a shortage of 9.4 lakh teachers in government schools; around 8.3 per cent of primary schools are single teacher schools. Among the existing teachers in government schools, about 20 per cent are untrained and the proportion of trained qualified teachers has been almost stagnant since last five years (DISE, 2014-15).

**Figure 2: Composition of MHRD Budget by Department (in Percent)**



Source: Compiled by author from Union Budget, Expenditure Budget, Volume II, MHRD for various years

The successful implementation of this Act would require adequate financial allocations for various components of elementary education. Yet, the overall budget for School Education Department this year was merely 3.2 per cent higher than 2015-16(RE).

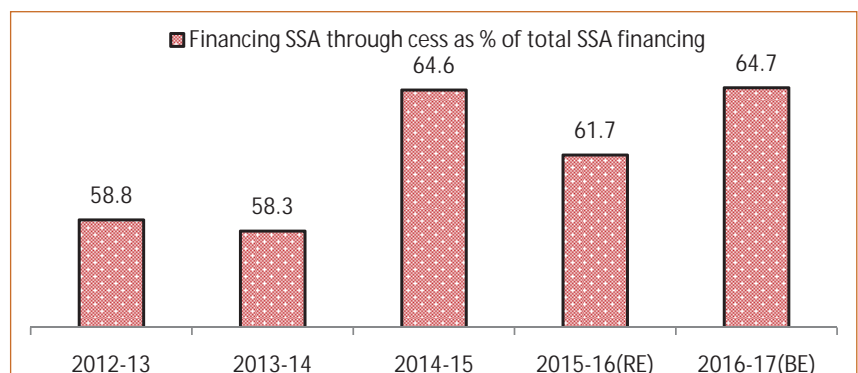
## II.I Financing Right to Education (RTE):

With the enactment of the RTE Act 2009, *Sarva Shiksha Abhiyan* (SSA) has been the main vehicle for implementing RTE. This year Rs. 22500 crore has been allocated for SSA. This is a mere 2.2 per cent increase over 2015-16(RE). 65 per cent of this amount is to be financed through education cess (*Prarambhik Shiksha Kosh (PSK)*) (see Figure 3), 29 per cent through Gross Budgetary support (GBS) and six per cent through externally

aided projects. A recent CAG audit report shows that the SSA budget for 2014-15(RE) had been reduced by Rs. 5256 crore, against the budgeted provision of Rs. 27,575 crore, due to lower collection of education cess. (CAG, 2015). Moreover, following the recommendation of the NITI Aayog, Sub-group on Rationalising Centrally Sponsored Schemes (CSSs), the Union Government has reduced its current share on SSA from 65 to 60 per cent for all general category states, starting 2016-17. Proper implementation of the RTE therefore, would crucially depend on the states' ability to contribute its enhanced share, which remains uncertain and a cause for concern.

The issue of quality is more severe at the secondary level. Secondary education provides an indispensable link between elementary and higher

**Figure 3: Pattern of Financing SSA through Cess (in Per cent)**



Source: Compiled by author from Union Budget, Expenditure Budget, Volume II, MHRD for various years

**Table 1: Budgetary allocation for Select schemes in Education  
(in Rs. Crore)**

Schemes	2014-15	2015-16 (BE)	2015-16 (RE)	2016-17 (BE)
NEM-SSA	24097	22000	22015	22500
NEM-RMSA	3398	3565	3565	3700
NEM-Teacher Training and <i>Saakshar Bharat</i>	1158	1397	1203	879
Scheme for providing Education to Madrasa and Minorities	119	376	336	120
<i>Kendriya Vidyalaya Sangathan</i>	3243	3278	3278	3795
<i>Navodaya Vidyalaya Sangathan</i>	2013	2061	2285	2471
Mid Day Meal (MDM)	10523	9236	9236	9700

Note: NEM- National Education Mission; 'National Education Mission: Saakshar Bharat'- Important Schemes under this Umbrella are schemes of Literacy Campaigns & Operation Restoration, Support to NGOs/Institutions/SRCs for Adult Education & Skill Development, Directorate of Adult Education and National Literacy Mission Authority

'National Education Mission- Teachers Training' -Important Schemes under this Umbrella are Strengthening of Teachers Training Institutions, Appointment of Language Teachers and School Assessment Programme

Source: *Connecting the Dots, An Analysis of Union Budget, 2016-17, CBGA*

education system. However, while elementary education has witnessed a near-universal enrolment, only 62 per cent of (15-18) age group children are enrolled at the secondary level (Class IX-XII) (MHRD, 2014). *Rastriya Madhyamik Shiksha Abhiyan*(RMSA) which was launched to improve quality of secondary education, received an allocation of Rs. 3700 crore, an increase of Rs. 135 crore from 2015-16(RE). RMSA has also been brought under NEM, but the Union Government share for RMSA has decreased from 75 per cent to 60 per cent. Therefore, instead of 25 per cent, now, states need to allocate 40 per cent matching grant for RMSA as well.

In spite of a scarcity in trained and qualified teachers at school level, the budget has witnessed a substantial cut (26.9 per cent) in teacher training and adult education programmes and in schemes for providing education to Madrasa/minorities (64.2 per cent), which are specifically designed for infrastructure development and quality improvement in Madrasas (See Table 1).

### iii. Budgetary Provision for Higher Education:

The budget speech highlighted the need for improvement in higher educational institutions of India. Towards this objective, Rs. 28840 crore have been allocated for the Higher Education Department, which is 13.5 per cent higher than 2015-16 (RE). A disaggregated view shows a marginal increase in the budget for University and higher education (general).<sup>1</sup> The budgetary provision for technical education has increased primarily on

**Table 2: Budgetary Allocation for Select Components of Higher Education  
(in Rs. Crore)**

Components	2015-16 (BE)	2015-16 (RE)	2016-17 (BE)
University Grants Commission (UGC)	9615	9315	4491
Grants to Central Universities*			6356
Students financial aid	2373	2163	2221
Indian Institute of Technologies (IITs) and Indian Institute of Managements (IIMs)	4949	4463	5714
NEM- RUSA	1155	1055	1300:

Note: \* This component was part of UGC in 2015-16(BE) and 2015-16(RE)

Source: *Compiled by author from Union Budget, Expenditure Budget, Vol-II, MHRD, 2016-17*

account of substantial increases in allocation for supporting and setting up of new IITs and IIMs.

Student financial aid, which consists of interest subsidy on educational loans to poor students, scholarship for college and university students and scholarship to students from non-hindi speaking states and universities has experienced a 2.7 per cent increase over 2015-16(RE).

*Rashtriya Uchchatar Siksha Abhiyan* (RUSA), which was launched in 2013, as a flagship programme to provide strategic funding to state higher educational institutions, has also been brought under the NEM umbrella. In the changed funding pattern, Union Government has allocated Rs. 1300 crore as its 60 per cent share (earlier it was 65:35), a Rs. 245 crore increase over 2015-16 (RE) (See Table 2).

The question that remains unanswered about higher education financing is the proportion that would be financed through cess. The Secondary and Higher Education Cess (SHEC), which was introduced to fulfill the commitment to secondary and higher education, neither gets deposited to a dedicated fund like PSK nor have any schemes been identified on which the cess proceeds are to be spent. This lack of transparency creates the possibility of diversion of funds, which needs to be addressed.

### iv. Priorities for Skill over Education?

In his Independence Day speech,

the Prime Minister said, “If we have to promote the development of our country, then our mission has to be skilled development and skilled India”. Towards this mission, so far, government has launched four key initiatives—The National Skill Development Mission, National Policy for Skill Development and Entrepreneurship, Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and Skill Loan Scheme. The budget speech has also emphasised on skilling and new job creation. A provision for Rs. 1700 crore has been announced for setting up 1500 multi-skill training institutions under PMKVY.

Indeed, the increasing size of labour force in India demands an urgent need for skill development. But a basic level of education is prerequisite for acquiring skills. Where the goal of universalisation of elementary education is not yet achieved; learning outcomes are not satisfactory; more than 40 per cent of people aged 5-29 years are not attending any educational institutions (NSS, 2015), the focus on skill development only for job creation will end up with a low wage semi skilled workforce, which perhaps is not desirable.

### Conclusion:

It has been frequently argued that at least six per cent of GDP should be spent on education, as recommended by the Kothari Commission way back in 1966. Currently, Union and States together spend less than four per cent of GDP on education. Given that Union Government’s budgetary spending on education accounts for a smaller share than the States in the country’s total budgetary spending on education, a continuous decrease in Union Government’s share shifts the responsibility more towards States. It is implicit that the changed fiscal architecture will have a direct impact on the public provisioning of education at state level. It is time to watch how states will priorities their Budgets and allocate for the education sector. However, education is in the

### Box : 1 Major Announcement for Education Sector in Union budget 2016-17

1. Sixty two new Navodaya Vidyalayas proposed to promote quality education.
2. A Higher Education Financing Agency with a capital base of Rs. 1000 crore will be set up to leverage funds from the market and supplement them with donations and CSR funds.
3. Entrepreneurship education and training will be provided in 2200 colleges, 300 schools, 500 government ITIs and 50 vocational training centres through online courses.
4. An enabling regulatory architecture for ten public and ten private institutions to emerge as world class teaching and research institutions.

