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Open School - That Touches & Changes the Life

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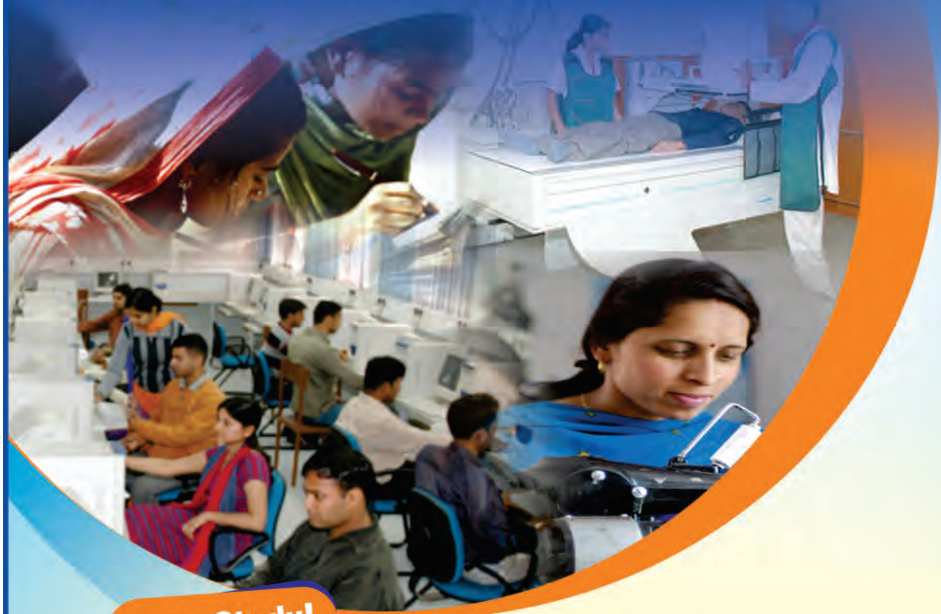

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Let noble thoughts come to us from all sides
Rig Veda

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YOJANA

Chief Editor's Desk

Continuity and Change

The economic management of a country cannot be seen in isolation from the political realities of the times. It is in this context that we need to see the policy pronouncements of the government since its assumption of power in May 2014. The Union Budget 2014-15 is the first major policy announcement of the new government. Riding on the wave of a strong pan-Indian support, the government had to present the budget within 45 days of taking charge. It was obviously a herculean task considering the huge expectation generated in the country with the new government assuming power at the centre. It was also the first time in the last three decades that a political party had obtained full majority on its own. Constraints of coalition politics were removed and the government had wide support across the nation to allow it to undertake major policy changes in tune with its economic vision for the country. However, for a country of India's dimension and complexity, it is neither easy nor prudent to rush into changes which would affect the lives and destiny of millions of people without carefully weighing the various options before it. This is precisely what the Union Budget 2014-15 has endeavoured to do. There is a clear intent of change but with a keen eye on retaining balance and continuity from the past.

The major challenge faced by the government was to spur economic growth and ensure fiscal stability. The growth rate of GDP in India had declined to 4.5 and 4.7 per cent in the last two financial years. The slowdown in the economy was most visible in the manufacturing, construction, mining and transport sectors. The fall in the growth rate was reflected in increased Incremental Capital Output Ratio (ICOR). From 4.1 during the years 2009-11, the ICOR went up significantly in the last two years due to slowdown in growth and under utilization of capacity. Spurring up investment and increasing productive capacity was thus a major policy concern for the new budget. While the debate about 'crowding in' or 'crowding out' effect of public expenditure continues, the government has taken up steps to boost private investment through PPP, FDI and other institutional measures. The emphasis in the new budget is clearly on building an investment friendly policy and institutional climate for its efficient implementation. Initiatives like reducing the ceiling on temporary tax credits from Rs 100 crores to Rs. 25 crores, promise of faster decision making, FDI in insurance and defence, announcement on retrospective tax provision etc. are steps in this direction.

There is a possible trade off between the goals of stimulating growth and maintaining fiscal stability. The magic lies in striking a balance between the two. The budget aims to keep the fiscal deficit under control by raising the tax revenue and bringing down the subsidies. While retaining the fiscal deficit target for the current financial year at 4.1 percent of the GDP, the projection for fiscal deficit for the year 2015-16 is 3.6 percent of GDP which is to be further brought down to 3 percent in 2016-17. At the same time, the gross tax revenue as a percentage of GDP is projected to rise from 10.2 percent in 2013-14 to 11.2 percent by 2016-17. The strategy to achieve a higher tax mop up would be through broadening of the tax base, especially service tax and increased efficiency in tax collection through the use of IT systems. Alongside these, there is an intent to contain subsidy to about 2 percent of GDP by better targetting and reduction in leakages.

However, beyond all the data and figures that dominate such discussions on economic subjects, issues like price-rise, employment, health, education, roads, electricity, harmonious social and political atmosphere, equitable economic status among various sections of society etc. remain the more fundamental questions from the perspective of the common man. The success of any public policy can be judged from its achievement in ensuring these objectives for its people. Perhaps taking the path of 'active inclusion', through increasing productivity and jobs and augmenting human capacity may achieve what remained incomplete in the 'inclusive growth' model. ❑

LEAD ARTICLE

Marginal Realignment of Tactics to Strategy

Ashima Goyal

...a solution to economizing expenditure yet increasing growth is to restructure government schemes so they add to a broad definition of capacity including human capacity. Second, careful targeting of expenditures to alleviate bottlenecks to growth and employment, giving the biggest impact for each rupee spent. This requires re-allocation of sectoral expenditure

THE FIRST budget of a new government is expected to clearly communicate a vision and the plans for implementing it. The desire to meet aspirations through higher growth, employment, better amenities, infrastructure and governance is articulated, but how the measures in the budget are expected to help achieve it is not clarified.

This is unfortunate, because there are several ways in which, despite overall continuity, the budget does nudge towards change .Interacting aspects work consistently to improve outcomes, as the sections below show.

Macroeconomic Determinants of Growth

At the macroeconomic level, there is stimulus for different types of investment and for household saving all of which raise growth. Column 1 in Table 1 gives the percentage difference between the Budget Estimates (BE) of the present budget and those in the interim budget indicating a restructuring away from budget of the previous government. Column 2, with the increase in the 2014-15 July BE over 2013-14 Revised Estimates (RE), gives the expected increase in expenditure that will impact the economy. Column 3 has the similar promises made in the interim budget. Column 4 is an indicator of the feasibility of the promises since it gives actual past performance—the change in 2013-14 RE over actuals of 2012-13.

Column 1 shows a sustained effort, in the current budget, to increase different types of productive expenditures, above what was promised in the interim budget. A substantial increase is promised (Column 2) compared to past increases (Column 4) in Plan revenue expenditure and in capital creation outside the plans—Non-plan capital expenditure and in grants for the creation of capital assets.

Apart from the marginal turnaround in public investment, there are many measures to reverse the fall in private investment and increase its productivity. This is essential to reverse the slowdown in manufacturing. These include temporary tax credits for investment, with eligibility for the investment allowance extended to an investment of Rs. 25 crores, from the earlier threshold of Rs. 100 crores. This will make many micro and small manufacturing enterprises eligible. There is an emphasis on PPPs and the promise of faster decision-making,

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even at local levels, through follow up with the States. An IT enabled e-BIZ single window is to coordinate Central Government services for industry, many industrial corridors and clusters are to be developed.

Promoting Foreign Direct Investment in strategic sectors such as defence production and insurance will also directly increase investment, domestic jobs, technology, and financing. FDI limits have been raised from 26 to 49 per cent so that management and control remain with India. Other concessions have been given with respect to built-up area and capital conditions, especially for low cost housing, and for smart cities.

Additional finance for investment comes from measures to encourage household savings. Rise in the Public Provident Fund limit eligible for tax exemption, easier 'Know Your Customer' norms and one single operating Demat account will encourage financial savings. Instruments such as Real Estate Investment Trusts which will be given pass-through tax status and Public Sector Banks divestment to domestic retail are to bring households back into equity markets. Banks will find it easier to fund long-term infrastructure with the permission to raise long-term funds with reduced minimum Statutory Liquidity Ratio and Cash Reserve Ratio requirements.

The salaried classes who bear the largest tax burden are given some concessions, even as selected industries get excise concessions. These, apart from compensating for the erosion of tax brackets from inflation, will raise demand for industry. Investment and savings tax credits should repay by raising more taxes as they stimulate more growth.

Concrete action to reduce food inflation is limited to a promised sale of food stocks. But the budget does recognise the importance of working closely with States to modify the APMC acts and promises other steps to improve agricultural marketing including improving warehousing and restructuring the Food Corporation of India. Interventions in agriculture are correctly focused on improving infrastructure—irrigation, watershed development, feeder separation in power, roads and housing. Allocations for NREGA are to be maintained but also directed towards asset creation. Facilitating credit into agriculture is to continue. A fund for village entrepreneurship can aid food storage and processing.

Last year fire-fighting reduced the current account deficit and strengthened the rupee, but increasing domestic financial savings and deepening domestic markets are important among longer term measures to maintain a sustainable balance of payments. While taking steps to that deepen domestic financial markets, it is good that the finance minister has not further liberalized foreign debt flows. This should be done only after domestic supply constraints are removed. Improving the domestic business environment will also encourage exports. An export promotion mission is to be established, and special economic zones encouraged.

Resolving Bottlenecks

In the earlier budgets, the composition of fiscal spending increased demand for a varied basket of food, while restrictions in

TABLE 1: Key Budget Figures (per cent increase)

	Restructuring	Expected impact: Present BE	Expected impact: Interim BE	Feasibility
	BE over interim BE	BE increase over past RE		Past RE increase over 2012-13 actuals
	1	2	3	4
Revenue deficit ratio	-3.33	-12.12	-9.09	-8.33
Fiscal deficit ratio	0.00	-10.87	-10.87	-4.17
Primary deficit ratio	0.00	-38.46	-38.46	-27.78
Non-plan capital expenditure	5.17	20.72	14.79	5.79
Total plan expenditure	4.00	20.90	16.80	14.97
Plan revenue expenditure	2.54	21.96	18.94	12.95
Plan capital expenditure	7.47	17.18	9.04	22.82
Total revenue expenditure	15.80	12.86	-2.54	12.77
Grants for creation of capital Assets	14.68	21.61	6.04	19.46
Non-plan revenue Expenditure	0.62	8.46	7.79	12.40
Of which				
Subsidy	1.94	2.01	0.08	-0.61
Social services (health, education, etc.)	2.03	-0.40	-2.40	20.17
Total capital expenditure	6.39	18.80	11.66	14.41
Revenue receipts	1.94	15.59	13.40	17.06
Capital receipts	1.52	7.83	6.22	5.66

Source: Calculated with Budget data available at indiabudget.nic.in agriculture prevented a matching supply response. Large government transfers for consumption added to inflation. The lesson follows that government spending on de-bottlenecking the economy and releasing restrictions on the supply response could be very effective. The quality of fiscal consolidation, therefore, is more important than just reducing spending. Second, transfers should be commensurate with expansions in capacity.

Two factors limit the increase in public investment. First, it takes time to ramp up the system to spend effectively, particularly if the direction of spending has to be changed. Second, the funds constraint prevents a rise in public investment unless there is a fall in other government expenditures. The budget's attempts to change the composition of government expenditure towards investment remain marginal because there is not much economizing on revenue expenditure, there are some tax concessions, and the fiscal deficit target is maintained (Table 1).

Pending the report of an expenditure management commission on rationalization of subsidies, they have actually increased (Table 1) because of a rise in fertilizer subsidy. The total is restricted to 2 per cent of GDP but they still appear to be underfunded. To over achieve the BE fiscal deficit target, the interim budget rolled over some expenditures, forced PSUs to pay large, dividends and sharply cut capital expenditures. Even the markets would be happier with a less ambitious target short-run that removed the need for such stratagems.

The commitment to long-run fiscal consolidation, however, is very much a positive, especially in the Indian context where we are just recovering from extreme external fragility induced by government overspending. But sticking to the letter of the short-run may lose an opportunity to improve the composition. Quality and sincerity of fiscal consolidation matters more. Supply-side factors largely drive inflation but we have

TABLE 2: Central Plan and Sectoral Allocations (Per cent Increase)

	Restructuring	Expected impact: BE	Expected impact: Interim BE	Feasibility
	BE over interim BE:	BE increase over past RE		Past RE increase over 2012-13 actuals
	1	2	3	4
Central Plan Outlay	4.22	-21.10	-24.29	23.20
External budget	-0.09	-3.76	-3.67	32.98
Budget support	9.15	-33.63	-39.20	16.98
Sectors				
Agriculture	15.46	-34.32	-43.12	3.09
Rural Development	6.20	-93.91	-94.27	13.94
Irrigation	24.45	287.28	211.21	5.69
Energy	1.74	-6.99	-8.58	35.29
Industry and Minerals	4.16	11.18	6.74	8.93
Transport	4.66	6.58	1.84	20.45
Communications	-0.08	39.39	39.50	48.40
Science Technology and Environment	7.88	38.43	28.32	12.67
Ministries				
Social Service	5.73	-51.69	-54.31	20.49
Health	9.06	-67.58	-70.27	11.71
Drinking Water and Sanitation	0.00	-98.08	-98.08	-7.43
Health and Family Welfare	9.06	-67.58	-70.27	11.71
Housing and Urban Poverty Alleviation	0.00	77.63	77.63	33.29
Human Resource Development	5.33	-71.43	-72.88	11.40
• Department of School Education and Literacy	7.02	-93.70	-94.11	10.13
• Department of Higher Education	5.00	-0.02	-4.78	15.67
Labour and Employment	22.87	-53.22	-61.93	-0.23
Water Resources	85.43	363.57	150.00	36.45
Women and Child Development	11.25	-94.57	-95.12	7.36

Source: Calculated with Budget data available at indiabudget.nic.in among the highest rates of youth unemployment in the world and need to act vigorously, just as many Western countries are doing to kick start growth.

In effect, there is a gamble on growth. But it is better founded now because of revival of domestic optimism and of international growth. Oil prices have softened and a stronger rupee and automatic rise in diesel prices will reduce the subsidy. More resources can also be raised from divestment because of a booming domestic stock market. Optimistic revenue receipt projections of the interim budget are retained, but they are feasible since they are slightly lower at 15.6 per cent than the 17.1 per cent 2013-14 RE increase over actual values in 2012-13 (Table 1). The odds for such a gamble are more favourable, but there is a risk of old unproductive strategies such as a cut in investment to meet targets hurting growth and raising inflation.

The second issue is to limit transfers to capacity. Re-designing transfers so they build capacity would achieve this, even as they increase equality of opportunity. A stable government , at the beginning of its term, has more freedom to act quickly towards shifting from populism towards productivity. A reluctance to risk a departure from the status-quo would be a dangerous misreading of the election mandate.

Active Inclusion

Voters want good public services such as infrastructure, water, sanitation, health, and education, which facilitate work. According to scholars of political systems (Acemoglu and Robinson, 2012), ensuring broad availability of such services is the way democracy creates prosperity. Indian heterogeneity and vote banks provided a detour that has now run its course.

The 'virtual' middle class has exploded as social media raised awareness. Rural peri-urban migration has created a large neo middle class, and the country's demographic profile has increased the share of youth. All these sections gain more from a good working environment as compared to doles. Even the lower income classes stand to gain as a richer set of jobs become available.

As compared to the earlier mantra of inclusive growth, the new mantra should be 'active inclusion' through increasing productivity and jobs (Goyal, 2014), with direct transfers conditional on nutrition and education (or effective schemes) only for the persistent poor. In addition, good sanitation and water raise productivity yet are the most effective anti- poverty and pro-nutrition schemes.

As compared to the earlier mantra of inclusive growth, the new mantra should be 'active inclusion' through increasing productivity and jobs (Goyal, 2014), with direct transfers conditional on nutrition and education (or effective schemes) only for the persistent poor. In addition, good sanitation and water raise productivity yet are the most effective anti- poverty and pro-nutrition schemes.

There is a push towards infrastructure, housing, water that are the key constraints, alleviation of which would make life much easier for the average citizen. In Table 2, Columns 1 and 2 show a large increase in spending for housing and irrigation.

Sectors

Goyal (2012) argued a solution to economizing expenditure yet increasing growth is to restructure government schemes so they add to a broad definition of capacity including human capacity. Second, careful targeting of expenditures to alleviate bottlenecks to growth and employment, giving the biggest impact for each rupee spent. This requires re-allocation of sectoral expenditure.

There are signs of allocations going up relatively in infrastructure sectors and down in social sectors and ministries (Table 2). But these were largely already made in the interim budget and the present budget continues with the changes. Perhaps the earlier government had realized its allocations had strained the economy, or these were the easiest to cut, or capacity to spend was lacking in those ministries. But Column 4 shows the ministries had spent larger amounts earlier.

There is a bureaucratic legacy that makes it difficult to quickly bring about detailed changes. But the present government is actually increasing allocations for the social sector through higher growth in grants for capital formation that comes under revenue expenditure (Table 1), and raising allocations for labour intensive sectors such as textiles, tourism and construction.

Implementation will also be the key and that, it is hoped, will be the forte of the present government. But it cannot be taken for granted. An index (updated from Goyal 2010), based on the coefficient of variation in the realization of planned central plan allocations, used to rank post-reform governments showed the Congress did the best (-0.6), followed by UPA 1 (-3). NDA was only third (-7.1), although UPAII did much worse (-9.97). Effort will be required to break from the past, and deliver on promises.

Improving Systemic Incentives

Faster decision making requires systems that enable this. Obsolete administrative structures lead to delays. This became clear in 2009, when the share of non-performing bank loans rose as infrastructure projects were delayed. The latter predated the big corruption scandals starting with the CAG report and Common wealth games that blew up in 2010. So, while corruption and the fear of CBI enquiries do create delays, they are not the major cause of government paralysis. But this issue is not addressed in the budget.

Although, the number of ministers has reduced in the present government as compared to the previous government, budget allocations are still made for 49 ministries compared to 50 for the UPA. There is no serious attempt to synergize across schemes and ministries to saving costs. Instead, many new schemes have been announced, with small initial seed capital. The finance minister is, however, using the inability of government to spend effectively to ration initial allocations. It improves incentives if more is given to those who are able to use it well. But supporting institutional changes are required to ensure implementation. New technologies are to be leveraged to improve governance.

Perverse incentives hurt the quality of Indian public services. For example, more than just the amount of subsidies, it is the way they are given that creates problems—subsidies tend to be price and allocation distorting. Minimum Support Price (MSP) and subsidies focused on food grains prevent production from aligning to demand that is changing towards vegetables and proteins. Fuel oil subsidies prevent energy saving substitution; cross subsidization in fuels such as diesel and kerosene create pollution and corruption, imposing serious long-term social costs, such as a rising incidence of cancer in the Punjab. Rationalization of subsidies requires increasing use of direct income transfers.

There are initiatives to reduce high transaction costs and the possibility of unproductive arbitrage, especially in the areas of tax structure and administration. There is a commitment to transparency, simplification, to listen to and rectify complaints. There are legal and administrative changes to reduce tax litigation, uncertainty, discretion and ease access, resident tax payers can also get an advance tax ruling, a high level committee will be set up to regularly interact with industry and respond to issues raised. Mutual fund earnings are subject to capital gains not income tax, removing incentives for arbitrage in fund location and across funds.

The major increase in tax revenue has come from increasing the tax base for services, in line with the expected change to GST. A low rate and large base philosophy suits India's large population size, and meets criteria of fairness, although the growing class of Indian billionaires can afford to contribute more for the country's development. The continuing temporary surcharge on the wealthy could be shifted to a higher threshold and made permanent. Technology, information in the TIN database, and applying a consistent consumption tax through the GST, can all help expand India's low tax base. Only 3 per cent of Indians pay taxes compared to 20 per cent in China. So the potential for expansion is enormous. The budget takes only a very small step in this direction.

Perverse incentives hurt the quality of Indian public services. For example, more than just the amount of subsidies, it is the way they are given that creates problems—subsidies tend to be price and allocation distorting. Minimum Support Price (MSP) and subsidies focused on food grains prevent production from aligning to demand that is changing towards vegetables and proteins. Fuel oil subsidies prevent energy saving substitution; cross subsidization in fuels such as diesel and kerosene create pollution and corruption, imposing serious long-term social costs.

Conclusion

Although, the overall tactics are aligned to the strategy, the alignment is only marginal as yet, because the various strands are not well integrated together to tell a coherent story of how they work together. This is unfortunate because the measures for raising different types of investment, and improving their financing will reinforce each other to raise growth and jobs. As will the focus on employment intensive sectors, infrastructure, housing, agricultural marketing and crop movement. There are also small beginnings in better systems, incentives, composition of public spending and public services. Apart from contributing to growth, these can help improve equality through capacity creation so that the economy does not hit bottlenecks. A composition of government expenditure weighted towards consumption had earlier raised inflation.

But the budget speech does not clearly communicate such a story, preferring to hedge its bets through maintaining continuity with the old, throwing in something for everyone. A failure to articulate can also imply a failure to understand. This is dangerous because politics as usual can fritter away a real opportunity for change. A conscious process is always better implemented.

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Addressing Goals & Priorities in Changing Economic Environment

Ravindra H Dholakia

This particular budget was indeed a challenging exercise not only because it had to be prepared in 45 days, but also because it had to steer clear the fiscal and macroeconomic mess in the economy. The budget has several relevant and significant proposals to achieve the targets set by the FM based on the requirements of the economy under current environment

THIS BUDGET is primarily for the next eight months of the current fiscal. Scope for radical changes and substantial departures from the interim budget presented in February 2014 is limited. Although the expectations of general public from the first budget of the present government ran very high, economists and financial experts recognized the constraints the Finance Minister was facing in terms of the fiscal commitments made by the previous government. Moreover, since the last government passed several Acts giving rights to people for education, employment and food security, FM had limited freedom to make significant changes in the provisions for such items in the budget unless a thorough revision of these Acts with modifications in design and implementation of the programmes is carried out. Given the efficiency of our Parliamentary and Legal system, it will take time and cannot be achieved soon enough to be included in the current budget. After all, 45 days is too short a time period to do well thought-out far reaching reforms and modifications. One would like to tread with caution rather than taking undue risks in haste in such matters.

This is the first of the five budgets the present government is mandated to present at this juncture. The present budget has to be viewed and evaluated in this context. The second criterion for evaluating the budget is the existing and changing economic environment within which it is presented, because it determines and dictates goals and priorities to be addressed.

Economic Environment and Budget Priorities

A lot has been discussed and depicted about the state of the economy over the last two years, when the overall growth rate fell to 4.5 and 4.7 per cent. During these years, however, the growth of agriculture on average was about 3 per cent, which is not bad. It was mining sector that registered negative growth; manufacturing and construction activities practically stagnated and trade and transport decelerated significantly.

Inflation continued to be stubborn at unacceptably high level in terms of consumer prices, leading people to think that the economy was trapped in stagflation. The current account deficit (CAD) in the balance of payments breached the prudent limits of 3 per cent of GDP and remained at unsustainably high level before

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dropping to 1.7 per cent last year on account of declining imports and stagnant exports.

A substantial fall in the growth rate and stagnation in most of the productive activities in the economy including export would lead to a significant fall in employment of both skilled and unskilled labour. It is estimated that a decline of 1 percentage point in the growth of output would lead to about 0.18 percentage point fall in employment and about 0.19 percentage points increase in the people living in poverty. This implies that loss of one percentage point in growth would lead to about 22 lakh people losing their jobs and a similar number pushed below the poverty line. High consumer inflation would make the things worse for the poor.

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Government also did not have any fiscal space left for following expenditure expansion to boost growth and reduce poverty, because there was serious fiscal slippage due to fiscal profligacy and populist unproductive measures. In fact, the FM had practically no alternative but to adhere to the fiscal consolidation targets however incredibly set during February 2014 by his predecessor. However, considering the high cost imposed by slow growth on the society in terms of unemployment and poverty, FM had to give highest priority to boost economic growth maintaining fiscal discipline and simultaneously bring down inflationary expectations. This can be achieved only by restoring investors' confidence in the Indian economy and encouraging households, corporates and public sectors to save more.

Expectations from the Budget

From the first budget of the present government, businessmen, investors and international credit rating agencies would be looking for a broad direction of future reforms, clear strategy for boosting the growth and controlling inflation, commitment for maintaining stability in policy framework and efforts to increase transparency and efficiency of government administration. Simultaneously the middle class, who contribute most to the government tax revenues, expected some relief.

Although the Budget does not make any explicit reference to the Economic Survey 2013-14, it is generally taken as a guiding document for any FM with professional approach for preparing the budget. The Survey provides a SWOT (Strength, Weakness, Opportunity and Threat) analysis of the Indian economy on the eve of the budget and also suggests strategy and roadmap for carrying out reforms in policies, institutions and processes. The Economic Survey indeed has provided all these inputs though with a clear understanding that not everything can be addressed in the first budget. It has actually laid down the path for progress and reforms for the government over the next five years. The FM would have avoided all unnecessary criticisms had he devoted two-three additional sentences indicating his total acceptance and commitment of his government to follow the path suggested in the Economic Survey during his 2-hour long speech.

However, the FM accepted several suggestions made in the Survey without mentioning it explicitly. If it is liberally interpreted to mean acceptance in principle of the other things suggested in the Survey, the government has clarity on the broad direction of future reforms. The Survey clearly states that the laws, institutions and processes have to change from their legacy position derived from the central planning philosophy where *activities are prohibited unless permitted* to the liberal market based philosophy where *activities are permitted unless prohibited* to correct market failures. This theme and its logical consequences on the required change in the governance of the economy are very well described and developed in the Survey.

The FM has given explicit assurances in his budget speech about maintaining stability in policy framework particularly the taxation policy and avoiding any retrospectively effective policy changes. Similarly, the present government has moved fast to break the policy paralysis and started taking several effective decisions to clear long pending project approvals outside this budget. The FM in the budget has also provided several measures indicating the commitment of his government in reviving economic growth.

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Measures to Revive Economic Growth

Economic growth in a year is the outcome of savings funded investment converted to incremental output by the efficient and effective utilization of additional capital. The productivity of additional capital is measured by the ICOR or incremental capital output ratio that indicates the amount of investments needed to generate an additional unit of output in the system. Our investment rate in 2009-11 was 36.7 per cent and our growth rate was 9 per cent on an average. Therefore, the ICOR was 4.1, i.e. about 4.1 per cent of investment would generate 1 per cent growth in GDP. In earlier years, when our growth rate was around 8 to 9 per cent, the ICOR was also around 4 to 4.1. However, during the last three years when we started experiencing policy paralysis, our ICOR increased significantly on account of underutilization of capacity. As a result, our investment rate continued to be high at 34-35 per cent, and yet, our growth rate sharply declined to around 4.5 to 6 per cent.

...the budget has provided substantial boost to growth by encouraging savings in the economy not only by the household sector through explicit tax relief but also by the corporate sector through specific incentives. The government sector would experience higher savings on account of better fiscal discipline and improved business climate and some harsh decisions to cut subsidies resulting in less defaults and more revenues to its enterprises.

Quick and decisive action, , would result in reducing the ICOR and thereby raising the growth rate quickly even with the same rate of investment. This is already happening outside the budget. However, the budget has provided substantial boost to growth by encouraging savings in the economy not only by the household sector through explicit tax relief but also by the corporate sector through specific incentives. The government sector would experience higher savings on account of better fiscal discipline and improved business climate and some harsh decisions to cut subsidies resulting in less defaults and more revenues to its enterprises.

Higher saving rate would provide greater supply of investible funds reducing the pressure on interest rate. Since the budget adheres to the strict and challenging fiscal deficit target, more investible resources would be available for productive investments by the private sector, again reducing the pressure on interest rate. This would encourage both domestic and foreign investment in the economy.It would also be encouraged because assurance for stable policy framework and commitment of not pursuing introduction of any policy retrospectively would reduce the policy related perceived risks of the investors.

Simultaneously on the expenditure front, there are several announcements that would kick-start the economic growth. 8500 km of road construction, clearing SEZs, increasing coal supplies, constructing 100 new smart cities, and incentives to textiles, real estate, warehousing, MSME, shipping, airports, energy including renewable energy, petroleum and natural gas, banking, defense production and tourism sectors provide a real boost to economic activities and thereby to growth.

Controlling Inflationary Expectations

Since it is well recognized in India that the current consumer inflation is largely a phenomenon caused by the supply side factors particularly in the food sector, the budget has made special efforts to provide allocations to augment storage capacity to reduce wastage of fruits, vegetables and food grains and also promised to reform the APMC arrangements to provide more freedom to farmers. This is in line with the suggestions made in the Economic Survey. The budget has assumed that all its measures and the ones taken outside the budget would result in stepping up the growth from current level of 4.7 per cent to about 6 per cent in real terms. It could be conservative, but given the fact that only eight months are left in this fiscal, it sounds more plausible. If the growth picks up by about a quarter, it would substantially ease the supply constraints reducing the pressure on prices.

It then becomes an issue of controlling the aggregate demand, which in India, is conventionally but wrongly considered the sole responsibility of RBI making it anxious to raise interest rates to manage the situation. The correct position is that it is the fiscal policy of the government that can more potently influence the aggregate demand in the economy. By reducing the aggregate spending of the government to only 13.7 per cent of GDP from the previous 14 per cent, the present budget has created space for the private sector expenditures to increase. Tax reliefs would lead to increase in private saving as well as spending including both the consumption and investments.

The credibility of this government and its ability to take the economy out of any macroeconomic mess created in the eyes of the credit rating agencies and international investor community critically hinges on the fiscal discipline shown by it. It is important that the FM adheres to the path of fiscal consolidation to achieve the revised targets of the FRBM (Fiscal Responsibility and Budget Management) Act.

Since the fiscal deficit is reduced from previous 4.6 per cent of GDP to 4.1 per cent, this would result in a downward and not upward shift in the dynamic aggregate demand. This would certainly lead to a decline in the expected inflation facilitating a fall in actual inflation in due course.

Fiscal Discipline

This is the most critical area in any budget and more so, for the present one. The credibility of this government and its ability to take the economy out of any macroeconomic mess created in the eyes of the credit rating agencies and international investor community critically hinges on the fiscal discipline shown by it. It is important that the FM adheres to the path of fiscal consolidation to achieve the revised targets of the FRBM (Fiscal Responsibility and Budget Management) Act. It provides for preparing rolling three year plan to estimate fiscal aggregates and commit to those targets. This path was charted out in the interim budget presented in February 2014 for very broad fiscal parameters. However, the exercise completely lacked credibility for obvious reasons, though the targets given there represented stringent fiscal discipline. For the present new government, therefore, they posed real challenge. The FM has boldly accepted this challenge.

The three year rolling fiscal targets imply several policy decisions of the government that would help the business and national and international investor community in their assessment of opportunities in this country over time (see Table 1).

The fiscal challenge is accepted by the FM in line with the broad political philosophy of their party, which believes in small government but efficient and more governance. The generally used measure for the size of the government is the ratio of the total government expenditure to GDP. It is clear from Table 1 that this ratio is projected to decline steadily over the years. From 14 per cent, it is brought down to 13.7 per cent this fiscal and to 12.5 per cent by 2016-17. The reduction in government expenditure may not represent reduction in services because it is proposed to involve private sector through PPP projects. Thus, the government has declared its intention of not spending unnecessarily and creating room for the private sector spending.

While the gross tax revenue as a percentage of GDP is slated to rise from 10.2 per cent in 2013-14 to 11.2 per cent by 2016-17, it may not be by raising tax rates. It is more likely to be achieved by broadening the tax base in service tax and cyber tax and making the system efficient enough to raise the tax buoyancy. If the economy recovers more than expected conservatively by the FM, he has promised to further provide reliefs to the middle class rather than spending the extra resources. The tax revenue increase estimated by the FM seems to be plausible given the past record.

The subsidies are the most relevant expenditure item besides interest payment on the debt. Since the fiscal discipline would ensure continuous reduction in the fiscal deficit, the debt-GDP ratio is bound to fall substantially. Moreover, the borrowing rate for the government would fall once inflationary expectations fall. Thus, on account of both the lower interest rate and reduced debt-GDP ratio, the interest payment as a percentage of GDP is likely to fall over time.

Subsidies have been posing the major challenge for the fiscal management. Out of the food, fertilizer and petroleum subsidies that together account for Rs. 2.5 trillion out of the total of Rs. 2.6 trillion, petroleum subsidies would be slashed from Rs. 0.85480 trillion in 2013-14 to Rs. 0.63427 trillion in 2014-15. The other two subsidies may increase marginally so that the overall increase in subsidies this fiscal is contained to only 1.5 per cent over the last year. The next year, however, the subsidies would absolutely decline by 4 per cent and thereafter by 5 per cent. This would bring down the expenditure on subsidies from 2.3 per cent of GDP in 2013-14 to 1.6 per cent in 2016-17. In order to achieve this, the current budget has proposed to establish Public Expenditure Management Commission that would streamline various subsidies by properly

Table 1: Fiscal Aggregates as Percentage of GDP at Current Market Prices

ITEMS	2013-14 (RE)	2014-15 (BE)	2015-16 (Target)	2016-17 (Target)
Gross Tax Rev.	10.2	10.6	10.9	11.2
Net Tax Rev.	7.4	7.6	7.4	7.6
Non-Tax Rev.	1.7	1.4	1.4	1.2
Total Expend.	14.0	13.7	13.1	12.5
Subsidies	2.3	2.0	1.7	1.6
Rev. Deficit	3.3	2.9	2.2	1.6
Grants for Capital assets	1.3	1.3	2.2	1.6
Effective R.D.	2.0	1.6	2.2	1.6
Disinv.+Recov.	0.3	0.6	0.7	0.7
Fiscal Deficit	4.6	4.1	3.6	3.0
Debt/GDP	46.0	45.4	43.6	41.5

Source: Calculated from Medium Term Fiscal Policy Statement and Budget at a Glance.

targeting them, plugging leakages and making design modifications.

Another major achievement of the rolling plan is to target a zero effective revenue deficit from the next year, i.e. 2015-16. The revised FRBM targets are in terms of the effective revenue deficit, which is obtained by deducting grants from the centre meant for creating capital assets. The rolling budget targets for the grants meant to create capital assets consider a sharp increase to 2.2 per cent of GDP in the next year from 1.3 per cent this fiscal. This would be achieved as mentioned by the FM through redesigning several grant programs like MNREGA to focus on creation of productive capital assets rather than on consumption orientation.

Concluding Remarks

This particular budget was indeed a challenging exercise not only because it had to be prepared in 45 days, but also because it had to steer clear the fiscal and macroeconomic mess in the economy. The budget has several relevant and significant proposals to achieve the targets set by the FM based on the requirements of the economy under current environment. But unfortunately, being his first budget presentation, the FM could not package the proposals and presentation properly. He should have referred explicitly to the Economic Survey for the roadmap and future direction of the policies of this government, but he did not do it. With the result, he was charged with lack of vision and clarity about future direction. On the contrary, he actually followed several advices given in the Survey for his budget without acknowledging, of course.

The overall impact of the budget and rolling plan for fiscal consolidation would be highly positive on the investment sentiments, business environment, and growth revival and curbing inflationary expectations. The international rating agencies should find this budget extremely positive for investment outlook. On the contrary, if the economy picks up, which it is likely to there are good chances of their upgrading the ratings. ❑

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Push for Higher Education

Five new Indian Institutes of Technology(IITs) and five Indian Institutes of Management (IIMs) are to be set up at a cost of Rs 500 crore. The IITs are to come up in J&K, Chattisgarh, Goa, Andhra Pradesh and Kerala and the IIMs in Himachal Pradesh, Punjab, Bihar, Odisha and Maharashtra. A Jai Prakash Narayan National Centre for Excellence in Humanities is proposed to be set up in Madhya Pradesh. A National Centre for Himalayan Studies is proposed to be set up in Uttarakhand with an outlay of Rs 100 crore. Pandit Madan Mohan Malviya Teachers' Training Programme is also being initiated with an outlay of Rs 500 crore. A school assessment programme is also being initiated at a cost of Rs 30 crore. Rs 100 crore has been earmarked for modernisation of madrassas.