*Source: Budget Speech, Union Budget, 2016-17*

Concurrent List, which implies a shared responsibility of the Union and State Governments towards this sector; it is therefore imperative for both levels of Government to step up public investment in education, paying adequate attention to the quality quotient.

### Readings:

Centre for Budget and Governance Accountability (2016): ‘Connecting the dots, An Analysis of Union Budget 2016-16’, March

Government of India (2015): ‘Report of the Comptroller and Auditor General of India, Accounts of the Union Government, No. 50

National University of educational Planning and Administration (2015): ‘Elementary Education State Report Cards, 2014-15’, DISE Publication

Ministry of Human Resource Development (2014): ‘Analysis of budgeted expenditure on education, 2010-11 to 2012-13’, Planning and Monitoring Unit, Department of Higher Education

### Box 2: NITI Aayog Sub Committee on Rationalisation of Centrally Sponsored Scheme (CSS)

Accepting the NITI Aayog Sub committee’s recommendation on rationalisation of CSS, Union Government restructured more than 1500 Central Plan Schemes into about 300 Central Sector and 30 Centrally Sponsored Schemes. Where, i) Education schemes designed for social inclusion, (schemes for Scheduled Caste, Scheduled Tribe, Other Backward Class and Minorities and disabled) have been identified as ‘Core of the core’ schemes, with unchanged sharing pattern.

ii) SSA, RMSA, Support for Educational Development including Teachers Training & Adult Education, RUSA have been brought under the umbrella programme called National education Mission (NEM), where from now the sharing of fund between Centre and State would be 60:40.

*Source: NITI Aayog Sub Committee report & Budget Speech, Union budget, 2016-17*

Ministry of Human Resource Development (2014): ‘Education Statistics at a Glance’, Bureau of Planning, Monitoring and Statistics

NITI Aayog (2015): ‘Report of the Sub-Group of Chief Ministers on Rationalisation of Centrally Sponsored Schemes’, October

National Sample Survey Organisation (2013): ‘Status of Education and Vocational Training in India’, Report no. 566, NSS 68<sup>th</sup> Round

### Endnotes

<sup>1</sup> Comprises of UGC component and grants to central university. UGC provides assistance to all eligible universities and deemed universities. The provision for assistance to central university is made separately by UGC. □

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## Health Interventions

*Urmi A Goswami*



*Indian leaders refer to India's growing population as "demographic dividend", which presents the country with a challenge and an opportunity. In order to make good this demographic dividend, there is a need for higher public spend in the social sector, especially key areas of education, health and sanitation. Budget 2016 takes some important steps, but these are incremental in nature. What is required are big strides*

**N**o amount of politics would be of any avail until the masses in India are well educated, well fed, and well cared for" said the Finance Minister quoting Swami Vivekananda. This realisation that education and health are central to the development project runs through Budget 2016. Notwithstanding this realisation, public spending, as a share of the gross domestic product, has remained constant at around the 1.3 per cent mark in the last decade. The Union Budget's allocation on health is 0.25 per cent of the GDP, this once again has remained more or less constant. The goal of increasing public expenditure on health to 2.5 per cent of the GDP, as set out in the National Health Policy 2015, is still a long way off.

India's public provisioning for health falls far behind that of other countries in the neighbourhood like China and Sri Lanka. In China, spending on health was at 5.4 per cent of GDP in 2013, while public spending was at 3.1 per cent. India's total expenditure on health amounts to about 5 per cent of GDP, which would be comparable with other developing countries at the same level of per capita income. Meanwhile, public

spending on health has yet to breach the 1.3 per cent mark.

In assessing the manner in which the Budget has sought to address the issue of health, we must look at three broad questions. First, the manner in which the Budget seeks to tackle factors contributing to poor health outcomes. Second, measures taken to improve access to healthcare. The third aspect is the state of healthcare infrastructure, which includes availability of healthcare practitioners, research, controlling vector borne disease. None of these aspects are independent of the other and together have an important bearing on general health and well-being.

Improving health and provision of healthcare are crucial to any effort to reduce the incidence of poverty. Expenditure on health is often the single most important factor that prevents households from escaping poverty and worse, pushes households into poverty. Poor health made worse by limited access to healthcare, which may or may not be adequate have huge ramifications on productivity, economic output, and improvements in living standards of a population.

The author is Assistant Editor with the Economic Times. She writes on issues relating to development and the social sector focusing on education, environment, health, climate change, and energy. She has reported extensively on international climate negotiations since the UN-sponsored climate change negotiations in 2009 at Copenhagen, right through to COP21 in Paris, as well as domestic developments on environment, health and education.

The low public spend on health has serious repercussions. At the same time, it is important that the government takes measures that can improve general conditions such as quality of air, water, sanitation that will reduce the incidence of disease and poor health. While this does not get the government off the hook with regard to public spending for healthcare, it is important to invest in ameliorating conditions that contribute to poor public health. It also has the added advantage of relieving pressure on a healthcare system that is clearly inadequate. It is in this context that Budget 2016 takes an important step—it makes explicit the co-relation between concerns about welfare, improving human life, and productivity, and health.

This co-relation is seen most clearly in the Finance Minister's approach to what he calls the "curse of smoke" during cooking. "Open fire in the kitchen," the Finance Minister said, "is like burning 400 cigarettes an hour". The proposal to provide an LPG connection in the name of women members to the 5 crore below poverty line households over the next three years is not part of the budgetary allocation for health, it is an important health intervention. The cess on cars—1 per cent on small petrol and CNG, 2.5 per cent on diesel, and 4 per cent on high engine capacity and SUVs—geared at making a dent in pollution in urban areas is another health intervention. Dirty air, whether indoors or ambient, has high and adverse health impacts.

The increased allocation for Swachh Bharat Abhiyan is another such intervention. Public health has close links with access to safe drinking water and sanitation. According to Census 2011, only 46.9 per cent of households had toilets within their home premises. The Rs 9000 crore allocation for the Swachh Bharat Abhiyan, up from Rs 6525 crore in 2015-16 must be accounted for as a major health intervention. This is good news. However, the

focus has to move beyond merely constructing toilets to increased usage, and behaviour change. For this to happen, the toilets must be sustainable, in that there is regular water supply and maintenance. It is only when toilet usage rises that it will have a perceptible health feedback. There has been a slight increase in the allocation for the National Rural Drinking Water Programme, from Rs 4373 crore in 2015-16 to Rs 5000 crore in 2016-17. Some experts have expressed concern about rather small increase in allocation for drinking water since there continues to be problems with water quality and sustainability, especially in rural areas; a situation that could be aggravated with many states reeling under a drought crisis.

**Public health has close links with access to safe drinking water and sanitation. According to Census 2011, only 46.9 per cent of households had toilets within their home premises. The Rs 9000 crore allocation for the Swachh Bharat Abhiyan, up from Rs 6525 crore in 2015-16 must be accounted for as a major health intervention. This is good news. However, the focus has to move beyond merely constructing toilets to increased usage, and behaviour change.**

Reducing the incidence of disease by improvements in air and water quality and level of sanitation is not enough. With a population that is overwhelmingly poor, an important focus of health care policy must be on access.

The low level of public spending means that a large part of the expenditure on health, roughly between 70 to 80 per cent, is borne by households from their private resources—income and savings. The average total medical and other related non-medical expenditure per

hospitalization is Rs 16,956 in rural areas and Rs 26,455 in urban. The average total medical expenditure for non-hospitalized treatment per ailing person in rural and urban areas is Rs 509 and Rs 639, respectively.

Low public spend also means that a large part of the population accesses its healthcare needs from private providers. The 2015 NSSO report, *Key Indicators of Social Consumption in India: Health (71<sup>st</sup> round, January to June 2014)*, reveals that the private sector continues to play a significant role in the provision of outpatient and hospitalised care. The share of public providers in the treatment of non-hospitalised patients is low at 11.5 per cent. This has considerable financial implications—the average medical expenditure in the treatment of hospitalised cases is four times more in private institutions compared to its public counterparts. The average cost in cases of hospitalisation is Rs 25,850 in private institutions compared to Rs 6,120 in public institutions.

Both, the higher proportion of out-of-pocket spending and the need to depend on the more expensive private providers means the poor are disadvantaged, and that their slide into poverty is more imminent in the case of catastrophic health events. Serious illness places severe strains on the financial circumstances of the poor. Budget 2016 seeks to remedy this situation. Based on the uptake of public health insurance, the budget has focused on addressing the needs of the poor and economically weak families against unforeseen out-of-pocket health expenditure with an increased insurance cover. The Finance Minister announced a cover of Rs.1 lakh per family. An additional cover of Rs 30,000 has been provided for senior citizens. Allocation for health insurance in the 2016-17 is Rs 1,500 crore; up from the revised estimate for 2015-16, which shows expenditure of Rs 595 crore.