Yamuna River Cleaning : Prevailing Issues and Mitigating Measures

Deepshikha Sharma

The initiatives under YAP are considered to be in the right direction, but the concept of effective implementation would need further engineering inputs, including the way to enhance freshwater flow into the river system

WORLDWIDE, many rivers are polluted like the Rhine (Europe), the Seine (France), the Minnesota (USA), rivers in Scandinavian countries, etc. (Gurjar and Jat, 2008). River pollution has impacted India too, polluting the river basins of Ganges, and Brahmaputra, etc. (CPCB, 2006-07). River pollution mainly arises due to failure in existing infrastructure and policy instruments. According to the United Nations World Water Assessment Programme (UNWWAP) (2003), dams and other similar infrastructure has led to interrupted stream flows in 60 per cent of the world's 227 biggest rivers. The flow rate decreases downstream (d/s), affecting the sediment and nutrient transport, which in-turn brings down the quality of water and impairs the ecosystem health. Similarly, Delhi, produces about 3 billion litres (BLD) of wastewater per day, of which only about half is treated and the rest is released untreated into the Yamuna River, sub-basin of River Ganges (UNICEF, 2008).

India's attempts to clean the rivers started in 1985 with GAP for water-quality restoration of the Ganga River. Based on the CPCB's findings, the Government started Yamuna Action Plan phase I (YAP) in 1993 (CPCB, 2007). The plan was launched with financial assistance from the Japan Bank for International Cooperation (JBIC). The National River Conservation Directorate (NRCD) under the Ministry of Environment and Forests (MoEF), is the executing agency for YAP. The Uttar Pradesh Jal Nigam (UPJN), the Public Health Engineering Department (PHED) in Haryana, the Delhi Jal Board (DJB) and the Municipal Corporation of Delhi (MCD) in Delhi are the Project Implementing Agencies (PIAs). YAP covers three states, namely Haryana, Uttar Pradesh (U.P.) and Delhi (Planning Commission, 2007).

YAP I was scheduled for completion in April 2002, but the planned projects continued until 2003. Initially, the plan was formulated to cover pollution abatement works in 15 towns (six in Haryana, eight in U.P., and one in Delhi), for which JBIC sanctioned a soft loan of Yen 17.77 billion. The beneficiary states turned out to be Haryana (Yen 6 billion), Uttar Pradesh (Yen 8 billion), and Delhi (Yen 3.77 billion). However, in April 1996, the Supreme Court directed adding six additional towns of Haryana under YAP I, which has been funded through the Plan funds of MoEF. In total, 21 towns have been covered under YAP I (Planning Commission, 2007). The

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proposed treatment capacity of 753 MLD was created under the plan, and it was declared completed in March 2003 (<*http://envfor.nic.in/nrcd/NRCD/YAP.htm*>).

The approved cost of YAP I was Rs. 5.09 billion. A saving of Yen 8 billion (equivalent to about Rs. 3 billion) was available in the JBIC assistance package due to the appreciation of Yen against Rupee. These were given by JBIC for additional work in the same 15 towns and thereafter YAP I was extended up to February 2003. In May 2001, an additional amount of Rs.2.22 billion was also approved for the extended phase under this proposal. Of this amount, Rs. 222.8 million was allotted to Haryana, Rs. 1.66 billion to Delhi, and Rs. 296.5 million to U.P. In addition, an amount of Rs. 40.5 million was provided as fees payable to Indo-Japanese consultant consortium. The total cost of YAP I along with the additional package was Rs. 7.32 billion. The funding of the action plan was shared equally between the Central and State governments. However, the funding by the Central Government doubled when in 2001, the contribution of State governments also increased by 30 per cent (Planning Commission, 2007).

Despite diverse activities under YAP I, the river quality was not up to the desired standards (CPCB, 2006-07). It was found that the sewerage component of Delhi has been under-estimated and the STP capacity created by the city government concurrently with YAP remained under-utilized (CPCB, 2006-07).

Therefore, in order to achieve the desired river standards, MoEF, India launched YAP II in December 2004. It was scheduled to be completed by September 2008. JBIC signed a new loan agreement with MoEF on March 31, 2003, based on the works accomplished under YAP I, and sanctioned an amount of 13.33 billion Yen, which is 85 per cent of the total cost estimated to complete YAP II. The total budget sanctioned for YAP II was Rs. 6.24 billion, which was distributed among Delhi (Rs. 3.87 billion), U.P. (Rs. 1.24 billion), Haryana (Rs. 630 million), and Capacity building exercises (Rs. 500 million) (PMC-TEC consortium, N.A.). Since the work had not completed, the plan was extended till March 2011. The total STP capacity sanctioned was 189 MLD <*http://envfor.nic.in/nrcd/NRCD/table.htm*>. It can be seen from the Table 1 that the schemes under YAP II have not been completed in any of the three states resulting in the extension of YAP II.

It has been noted that even though time and investment have been spent, the pollution load in the river has only gone up. The BOD load has increased from 117 tonnes per day (tpd) in 1980 to 270 tpd in 2008 (CSE, 2009).

Table 2 describes the water quality in 1996 and 2009 at various locations in Haryana, Delhi and U.P.

Looking at the impacts of YAP II, the GoI has approved YAP III in December 2011 with an estimated cost of Rs. 16.56 billion and Delhi being the main focus (<*http://pib.nic.in/newsite/erelease.aspx?relid=78052*>). Therefore, it is imperative to study and evaluate various pollution control interventions for Delhi stretch of the River Yamuna.

River Yamuna in Delhi

The Delhi stretch of River Yamuna

Table 1: Statewise Investments and Schemes under YAP I and II

	YAP I			YAP II		
	Delhi	Haryana	U.P.	Delhi	Haryana	U.P.
Cost sanctioned (INR billion)	1.81	2.42	2.82	4.69	6.34	1.15
Funds released by GoI (INR billion)	1.77	1.78	2.40	1.21	0.48	0.58
No. of Schemes Sanctioned	12	111	146	11	16	5
No. of Schemes Completed	12	111	146	0	6	1

Table 2: Water Quality data for river Yamuna (Summer average i.e. March-June)

Station/location	1996		2009	
	DO (mg/l)	BOD (mg/l)	DO (mg/l)	BOD (mg/l)
HARYANA				
Tajewala	11.70	1.20	9.22	1.25
Kalanaur	10.40	1.05	9.10	2.33
Sonepat	9.75	3.00	7.60	7.00
DELHI				
Nizamuddin	0.30	25.00	0.0	23.00
UTTAR PRADESH				
Agra Canal	0.35	26.50	0.00	14.75
Majhawali	0.50	22.00	2.75	16.75
Mathura	8.10	4.00	5.28	8.50
Mathura d/s	8.50	2.50	6.30	8.75
Agra d/s	1.65	9.00	4.67	16.25
Udi	9.71	2.00	9.00	1.00
Auraiya Juhika	8.14	5.00	11.05	4.75

(Sources: CPCB, <http://envfor.nic.in/nrcd/NRCD/Yamuna.htm>)

is one of the highly polluted stretches of the river (Table 3).

Table 3: Annual Average water quality of River Yamuna at Nizamuddin, Delhi, India			
Year	DO (mg/l)	BOD (mg/l)	TC (MPN/ 100ml)
[a]1995	3.4	9.6	386091
[a]2005	1.6	10.00	12200000
[a]2009	0.0	23.00	22516660
Standard	≥ 4	≤ 3	≤ 5000

Values have been taken from CPCB and CWC. Sources: CPCB 2000; CPCB 2006-07; TC: total coliforms; [a] Units: DO and BOD: mg/l and TC: MPN/100 ml; CPCB standard for class C: DO>4mg/l; BOD<3mg/l; TC<5000MPN/100ml

As shown in Table 3, even after completion of YAP I and II, the water-quality of the river does not meet the required standards. Considering the impacts of YAP in terms of water-quality improvement and significant investments in terms of cost and time, there is a need to reformulate river action plans based on impact predictions under various interventions.

The river enters Delhi near Palla village after traversing a distance of about 224km and is again tapped at Wazirabad through a barrage for drinking water supply to Delhi with "zero" or little flow downstream (d/s) the barrage. Afterwards, the river receives untreated or partially treated domestic and industrial wastewater. Again, after traversing approximately 25km (d/s Wazirabad barrage), water is diverted into the Agra Canal for irrigation and again the river is trapped at Okhla barrage. Subsequently, negligible or no water is allowed to flow through the barrage during dry season. Downstream Okhla barrage, the river receives domestic and industrial wastewater generated from East Delhi, Noida, and Sahibabad areas which joins the river through Shahdara drain. Finally, Yamuna receives water through other important tributaries and joins the River Ganga along with an underground River Saraswati at Prayag (Allahabad) after travelling approximately 1370 km (CPCB, 2001–02[a]).

The basin covers 10.7 per cent of the country's area. The presence of five barrages in the river results in highly variable flow conditions in the river throughout the year. During October to June, the river remains "dry" or observes very little flow in many stretches, whereas it is "flooded" during the monsoon period (July-September). In the entire basin, about 6 million hectares of land is irrigated by the river water. The river water is used for both abstractive and in-stream uses, including irrigation, domestic and industrial consumption, etc. (CPCB, 2001–02[a]).

It has been observed that both point and non-point sources contribute to the river's pollution, with Delhi being the major contributor followed by Agra and Mathura.

Water and Wastewater Infrastructure of Delhi

The capital city receives water from three main sources, namely surface water, groundwater, and rainfall. The wastewater generated from domestic and industrial sector finds its way to STPs and CETPs via wastewater drains. However, the water from agricultural sector infiltrates the soil and percolates in groundwater.

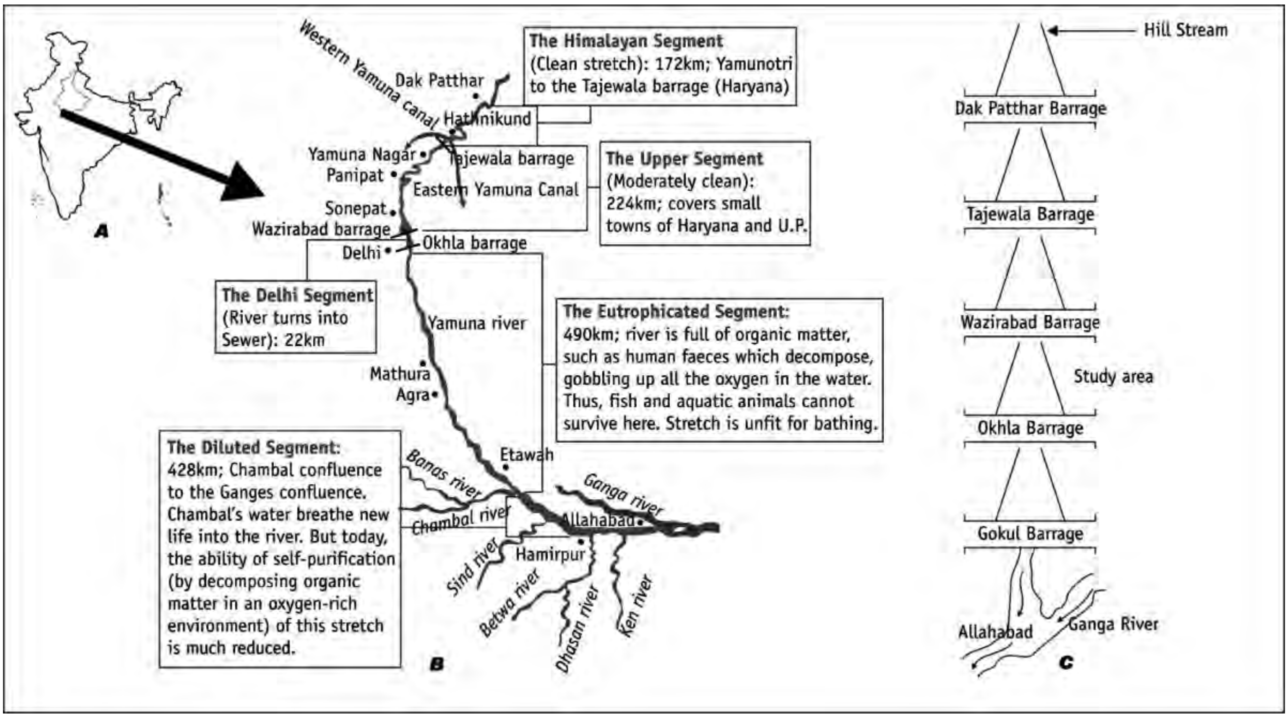

Figure 1: Description of River Yamuna: (A)Basin Map; (B) River Classification according to pollution; (C) Barrages location
*Figure has been adapted from CPCB (2006-07) and modified

All the water from CETPs again goes to STPs. Thereafter, all the wastewater from STPs goes back to River Yamuna via open storm water drains, causing point source pollution to the river. In addition, during monsoon, the urban run-off causing non-point pollution also merges into the storm-water drains, which again terminates into the River Yamuna. Hence, it can be seen that both point and non-point sources combine to form the pollution levels of the river. The wastewater generated in the city is considered to be 80 per cent of the water supplied and is treated by 17 STPs and 13 CETPs and thereafter the water goes into the River Yamuna (CDP-Delhi, 2006).

The river quality drastically deteriorates d/s Wazirabad barrage in Delhi and doesn't meet the required standards due to the addition of 13 drains carrying partially or untreated domestic, industrial, and diffuse wastewater into the river and lack of freshwater flow. The city generates 655.5 MGD of domestic wastewater and only 316.7 MGD is treated via STPs located in the capital (Jamwal and Mittal, 2010). The details of STPs are covered in Table 4. It can be seen that STPs in Delhi are under-utilised as per their capacities. The drains covered under the treatment plants and their respective zones are also mentioned.

The wastewater streams via treatment plants that enter the river at different points along the stretch are given in Table 4. The river also gets direct load from a diversion called Hindon Cut. Drains originating in Delhi and terminating d/s Okhla Barrage include Kalkaji, Sarita Vihar, Tuglakabad, Shahdara, near LPG bottling plant, near Sarita Vihar bridge, and Tehkhand are beyond the scope of the study. The Najafgarh drain contributes to 72.7 per cent of the total wastewater flow and 61 per cent of the total BOD load of the river in Delhi (CPCB, 2006-07). The existing recycling of the wastewater is from Coronation Pillar STP (37.7 MGD), Keshopur STP (19.91 MGD), Rithala STP (5 MGD), and Sen Nursing Home STP (2.2 MGD) (<*http://delhiplanning.nic.in/Economic per cent20Survey/ES2007-08/C13.PDF*>).

According to the 2021 Master plan of Delhi, DJB plans to augment the STP capacity, CETP capacity, and recycling and reuse potential of the city which would result in minimising the wastewater generated into the river Yamuna. The proposed "green-belt" under each zone has also been calculated in the master plan (2021) (MPD-2021, 2007). Such areas are used for agricultural purposes, farm houses or plantation at roadside. DJB has also proposed an interceptor sewer plan to minimise the river pollution.

Cleaning River Yamuna : Interventions

- STP, CETP augmentation
- Interceptor sewerage system
- Installation of tertiary treatment

Table 4: STPs in Delhi

Sewerage Zone	Drains Covered	STP	Present status
Shahdara	Shahdara	Yamuna Vihar	Under utilized
		Kondli	-do-
Rithala-Rohini	Najafgarh+Supplementary	Narela	-do-
		Rithala	-do-
		Rohini	-do-
Okhla	Magazine road, Sweeper colony, Khyber pass, Metcalf house, ISBT+mori gate,Tonga stand, Civil mill, No 14, Power house, Delhi gate, Sen nursing home, Barapulla, Maharani bagh, Kalkaji, Sarita Vihar, Tuglakabad,near LPG bottling plant, near Sarita Vihar bridge, and Tehkhand	Vasant Kunj I and II	-do-
		Mehrauli	-do-
		Okhla	-do-
		Sen Nursing home	Fully utilized
		Delhi Gate	Fully utilized
		Ghitorni	Not commissioned
Keshopur	Najafgarh+Supplementary	Pappankalan	-do-
		Najafgarh	-do-
		Keshopur	-do-
		Nilothi	-do-
Coronation Pillar	Najafgarh+Supplementary	Coronation Pillar I, II and III	-do-
		Oxidation pond Timarpur	Fully utilized

Source: <http://www.dpcc.delhigovt.nic.in>

- Recycling and reuse option
- Flow augmentation

However, in terms of the impact on river-water quality under the scenario of Tertiary treatment options along with recycling and reuse intervention, it is seen that the river does not meet its desired class (Sharma, D. 2013). Therefore, it is important to add freshwater flow to the river in order to achieve the class "C". With water stress on water demand and negotiating success of inter-state disputes on river sharing, it is difficult for Delhi to obtain such an amount of freshwater flow into the river.

Hence, it is extremely important to minimize the sewage generation and wastewater flow into the river by constructing STPs with recycling and reuse options as it would result in improved sewage infrastructure in the city with minimal pollution load to the river. However, due to high wastewater discharge, it would still not result in attaining the desired river class "C". Therefore, considering the money inflow under YAP, it is important to revisit the need of attaining class "C" for Delhi stretch of the river.

Recommendations

The initiatives under YAP are considered to be in the right direction, but the concept of effective implementation would need further engineering inputs, including the way to enhance freshwater flow into the river system. The following section details a few strategies to restore the river's water quality.

Improving Sewerage System

The entire capital must be sewered and all the wastewater should be sent (through pumps if necessary) for treatment and disposal insuring "zero" discharge in the river. It can be done by upgrading the existing STPs, which do not meet the required disposal standards. This can be achieved by establishing alternative drainage systems like canals or 'baandhs' on either or both sides of the river. Most importantly, sewage pumping stations must have 24-hour power backup.