Better public health insurance improves access, especially in cases of serious illness requiring hospitalisation. However, in a country like India with huge population which is below the poverty line, and at the margins, there is no alternative to an improved and effective healthcare system. There are some positive signs. The 2015 NSSO report (71<sup>st</sup> round) found a small but significant shift towards the public healthcare system compared to the previous survey in 2004 (60<sup>th</sup> round). The 71<sup>st</sup> round reported that 28.3 per cent sought health care in the public system compared to the 60<sup>th</sup> round when only 22 per cent accessed the public sector. This increase is negligible, considering that it has taken place over a ten-year period, and that population has increased considerably in the interim.

There has been an increase in public spending, though not at the levels required. Real government expenditure on health in the first eight months of the financial year 2015-16 registered a 9 per cent growth. Allocations have steadily increased from Rs 27,884 crore in 2012-13 to Rs 34,957 crore in 2015-16 to Rs 39,533 crore in the current budget.

But the glimmers of hope are quickly dimmed by overwhelming healthcare problems of the country. According to the World Health Organisation, 52 lakh lives are lost annually in India and the death rate in urban India is expected to rise by 42 per cent by 2021. One person dies of a stroke every minute in India, every sixth patient below 40 years is a victim of cancer and cardio vascular disease. Between 2016-30, the economic burden of non-communicable diseases in India will be \$6.2 trillion. There is no denying the need for a massive ratchet up of public spending and provisioning of healthcare—India ranks 157<sup>th</sup> on its per capita government spending on health, which is just about \$44 PPP. Better insurance cover can help in cases of serious illness and those requiring hospitalisation. But

to ensure better health outcomes, the network of primary healthcare centres and sub-centres has to radically improve. This requires staffing of these centres with trained healthcare professionals and access to medicines.

When it comes to access to medicines, the government has had since 2008, the Jan Ausadhi scheme, which is supposed to improve access to generic medicines. However, the scheme has not taken off. Only 164 Jan Ausadhi stores have been set up, of which only 87 are functional. The Finance Minister has announced that

**The fact remains that if the Indian healthcare system is to be effective, efficient, and affordable, the publicly funded institutions have to perform. Otherwise, it will mean that larger sections of the population will be forced to access more expensive options. For a country like India that is not viable, and the government stepping in with an insurance system is not necessarily the most optimum solution.**

3000 Jan Ausadhi stores will be set up—Rs 35 crore has been allocated for this, up from Rs 16.9 crore in 2015-16. While that is welcome, the government needs to address the real problems plaguing the scheme—doctors are not prescribing generic medicines and the non-availability of medicines under generic names.

The bigger problem is the poor performance of the public healthcare institutions. Even when primary and secondary healthcare centres are set up, these remain virtually non-functional. Vacancies and shortfall of healthcare personnel plague the system. Shortage of specialists, doctors, staff nurses, anaesthetists adversely affects the outreach of health services, especially in rural areas. The gap in health personnel

and inequity in health infrastructure continues to be critical.

A 2011 evaluation study of the National Rural Health Mission conducted in seven states—Uttar Pradesh, Madhya Pradesh, Jharkhand, Odisha, Assam, Jammu and Kashmir and Tamil Nadu—found shortages of skilled health personnel to be as high as 95 per cent. Rural Health Statistics 2015 found that at the all-India level, there was a shortage of 83 per cent in total required surgeons in community health centres, and that only 27 per cent of sanctioned posts for specialised doctors had been filled. The best insurance schemes, or the best stocked Jan Ausadhi stores will have little meaning without the requisite medical attention. The fact remains that if the Indian healthcare system is to be effective, efficient, and affordable, the publicly funded institutions have to perform. Otherwise, it will mean that larger sections of the population will be forced to access more expensive options. For a country like India that is not viable, and the government stepping in with an insurance system is not necessarily the most optimum solution. The allocation for the National Health Mission has increased, but only marginally, to Rs 20037 crore from Rs 19122 crore in 2015-16. This is where the government needs to focus in a big way. For a start, it can focus on filling vacancies, and ensure that the healthcare centres at all levels are adequately staffed with the necessary infrastructural facilities, including ambulances and mobile units.

It has been estimated that in 2025, over 70 per cent of the country's population will be of working age. More often than not, Indian leaders refer to India's growing population as "demographic dividend", which presents the country with a challenge and an opportunity. In order to make good this demographic dividend, there is a need for higher public spend in the social sector, especially key areas of education, health and sanitation. Budget 2016 takes some

important steps, but these are incremental in nature. What is required are big strides.

India is in the middle of this demographic dividend. To ensure that this dividend becomes a real opportunity, it must focus on improving the healthcare system, making it accessible, effective and affordable. Improved healthcare and outcomes is absolutely essential for inclusive and sustained growth. Improving the quality of health, a key development indicator, will create the requisite pressure to ensure that the high economic growth is both inclusive and sustainable. A healthy populace will mean improved productivity. There is a tendency to view social sector spend as an outflow of resources—especially when it comes to providing education or healthcare. A part of this push for limiting public spend comes from those who call for greater privatization of health. It would be a big mistake if the government retreats any further from these sectors. Investing in health is key to growth.

Nearly 170 years ago, Russian thinker Alexander Herzen asked “If progress is the end, for whom are we working? ... Do you truly wish to condemn all human beings alive to-day to the sad role of caryatids supporting a floor for others some day to dance on. . . or of wretched galley slaves, up to their knees in mud, dragging a barge filled with some mysterious treasure and with the humble words “progress in the future” inscribed on its bows?” Herzen’s query continues to be relevant. □

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### Stree Shakti Puraskars and Nari Shakti Puraskars for 2015

Stree Shakti Puraskars and Nari Shakti Puraskars were given for the year 2015 on International Women’s Day by the President. The Zila Mahila Samman and Rajya Mahila Samman have also been instituted this year to recognize and reward selfless work done by exceptional and committed women, in particular at the community and grass root levels.

The Stree Shakti Puraskars are conferred to six women in the area of women’s endeavor and exceptional contribution each year. The award carries a cash prize of Rs. 300,000 and a citation..

The Nari Shakti Puraskars have been conferred for the first time this year. The award carries a cash prize of Rs. 100,000 and a citation. They have been instituted by the Ministry of Women and Child Development to honour 8 women to recognize their individual contribution in specific areas.

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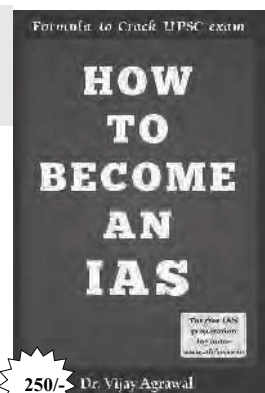
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# Reflections on Railway Budget 2016-17

Shanti Narain



*...bringing a paradigm shift in the approach to strengthening of the rail infrastructure through an imaginative resource mobilisation strategy. This approach not only represents an acceptance of the need for a massive infusion of capital to build capacity in this national transport network which is operating today at saturation levels on almost all its arterial routes due to sustained under investment for several decades, but also that this exercise cannot be a one-off exercise*

**M**inister for Railways needs to be complimented for bringing a paradigm shift in the approach for strengthening of the rail infrastructure through an imaginative resource mobilisation strategy. This approach not only represents an acceptance of the need for a massive infusion of capital to build capacity in this national transport network which is operating today at saturation levels on almost all its arterial routes due to sustained under investment for several decades, but also that this exercise cannot be a one-off exercise. He has raised the capital infusion from a level of around ` 60,000 crores in 2014-15 to a lakh crores in 2015-16 and now ` 1, 21,000 crores during 2016-17. Also, this is part of the overall plan to invest ` 8.54 lakh crores during the five years ending 2020-21. If this is actually achieved, it would represent nearly three-fold increase in investment over the preceding five-year period.

Another major step taken in the budget is to ensure that investments are prioritised for augmentation of line capacity works and all other unremunerative works have been frozen unless the concerned state governments

agree to form SPVs by investing in these joint ventures. Outlays have been significantly increased in order to achieve the projected commissioning of doublings, dedicated freight corridors and other capacity augmentation works including port connectivity works at an average rate which would be nearly 13 kms per day over the next three years against 4.3 kms per day in the preceding six years.

Some of the other positive features of this budget include *inter alia* the following:-

A major thrust has been on the use of ICT to improve and smoothen the passenger interface area in the areas of ticketing and passenger transaction areas at railway stations through installation of escalators, provision of passenger lounges and golf carts etc.

In order to professionalise and improve the quality and hygiene of railway catering, management of catering services will be transferred to IRCTC in a phased manner. Number of IRCTC operated base kitchens will be progressively increased. E-catering facility is another interesting innovation.

Another significant thrust area is elimination of manned and unmanned

The author has held senior administrative positions in the Northern, Eastern and South-Eastern Railways including Member Traffic, Railway Board and over the next four years oversaw the operational and commercial activities of Indian Railways across the country. He was also deputed to two prestigious Management Development Programmes in the UK and the National Defence College Management Course in New Delhi. Currently, he is international Advisor to the Asian Development Bank for the Bangladesh Railway Reform Project and is also the Secretary General of I.C. Centre for Governance which is a Civil Society Organisation focussing on issues of governance facing the nation.



level crossings by construction of ROB/RUBs in order to reduce the risks of accidents which account for nearly 40 per cent of all casualties in rail accidents.

An interesting administrative structure has been created in order to speed up decision making processes in the Railway Board so that essential policy issues are resolved and implementation is monitored to ensure targeted delivery. Seven missions have been identified and a cross functional empowered team under a Mission Director would deliberate on their respective mission areas and report the outcome directly to the Chairman, Railway Board. Annual outcome based performance targets would be fixed and the Mission Directors would be accountable for delivering the outputs on a time bound basis.

One of the seven missions relating to Capacity Utilisation is required to present a blueprint for making use of the capacity created once the Dedicated Freight Corridors are commissioned. This is considered very significant since a concerted effort needs to be put in to expand the freight basket to include white goods, parcels and specialised cargoes such as automobile traffic and ensure that the current trend of declining rail share is arrested and reversed and internal generation of resources are maximised so that the growth rate accelerates.

A marketing plan should now be developed to ensure that new streams of freight traffic are diverted to rail using the additional capacity being created. Some of the following strategies could be adopted:

- The current level of only 20 per cent of total EXIM containerized cargo by rail has to be raised to around 40 per cent -50 per cent by offering competitive rates by rail. The regular increase in haulage rates charged from container companies has actually led to diversion of containerized traffic to roads and has to be arrested.
- Movement of less than train load domestic traffic including parcel

traffic which currently moves over long distance by road at an unacceptable cost to the national economy has to be weaned back to rail using the multi-modal route.

- Introduction of Roll-on roll-off services to shift road movement to rail by transporting loaded trucks on rail flats to decongest the highways and urban transport systems.
- Principle of marginal costing should be leveraged by quoting freight rates to ensure full recovery of marginal costs, plus a part of the fixed cost instead of fully distributed costs to secure minimization of return empty haulage of wagons through competitive pricing.
- Using concept of volume discounts to existing customers to wean back traffic moving by road to rail in respect of bulk commodities.

Notwithstanding the above positive features of the budget, there is one area which has been neglected namely, the rationalisation of the tariff structure. The losses incurred by the passenger segment to the extent of nearly Rs 30,000 crores continues to be cross subsidised by the freight business segment. This neglect of not adjusting second class fares for both suburban and non suburban traffic for even compensating for the inflationary pressures over decades has left IR with no other option but to raise freight rates to levels that are now making Indian business and industry uncompetitive in the global market place because our freight rates are more than double the international levels.

A focussed effort has been made in this budget to improve passenger services and the time was ripe for a reasonable increase in fares because the general perception as reflected in the media was that if some positive effort was made by IR to improve the quality of service, the people would be prepared for some increase in fares. Despite this, an opportunity has again been missed. During the remaining term of the present government, a 10 per cent annual raise in fares would have significantly corrected the aberration in the fare structure. This can still be done.

Another important policy statement made in the last year's budget to set up a Rail Regulatory Authority has not yet been operationalised and is another instrument for tariff rationalisation. This needs to be set up without any further delay as an autonomous institution.

Looked at from another perspective, the present government has started a welcome move to review all subsidies being provided to disadvantaged sections of society and are taking steps to target the subsidies to those who really need the support. The only segment who need these subsidised fares are the self employed in the urban setting because all others are getting reimbursement from their employers in some form or the other. Even in the rural setting those who have to travel are willing to travel by road at more than four times the rail fare since the infrequent available rail services are not often meeting their travel needs. The students who need to travel for their educational pursuits, in any case, get concessional travel facility.

Another disconcerting fact is the consistent increase in the operating ratio from a level of 88.2 per cent in 2014-15 to 90 per cent in 2015-16 and the projections are 92 per cent for 2016-17. This highlights the need for maximising internal generation of revenues as also controlling expenditure. While there are reasons for the deteriorating financial performance, there is no room for complacency. A key requirement would be to see that the increased levels of investments are productive with focus on efficient project management so that there are no costs and time overruns. Monitoring systems will need strengthening and contract management skills would be critical to successful implementation of the ambitious capital budget.

Finally, the reasons for failure to generate extra budgetary resources via the PPP route or through monetising of railway land etc. need to be analysed in depth. One area which has potential is through development of budget hotels at important tourist and religious centres. This issue has been a victim of departmental bias for over a decade and

a half and needs urgent resolution at the highest levels. While land plots have been identified, a corporate body has to be fixed to provide a single window interface with the hospitality majors. IRCTC could be one obvious option

since it has the commercial wherewithal, but whichever organisation is to be selected, the selection must be done with the utmost speed. Similarly, the modernisation of railway stations is another potential source to be tapped

and here again, a single nodal agency with multi-functional expertise should be selected and the activity parcelled out urgently. □

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## **Railway Budget 2016-17 : Sector wise Schemes**

### **SAFETY/PROJECTS**

- 946 ROB/RUB sanctioned ● Launch Mission Zero accident ● Eliminate all unmanned BG crossings in next 3 years ● Equip the high density network (10,000Kms) with TCAS in next 3 years ● Commissioning of 2800 Kms of BG line vs this year's target of 2500 Kms ● Massive push on electrification - 50 per cent increase in outlay. Target to accomplish 2000Kms vs 1600 Kms this year.

### **CUSTOMER AMENITIES**

- Launch of Tejas Express: Premium superfast with many onboard facilities such as entertainment, better aesthetics, vending machines, ushers ● Launch of Humsafar Express - Full 3AC, fast train with optional food services ● Launch of UDAY (Utkrisht Double decker AC Yatri)- Overnight, double decker superfast service on highly patronized routes ● Launch of Rail Mitra Sewa - Comprehensive concierge services including battery operated cars, porter services, wheel chairs etc ● Travel Insurance facility for passengers ● Sale of UTS tickets through handheld POS terminals ● Cancellation of tickets through 139 ● All operational halts converted into commercial halts ● CCTV surveillance of Tatkal counters to prevent miscreant activity ● PA systems leased out to FM Radio companies in trains ● Bar-coded tickets, scanners and access control at select stations ● Launch multi purpose stalls on stations ● Hourly booking of Retiring rooms ● Introduction of SMART coaches - better customer experience, high carrying capacity and lower costs ● Standardized uniforms across all Railways for customer facing roles ● PR skill training for customer facing roles ● Rail Bandhu - on Board magazine expansion to all A/C reserved class in all Mail Express trains and all regional languages ● New uniforms for Porters with advertising banners. Soft skill training to improve customer experience. Would be known as 'Sahayak' ● Sale of platform tickets through ticket vending machines ● Provision of normal debit/credit card usability at ticket vending machines ● GPS enabled LED boards to provide real time information of approaching stops on trains ● Informationboards in trains to communicate various on-board services.

### **COMMON MAN**

- Launch of new service - Antyodaya Express : Unreserved, second class, superfast trains. ● Introduction of Deen Dayal coaches for general passengers with enhanced facilities such as Potable water, water level indicators, mobile charging points.

### **DIVYANG**

- All new stations to be redeveloped would be made accessible by all ● One divyang toilet per platform on A1 class stations ● Increased availability of wheelchairs on platforms.

### **CLEANLINESS**

- Pan India proliferation of 'Clean my coach service' ● Regular third party audits to generate rankings for stations ● Setting up of Waste segregation centres ● Additional 30,000 bio toilets ● Installation and Maintenance of Portable bio toilets at major stations ● Leverage advertising potential, CSR, and support from Voluntary organisations ● Awareness campaigns to improve cleanliness including approach roads and adjacent colonies.

### **CATERING**

- Hand back catering to IRCTC in a phased manner - Primary objective to unbundle food preparation and food disbursement to break the nexus of overcharging passengers ● E-Catering extended from current 45 stations to all 408 A1 and A class stations ● Ready to Eat meals onboard ● Explore making mandatory food on trains optional.
  - Local cuisine to be made available. Base Kitchens to be set up by IRCTC to ensure high quality hygienic food
  - Third Party audit of catering services.

## NGOs

- IR to partner with prominent NGO's to partner for skill development of people in rural areas including Railway employees ● Partnership with Khadi and Village Industries Commission to support employment creation for rural India.

## WOMEN

- Launch of Janani Sewa - Provide Kids Menu and changing boards in Toilets ● Provision of hot milk, hot water and baby food at Stations ● Rail Mitra Sewa including wheel chairs, battery operated cars for Senior citizens, women and Patients ● More toilets for Women at stations ● Sub quota of 33 per cent in award of licences for stalls and services at stations.

## SENIOR CITIZENS

- 50 per cent increase in lower berth quota taking the total lower berths availability to 120 per train ● Rail Mitra Sewa including wheel chairs, battery operated cars for Senior citizens, women and patients.