River front development needs to be looked upon as both an economically-viable and environmental-friendly solution to promote the concept of "green city". Riverbanks must be developed as parks with fountains, artificial falls, playground, grassy land, water sports, flow channels, ponds, plantation, etc., which could be used to create artificial aeration facilities.

Augmentation of Assimilative Capacity and Tapping Pollutant Sources

This can be achieved by flow augmentation via impounding the river to use the water stored during the monsoon period and released during the dry periods. Artificial aeration must be done for the stream, its tributaries and the various open drains carrying the wastewater using diffused aerators placed at the bottom of the stream, mechanical surface aerators and creating in-stream cascades.

Therefore, to design any further pollution abatement interventions under YAP, it is important to perform water-quality modelling. The modelling will help the planners to evaluate the proposed interventions prior to their implementation. The recycle and reuse of treated wastewater is also one of the main opportunities, by which water can be used for irrigation, horticulture and industrial purposes. It can also be supplied for cooling the towers in power stations. Other beneficiary options could be groundwater recharge and the treatment and reuse of sullage water. Moreover, it is important to tackle the pollution arising due to non-point sources of pollution, such as from the agricultural fields, direct human and animal bathing in the river, immersion of idols, etc. The diffuse pollution via urban and agricultural run off can be minimized by establishing rainwater harvesting units within the city and sustainable urban drainage systems. The agriculture runoff which directly enters the river can be reduced by constructing filter and buffer strips around agricultural fields adjacent to the riverbank.

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DO YOU KNOW?

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

An Employee Stock Ownership Plan (ESOP) is a kind of employee benefit plan that allows the employees or the workforce of the company to have an ownership interest in the company on a profit-sharing basis. The company sets up a trust fund to which it can either contribute its own stock or cash or borrow money to buy the existing shares through cash contributions to the trust so as to let it repay the loan later. Whatever contribution the company makes to the trust is however, subjected to tax deduction up to a certain limit. The shares allocated to the workforce can be a part of their remuneration for the work done and can be kept in an ESOP trust till the time the employee leaves or retires from that company. The shares in this trust are allocated in the individual employee accounts. The full time employees over the age of 21 years can take part in the plan. But as the individuals attain seniority within the organization, their right to own the shares increases which is called 'vesting'. At the time of leaving the company or retiring, they can get the stock that the company must buy back from them at reasonable market value .In private firms, the employees can vote the shares allocated to them on all prominent issues like relocation or closure but it is at company's disposal whether to pass through the voting rights but in public organization, the employees i.e. the stakeholders must vote on all issues. ESOPs have many benefits pertaining to tax. Contributions to the stock are tax-deducible allowing the companies to receive a current flow of cash by issuing new shares to the ESOP.A company can contribute cash on a discretion basis every year and can have the tax deduction for it. ESOP can also borrow money to buy new shares, existing or treasury shares, and these contributions are tax deducible. In a C corporation, the seller can reinvest the sale proceeds in other securities and thereby avoid any tax on what he gains, once the ESOP has has ownership of 30 per cent shares in the company. Moreover, the employees do not have to pay tax on the contributions they make to the ESOPs.

EXCHANGE TRADED FUNDS

Exchange Traded Funds (ETFs) are investment funds that are traded on stock exchanges much like the stocks and they usually track bond indexes or stock indexes like NASDAQ-100 index, S&P 500 and Dow Jones etc. ETFs can hold assets like stocks , bonds , commodities etc. Being the most popular type of Exchange-traded product, they make for an attractive investment option as they offer tax –efficiency, low costs and stock like features. Buying its shares is like buying the shares of the portfolio that is actually tracking the yield and returns of its native index. One important feature that sets it apart from other types of index funds is that ETF does not try to outperform its native or corresponding index rather they only try to match its performance. ETFs are a combination of features of both a mutual fund and unit investment trust, that can be bought or sold at the end of the trading day at its net asset value, much tradable like a closed end fund. They have been existing in US and Europe since 1993 and 1999 respectively.

One striking feature of ETFs is passive management i.e. the fund manager has to make only minor and regular adjustments to keep the fund on the track with its corresponding index making its administrative costs lower than that of an actively managed fund. ETFs are less prone to have trading of securities that are likely to create high capital gains distributions leading to more efficient return on the investment. Since they depict stock baskets, they are traded at higher volumes than the individual stocks resulting in high liquidity and allowing the investors to change investment positions with minimum risks and expense. Spider (SPDR) which tracks the S&P 500 index is one of the most widely known ETFs trading under the symbol 'SPY'. In India, ETFs so far have infused $ 2.3 billion in the Indian Stocks in the last 4 months, post a $ 1.2 billion sell –off in the first two months of 2014. According to the sources, the markets might have gradual reforms in the regulated sectors and a surge in the investment cycle in the next two years. The markets got $1.5 billion from India –dedicated funds and the rest from emerging market funds in the last four months from the $2.3 billion that were received from the ETFs. Assets under Management (AUMs) of an India centric ETF has gained 37 per cent to $9.2 billion in June as compared to $6.72 billion in April. ETFs have poured $ 900 million in the last one month and around $ 1.8 billion in the last three months in Indian markets. ❑

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Pragmatic Approach to Fiscal Consolidation

Charan Singh
Sharada Shimpi

The Union Budget of the new government may seem to be a continuity of the previous government but has much to offer when analytically examined. If implemented, it will usher in a change in the very fabric of Indian policy making and business thinking in a very short time because it proposes widespread changes in different segments of the economy

THE UNION Budget of July 2014 was prepared in the backdrop of a difficult economic situation. Globally, economy recovery has not been consistently robust and financial markets are not stable. ECB has recently announced negative interest rates while the US has yet not finalized its tapering plan. The scenario in the emerging countries is dismal with growth in BRICS not following a steady trend. India was one of the countries to have been relatively shielded in the initial years from the global financial crisis, but the growth rate of the economy dropped to sub-5 per cent levels in 2012-13 and 2013-14. The downward trend in growth was recorded in all sectors of the economy- agriculture, industry and services. Along with dismal growth, inflation has persistently been high. Though, the average inflation rate measured by Wholesale Price Index (WPI) dropped to 6 per cent in 2013-14, it was still above comfort levels. Also high food inflation has been a cause of concern for quite some time now. While enforcement of policy measures lead to curbing of the gold imports, depreciation of the Indian rupee aided India in boosting its exports in 2013-14. Consequently, current account deficit (CAD) recovered from 4.7 per cent of GDP during 2012-13 to 1.7 per cent in 2013-14 (Figure 1).

Fiscal Indicators

The fundamental objective of the policy stance of the new NDA government, also reflected in the Union Budget 2014-15, is minimum government and maximum governance. In view of the above backdrop, the effort made in the Union Budget of July 2014 in containing deficits and not resorting to higher debt is indeed laudable (Table 1). The budget aims for a sustained growth of 7 to 8 per cent during the following 3-4 years, alongside a manageable current account deficit, a reduced fiscal deficit and lower levels of inflation. The plan laid out for fiscal consolidation is to bring down the fiscal deficit to 3.6 per cent in 2015-16 and further to 3 per cent in 2016-17.

The general slowdown in the economy impacted the revenues from taxes during 2013-14 but with recovery underway, some positive growth is expected in the current year (Table 2). On expenditure, while outlay on defence is constant and interest payments as a percentage of GDP budgeted to decline, that on subsidies would increase mainly on account of food subsidy (Table 3).

Select Policy Announcements

The Union Budget lays emphasis on agriculture, creation of a strong thrust for infrastructure advancement, generation of employment by different

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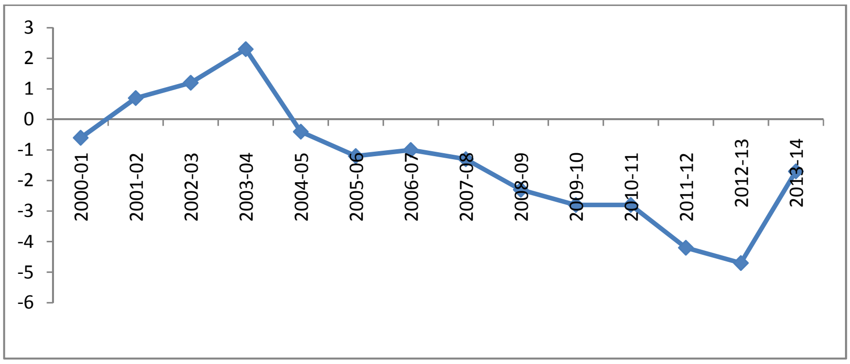
Figure 1: Current Account Deficit (Percentage of GDP)



Source: RBI.

Table 1: Deficits as percentage of GDP

Year	RD	GFD	PD
1980-81	1.4	5.7	3.9
1990-91	3.3	7.8	4.1
2000-01	4.1	5.7	0.9
2010-11	3.3	4.9	1.8
2012-13	3.6	4.9	1.8
2013-14 (RE)	3.3	4.6	1.3
2014-15 (BE)	3.0	4.1	0.8

Source: RBI and Union Budget, GOI.

Table 2: Select Fiscal indicators as percentage of GDP

Year	Tax Receipts	Interest Payments	Subsidies	Defense
1980-81	9.1	1.8	1.4	2.5
1990-91	10.1	3.8	2.1	2.7
2000-01	9.0	4.7	1.3	2.3
2010-11	10.3	3.1	2.3	2.0
2012-13	10.6	3.3	2.0	1.8
2013-14 (RE)	10.2	3.3	2.2	1.8
2014-15 (BE)	10.4	3.1	2.6	1.8

Source: RBI and Union Budget, GOI.

Table 3: Major Subsidies

(Rs. Crore)

Particulars	2012-13	2013-14 (RE)	2014-15 (BE)
Major Subsidies	247493	245452	251397
Fertiliser Subsidy	65613	67972	72970
Food Subsidy	85000	92000	115000
Petroleum Subsidy	96880	85480	63427
Interest Subsidies	7270	8175	8313
Other Subsidies	2316	1890	947
Total Subsidies	**257079**	**255516**	**260658**

Source: RBI and Union Budget, GOI.

means and an overall economic growth.

In view of the fact that a large proportion of the population in India depends on agriculture and allied sector for their livelihood, especially in the rural areas, the Budget has emphasised need for measures to make farming a competitive and profitable activity. The provision of Kisan Television, Warehouse Infrastructure Fund, Price Stabilization Fund, Kisan Vikas Patra (KVP), and Long Term Rural Credit Fund in NABARD and intention to usher in second green revolution with focus on higher productivity are clear indicators of sincere efforts to encourage agriculture sector in the economy.

Housing, construction and real estate are core sectors for economic growth. This industry holds potential to induce employment, promote demand and have a positive impact on other related sectors. With an objective to draw in large scale funding for the investment projects, the Finance Minister expressed intention of providing required incentives to the Real Estate Investment Trusts (REITS) and Infrastructure Investment Trusts (InvITs). As infrastructure projects typically have long gestation periods and substantial requirement of resources, REITS and InvITs may bring in the vital finances, including international finance to spur required growth in infrastructure.

India suffers from a severe shortage of housing, estimated at almost 19 million units in urban India in 2012. The central plan outlay for the Ministry of Housing and Urban Poverty Alleviation has been doubled and the Finance Minister has proposed establishment of a Mission on Low Cost Affordable Housing, to be anchored in the National Housing Bank (NHB).

One of the by-products of growth and development in the economy is the desire for a better standard of living and suitable opportunities. The development of a hundred Smart Cities and consequent modernization activity would positively impact real estate and overall infrastructure. This would also lead to higher investment in modern communication and in the process, infrastructure for telecom sector and information technology would get uplifted.

The announcement of flexibility in coverage of items in goods and services tax (GST) implies that implementation would be smooth and quick. The uniformity of rates and ease in monitoring GST would be a win-win situation for the Centre and states. The pooled Municipal Debt Obligation Facility would not only widen the financing avenues for infrastructure projects and the municipalities but also aid in strengthening of local bodies. The Swachh Bharat Abhiyan would have a positive impact on health of Indians, and especially reduce child mortality rate, as it would directly help to control diseases like diarrhoea.

...various announcements for security and safety of female workforce, including Beti Bachao, Beti Padhao Yojana would help to provide respect and whole-hearted acceptance of a girl child and further take pride in her success at the back of a strong education, a strong career and a contributing role in the economy. This would encourage one-half of the work force of the country to participate in the growth process confidently and competitively.

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Economic Impact of the Budget

To analyze the impact of the Union Budget, consider the key economic issues that plague the economy and were widely debated during the electioneering period - economic growth, employment and inflation. The budget addresses these three issues rather seriously.

The growth in the country would get an impetus because of encouragement to the housing and construction sector through various schemes like real estate and infrastructure investment trusts, tax incentives for housing, and higher allocation for affordable housing through NHB, allocation for smart cities, and new airports in tier 1 and tier 2 cities. As housing has inter-linkages with 269 industries, industrial production would contribute to increasing growth. These growth enhancing measures would positively impact employment situation in the country. In addition, measures to encourage tourism, would directly add to employment in hotel, entertainment, transport and aviation industry, besides other commercial activities.

The Financial Inclusion Mission to be launched on August 15, 2014 for empowering weaker sections of the society, especially in the rural sector would help in expanding financial services to the poor. The use of technology at the back-end of the operations imply a trigger in employment generation in the banking sector in terms of opening of accounts, spreading financial literacy and increasingly providing financial services across the rural country-side.

In addition, there are two more measures which though welfare oriented would contribute to increasing employment like the increase in foreign direct investment in insurance. Insurance penetration, measured in terms of insurance premium to GDP, is less than 4 per cent in India despite numerous efforts by the government in the last decade, including permitting private insurance companies to operate in India. The potential to extend insurance from less than 25 per cent of the population currently covered under life insurance implies more employment opportunities in a young demographic country like India.

The country with a very young and dynamic population has found simple decisions like having a War Memorial or Statue of Unity very nationalistic. These could be developed as national monuments and places of tourism to encourage commerce and employment. The immediate setting up of new IITs, IIMs, AIIMS, agriculture and horticulture universities with a laudable long term objective of having premier educational institute in every state would give boost to youth employability in India and abroad.

In the last few months, it has increasingly become apparent that inflation in India, especially food inflation is a supply side phenomenon and not caused by loose monetary policy. To address the supply side concerns, agriculture and rural sector activities like warehousing have been encouraged. The announcement to reform Food Corporation of India and the working of public distribution system to plug leakages would help in containing agricultural prices, responsible repeatedly for inflation in India.

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Suggestions on Policy Issues

This is a unique Budget which has attempted to infuse a sense of participation in reviving the growth process in the economy. Therefore, a few suggestions in implementation of various schemes are offered –

a) With regard to the food subsidy, the delivery mechanism of channelizing the food to the section actually deprived of food and nourishment would require enhancing the role of local authorities. The local authorities' domain knowledge of the local areas should be taken advantage of, in order to identify the truly needy.

In absence of unique identity number of every Indian, special care would have to be exercised so that there are no leakages in credit proposed to be extended to unbanked households through these new accounts.

b) The reintroduction of Kisan Vikas Patras (KVP) would need careful consideration as during the previous KVP term, there were instances of massive participation by non-kisan individuals. Therefore, this reintroduction may attract numerous discussions on the actual feasibility and utility of the financial instrument.

c) The Financial Inclusion Mission with two bank accounts per household and an initial credit of some amount may be successful in familiarizing the non-banked but can be fraught with vulnerabilities. In absence of unique identity number of every Indian, special care would have to be exercised so that there are no leakages in credit proposed to be extended to unbanked households through these new accounts.

d) The revamping of the existing PDS could also take into consideration distribution of new goods through more than five lakh fair price shops like soaps for better hygiene, and essential medicines and equipment like mosquito nets for healthy living.

e) The expenditure incurred under corporate social responsibilities (CSR) could be tapped effectively for purposes of growth and employment though it is a philanthropic activity for community development. As per the Companies Act 2013, specified companies are required to utilize 2 per cent of their profits for CSR activities. CSR norms are applicable to companies having a minimum net worth of Rs. 500 crore or turnover of Rs.1,000 crore or net profit of Rs.5 crore in a financial year. The activities eligible for CSR are wide ranging and CSR activities by the respective company can be implemented through various methods on their own or by out-sourcing to non-profit organizations. According to industry sources, about 6000 companies in India would be required to undertake CSR activities as well as many small and medium enterprises earning net profit of more than Rs 5 crore. The estimated amount under CSR ranges from a conservative Rs.20,000 crore to nearly Rs. one lakh crore. Therefore, for effective utilization of CSR in nation building, the government may like to consider an accounting or regulatory authority to direct resources in specified areas.

f) The announcement of additional debt recovery tribunals (DRTs), in the face of mounting non-performing assets, should help in planning and hastening an appropriate revival course of action. The need is to strengthen DRTs to make them more effective. Also, there is a general feeling amongst the banking community that DRTs are consumer friendly and have not been successful in substantial amount of recovery for the banking system.

g) The objective of educating youth through setting up of new institutes and universities could be strengthened if foreign universities are also allowed to operate in India. Further, as youth from India find unique ways to migrate abroad but then due to lack of education and training suffer in low paid jobs, the government could consider specific skill formation and facilitating youth migration to respective countries in need of manpower. The Universities from these respective countries requiring manpower could be invited to India to train our youth in soft skills and necessary professional activity. Such well-trained migrants would serve two important functions, one as a brand ambassador of the country and the other, as a rich source of remittances.

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Conclusion

The Union Budget deftly crafted in about six weeks by a strategic thinker and seasoned parliamentarian has followed a very pragmatic approach of Maximum Cooperation and Minimum Resistance. And that probably is a correct strategy in a difficult economic situation, both internationally and domestically.

In recent months because of the mounting CAD, restrictions on gold imports were severe and the expectations from the new government were in terms of easing of import duties and facilitating revival of gold market. However, gold had virtually no mention in the much awaited budget of July 2014. The Finance Minister could have used this opportunity to explain the policy stance of the government on gold.