## FARMERS/ FISHERMAN

- Preferential usage for cold storage warehouses being set up on empty Railway land through PPP.

## SC/ST

- Enforcement of reservation in awarding of contracts for stalls at stations ● Encourage employment for SC/ST through horticulture and tree plantation at side of tracks ● Encourage SC/ST enterprenuers in partnership with Khadi and Village Industries Commission ● Promoting tribal art through murals on stations

## STUDENTS

- Kalam express to be launched to share innovative solutions to common daily problems ● Internships for over 100 students/year across Engineering and MBA schools ● Establish Railway University in this Financial Year

## NORTH EAST

- Expedited execution of connecting all state capitals - Mizoram and Manipur to be connected in this financial year.

## ENVIRONMENT

- All Railway stations to be covered with LED luminaries in next 2-3 years ● Switch to environment friendly composite sleepers made of recycled plastic ● Set up Automatic coach washing plants to support water conservation ● Convert production units (atleast one in each zonal railway) as Green Industrial units ● Rain water harvesting on buildings with roof area of more than 200sqm post feasibility studies ● Set waste segregation and water recycling plants ● Pursue the medium term plan to get 132.5 MW of power through wind energy ● Pursue the target of achieving 100 MW of Solar Power in next 5 years.

## EMPLOYEES

- Tie up with Ministry of Health to improve Central Railway Hospitals ● Introduce AYUSH systems in 5 railway hospitals ● Provide wireless devices to gang men to alert them of approaching trains ● Reduce the weights of tools carried by gangman, trackman through value engineering ● Toilets and Air conditioning in Locomotive cabs for drivers.

## SKILLING

- Set up 'Centres of Excellence' for Skill Development in 1/2 workshops ● PR skill training for customer facing roles.

## DIGITAL INDIA

- Integration of all ticketing services on one app ● Integration of all customer feedback and complaint forums on one app ● Commence integration of IT initiatives under a system wide Enterprise Resource Planning architecture Handheld PoS terminals for sale of tickets - Target to reduce queue lengths ● Best in class project management system based on drone and geo spatial technology - To be piloted for Dedicated freight corridor.

## TRANSPARENCY

- CCTV coverage of Tatkal counters ● Expand E-procurement into a paperless contract management system

## TOURISM

- Partner State governments for operating tourist trains on revenue sharing ● Upgraded National Rail Museum, Focus on promotion of other museums and heritage sites ● Run Tiger circuit train with full travel package offerings.



# Assessing Fiscal Prudence Through Various Deficit Indicators

Amiya Kumar Mohapatra



*But in this budget, government has shown its serious intent not only to reduce the fiscal deficit in percentage form, but also in terms of absolute that is Rs. 5, 33,904 which is quite satisfactory in comparison to the previous years. Fiscal prudence and fiscal responsibility of the government of India is to arrest fiscal deficit in absolute as well as the percentage form*

**F**iscal consolidation through fiscal prudence is one of the essentials of economic stability and social development of a nation. To ensure sustained growth and foster economic development, Government of India has enacted FRBMA (Fiscal Responsibility and Budget Management Act-2003) to achieve fiscal consolidation and prudent fiscal management. To fulfill the mandate, the government through fiscal framework is bringing efficiency in expenditure through rationalization and reprioritization and augmenting revenue to contain revenue deficit and fiscal deficit at the desired level over the years.

In the line of FRBMA, effectiveness of the Union Budget 2016-17, can be evaluated by using various fiscal instruments on the basis of well defined parameters and to study their ensuing impacts on the economy. The 'hygiene and sustainable' aspect of the budget can be measured through various deficit indicators in the context of macroeconomic outcomes. The major fiscal instruments are revenue deficit, fiscal deficit and primary deficit. These deficits are essentially used to gauge the macroeconomic outcomes of the budget and determine

the future course of action of the government in addressing the long term objectives of the economy. The success of the budget rests with how to contain the revenue deficit as well as fiscal deficit at the desired level, looking at the present needs and long-term growth of the nation focusing on inclusive and sustainable development.

## Revenue Deficit and its Implication on Fiscal Prudence

Revenue deficit is defined as "the excess of government's revenue expenditure over government's revenue receipts". Statistics of revenue deficit in post-FRBMA period of both estimated and actual are given with the rolling targets in the Table 1 for better understanding.

## Trends and Implications of Revenue Deficit

To finance revenue deficit, the government depends upon capital receipts being the last resort since revenue receipts are already exhausted. Financing the deficit through capital receipts is dangerous as capital receipts either decrease the assets or increase the liabilities. Increase in liabilities further leads to

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**Table-1: Revenue Deficit (RD) –Estimated and Actual as per cent of GDP**

Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Estimated Revenue Deficit (per cent)	2.5	2.7	2.1	1.5	1	4.8	4	3.4	3.4	3.3	2.9	2.8	2.3	*1.8	*1.3
Actual Revenue Deficit (per cent)	2.5	2.6	1.9	1.1	4.5	5.2	3.3	4.4	3.6	3.1	2.9	-	-	-	-

*Source: Author's Compilation from Budget Documents of India (\* reflect the future targets)*

increase in future liabilities of interest payment and consequently, increases the revenue deficit in future, being a part of revenue expenditure. On the other hand, disinvestment/selling of assets are like 'selling the family silver'. This will further exacerbate the revenue situation by reducing the revenue earnings. Revenue deficit can be contained to the minimum through revenue augmentation and revenue mobilization by enhancing revenue from tax and non-tax sources.

### Fiscal Deficit and its Implication on Fiscal Prudence

Fiscal deficit is defined as "the excess of government total expenditure over government total receipts except borrowing." More precisely, it indicates how much our country depends upon total borrowing to finance the deficit during a particular fiscal year. Fiscal deficit is used as an instrument of measuring economic growth and debt liabilities of a country

and above all, determines the financial soundness and economic well-being of the people of a country. This furnishes a more holistic view of the government's sources of funding situation in terms of borrowings.

### Trends and Implications of Fiscal Deficit

Estimated fiscal deficit in the post-FRBMA, (2004-05 to 2016-17) is used to assess immediate past effects and to focus on the present needs and future state of affairs of our country.

Owing to implementation of FRBMA as a mechanism of fiscal consolidation policy, estimated fiscal deficit has been reduced to a great extent-ranging from 4.4 per cent, 4.3 per cent, 3.8 per cent, 3.3 per cent and 2.5 per cent from 2004-05 to 2008-09. Thereafter, the fiscal deficit shot up to 6.8 per cent of GDP in 2009-10, due to expansionary fiscal stimulus package to combat ill effects of global meltdown.

But post 2009-10, estimated fiscal deficit has come down to 5.5 per cent in 2010-11, and further to 4.6 per cent in 2011-12 and then increased marginally to 5.1 per cent in 2012-13. That was due to Euro crisis and persistent recessionary situation in the economy. Then, 4.8 per cent, 4.1 per cent, and then came down to 3.9 per cent of GDP in 2015-16. But in the recent budget (2016-17), the Finance Minister of India kept the fiscal deficit at 3.5 per cent of GDP as a partial adherence to Kelkar Committee proposal.

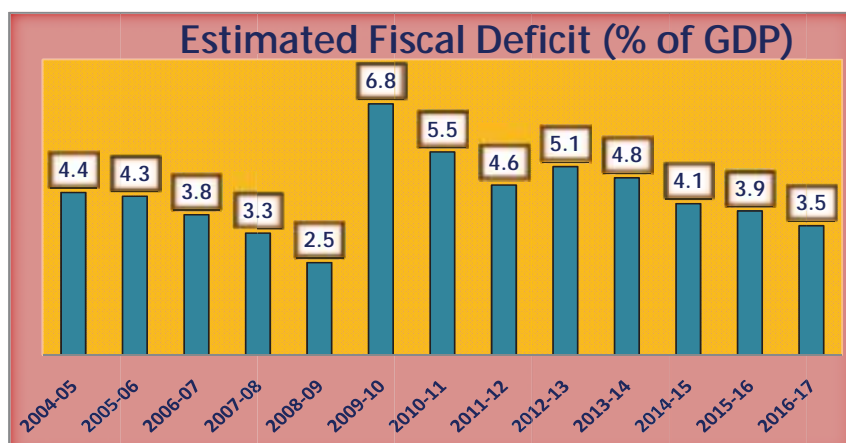
The total borrowing of the government in absolute terms has increased manifold which is a matter of concern even though dominance of the inflationary effects and other factors are to be considered. From 2008-09 till 2015-2016, there has been a steep rise in the estimated absolute fiscal deficit from Rs. 1,33,287 crores to Rs. 5,55,649 crores which is more

**Table-2: Fiscal Deficit (FD) –Estimated and Actual as per cent of GDP**

Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Estimated Fiscal Deficit (per cent)	4.4	4.3	3.8	3.3	2.5	6.8	5.5	4.6	5.1	4.8	4.1	3.9	3.5	*3.0
Actual Fiscal Deficit (per cent)	4	4.1	3.5	2.7	6.0	6.4	4.9	5.7	4.8	4.4	4.1	-	-	-

*Source: Author's Compilation from Budget Documents of India. (\* reflect the future targets)*

Figure-1



than four times in a span of seven years. But in this budget, government has shown its serious intent not only to reduce the fiscal deficit in percentage form, but also in terms of absolute that is Rs. 5, 33,904 which is quite satisfactory in comparison to the previous years. Fiscal prudence and fiscal responsibility of the government of India is to arrest fiscal deficit in absolute as well as the percentage form.

Therefore, better fiscal prudence could be achieved only when the Government of India is able to seize absolute as well as the percentage growth of fiscal deficit and revenue deficit too.

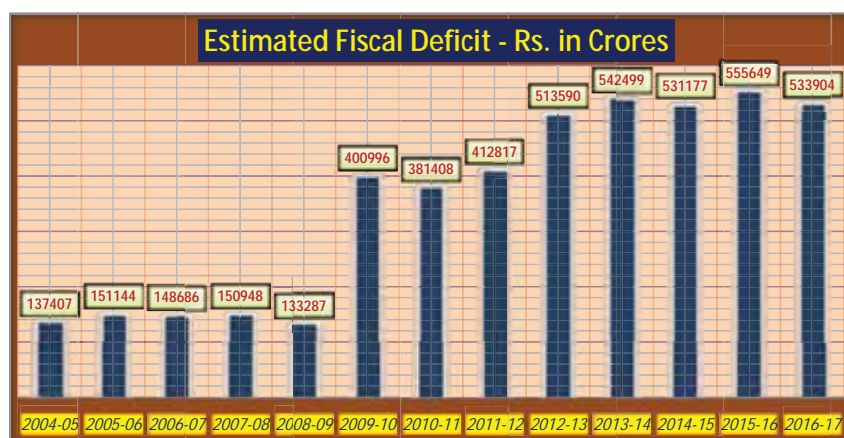
**Linkage between Revenue Deficit and Fiscal Deficit**

The key constituents of fiscal deficit are revenue deficit and capital spending. So, it is implied that

government adheres to borrowing to finance the revenue short fall and borrow to meet the capital expenses. Therefore, fiscal prudence depends on how the government manages the revenue deficits in particular. Fiscal consolidation can be possible through revenue augmentation, without considering the curtailment of expenditure. Containing fiscal deficit at its set target by reducing expenditure at the cost of socio-economic wellbeing of the nation, can never be a welcome step. That's why, the only and better choice is to enhance tax revenue through tax buoyancy so as to reduce the deficit.

There is always found a high degree of positive correlation between revenue deficit and fiscal deficit which is clearly visible in the given diagram (Fig 3). Although the revenue deficit is decreasing from 4.8 per cent in 2009-10 to 2.3 per cent in 2016-17,

Figure-2



still it contributes substantially to the fiscal deficit.

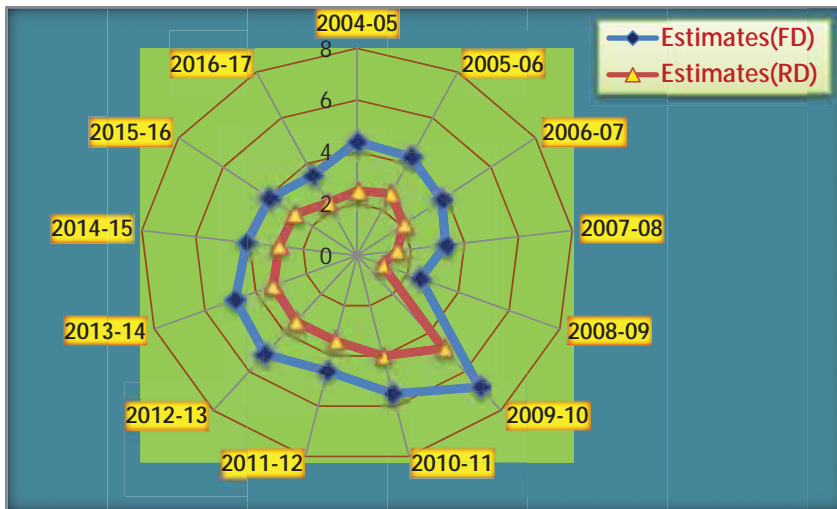
Fiscal deficit can be reduced to its desired level only by reducing the revenue deficit; not the capital expenditure. This is possible through revenue augmentation and expenditure rationalization. Efficient and effective management of expenditure is the key to fiscal consolidation. That is why 'Expenditure Reform Commission' has been formed to reprioritize and rationalize non-plan revenue expenditure. The intention behind the commission is to rationalize and bring efficiency in the fund allocation among different heads and to prevent leakages and shut the loopholes in the process.

**Fiscal Sustainability and Quality Assessment**

Efficacy of the budget must not be measured by the total outlay, rather by the outcome and its impact on the economy as a whole. Containing fiscal deficit at the desired level is just not a numerical figure but has serious quality implications and consequences. The current budget 2016-17 has picked up the path of sustainable model of fiscal deficit. The sustainable model of fiscal framework looks forward to a situation where fiscal deficit can be contained to a desired level; not by reducing the expenditure rather by increasing the spending on various capital assets and on various welfare programs. Hence, the only way to reduce revenue deficit as well as fiscal deficit hinges on how to raise revenue by sources and magnitudes. This is 'M<sub>3</sub> Model' (M<sub>3</sub>: More Expenditure and More Revenue Model) of containing fiscal deficit. The same thing is clearly reflected in the current budget and our Honourable Finance Minister has taken utmost care to achieve the fiscal target of 3.5 per cent of GDP through higher expenditure followed by revenue augmentation. This is where, the beauty of quality and sustainability intersects. More precisely, this budget



**Figure-3**



serious intent and marksmanship of the present government and steps have been taken to generate more revenue by sources and amounts both at tax and non-tax level. This budget proposed to achieve higher tax to GDP ratio in the future through tax buoyancy, increase in tax collection and better tax administration. This will definitely help in reduction of the fiscal deficit to a great extent and can help in achieving fiscal prudence as proposed by FRBM act.

### Concluding Remarks

The success of the budget depends upon the outcome rather than outlay; and its effectiveness relies on how does the government monitor and implement various schemes and programs designed for the overall development of the nation and marginalised and hapless in particular. Efficient and effective management of expenditure and enhancing the revenue base and tax buoyancy are the keys to fiscal consolidation and fiscal prudent management. Non-tax as an efficient source can be relied upon by designing scientific non-tax policy and can be accelerated by better management of PSUs. This can be achieved by increasing efficiency, controlling corruption and reducing administrative costs. This will certainly reduce the revenue deficit as well as fiscal deficit to a large extent and can help in achieving fiscal consolidation as proposed by FRBM act and mark the road for fiscal sustainability.

### Readings

Union Budget Reports from 2003-04 to 2016-17. Annual Reports 2010, 2011, 2012, 2013 of CII, India

Latest Economic Surveys, Government of India.

Various Issues of CMIE Reports of India.

News Paper-Business Standard, Economics Time and Times of India - Post Budget Analysis Report. □

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proposed to increase the expenditure by a huge 15.3 per cent jump in Plan outlay and 9 per cent increase in Non-Plan outlay in 2016-17 over RE (2015-16).

On other hand, on the revenue side specially on the tax front, the Finance Minister partly adopted sustainable tax code where higher tax is proposed to be imposed on people having higher income to reduce inequality and similarly increased taxes on products and services having negative environment consequences and harmful effects on health and human life. On the other hand, government allocated a good amount of fund on farm sector and rural segment in particular and on the schemes having greater and positive socio-economic impacts on the marginalised and hapless. Further, the government proposed to have the value of fiscal deficit to be fit in a range than a absolute value; to provide fiscal space to the government to accommodate any global shock and economic uncertainty.

### Government Initiatives for Fiscal Consolidation

Although, we are late by a year in achieving the desired level of fiscal deficit as proposed by FRBM act prescribed by Kelkar Committee to 3

per cent of GDP by 2016-17, still the present government is trying hard to achieve fiscal consolidation within the limited fiscal space. These fiscal goals can be achieved through expansion of the economy, tax buoyancy, increase in tax collection, better tax administration, increase tax-GDP ratio and efficiency in expenditure, improvement in macroeconomic environment, good and maximum governance etc. Few universal measures can be adopted to control the fiscal deficit to achieve the set targets are explained as under:

#### 1. Expenditure Rationalization

Government needs to rationalize various expenditure and allocation of funds among different heads and should ensure to prevent leakages and shut the loopholes in the process by economizing the resources or reprioritize objectives by supporting the pace and need of the expenditure without compromising much on well being and welfare of the masses. This can be achieved by increasing efficiency, controlling corruption and by reducing administrative losses. The success of expenditure rationalization depends upon the correction of revenue-capital expenditure imbalance.