Further, there is one silent segment of the population, the elderly, which gets neglected in most of the policies of the government. There are more than 11 crore elderly in India, above the age of 60 years, generally female, who are in urgent need of care as nearly ninety per cent of them, associated with the unorganized sector, are not on any sustainable social security program. While some 3 crore elderly who are under the BPL category get about Rs 500 as old age pension, the remaining 8 crore elderly have to fend for themselves. In view of the weak and inadequate public health care system, the elderly have limited access to medical services as many research studies have discovered. In contrast to many countries in Europe, where age related expenditure on health and care is 8-10 per cent of GDP, it is less than 1 per cent in India. Some simple initiatives to help elderly could include respectable amount of universal pension and universal insurance to help them live their sunset years with dignity. The universal pension could increase with age and especially for female survivors. Finally, there is a need to address two things in connection with changing demographics in India. First, there is a need to have a think tank dedicated to ageing to study the problems of elderly and age related financial economics. Second, there is a need to develop science of medical gerontology, an area which is neglected in India.

The Union Budget of the new government may seem to be a continuity of the previous government but has much to offer when analytically examined. If implemented, it will usher in a change in the very fabric of Indian policy making and business thinking in a very short time because it proposes widespread changes in different segments of the economy.

The Finance Minister has correctly adopted an approach to demystify the Union Budget, much in keeping with the international practice followed by other countries where the budget day is a non-event and fiscal policy making is a regular feature, not identified with statement of government accounts. The announcement that monetary policy measures and other welfare oriented issues like malnutrition would be addressed separately as well as gradual rationalizing of the government expenditure like subsidies through a Commission indicates a focused approach towards fiscal issues, given the limited time-frame within which the budget was prepared. The resistance for additional borrowings and incurring higher debt obligation, despite the available fiscal space, demonstrates the commitment to fiscal consolidation. A sober and mature approach has been used in formulating the budgetary policy despite a mandate which would have helped rationalize if not justify fiscal profligacy. The budget, in that sense, is truly laudable and path breaking and sets a way for more reforms through consensus building. ❑

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Towards Some Realism?

S Sriraman

It would be better to look upon the railways as a public corporation in their role developed in the theory of property rights where the managers serves the interests of their principals, i.e. the shareholders- assuming that the private sector would be allowed to participate in the equity base of the railways. This would go a long way in revolutionizing managerial practices and operating procedures to bring about technological changes which are so vital for improving productive efficiency while at the same time, exposing the organization to the financial discipline of the market

THE RAILWAY budget placed before Parliament last week has received a mixed response. On one hand, it has been praised for making a "fair beginning'' while at the same time "signalling realism'' and "moving firmly in the right direction''. On the other, it has received a lukewarm response by way of a passing nod with the comment that it does not help the less –well off sections in any way which, it is claimed, was the hallmark of many previous budgets especially in the past decade. We examine these positions in this brief review of the budget and its proposals. We begin with a brief examination of the existing state of affairs as spelt out as challenges by the Minister and then go on to examine some of the significant proposals.

Issues

For almost the first time in a decade or so, the budget seriously spells out the real and not apparent challenges before the organisation. It admits that even today, we lack effective connections by a mode like the railways in different parts of the country especially to move bulk materials over long distances. This has been brought out explicitly as a major developmental challenge-one that has often been pointed out in the past to the policy makers. The response should be significant and continued governmental support to provide this connectivity as part of the larger plan to develop backward areas. This would obviously mean increasing budgetary support which, in fact, has been declining over a period of time in addition to garnering internal surpluses which has been emphasised upon but never really taken seriously due to lack of implementation of an effective and rational tariff strategy. The latter point is taken up for discussion in some detail below.

The absence of a rational tariff policy has been pointed out as a major issue. The question then arises as to what is the rational approach? In determining prices for the output of multi-product firms like the railways, policy-makers have long faced a number of issues that flow inexorably from the basic economic characteristics of the industry. The endemic economies of scale and scope imply that straightforward measures of cost cannot be used to dictate pricing. Economies of scale imply that marginal cost pricing will not allow the firms to break even. Further, shared costs that are a concomitant of economies

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of scope cannot be unambiguously identified with individual products, so that any rule selected to associate shared costs with individual services will be arbitrary. Such arbitrary measures as fully distributed (or fully allocated costs), therefore, cannot substitute for marginal cost measurements as decision rules for proper pricing and the search for any purely cost based estimate is a remnant of inappropriate reliance on the model of perfect competition. Alternatively, there are sound pricing principles, which promote economic efficiency while simultaneously removing impediments to appropriate reforms for operators. These principles lead to differentiated prices, sometimes referred to as Ramsey prices, which apportion all unattributable fixed and common costs of a railway among its services on the basis of the value of those services to consumers - mathematically expressed as their elasticities of demand. By providing that each service is priced at a mark-up over marginal costs which is inversely related to the elasticity of demand for that service, economically efficient differential pricing combines cost and demand factors in an optimal manner. Hence, where the demand for a service is highly inelastic, a substantial addition must be made to the marginal cost. Where demand is perfectly elastic, revenue above the short-run marginal cost can be used to meet the financial target without distorting the allocation of traffic between services. These principles result in lower prices generally by establishing a set of rates, which encourage the purchase of more rail transportation services thereby creating a larger base over which unattributable costs can be apportioned.

...the point is that railway user charges (especially on high-valued items) cannot be raised beyond the level at which the elasticity of demand for railway transport works against the interests of the railways. In other words, there is no evidence to bear out that the value of service pricing principle that is justified on theoretical grounds is the kind that is found to be practised on the Indian Railways today.

Historically, these principles have served as the theoretical basis for what has been popularly termed the "value of service pricing principle" which has been adopted by a number of railway systems including the Indian Railways. But it must be noted that such an approach was feasible in the absence of any effective competing mode. However, the rapid expansion of road transport services, over a period of time, has severely limited the scope of discriminatory pricing (as it is based on the theory of price discrimination) which used to provide adequate returns to capital and thereby, the surpluses earlier. Essentially, the point is that railway user charges (especially on high-valued items) cannot be raised beyond the level at which the elasticity of demand for railway transport works against the interests of the railways. In other words, there is no evidence to bear out that the value of service pricing principle that is justified on theoretical grounds is the kind that is found to be practised on the Indian Railways today. This is obvious from the observation that the rate-making process has been highly insensitive to changes in the relative advantages of modes (as reflected by elasticities) as is evident from the gradual diversion of high-valued as well as low-valued items from the railways to road transport. Following the recommendations of the High level Committees, there have been sharp increases in freight tariffs over the past three decades. At the same time, the budget points out explicitly that passenger fares have been kept much lower than costs with loss per passenger kilometre increasing from 10 paise per p.km in 2000-01 to 23 paise in 2012-13. It is also obvious that passenger fares have risen much less when compared to freight tariffs. This needs to be corrected over a period of time. But it must be recognised that this can be done only if there are attempts to estimate the proper cost profile of various services. This would further mean that these estimates are derived after careful consideration of efficiency norms that are expected to be in place from time to time. It is only then that a rational tariff pricing policy framework could emerge. Any subsidisation that is required to take into account social considerations resulting from this must be explicitly provided so that the ‘golden dilemma’ – choosing between commercial and social viability is no longer an issue to be dealt with. Economist are unanimous in their view that social burdens carried on equity distribution grounds have no justification on allocative efficiency grounds. However, there could be an externality argument which introduces an altogether different dimension in the case for cross subsidisation. Given that the railways are more environmentally friendly vis-à-vis other modes such as road transport, railway services could be under- priced and resultant losses met by increasing the prices charged by environmentally damaging modes of transport and not by the railways (as a cross-subsidy) or the general body of tax payers. In other words, the era of cross-subsidisation must come to an end as soon as possible.

Rail Budget–Some Highlights

Budget – Estimates

- Total Reciepts – Rs 1,64,374 crores
- Total Expenditure – Rs 1,49,176 Crores

- ✓ Railway reservation system to be revamped into Next Generation e-Ticketing System to issue 7,200 tickets per minute.
- ✓ 4,000 women RPF constables to ensure security of women passengers.
- ✓ 58 new trains – 5 Jansadharan, 5 Premium, 6 AC Express, 27 Express, 8 Pasengers, 2 MEMU & 5 DEMU services
- ✓ Bullet trains to be introduced in Mumbai-Ahmedabad sector
- ✓ Rs 100 crore Diamond Quadrilateral Network of High Speed Rail for Metros
- ✓ WI-FI in A1 and A category stations and in select trains

Budget Proposals

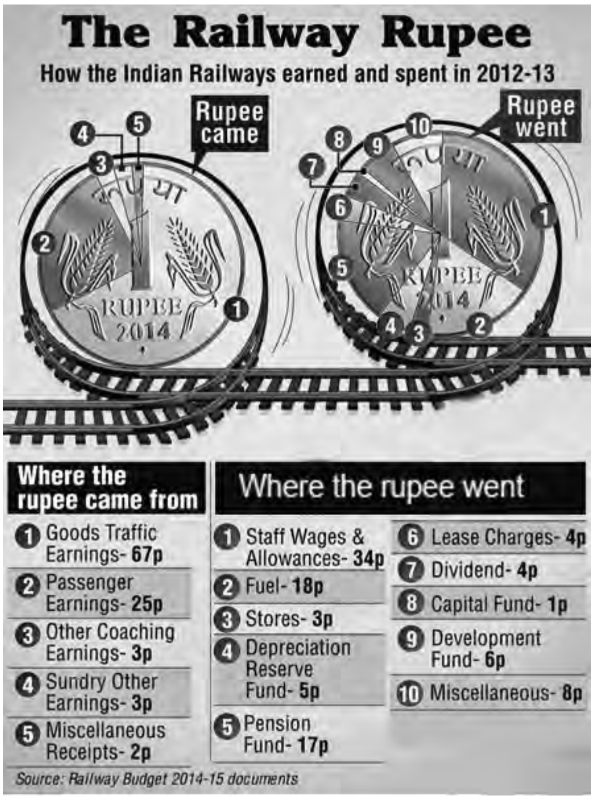
The proposal to adopt a "near-Plan-holiday" is surely welcome given the huge number of accumulated projects, many of them not even having being started. In fact, the White Paper on railway projects brought out by the railways in 2009 was expected to set in motion serious thinking on the way new projects get conceptualized, planned and implemented. This was not attempted. It is still not too late to conduct a thorough review and have a serious look at these so called requirements and even scrap many of them which have not quite taken off. Strategic lines, linkages to backward areas not as yet connected, provision of lines for bulk movement are some of the projects that need to be prioritized. While it is understandable that speeds on high density corridors need to be increased by required up gradation of these facilities, the proposal to allot some funds for preliminary work on high speed rail corridors is something that defies common sense. Though this idea has been in the air for quite some time now with the additional motivation coming from the indication that some foreign governments are willing to finance these projects, it is perhaps not a good idea to pursue these proposals since they are very expensive facilities. The railways are not in a position to fund these projects. The alternative would be a Public Private Partnership (PPP) as has been adopted in the case of the highways. It is well known that many of the sections of the Golden Quadrilateral of the National Highway system in India which have been taken up by the private sector are still far from viable and have required a good deal of funding from the public exchequer based on additional cesses and levies. All this has happened partly because traffic has not materialized to the extent that was visualized. The problem has always been that traffic estimates have been exaggerated. This may be true of daily commuting estimates which are normally expected to be a substantial part of the total movement in the case of bullet trains. Traffic forecasts on the proposed corridors are being attempted but it is felt that movements maybe grossly inadequate to enable such a high cost system to be financially viable. Obviously, if such projects made commercial sense, the private sector would, in any case, find a way to do it. Moreover, having decided to go in for dedicated freight corridors on separate alignments, it would indeed be difficult for the railways to provide new alignments even on an elevated basis. What India needs is up gradation of its railway system especially on long distance routes which involve crucial movements of different commodities. This may require a more extensive network of dedicated freight corridor than has been envisaged. Equally important is the need to expand the commuter transit services in the urban areas besides, of course, providing for seamless movement of people on an inter-regional basis. These responses can be expected to provide solutions to mobility problems rather than bullet trains which may be a romantic solution leading to a problem.

What India needs is up gradation of its railway system especially on long distance routes which involve crucial movements of different commodities. This may require a more extensive network of dedicated freight corridor than has been envisaged. Equally important is the need to expand the commuter transit services in the urban areas besides, of course, providing for seamless movement of people on an inter-regional basis. These responses can be expected to provide solutions to mobility problems rather than bullet trains which may be a romantic solution leadingto a problem.

On the introduction of a number of new trains, it is obvious that they are taking the earlier legacy forward to draw popular support. In this context, it is often been emphasized by experts that there is a real need to examine these possibilities in a detailed way and attempt to prioritize on immediate requirements. With passenger services and freight services sharing common facilities in many parts of the network, the introduction of new passenger services can affect efficient utilization of facilities. It is invariably the case that the demand on certain routes especially short distance ones could be easily met by road transport which is best suited for this purpose.

...there is requirement of a Central coordinating authority that would coordinate policy and implementation matters. Given its historical as well as an emerging significant role that is envisaged, the Indian Railways could take the lead in setting up such an authority. With the proposal to take forward investment in logistic hub, it would be useful for the railways to envisage coordinated efforts with the trucking industry so that multi-modalism as a concept is promoted in a big way.

In attempting to improve suburban services, the plan to encourage seamless intermodal access will be welcomed by the urban commuter especially in the metropolitan cities where despite policy attempts to setup transit authorities to enable co-ordination with other modes, there has been virtually no progress. The railways need to take the local providers of services into confidence while planning intermodal co-ordination. While such attempts will be useful where suburban rail services are already being provided by the Indian Railways, one does not understand the logic of the need to explore possibilities of suburban rail operations in a city like Bengaluru under the auspices of the railways when it has long been decided that such services would come under the jurisdiction of Ministry of Urban Development as far as policy making is concerned and under the local bodies or PPPs as far as provision of services are concerned. It is necessary to point out that a demand for rail type movements in urban areas constitute what are known as 'Local needs' which need to be typically responded to by ‘local supplies’ and not by a



centralized organization like the Indian Railways.

The need to have a project coordination group has been accepted. This is an essential step because there has been little coordination at the project level with the State Governments which has often resulted in long delays and cost overruns. But this is not enough. As proposed by earlier Committees including the more recent National Transport Development Policy Committee, there is requirement of a Central coordinating authority that would coordinate policy and implementation matters. Given its historical as well as an emerging significant role that is envisaged, the Indian Railways could take the lead in setting up such an authority. With the proposal to take forward investment in logistic hub, it would be useful for the railways to envisage coordinated efforts with the trucking industry so that multi-modalism as a concept is promoted in a big way.

From a reform perspective, there is a proposal to separate policy formulation from implementation. This is not a new idea and has been suggested for many decades. To begin with, a well-planned strategy based on recommendations made by many high powered committees needs to be worked out. This could possibly lead to separation of different functions at the implementation stage in terms of the various businesses currently (or even proposed to be) undertaken by the railways. Such a focus can definitely help towards the corporatization of the railways which by no means is an attempt at privatization. The explanation can be as follows: for quite some time now, privatization as a way out has been suggested while emphasizing the role of productive efficiency. Viewed in welfare terms and considering the social burdens that are to be borne, the possible gains in productive efficiency accruing to the railways from privatization could be more than the losses of allocative efficiency and no-commercial output which the country has enjoyed from the historical role that the railways have played in its socio-economic development. But the conventional approach which regards the railway managers as trustees of wider public interest (who are always trying to optimize some form of a social welfare function) needs to be abandoned. It would be better to look upon the railways as a public corporation in their role developed in the theory of property rights where the managers serves the interests of their principals, i.e. the shareholders, assuming that the private sector would be allowed to participate in the equity base of the railways. This would go a long way in revolutionizing managerial practices and operating procedures to bring about technological changes which are so vital for improving productive efficiency while at the same time, exposing the organization to the financial discipline of the market.

To round up, it must be said that the budget does reflect a vision but not a serious plan to implement to fulfil. This needs to be in place soon so that one could expect the details in the next budget. But it must be emphasized that sustainability of the organization should be the primary objective of any plan that is evolved and implemented. ❑

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Road Map for Fiscal Reform

Jayanta Roy Chowdhury

...the new Government's Economic Survey will be judged by what the Government actually does to fulfil the glimpses of the reforms road ahead that it has drawn up. Hopefully, the government will be willing to be bold enough to try some of the recipes suggested

IN HIS first pre-budget Survey of the Indian Economy, the Government outlined a slew of reforms which it feels could be brought in the months ahead.

Though the Finance ministry has indicated that it wished to bring in the Goods & Services Tax in one go, the Survey has given a road-map of what the Government may do in case that fails, by bringing in an interim Central Goods & Services Tax as states vacillate over the measure.

The reforms road ahead also includes plans of trying to reign in subsidies and attempting to raise household savings which in recent years has fallen at a drastic rate in this country.

The Survey forecasts a faster growth of the economy at 5.4 per cent to 5.9 per cent, but warned that "public finances need to be put on a sustainable path. India needs a sharp fiscal correction, a new Fiscal Responsibility and Budget Management Act with teeth".

The Survey consequently makes a case for "keeping fiscal deficit in check without compromising on capital expenditure."

A spike in fiscal deficit if it pays off old unrecognised subsidy related debts and an increase in infrastructure spending could actually be a good thing, instead of adhering to targets which require window dressing of accounts.

GST & DTC

The Survey significantly speaks of implementation of Central GST (CenGST) as a "first step towards GST".

The Survey also clearly maps out that the new Government intends to go ahead with the Direct Tax Code even if it is with some corrections, despite speculation that it might junk it altogether in favour of a completely new law. However, the Survey also makes it clear that corporate taxation rates at the very least need to be reworked downwards as "India stands out among emerging market economies with a high rate of total taxation of corporations."