#### 2. Revenue Augmentation

Augmentation of revenue is the



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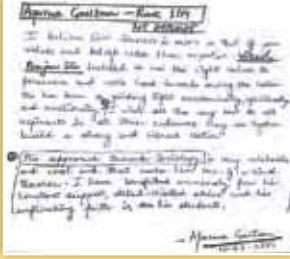

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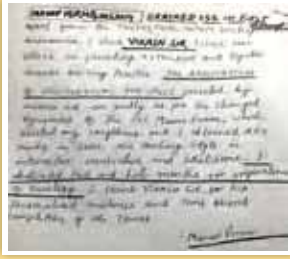
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YE-318/2015

# Fiscal Consolidation Agenda: Budget 2016-17 Stays On Course

*Subhash Chandra Pandey*



*...fiscal deficits of governments will continue to be a matter of concern so long as the economy has limited resources. Of course, if we can attract foreigners' savings to India, it will augment the resource pool in the economy and indeed this is what the government is presently doing*

**I**n the run up to the Budget 2016-17, there was a serious debate on fiscal policy stance of the Government: Whether it should restrain fiscal deficit within announced targets or relax them to boost public investment.

The Finance Minister proved that it is not a typical either or situation and presented the Budget targeting both the deficit reduction as well as fresh public investment in diverse areas to boost domestic demand.

To meet both these objectives, aggressive non-debt resource mobilisation has been proposed in the Budget. There are proposals for combination of raising indirect tax rates to align them with target rates for Goods and Services Tax, enhanced taxation of super-rich and beginning the process of lowering corporate income tax and dismantling corporate tax concessions.

Overall tax revenue growth is projected at 11.25 per cent. Projected growth in disinvestment (123 per cent) and non-tax revenue mobilisation (25 per cent) are significant contributory factors for deficit reduction. On the expenditure side, projected growth is 9.16 per cent in non-Plan and 15.26 per cent in Plan expenditure.

With these adjustments on expenditure and non-debt receipts,

the Fiscal Deficit target for 2016-17 has been set at 3.5 per cent of GDP at current market prices, assuming 11 per cent nominal growth in the GDP, as against 3.9 per cent in 2015-16.

Thus, the Finance Minister has done a fine balancing act in the current scenario where the risks of further global slowdown and turbulence are mounting. He underlined the need to strengthen our firewalls against these risks by ensuring *macroeconomic stability and prudent fiscal management*. Further, since foreign markets are weak, he also recognised the need to rely on boosting the domestic demand to promote growth. This has been done by a variety of expenditure proposals, big and small, that will put more money in more people's pockets to boost domestic demand.

Here, we wish to examine the trends in fiscal consolidation efforts of the government, especially after the enactment of the Fiscal Responsibility and Budget Management Act 2003. (FRBM Act).

## **Constitutional Provision Regarding Government Borrowings**

Article 292 of the Constitution contemplates limiting Government borrowings through a Parliamentary law as follows: "*Borrowing by Government of India - the executive power of the Union extends to borrowing upon the security of the Consolidated Fund of India within such limits, if any,*

The author is the Additional Secretary and Financial Adviser, D/o Industrial Policy and Promotion.



as may from time to time be fixed by Parliament by law and to the giving of guarantees within such limits, if any, as may be so fixed.”

The issue of fixing limits on the borrowing power of the Central Government under this Constitutional provision by Parliament came up for examination time and again before the Estimates Committee and the Public Accounts Committee. Broad reasons which guided previous governments in not enacting the law contemplated under Article 292 are detailed below. When the Estimates Committee (1957-58) on Budgetary Reforms raised this question, Government of India felt that it was not necessary or advisable to introduce any legislation on the subject mainly on the following grounds:-

- The enactment of law under Article 292 was permissive, not mandatory.
- The extent of Government borrowings including “deficit financing”, if any, was clearly indicated in the Budget documents and therefore, had in effect, a tacit approval of the Parliament.
- Government would be functioning within a Plan, which had been approved by Parliament. Since the annual Budget was merely a projection of the approved Plan in the light of the requirements of that year, the Government borrowing in a year was also so regulated within the limits provided in the Budget for the execution of the Plan.
- The limits, if any, to be imposed by law, must necessarily cover both the market borrowings as well as the extent of ‘deficit financing’. They would thus have to be sufficiently high. While wide limits would provide no real checks, narrowing them would be impracticable.
- In a system of Government responsible to Parliament, where Government policies including borrowings were coming under the overall Parliamentary jurisdiction,

imposition of limits on borrowings by law would hardly offer any additional safeguards.

### **Committee on Fiscal Responsibility Legislation (2000)**

However, in 1999, the Government constituted a Committee on Fiscal Responsibility Legislation chaired by Dr E A S Sarma, Secretary Economic Affairs.

The Sarma Committee observed: *Widespread deterioration in the fiscal position with its associated impact on fiscal sustainability, macro-economic vulnerability and economic growth has led to an emerging consensus about the urgent need for imposing statutory ceilings on Central Government's borrowings, debt and deficits. ....*

Based on the recommendations of the Committee, the Government introduced the FRBM Bill in Parliament on 21<sup>st</sup> December 2000. The Bill was referred to the Parliamentary Standing Committee on Finance, which held detailed deliberations on its various clauses. On the recommendations of the Standing Committee, necessary amendments were moved in the FRBM Bill in April 2003 and after being passed by both the Houses of Parliament, it received the assent of the President on 26<sup>th</sup> August 2003. The date of enforcement of the Act was left to the discretion of the Central Government as part of the usual practice on “delegation legislation” by the Executive. The Act and the Rules made under the Act were brought into force on 5th July 2004.

### **Objectives of the FRBM Act**

The preamble of the Act declares the three major objectives of the Act as follows:-

- The first objective of the Act is to make the Government responsible to “ensure inter generational equity in fiscal management” implying that borrowings are nothing but deferred taxation and the governments living beyond their means leave a burden of debt on future generations.

- The second objective is to make the Government responsible for ensuring long term Macro Economic stability because reckless borrowings by government crowds out private investment or fuels inflation or leads to balance of payment crises eventually leading to macro-economic instability.
- The third objective is to make the Government responsible for removing fiscal impediments to the effective conduct of monetary policy because unsustainable increase in deficit makes the task of the RBI to control money supply difficult as the RBI also happens to be the debt manager of the government.

### **Key Obligations Under the Original FRBM Act/Rules**

- To eliminate the revenue deficit by 2008-09, with a minimum annual reduction by 0.5 per cent of GDP because the base line revenue deficit was 3.6 per cent in RE 2003-04.
- To reduce the fiscal deficit by at least 0.3 per cent of the GDP, so that fiscal deficit is less than 3 per cent of GDP by the end of 2008-2009 because the base line fiscal deficit was 4.5 per cent in RE 2003-04.
- To limit guarantees to at most 0.5 per cent of the GDP in any financial year.
- To limit additional liabilities (including external debt at current exchange rate) to 9 per cent of GDP in 2004-05, 8 per cent of GDP in 2005-2006, 7 per cent of GDP in 2006-2007 etc.
- Not to borrow directly from the Reserve Bank of India w.e.f. 1/4/2006.
- To present Macroeconomic Framework Statement, Fiscal Policy Strategy Statement and Medium-term Fiscal Policy Statement alongwith the annual budget.
- To reform accounting system, improve fiscal transparency; start

disclosing information on revenue arrears, guarantees and assets latest by 2006-2007.

- FM to conduct quarterly reviews, take remedial measures to check fiscal deterioration, and place the outcome of these reviews before Parliament.
- FM is obliged to explain to Parliament any deviations from the FRBM obligations and detail remedial measures that he proposes take.

### Amendments to the FRBM Act, 2003

The first amendment to the Act was proposed in 2004 itself when it was brought into force on 5<sup>th</sup> July 2004. The target year for elimination of revenue deficit was shifted from 2007-08 to 2008-09 through the Finance Bill presented on 5<sup>th</sup> July.

The FRBM Act was again amended through the Finance Bill 2012 passed by the Parliament in May 2012 wherein it was enacted that the Central Government shall take appropriate measures to reduce the fiscal deficit, eliminate effective revenue deficit by 31st March 2015 and also to reach revenue deficit of not more than two per cent of GDP by 31st March 2015. This Act introduced a new concept of 'effective revenue deficit', signifying the difference between the revenue deficit as traditionally understood and the grants for creation of capital assets; The "grants for creation of capital assets" means the grants in aid given by the Central Government to the State Governments, constitutional authorities or bodies, autonomous bodies, local bodies and other scheme implementing agencies for creation of capital assets which are owned by the said entities.

### Progress in Deficit Reduction Since the Enactment of the Act

Post FRBM, the fiscal position of the Government had shown signs of improvement. The fiscal deficit got reduced to the level of 2.5 per cent of GDP and revenue Deficit to the level of 1.1 per cent of GDP in FY 2007-

08. However, since then, the fiscal position of the central government has been worsening for a variety of reasons as may be seen from Table 1.