National Market for Farmers

The Economic Survey marks out agriculture as a major area of reform, promising dismantling of the Mandi Act which disallows farmers from selling their produce directly to consumers. "A national market for food is yet to develop," the Economic Survey complains.

The country's financial intermediation are also indicated to be next in line for an overhaul. It points out that a draft Indian Financial Code exists which aims at replacing a large number of existing financial laws and

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may be pushed into reality soon. It also identifies setting up a Resolution Corporation which will detect and deal with distressed financial firms, a public debt management agency which instead of the Reserve Bank of India, will deal with domestic and overseas borrowings of the Government and an appellate tribunal for financial markets, which will hear appeals against financial agencies.

Keeping CAD in check

The Government also made it clear that it intended to follow measures in place to keep the country's current account deficit in check. "With close monitoring and policies calibrated to emerging contexts upfront, it is likely that the CAD may be limited to around $45 billion (2.1 per cent of GDP) in 2014-15, which is likely to be fully financed by stable sources of capital flows," the Economic Survey for 2013-14 said.

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"After staying at perilously unsustainable levels of well over 4 per cent of GDP in 2011-12 and 2012-13, the improvement in BoP (Balance of Payments) position is a welcome relief and there is a need to sustain the position going forward," it said.

Hiking customs duty in gold and silver to a peak to 10 per cent, improving capital outflows through quasi-sovereign bonds and liberalisation of external commercial borrowings also helped control rising CAD. Gold and silver imports dropped 40 per cent to $33.4 billion in 2013-14.

While pick-up in growth in the advanced economies offers some comfort for growth of exports, a pick up in the GDP growth in the domestic economy, less than adequate pass through of global oil prices to domestic consumers and a complete withdrawal of restrictions on non-essential imports could potentially strain the BoP position.

One way out and possibly the best way out, is of course expanding India's exports. "India should aim to increase its share in world merchandise exports from 1.7 per cent in 2013 to a respectable ballpark figure of at least 4 per cent in the next five years," the Survey said, adding: "India's exports should grow consistently by around 30 per cent annually to reach" that figure.

The Survey said the major potential items of exports to China, other than mineral products, are machinery, mechanical appliances and products of chemicals where around one-third of India's bilateral export potential lies. "India's large trade potential is yet to be tapped in diversified sectors of the Chinese market ranging from primary and labour-intensive products to various levels of technology-intensive products," it said. The bilateral trade between the two countries stood at $68.9 billion in 2013-14. The trade deficit against India during the period was about $35 billion.

Fuel Policy Reforms

While pitching for market pricing of natural gas in the country, the pre-Budget Economic Survey called for restructuring Coal India and allowing private sector participation on mining and hinted at reverting to newer UID avatar for subsidy rationalisation.

"In the field of natural resources where there is global trading, appropriate incentives for exploration and extraction in India are obtained when there is pricing parity with the world price excluding transport costs or taxes," said the Economic Survey.

There will be "under-investment" if India pays lesser price than the world rate for extraction of minerals, the Finance Ministry's economic report card said.

The Rangarajan formula calls for pricing of domestic gas at 12-month average of price prevailing on international hubs at US and UK and actual cost of LNG imports into Japan and the rate at which India imports LNG.

The Survey also calls for shifting towards the revenue sharing model to oil and gas exploration in the country from the current production sharing method, which would make the government a partner in the risk of exploration. "Auction-based procurement or fixed-price procurement has run into many difficulties. These can be avoided by using a percentage revenue share for the government, through which the government becomes a partner in sharing the risks of exploration, extraction and world price fluctuations, alongside the private firms," the Survey said.

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Coal

The Survey has also called for restructuring the behemoth Coal India Ltd quickly to increase output to feed power plants as the country grapples with rising imports. "A Bill to amend the Coal Mines (Nationalization) has been pending in the Rajya Sabha since 2000 and its passage needs to be expedited to permit private-sector entry into coal mining," the Survey said.

"In view of the deceleration in the coal prices in the global market, the government needs to have a stable long-term coal-mining policy to attract private-sector mining once the Act is amended. Since mining involves huge sunk cost, the government should allow only limited number of large domestic companies with proven track record to compete with CIL and also to bring in the latest technology and skills," it said.

The country's coal production was 566 million tonnes in fiscal 2013-14, but demand was in the range of 715-720 million tonnes. Power generation rose 6 per cent in the last fiscal year and 4 per cent the previous financial year. "The gap between demand and supply has consistently been increasing. To fill the gap between domestic demand and supply, the country imported about 146 MT (million tonnes) of coal at a cost of Rs 92,538 crore during 2012-13 and about 169 MT at a cost of Rs 95,175 crore during 2013-14 (provisional)," it said.

Food & Fertiliser Subsidy

The Survey suggested payment of subsidy in cash for those below poverty line through technologies like biometric identification, observing that the current methodology has led to distorted resource allocation.

The Survey also suggested rationalization of fertilizer and food subsidies, despite achieving the fiscal targets in the previous year. Interestingly, it revisits the concept of direct cash transfers and links it with newer developments such as biometric identification and payments through mobile phones It is not clear whether this will mean giving up on the existing `Aadhar scheme' or an improvement of the current scheme.

The economic document said programmes such as food subsidy have huge overhead costs. In other cases, such as the fertiliser subsidy, the expenditures generate a distorted resource allocation that hampers productivity, it said.

All in all, the new Government's Economic Survey will be judged by what the Government actually does to fulfil the glimpses of the reforms road ahead that it has drawn up. Hopefully, the government will be willing to be bold enough to try some of the recipes suggested, for as the economist John Maynard Keynes had said : "There is no harm in being sometimes wrong — especially if one is promptly found out." ❑

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Fiscal Deficit: Trends and Implications

Amiya Kumar Mohapatra

Fiscal deficit reduction should not be done only in the percentage form but also in the absolute figure to get the expected result. Fiscal deficit can be contained to the desired level as proposed by FRBM act to 3per cent of GDP by 2016-17, only through expansion of the economy, tax buoyancy, increase in tax collection, better tax administration, increase tax-GDP ratio and efficiency in expenditure, etc. Improvement in macroeconomic environment, good and maximum governance and above all people's participation are extremely crucial for achieving fiscal consolidation

THE UNION budget of India is not just a financial statement about receipts and expenditure of the government. Rather it is a powerful and effective instrument of bringing paramount changes in the socio-economic conditions of citizens of our country. The rate of economic growth and pace of inclusive development of India very much depends upon background, dynamics and purpose of the budget. Besides, its effects and significance is evaluated in terms of sectoral and regional development in general and well-being of the marginalised group in particular. The main objectives of the budget are to reduce poverty and inequality, to reduce unemployment through job creation, to maintain price stability and foster faster economic development by addressing all the needs of various segments of the society.

Over the years, due to global uncertainty and internal economic upheavals, fiscal policy becomes as significant as monetary policy in India. The development of our nation often depends upon fiscal discipline, fiscal consolidation and above all, containing fiscal deficit at its desired level. Hence, there is a serious need to understand the basic concepts of fiscal deficit and its impact and implication in Indian economy.

Fiscal Deficit and its Implications

Fiscal deficit is defined as *"the excess of government total expenditure over government total receipts except borrowing."* The concept 'except borrowing' highlights the gap between revenue and expenditure without considering the borrowed receipts in the receipts front. More precisely, it indicates how much our country depends upon total borrowing to finance the deficit during a particular fiscal year. The primary component of fiscal deficit includes revenue deficit and capital expenditure. This furnishes a more holistic view of the government's funding situation in terms of borrowings.

Fiscal deficit is used as an instrument of measuring economic growth and debt liability of a country and above all determines the financial soundness and economic wellbeing of the people of a country. The magnitudes of the fiscal deficit can work as a stimulating agent or as a retarding force on the development process of an economy on the basis of its usefulness and malevolence.

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General Implications

- Fiscal deficit measures the total borrowing requirement of a country as a whole during a fiscal year.
- Increase in borrowing raises the burden of interest payment as well as the principal repayment of the government thereby increasing the future liability of a country.
- Large fiscal deficit in itself compels the government to adhere to debt even to finance the interest payment liability, which in turn paves the way to debt trap and vicious circle.
- Financing fiscal deficit through external debt leads to political dependency which may cause unnecessary external interference in the day to day economic activities.
- Interest payment, being a part of revenue expenditure, if increases, may deter other developmental activities as less fund will be available for the growth process.
- Huge borrowing from the market, forces the interest rate to rise which in turn makes private investment more costly and hence private investment gets discouraged. This leads to crowding out effect on private investment.

Specific Implications

Continuous and sustained decline in our GDP growth rate over the last five years, due to various macro-economic factors like global meltdown, increase in current account deficit, shrinking gross saving and falling consumption has compelled the policy makers and planners to adopt and adhere to expansionary fiscal policy. This counter cyclical measure has been adopted to stabilize and strengthen our economy. But this step resulted in high fiscal deficit which has an extended cost on the economy. So to achieve fiscal consolidation, the government has taken a bold stride to reduce the fiscal deficit every year by 0.6 per cent to achieve the fiscal deficit target at 3 per cent of the GDP by the end of the Twelfth Five Year Plan by 2016-17. That is why, the government has set the fiscal deficit at 4.1per cent of GDP in the budget 2014-15 to trigger the process of fiscal consolidation.

However, mounting fiscal deficit and its spillover effects over the years have compelled the Indian government to frame new act to coordinate, control and monitor the budgetary allocation of the government. Government of India has enacted FRBMA (Fiscal Responsibility and Budget Management Act-2003) to achieve fiscal consolidation and prudent fiscal management and to bring efficiency in expenditure in the Indian economy, and as a result, recently fiscal deficit has become a catchphrase and therefore, its dimension and effects have caught the attention of the public in India.

Data Analysis -Trends and Implications

Focusing on Percentage

Estimated fiscal deficit over the last decade (2004-05 to 2014-15) has been taken for interpretation to study immediate past effects and to focus on the present needs and state of affairs of the country. Table-1 shows the estimated fiscal deficit of India from 2004-05 to 2014-15; a post FRBM analysis for better comprehension.

Table 1 confirms that the estimated fiscal deficit has been reduced to a great extent which was 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. This was due to implementation of the fiscal consolidation policy. Fiscal situation of India in post FRBMA period had improved tremendously up to 2008-09 by targeting 2.5 per cent of GDP as the fiscal deficit but later on fiscal deficit shot up to 6.8per cent of GDP in 2009-10 to finance the fiscal stimulus package to combat global meltdown and to achieve higher GDP growth rate.

But post 2009-10, estimated fiscal deficit came down to 5.5per cent in 2010-11, and further to 4.6 per cent in

Table-1: Estimated Fiscal Deficit (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
Estimated Fiscal Deficit (per cent of GDP)	4.4	4.3	3.8	3.3	2.5	6.8	5.5	4.6	5.1	4.8	4.1

Source: *Author's Compilation from Budget Documents of India*

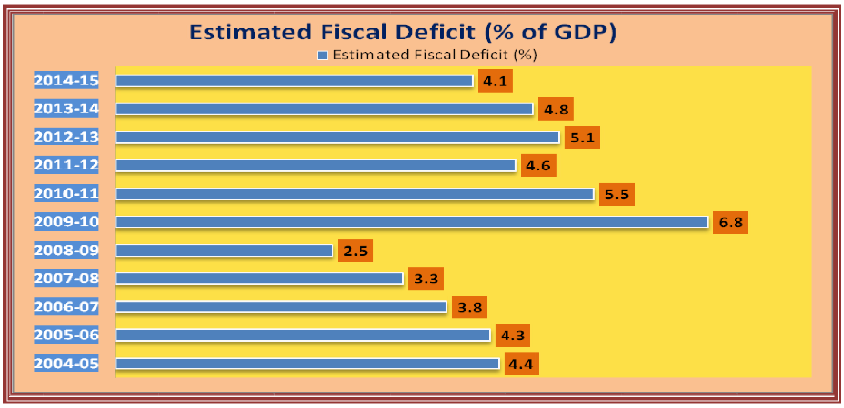

Figure-1

2011-12. This was because of execution and implementation of FRBM Act which has compelled the government to adhere to the fiscal consolidation through containing the fiscal deficit. It increased marginally to 5.1 per cent in 2012-13, that may be due to Euro crisis and persistent recessionary situation in the economy and then descend to 4.8 per cent in 2013-14. But in the recent budget (2014-15), the Finance Minister of India has strictly kept the fiscal deficit at 4.1per cent of GDP as an adherence to Kelkar Committee proposal. This current budget shows serious intent of the government to contain the fiscal deficit no more than 3per cent of the GDP by 2016-17.

Table 2 represents the actual and estimated fiscal deficit after enactment of FRBM Act-2003.The biggest deviation in percentage is credited to 2008-09, which shows miserable management of FRBM act where actual deficit increased by 3.5 per cent of GDP.

Trading on Deviations: Estimated vs. Actual

For a better analysis of what has been planned and what has been achieved, efforts have been made to find out the deviations between the actual and estimated fiscal deficit between 2004-05 to 2012-13. The *'Deviation'* which reflects the definite financial discipline of the government, was in control for the period from 2004-05 to 2007-08 ranging from 0.2 to 0.6. But due to global recession of 2008-09 and economic uncertainty, the government had opted for fiscal stimulus package to fight the recessionary situation in the country, that enlarged the fiscal deficit to 6 per cent as pegged against 2.5 per cent. Post that, the deviation has been in between 0.4 to 1.1 indicating seriousness in respect to prudent fiscal management and fiscal responsibility in India.

Table-2: Fiscal Deficit Deviation

Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
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
Actual Fiscal Deficit (per cent)	4	4.1	3.5	2.7	6.0	6.4	4.9	5.7	4.8	NA	-
Fiscal Deficit Deviation	0.4	0.2	0.3	0.6	**-3.5**	0.4	0.6	**-1.1**	0.3	-	-

Source*: Author's Compilation from Budget Documents of India.*

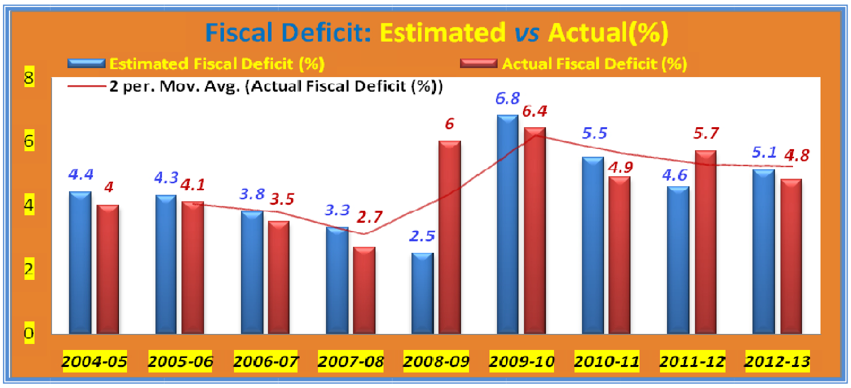

Figure-2

Focusing on Absolute Total

Fiscal deficit reduction should be done not only in the percentage facet but also in the absolute term to perceive and evaluate the real differences. That's why, we should analyze the absolute figures to know the actual financial liability or borrowing of our country.

The actual amount spent in 2004-05 is Rs. 1, 25,202 crores but there is a moderate increase in the subsequent fiscal years up to 2006-07. But later, due to strict implementation of FRBM Act, the actual amount spent has come down to Rs. 1, 26,912 crores in 2007-08. In the year 2008-09, the actual amount has galloped from Rs. 1,26,912 crores (2007-08) to Rs. 3,36,992 crores against the budget estimate of Rs. 1,33,287 crores which is more than two times higher than the absolute fiscal deficit of any previous fiscal years from 2004-05 to 2007-08.

But if we look at the budget estimate, the fiscal deficit of 2010-11 is Rs. 3, 81,408 crores which is little less than the 2009-10 fiscal year. From 2009-10 till 2014-2015, there has been a steep rise in the absolute fiscal deficit, from Rs. 4,00,996 crores to Rs. 5,31,177 crores. In spite of decrease in fiscal deficit in percentage term, the total borrowing of government in absolute terms has increased manifold which is a matter of concern. So, better fiscal prudence could be achieved only when the government is able to arrest the absolute as well as the percentage growth of fiscal deficit in India through efficient budgeting.

If you compare actual versus estimated absolute expenditure of the government, it shows that there is an increase in government expenditure from 2008-09 to 2014-15 except in 2010-11 and 2013-14 fiscal year where a marginal cut was recorded in actual total expenditure.

Government Initiatives

Containing fiscal deficit at the desired level can be done considering several factors that have their own

Table-3: Growth of Fiscal Deficit in India

Growth of Fiscal Deficit in India : A Post -FRBMA Analysis (Rs. in Crores)											
Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Estimated Fiscal Deficit	137407	151144	148686	150948	133287	400996	381408	412817	513590	542499	531177
Actual Fiscal Deficit	125202	146435	142573	126912	336992	418482	373591	515990	490190	NA	-

***Source**: Author's Compilation from Budget Documents of India*

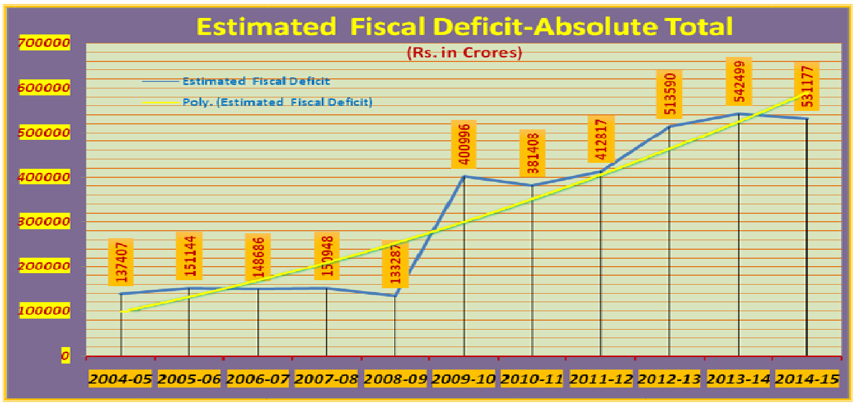

Figure-3

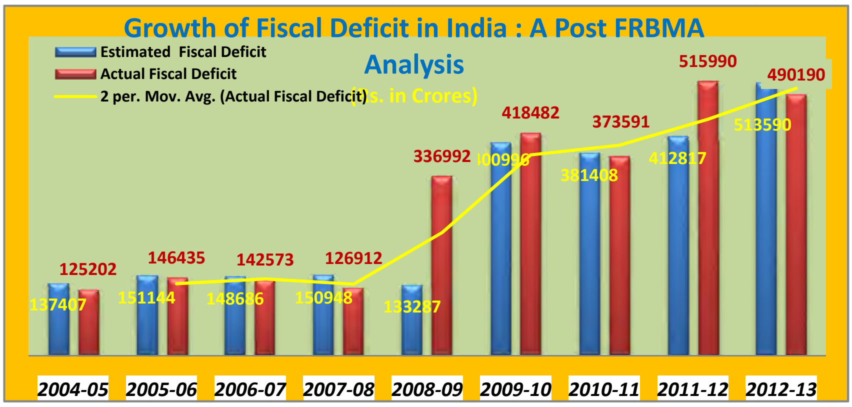

Figure-4

positive and decisive effects. Fiscal deficit reduction should not be done only in the percentage form but also in the absolute figure to get the expected result. Fiscal deficit can be contained to the desired level as proposed by FRBM Act to 3 per cent of GDP by 2016-17, only through expansion of the economy, tax buoyancy, increase in tax collection, better tax administration, increase tax-GDP ratio and efficiency in expenditure, etc. Improvement in macroeconomic environment, good and maximum governance and above all, people's participation are extremely crucial for achieving fiscal consolidation. Few universal measures can be adopted to control the fiscal deficit to achieve the set targets as are explained.

Rationalization of Expenditure

Reduction of expenditure in the true sense is not an easy task as the government has to take a lot of developmental initiatives over a period of time. There is a need to cut the major subsidies on food, fertilizer and petroleum products. Besides, government has constituted *'Expenditure Reforms Commission'* to rationalize various expenditure and allocation of funds among different heads. The intention behind the commission is to rationalize and bring efficiency in fund allocation among different heads and to prevent leakages and shut the loopholes in the process and to ensure that the benefits of the subsidies and other expenditure should reach to the target demography i.e. SCs & STs, women, poor and the deprived population. Greater efficiency can be achieved in the public expenditure within the available limit of resources 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.

Disinvestment

Disinvestment of Public Sector Undertakings (PSUs) in financing the deficit is like selling the family silver and is a matter of great concern as it weakens the welfare and employment creation and income generation front. More specifically, the constitutional provision of socialistic framework will get a big blow due to denationalization. But loss making PSUs and sick units of PSUs need to redeem so that the revenue generated out of this process can be utilized to finance the deficit and will reduce revenue deficit too.

Increase in Tax and Non-Tax Receipts

Efforts should be made to increase revenue by source and amount both at tax and non-tax level. The purpose is to continue to maintain the fiscal deficit within the projected and desired targets. Planned effort has to be made 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 reducing the fiscal deficit to a great extent and can help in achieving fiscal prudence as proposed by FRBM Act. Non-tax as an efficient source can be relied upon by designing scientific non-tax policy. Revenue receipts from non-tax sources being the best can be accelerated by better management of PSUs. This can be achieved by increasing efficiency, controlling corruption and diminishing administrative losses.

Concluding Remarks

The government budget should be designed after understanding the need of the economy, in the context of socio-economic environment and public needs. In fact, democracy loses its shine if the poorer and the deprived masses of our country are not able to share the progress and prosperity of our country, which is visible in various sectors. Hence, deliberate and careful efforts should be taken by the Indian government in preparing the budget in addressing various areas through inclusive and sustainable growth model for the betterment of all and deprived and marginalized segments of the society in particular. ❑

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100 Smart Cities

An allocation of RS 7,060 crore has been made for creation of 100 Smart Cities. As part of this project, the government will modernise existing mid-sized cities by introducing high technology-based interventions in the management of cities. Information technology will be used as a tool for providing services such as an efficient energy system, clean drinking water and proper sewage disposal. The government also announced the decision to not only reduce the minimum carpet area for construction from the existing 50,000 sq mts to 20,000 sq mts as also to reduce the minimum capitalization from 10 million dollars to 5 million dollars with a three year post lock in. This is to encourage foreign investors to develop projects in smaller cities.

Investment Orientation of the Budget 2014-15

Shashanka Bhide

More than the choice of measures to spend and raise revenues, changes in policies, nature of programs and administration of policies, and programs therefore reflect the overall strategy for the budget. As the Finance Minister said in his budget speech, this was a beginning of a longer journey

THE BIG challenges that the Budget 2014-15 had to address were to provide a financial framework for the new government's work program for the year, at a time when annual GDP growth remained well below 7-8 per cent which was once said to be the 'business as usual scenario'. Industrial production had practically stagnated, infrastructure projects were not making progress that was expected and the capital markets were pessimistic. The relief from high food inflation was just beginning to make an appearance when the likelihood of a weak monsoon and oil price rise were casting a shadow on the prospect of stability in prices. Clearly, containing fiscal imbalance was a key goal for the budget at this time. Going with higher deficits when the growth momentum was just beginning to show some signs of recovery of growth implied greater risk. Even with the limited changes in tax benefits, the budget indicated that the revenue foregone on account of various direct tax proposals was Rs 22,200 crore. In the case of indirect taxes, the net increase in tax revenue was Rs 7525 crore, still leaving Rs 14,675 crore to be made up by increased tax base and growth of tax base. In short, the need for increased revenue was quite critical to achieve fiscal consolidation goals. Higher revenues require improved growth performance.

The budgeted central government expenditure of Rs 17.9 lakh crore translates into about Rs 15,000 per capita. It is 13.9 per cent of projected GDP for 2014-15. Combined with the expenditures of the states, the government expenditure would exceed 20 per cent of GDP or Rs 20,000 per capita. While these are not among the high ratios in the world, yet they are significant. The fact that only about half of the central government expenditures are financed by taxes- net of transfers to states- reflects the need for other sources of financing expenditures and improving efficiency of use of resources. The decline in tax to GDP ratio by about 2 percentage points from its peak prior to the global financial crisis of 2008, which the Finance Minister noted has meant that quality of expenditure has to improve to make the expenditures effective. Strategically, the budget was expected to revive economic growth in a significant manner which would also generate much needed resources for social sector programs and creation of jobs.

Against this backdrop, the budget of the new government does not differ at an aggregate level from the interim budget presented by the previous government in February this year. The fiscal deficit target has been retained at

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4.1 per cent of the GDP with a medium term target of reducing the fiscal deficit to 3 per cent of GDP in the next two years.

Signs of New Priorities

More than the choice of measures to spend and raise revenues, changes in policies, nature of programs and administration of policies, and programs therefore reflect the overall strategy for the budget. As the Finance Minister said in his budget speech, this was a beginning of a longer journey. He also said the steps taken in the budget are 'directional', perhaps implying that they are not fully specified in a quantitative manner. It would be, therefore, useful to understand what the goals and approach to achieving these goals would be in the short and longer term.

The budget has increased plan expenditure and capital expenditure at a higher rate over the previous year than non-plan and revenue expenditure, respectively. The budget, therefore, has aimed to push investment spending. The interest payments are projected to increase at a lower rate over the previous year's revised estimates as compared to the increase seen between 2012-13 and 2013-14, an effect of holding a check on fiscal deficit lower in the previous year. Provision of subsidies is also at the same level as in 2013-14, indicating the need for better targeting of the subsidies to make them more effective. In sum, keeping the overall expenditure growth of 12.9 per cent, about the same as in the previous year and an increase in disinvestment revenues by 37,500 crore over the previous year allows the overall fiscal deficit of about Rs 53,000 crore, slightly less than the fiscal deficit in revised estimates for 2013-14. To achieve fiscal deficit goal, therefore, measures were announced on both the fronts: to contain expenditure growth and realize larger revenue from disinvestment in public sector assets.

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Improving Investment Climate

India was always credited with having established a strong set of institutions- political, judiciary, administrative, which promoted enterprise and balance of wide range of perspectives. Although regional and social disparities continue to be wide, a common agenda often emerged to drive economic policies. High growth that leads to more jobs and income spread widely appears to be on this agenda now.

While the budget includes a number of initiatives to nudge private investments, a more important test for the budget is its efforts to improve the investment climate. Is the talk of fiscal prudence, improved tax administration, assurance of better governance, faster and fair decision making process, some tax reforms adequate to assure investors that the cost of business would be now lower than before? Would it be as good as other places where foreign capital travels or even Indian capital travels? Assurance on fair treatment of the 'retrospective' application of new taxes with a comment on the approach to the pending tax demand, at Rs 4 trillion or about half the level of net tax revenues of the centre is an important announcement to clarify the position of the government on the issue.

It is hard to measure sentiments and the proof of any assessment would be in the actual investments. We can only evaluate the weight of various announcements that may have a positive impact on perceptions that investments would yield reasonable returns. After all, one of the reasons for the weak investment realisations in the past couple of years when the rate of investment dropped from 38 per cent in 2007-08 to 36.5 per cent in 2010-11 due mainly to the external economic crisis and further to 30 per cent in 2012-13 due to the so called 'policy paralysis' which itself is hard to measure. The weak investment and growth were not specific to India during this entire period.

An important expectation from the new government was the improvement in governance that would reduce complexities of doing business and more generally in transactions with the government. Admittedly, the government at the centre cannot be directly involved in setting the tone of the governance in the states. But its own steps to improve governance may also influence governance elsewhere for the better.

An assurance was given to take up legislative measures to move to a GST regime on indirect taxes. The large majority of the party of the government in the Parliament should make the passage to GST regime more likely now. Benefits of easing the complexity of doing business from these tax reforms would help in improving the investment climate.

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A second area of building investor confidence is the FDI related stance of the government. The position here appears to be more discretionary rather than based on merits of FDI in influencing competitiveness of businesses. It is not clear if the approach would attract more competitive producers or whether the spillover effects would promote more competitive production effects in the domestic market. Therefore, while FDI ceilings have been raised for more investments to happen in insurance and defense production, FDI norms for the urban real estate projects, in terms of size of the projects where FDI is allowed, have been reduced.

Restrictions on the manufacturing firms on their marketing operations have been eased.

There were therefore, a number of areas, where the budget announcement included steps to assure the investors that administrative and policy initiatives would make business operations more efficient than before. Strong growth, fiscal balance and targeted benefits to achieve more effective delivery of such benefits would form the core of the strategies for the medium term. While the policy stance is positive, what may be needed to turn positive investment climate to actual investments is the beginning of actual investment related decisions by the government. There are indeed many real constraints beyond the sentiments that constrain growth. The first run up to high growth in 2000s was derailed by global crisis and the inability to address the traps and spillovers of the high growth.

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Private Investment and Private Sector Participation in Development Projects

Given the investment requirements of high growth, fiscally prudent strategy will require reliance on private sector to mobiles investments and for the public sector to mobilise resources from the market and own savings. It was important, therefore, that the government spending was given at a relatively modest push, reducing its dis-saving. The budget also had to provide incentives to private saving. It has done so by providing relief on income tax, some of which may translate into higher saving. The Kisan Vikas Patras have made a comeback.

The budget has signaled private sector to take the initiative to launch investment activity. The incentives offered in the budget include some direct ones, some indirect ones and more that are likely to come from creating more efficient functioning of the government. The FDI limits were raised in insurance and defence pro duction. Several tax administration measures were announced to remove some anomalies, customs duties were adjusted either to address the distortions or to provide protection to domestic producers. Opportunities for PPPs were expanded by announcing a number of initiatives in infrastructure, urban development and water resources.

The indirect incentives to investment focused on reducing the cost of funds for investment: for housing by providing tax relief to the home buyers, for infrastructure developers by exempting the charges of SLR and CRR on lending by the commercial banks.

The budget speech focused on agriculture, manufacturing, urban development, infrastructure and water resources for renewed attention in policies and programs.

One hundred smart cities is perhaps an expression to achieve modernisation of urban India at an accelerated pace. The issue that has plagued urban development is the ability to coordinate infrastructure development and its maintenance. While finances are at the core, it is also the institutional framework for managing urban services that is affecting the quality of urban development. An important consideration that must be a part of the new initiative on urban development is the need for meeting the needs of the cities in an inclusive manner and not just the middle and high income households. The housing and habitation requirements of low income households must be a part of the smart cities. The initiatives on affordable housing are a recognition of the need for a comprehensive approach. Besides the new cities, rejuvenation of the old cities would be equally important to take the benefit of advantages the existing cities enjoy.

It should also be recognized that urban development is possible only when it is also commercially sustainable, besides the availability of other infrastructure services. Synergies between manufacturing growth and urban development need to be strengthened so that the commercial and environmental sustainability of India's overall economic growth strategy becomes viable. The development of special economic zones and industrial corridors, with synergetic development of industry and urban areas will require stress on efficient management of urban services as much as the development of physical infrastructure.

To make the case for new investments in manufacturing more compelling, the budget has supplemented the tax incentive scheme for new investments that was proposed a year back. There are also tax incentives for the power sector.

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At a broader level, the need for PPPs in infrastructure development has been strongly reiterated. The opportunities are obvious. Lessons from the experience of last decade or more would be very valuable to make the PPPs play their role in infrastructure development.

Are these adequate measures to catalyse new investments? The quality of the governance process will hold the key.

Threats to Sustained Levels of Investment Flows

Agriculture and infrastructure have received great attention in the recent previous budgets also. More generally, the goals of inclusive growth, poverty reduction, food security for the consumers and fair returns to the farmers, raising the manufacturing output are often articulated goals.

Vision of a manufacturing revolution taking the share of GDP from manufacturing to 25 per cent from the current 17 per cent and creating 100 million jobs was put forward in the last couple of years. Infrastructure development has been seen as the key area for accelerated investments in the Eleventh and Twelfth Five Year Plans.

The actual performance fell well below expectations. The issues of land acquisition, environmental clearances, corruption became the hurdles. Building political consensus around difficult issues was also a challenge.

The Twelfth Five Year Plan actually talked about three alternative scenarios that may unfold: an ideal scenario of sustained high growth, a medium growth scenario and a scenario where the medium term economic growth may be just about 5 per cent per year. The need for appropriate institutional mechanisms and governance were seen as essential to address the different imbalances and achieve efficiency of investments. The budget has proposed setting up of a mechanism to address and unblock the investments. While the political processes may offer mechanisms to mediate the concerns arising from inequities, regional imbalances in investments, and other adverse consequences of new investments whether from environmental or other perspectives, it would be necessary to have institutional mechanisms where mediation can be more efficient.

The demands on natural sources of land, water and clean air will be more intense and prices may not be adequate means to allocate these resources across competing demands. Many of the concerns would be local and there is a need to address these concerns quickly and effectively.

Significant changes in the allocation of government expenditures that can either bring in new private investments directly or help improve the conditions that can attract new private investments can be expected only if the kitty for government expenditures expands. Until that happens, the initiatives that change the current institutional mechanisms to bring in private sector resources across all sectors would be necessary.

The vision of sustained high growth based on accelerated investments largely by private sector will, require well- coordinated and effectively implemented policies. The facilitating legislative and administrative steps needed to achieve significant and sustained growth are now required more than before. ❑

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Poverty and Malnutrition: Key Issues for Better Outcomes

Aasha Kapur Mehta
Sanjay Pratap

Who ensures that x per cent of households that are poor in 2014 move out of poverty by 2015 or 2016? Are efforts made to track sustainability of this movement out of poverty and declare villages and towns poverty free? What measures are taken to prevent people who are not poor from becoming poor or address specific vulnerabilities to poverty? Are these vulnerabilities specific to individuals or occupations or groups or spatial or geographical locations? These are issues that urgently need to be addressed

AMONG THE many commitments made by the new Government that has just come to power is the treatment of extreme poverty and malnutrition as a national priority as well as high priority to the health sector. While Budget 2014-2015 tries to translate these commitments into budgetary allocations, it is important to note that these words have been heard before in budget and other speeches. Since Independence, the Government has implemented a large number of programmes and schemes in an effort to reduce poverty and address malnutrition. A few schemes, such as the Integrated Child Development Services Scheme (ICDS), were initiated almost four decades ago. Some such as National Rural Health Mission (NRHM) are more recent. Still others, such as the Right to Work based MGNREGA are based on significant experience with various versions of national employment generating schemes.

This paper tries to focus attention on two questions. First, why does poverty persist on such a massive scale despite such a large number of programmes and schemes that seek to address it? Second, it uses two large programmes, ICDS and NRHM, to ask what are the key issues that need attention while implementing this large array of programmes and schemes so that we achieve better outcomes?

Massive Poverty still an issue: Why?

We have a large number of programmes and schemes for addressing different dimensions of poverty and some of these are listed in Table 1. However, as can be seen from column 2, not a single one of these programmes and schemes, commits the State to providing a minimum level of subsistence either at the level of the individual citizen or that of the household. Among the schemes for employment and self-employment generation, MGNREGA is not designed to provide work that generates adequate annual income for a household to cross the poverty line. There are risks associated with income generation based on self-employment and self-help group based programmes and the income generated may not be adequate for moving out of poverty. Accrual of income from participation in these schemes depends on the kind of investment that the individual makes and the returns that flow from it.