**Table-1**

Year	Fiscal Deficit as per cent of GDP	Revenue Deficit as per cent of GDP
2003-04	4.3	3.5
2004-05	3.9	2.4
2005-06	4.0	2.5
2006-07	3.3	1.9
2007-08	2.5	1.1
2008-09	6.0	4.5
2009-10	6.5	5.2
2010-11	4.8	3.2
2011-12	5.7	4.4
2012-13	4.9	3.6
2013-14	4.6	3.3
2014-15	4.1	2.9
2015-16(RE)	3.9	2.5
2016-17(BE)	3.5	2.3

### Fiscal Consolidation Roadmap Recommended by the 14<sup>th</sup> Finance Commission

After reviewing the progress made in fiscal consolidation so far, the Fourteenth Finance Commission has recommended as follows for the period 2015-16 to 2019-20:-

- The Central Government should strive to eliminate revenue deficit by 2019-20, as against the original FRBM Act target of elimination by 2008-09.
- The Central government should strive to restrict fiscal deficit to 3 per cent of GDP from 2016-17 onwards up to the end of award period. This was also the original target set in 2004 under the Act to be achieved by 2008-09.
- The monitoring of 'effective revenue deficit' should be discontinued.

### Future Refinements in the FRBM Act.

The Finance Minister has announced

in the Budget 2016-17 as follows:

'The FRBM Act has been under implementation for more than a decade. Both Central and State Governments have made significant gains from the implementation of this Act. There is now a school of thought which believes that instead of fixed numbers as fiscal deficit targets, it may be better to have a fiscal deficit range as the target, which would give necessary policy space to the Government to deal with dynamic situations. There is also a suggestion that fiscal expansion or contraction should be aligned with credit contraction or expansion respectively, in the economy. While remaining committed to fiscal prudence and consolidation, a time has come to review the working of the FRBM Act, especially in the context of the uncertainty and volatility which have become the new norms of global economy. I, therefore, propose to constitute a Committee to review the implementation of the FRBM Act and give its recommendations on the way forward.'

### Why Should We Restrain Revenue Deficit and Fiscal Deficit?

The underlying logic of eliminating revenue deficit is that the government should not borrow for financing recurring expenditures like interest payment, salaries, pensions, day-to-day running of offices, routine maintenance of assets and giveaways like grants and subsidies. The government should borrow and use the borrowed funds only for productive capital expenditure where ideally, the returns on investments should at least be equal to the cost of debt servicing.

If revenue deficit is eliminated, the entire fiscal deficit will be basically borrowing for fresh investment in capital assets. Even this needs to be kept to a reasonable level (3 per cent of GDP) so as not to deprive other players in the economy such as the State governments, private and public sector companies of a share in available resources in the capital market. Thus, if household financial savings are 12 per cent of GDP, a reasonable distribution would be 3

per cent of GDP for the Central government, 3 per cent of GDP for all State governments and 6 per cent of GDP for corporates to tap these savings for their investment needs. Increased government borrowings crowd out private players from capital market, put upward pressure on interest rates and fuel inflation. Inflation is a hidden tax that hurts the poor and all the fixed income-earners the most.

Thus, fiscal deficits of governments will continue to be a matter of concern so long as the economy has limited resources. Of course, if we can attract foreigners' savings to India, it will augment the resource pool in the economy and indeed this is what the government is presently doing. □

(E-mail: )

### DEVELOPMENT ROADMAP

#### Setu Bharatam Programme Launched

The Setu Bharatam programme for building bridges for safe and seamless travel on National Highways, was launched by the Prime Minister in New Delhi recently. The Setu Bharatam programme aims to make all National Highways free of railway level crossings by 2019. This is being done to prevent the frequent accidents and loss of lives at level crossings. Over 208 Railway Over Bridges (ROB)/Railway Under Bridges (RUB) will be built at the level crossings at a cost of Rs. 20,800 crore as part of the programme.

The details of 208 ROBs are as follows: Andhra Pradesh – 33, Assam – 12, Bihar – 20, Chattisgarh – 5, Gujarat – 8, Haryana – 10, Himachal Pradesh – 5, Jharkhand – 11, Karnataka – 17, Kerala – 4, Madhya Pradesh – 6, Maharashtra – 12, Odisha – 4, Punjab – 10, Rajasthan – 9, Tamil Nadu – 9, Uttarakhand – 2, Uttar Pradesh – 9, West Bengal – 22. Detailed Project Reports have already been received for 73 ROBs and of these 64 ROBs are likely to be sanctioned with an estimated cost of Rs. 5600 crore by this financial year i.e. 2015-16.

In addition to this, about 1500 old and worn down bridges will also be improved by replacement/widening/strengthening in a phased manner at a cost of about Rs. 30,000 crore. The Ministry has already invited bids for appointing consultancy for preparing Detailed Project Report for this. The target is to award the consultancy work by March, 2016.

The Ministry of Road Transport & Highways has also established an Indian Bridge Management System (IBMS) at the Indian Academy for Highway Engineer in Noida, U.P. The aim is to carry out conditions survey and inventorization of all bridges on National Highways in India by using Mobile Inspection Units. 11 consultancy firms have been appointed for this purpose. Till now inventorization of 50,000 bridges has been done. The first cycle of the survey is expected to be completed by June 2016. This data base will be the largest of its kind and will also help in smoothening the movement of Over-Dimension and Over-Weight consignments on National Highways.

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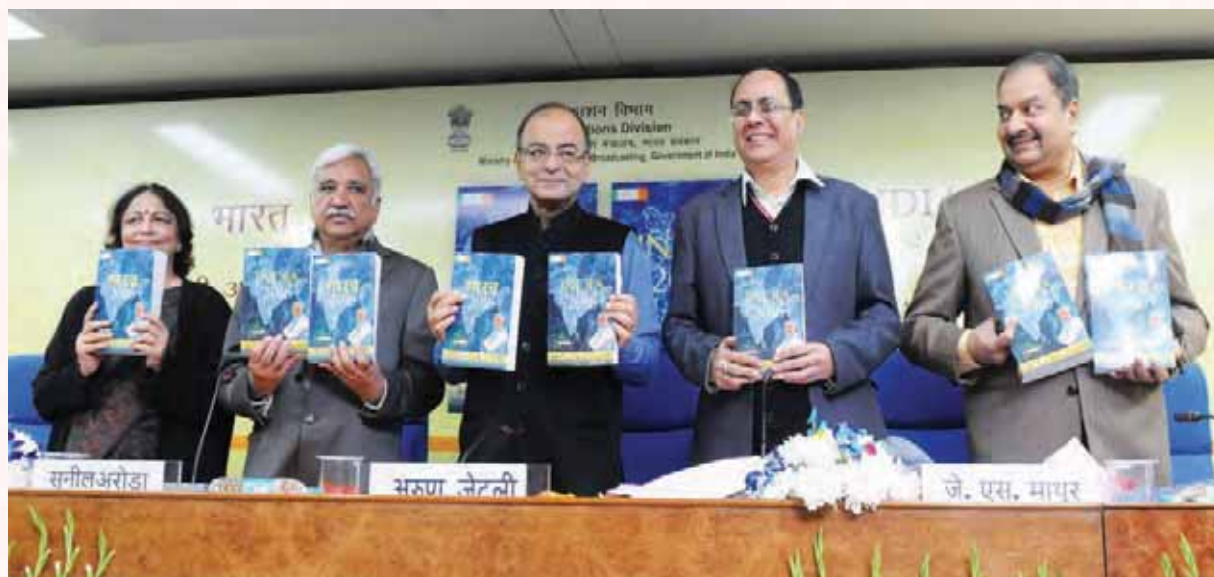
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YE-316/2015



## I&B Minister Releases India 2016 & Bharat 2016



*Union Minister for Finance, Corporate Affairs and Information & Broadcasting Shri Arun Jaitley releasing India 2016 and Bharat 2016. Also seen are Shri Sunil Arora, Secretary, Ministry of I&B and other senior officials.*

Union Minister for Finance, Corporate Affairs and Information & Broadcasting Shri Arun Jaitley released the print and digital versions of India/Bharat 2016 on 18<sup>th</sup> February 2016. Speaking on the occasion, Shri Jaitley termed the Annual Reference Book, an asset and a repository of information to all stakeholders. He said, the kind of details India 2016 carries, makes it a must-read for everyone. He added that digitizing government publications was a priority area.

On the occasion, the Hon'ble Minister also launched the online payment and subscription services of popular journals of the Publications Division through Ministry of Finance's Non-Tax Receipt Portal, Bharatkosh Portal. Using this facility, users can subscribe to Yojana, Kurukshetra and other print journals of Publications Division online.

The digital Employment News and subscription payment facility for both electronic and print versions of Employment News was also started through Bharatkosh portal.

Speaking on the occasion, Shri Sunil Arora, Secretary, I&B said that India Reference Book was a signature book brought out by Publications Division and a ready reference for academicians and students preparing for various competitive examinations.

The online sale of some of the books of the Division through e-commerce platform was also launched on a pilot basis.

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