Within a household that is not poor could be women, older persons

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Table 1: Poverty Alleviation Programmes and Schemes : Adequacy and Entitlement				
Programme/ Scheme	**Does it provide minimum subsistence?**	**Who is entitled: Household or an Individual?**	**Is it tied to work?**	**Do children benefit?**
Employment and self-employment				
Mahatma Gandhi National Rural Employment Guarantee Act	No	Household	Yes	*
Swarnjayanti Gram Swarozgar Yojana	No fixed return	Individual/ SHG	Yes	*
Swarna Jayanti Shahari Rozgar Yojana				
(i) Urban Self-Employment Programme	No fixed return	Individual	Yes	*
(ii) Urban Wage Employment Programme	No	Individual	Yes	*
(iii) Support to Training and Employment Programme for Women	No	Individual	Yes	*
Self-help groups and microfinance	No fixed return	SHG	Thrift and credit/ loans for work	*
Nutrition and education				
Targeted Public Distribution System	Subsidised food	Household	No	*
Integrated Child Development Services	No	Individual	No	Yes
Midday meals	No	Individual	No	Yes
Sarva Shiksha Abhiyan	No	Individual	No	Yes
Health and health insurance				
National Rural Health Mission	No	Individual	No	Yes
Janani Suraksha Yojana	No	Individual	No	Yes
National AIDS Control Programme III	No	Individual	No	Yes
Aam Admi Bima Yojana	No	Individual	No	*
Rashtriya Swasthiya Bima Yojana	No	Individual	Yes	*
Infrastructure and basic services				
Pradhan Mantri Gram Sadak Yojana	No	Community	No	*
Indira Awaas Yojana	No	Household	No	*
Total Sanitation Campaign	No	Household	No	Yes
Bharat Nirman	No	Household/ Community	No	*
Jawahar Lal Nehru Urban Renewal Mission	No	Community	No	*
Accelerated Rural Water Supply	No	Household	No	Yes
Integrated Watershed Management Programme	No	Household	No	*
Backward Regions Grant Fund	No	Community		
Programmes for specific groups				
Scheduled Caste Sub-Plan and Tribal Sub-Plan	No	Community	No	*
Integrated Child Protection Scheme	No	Individual	No	Yes
National Old Age Pension Scheme	No	Individual	No	No
Kishori Shakti Yojana	No	Individual	No	Yes

Note: * indicates that children benefit as part of the household.

Source: Mehta, Aasha Kapur and Pratap, Sanjay, (2014). Policies and Programmes: Analysing ICDS and NRHM to Understand What has Worked, What has not and Why? CPRC IIPA Working Paper 48, IIPA.

and differently abled persons who are disadvantaged and poor. While the National Old Age Pension Scheme, Widow Pension Scheme or Disability Pension Scheme address these concerns, the level at which the pension is set is inadequate for survival.

Commitment by the State to work in convergence across all Departments to launch a concentrated and focused attack on poverty is missing. Programmes and schemes are delivered as bits and pieces without an overall commitment to ensuring that the aggregate of programmes and schemes will enable individuals or households to move out of poverty or prevent entry into it. What is needed is objectively verifiable identification of who is poor and why? Who has moved out of poverty and how? What are the factors that have led someone who was not poor earlier to become poor and how can that be prevented? Is the person poor because he or she was born in a poor household? Or did he or she become poor because of ill health or illiteracy or lack of skills or loss of assets? What specific interventions are needed (and made) to move him or her out of poverty? How does the State track progress in moving people out of poverty in each village? Who ensures that x per cent of households that are poor in 2014 move out of poverty by 2015 or 2016? Are efforts made to track sustainability of this movement out of poverty and declare villages and towns poverty free? What measures are taken to prevent people who are not poor from becoming poor or address specific vulnerabilities to poverty? Are these vulnerabilities specific to individuals or occupations or groups or spatial or geographical locations? These are issues that urgently need to be addressed.

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ICDS and NRHM: Key Programmes

How can we achieve better outcomes through implementing the plethora of programmes and schemes aimed at reducing poverty? This section of the paper reviews two key programmes, ICDS and NRHM, to identify some of the key implementation issues that need attention. Many of the identified issues are applicable in the context of improved delivery of other programmes and schemes as well.

Malnutrition is caused by a large number of factors that include lack of access to medical attention, lack of immunization, ante and post natal care and emergency care, low levels of institutional delivery, high disease load; lack of access to food, nutrition and health education, early marriage and pregnancy, anaemia among women, low birth weight babies, poor cultural practices, poor quality of water, poor sanitation etc (Saxena cited in Mehta, Pratap and Ali 2012).[1] While recognising that several interventions are required to address malnutrition, it is important to point out that both ICDS and NRHM have a critical role in addressing malnutrition. As mentioned in the Budget documents 2014-15, ICDS has recently been revamped and strengthened and is universally accessible.

Budget 2014-15 has made an allocation of Rs 18,195.00 crore for ICDS in the current year. In order to universalize the scheme, the Government has approved a cumulative number of 7076 projects and 14 lakh Anganwadi Centres/ Mini Anganwadi Centres, including 20,000 Anganwadis on demand. The ICDS scheme has now been merged with National Nutrition Mission (NNM) and World Bank assisted ICDS Systems Strengthening and Nutrition Improvement Project (ISSNIP). The total allocation increases to Rs 18,691.00 crore during 2014-15 (Rs 300.00 crore for NNM and Rs 196.00 crore for ISSNIP) (*Ministry of Finance Expenditure Budget 2014-15, Volume I: 39-40*).

National Rural Health Mission (NRHM) has been renamed as National Health Mission (NHM) with the aim to achieve progress in providing universal access to equitable, affordable and quality health care, which is accountable as well as responsive to the needs of the people. Important initiatives for reducing child and maternal mortality as well as stabilizing population have been taken, immunization has been accelerated, and human resources development and training of doctors, nurses and paramedics have begun in all earnest. All the States have operationalised the Mission and the Health Delivery System is being rejuvenated through additional management, accountancy and planning support at all levels. By placing Accredited Social Health Activists (ASHAs) in every village, basic health care has been brought closer to the vulnerable groups by giving a boost to health education and promotion. AYUSH systems have also been integrated in NRHM (*Ministry of Finance Expenditure Budget 2014-15, Volume I: 39*).

Location of AWCs in upper caste localities creates access barriers for children of dalits, tribals, minorities, other backward classes and the poorest. Spatial mapping of facilities is therefore important not just at the level of the district or block but also within each village.

Implementing Programmes for Better Outcomes

How can better outcomes be achieved through ICDS and NRHM or NHM?

Spatial Mapping: Spatial mapping can be very useful for identifying where AWCs are presently located in any village or slum and which areas are un-served or under-served. Location of AWCs in upper caste localities creates access barriers for children of dalits, tribals, minorities, other backward classes and the poorest. Spatial mapping of facilities is therefore important not just at the level of the district or block but also within each village. How many AWCs should there be in a village or slum based on population norms? If the number of existing AWCs is below this norm, new AWCs should be set up on priority in the poorest areas of each village or slum. Equally, spatial mapping is very useful for determining where Sub Centres, PHCs and health facilities are located and what gaps need to be bridged (Mehta and Pratap 2014: p 86).

...priority in resource allocation should be for making Subcentres and PHCs functional in high burden districts and blocks as problems of inadequate availability of health care services and shortfall of doctors, nurses and staff are "exacerbated" by wide geographical variation in availability across the country. Lack of public health services leads to out of pocket expenditures and high financial burden in case of ill-health.

High burden or worst affected blocks and panchayats: Concentrating resources and efforts in high-burden pockets in each panchayat, block and district is important. Unless concerted efforts are made to improve performance in the worst affected blocks, it will be difficult to achieve targets with regard to either reduction in malnutrition or elimination or control of specific diseases. For instance, reduction in leprosy prevalence rate from 1.8/10,000 in 2005 to less than 1/10,000 has been achieved nationally (NLEP 2013 cited in Mehta and Pratap 2014: 53)[2]. However, this has not been achieved in every block. Similarly, the increasing cases of multi drug resistant tuberculosis need to be addressed. It is important to identify and treat cases in specific locations especially in urban slums as well as patients being treated in the private sector.

The boat clinic in Assam and Kerala is an innovative response to meeting the health needs of the people living in geographically isolated inaccessible areas (Government of Assam, undated). Mobile Medical Units can be used effectively to rapidly deliver health-care services to areas that are remote. However, availability of MMUs is skewed with 488 out of 2134 MMUs in Andhra Pradesh, 385 in Tamil Nadu and 329 in Odisha in 2012 (Rural Health Statistics 2012).

Infrastructure: Poor infrastructure or location of Anganwadi Centres (AWCs) in verandahs or in dilapidated spaces with no toilets or water or near dirty drains does not work. Lack of clean surroundings, toys, play kits, weighing scales and charts affect the demand for AWC services (Mehta and Ali 2008). Efforts are underway to rectify this during the Twelfth Plan by re-positioning AWCs as places of "joyful learning" and locate AWCs in Government schools and permanent structures with improved facilities and infrastructure (Twelfth Five Year Plan, Volume III: 190). This is important if AWC services are to be demand-led rather than supply driven.

If AWCs cannot be housed in permanent structures and clean surroundings, adequate allocations for rent must be provided. In the same way, priority in resource allocation should be for making Subcentres and PHCs functional in high burden districts and blocks as problems of inadequate availability of health care services and shortfall of doctors, nurses and staff are "exacerbated" by wide geographical variation in availability across the country. Lack of public health services leads to out of pocket expenditures and high financial burden in case of ill-health. Shortfalls in essential infrastructure and drugs need to be corrected. No individual should fail to secure adequate medical care because of inability to pay. The State must take responsibility for access to quality health care (preventive, promotive and curative) for all, with special responsibility for vulnerable groups.

Lack of public health services leads to out of pocket expenditures and high financial burden in case of ill-health. Shortfalls in essential infrastructure and drugs need to be corrected. No individual should fail to secure adequate medical care because of inability to pay.

Workload, Motivation and Training

The motivation and commitment of staff is critical to the success of both ICDS and NRHM. Vacant posts need to be filled, workload rationalised, supportive supervision provided and issues of vulnerability and exploitation addressed. Burdening ICDS functionaries - whether Child Development Project Officers (CDPOs), Supervisors, Anganwadi Workers and Helpers (AWWs and AWHs) - with non-ICDS related tasks and participation in non-ICDS events takes time away from the primary duties of the functionaries (Mehta, Pratap and Ali 2012).

Persistent shortage of service providers such as doctors, nurses, health workers, auxiliary nurse and midwife (ANMs) and severe shortage of specialist doctors at Community Health Centres (CHCs) need attention.

The ICDS programme assumes that each Supervisor will be able to monitor the functioning of 20 to 25 AWCs, scattered over a large geographical area. Expecting that Supervisors will regularly visit far flung AWCs located in areas with little or no public transport is a design flaw that leads to failure to achieve requisite outcomes in malnutrition reduction. Where AWCs are located in remote areas with poor connectivity, safety concerns of Supervisors must be addressed and transport arrangements made. The number of AWCs to be monitored by a Supervisor must be reduced significantly for successful implementation.

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Regular training and upgradation of skills of ICDS and NRHM staff is important.

Voluntary Work and Poor Payments:

So called "voluntary" workers – whether AWW, AWH or Accredited Social Health Activist (ASHA) - are the pivot on which effective delivery of the ICDS and NRHM depends. They are paid an honorarium and lack job security. In the interest of better delivery of the ICDS as well as gender justice, long-standing unmet demands for secure work for those appointed as AWWs, AWHs and ASHA workers, must be met.

Outreach: Assuming that people will come to the AWC or PHC does not work. Efforts at reaching out to the target population makes a difference. Malnutrition decreased significantly in Odisha and Chhattisgarh through the *mitanins* chosen by the local community and trained and supported by a block training team, the auxiliary nurse midwife and the AWW. 'What has worked in the mitanin-model has been its outreach - rather than a centre-based approach which helped provide services at the doorstep of all rural families of the state'. Therefore, mechanisms must be put in place for panchayats to review and support the functioning of ICDS and NRHM functionaries so as to improve programme delivery and demand from the community as well as motivate AWWs and ASHA workers in performing their outreach roles (Saxena and Srivastava 2009).

Community Ownership, PRIs and PPP: The Bachpan model implemented by the Naandi foundation to strengthen ICDS in Ratlam district in Madhya Pradesh used a five pronged strategy to significantly reduce malnutrition. This includes raising community awareness to create demand for ICDS services; initiation of community based monitoring mechanisms such as the formation of *Ekta Samuha* comprising elected panchayat members, village-level government service providers and citizens as well as development of user-friendly community monitoring tools for collecting, collating and analysing data; building convergence between government departments and PRIs in planning and service delivery through establishment of district, block and cluster-level forums for collectively identifying gaps in services forums for interface among CBO representative, PRIs and service providers and promoting a cadre of change agents at the village level (*Gram Mitra*) and felicitation of the best performing *Gram Mitras*, Anganwadi Workers, ANMs, Supervisors and Communities[3].

Similarly, the constitution of *jaanch* (enquiry) committees for local (village) level monitoring of ICDS in Odisha as well as decentralized purchase of grains and preparation of meals by village communities, self-help groups and *Mahila Mandals* have led to greater ownership of the ICDS and improved outcomes[4].

Budgets: Inadequate budgets and lack of timely fund flow constrain performance. Delays occur in the flow of funds from the Centre to the States for several reasons that include the need to furnish budgetary proposals and provide utilization certificates. If states are unable to contribute their share of funds, this leads to problems in utilizing Central grants.

The malnutrition and the communicable and non-communicable disease burden in India is high. Juxtaposed against this high disease burden is low public sector provisioning for health and unfulfilled commitments regarding providing access to care. Public expenditure on health care in India is among the lowest in the world, both as a proportion of total expenditure on health care and as a percentage of GDP. Government expenditure on health care in India constitutes only 19.67 per cent of total expenditure while households themselves spend 71.13 per cent. In contrast, Government expenditure on health care is 87 per cent of total health related expenditure in UK, 80 per cent in France and 64

The malnutrition and the communicable and non-communicable disease burden in India is high. Juxtaposed against this high disease burden is low public sector provisioning for health and unfulfilled commitments regarding providing access to care. Public expenditure on health care in India is among the lowest in the world, both as a proportion of total expenditure on health care and as a percentage of GDP.

per cent in Thailand. The budget for health has to increase significantly for delivery of equitable health care of a high quality (MoHFW, 2009, National Health Accounts 2004-05).

NRHM was set up to undertake "architectural correction" of the health system to strengthen public health service delivery as well as articulate the commitment of the Government to raise public spending on Health from 0.9 per cent of GDP to 2-3 per cent of GDP (NRHM Mission Document 2005-2012). However, allocation of funds to the health sector is far short of these commitments and allocations for clean drinking water, sanitation etc are being included to create a "broad" definition of health sector related resources so as to seem to fulfill these commitments.

Unmet Targets and Skewed Priorities

Targets set for reduction in malnutrition, IMR, MMR have not been achieved. The malnutrition burden and disease burden remains high despite ICDS and NRHM. Several diseases are not included in NRHM. Data shows that reported morbidity is higher among women than men. Differentials in morbidity and mortality and differential access to treatment and care for women are a cause for concern. However, disease-wise information is sporadic.

NRHM is overwhelmingly directed towards institutional delivery and maternal health. While reducing maternal mortality and providing reproductive health care are important, the focus of health provisioning for women has to be on planning for women's survival and health throughout the life cycle. This requires that data on disease burden and health seeking behaviour must be presented separately for males and females. Strategies are needed for identification of specific barriers to access to health care and removal of these constraints.

Accurate data: There are massive gaps between data reported from the field through the government system and data that is generated through independent evaluations. Therefore systems must be established for regular verification of the data reported from the field. This is applicable to malnutrition as well as to mortality and morbidity. Monthly review meetings must be conducted to analyze and disseminate the monthly reports generated by the administrative system so as to improve implementation and address under-nutrition, mortality and morbidity. (Saxena and Srivastava, 2009).

While reducing maternal mortality and providing reproductive health care are important, the focus of health provisioning for women has to be on planning for women's survival and health throughout the life cycle. This requires that data on disease burden and health seeking behaviour must be presented separately for males and females. Strategies are needed for identification of specific barriers to access to health care and removal of these constraints.

Death Reviews

Learning from infant and maternal death reviews and audits must be followed by rapid corrective action and dissemination (Mehta and Pratap 2014: 83).

Training

Training given to ASHA workers in Odisha in malaria control in high endemic blocks works as it enables them to identify cases and facilitate referral of the cases to the Fever Treatment Depots (FTDs) and thereby contribute to progress in malaria control. However, poor availability of rapid diagnostic test kits etc led to an unnecessarily high referral rate and potential delays in the treatment (6th Common Review Mission 2012).

Convergence

Malnutrition, mortality and morbidity are a function of a large number of variables that include food and nutrition, access to preventive, promotive and curative health care, nutrition counselling, safe water and sanitation, etc.

Convergence within and across programmes and schemes implemented by Ministries and Departments such as PRI, Health, Education, WCD and Water and Sanitation to track and achieve progress, joint planning and monitoring of key results and indicators with possible team targets in the Results Framework Document for better accountability could be one possible mechanism to facilitate convergence and achieve improved outcomes.

Endnotes

1 This is based on a presentation made by Dr N.C. Saxena at a UN Women-IIPA workshop held at IIPA on 29th February 2012.

2 http://nlep.nic.in/pdf/Progress percent 20 report percent 2031st percent 20 March percent 202012-13.pdf

3 This is based on a presentation made by Shri Sushanta Kumar at a UN Women-IIPA workshop held at IIPA on 29th February 2012.

4 This is based on a presentation made by Shri Rajkishor at a UN Women-IIPA workshop held at IIPA on 29th February 2012.

(*This paper draws on Mehta, Aasha Kapur and Pratap, Sanjay (2014). Policies and Programmes: Analysing ICDS and NRHM to Understand What has Worked, What has not and Why? CPRC IIPA Working Paper 48; presentations and discussions at the UN Women – IIPA National Consultation on "Reviewing Flagship Programmes from a Gender Lens: ICDS" held at IIPA on 29th February 2012; and Mehta, Aasha Kapur, Pratap, Sanjay and Ali, Akhtar (2012). 'Reviewing Flagship Programmes from a Gender Lens: ICDS.' UN Women*).

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Namami Ganga (Obseiance to Ganga) Project

An integrated programme for conservation of the Ganga has been announced with an outlay of Rs 2,037 crore. A sum of Rs 100 crore has been set aside for ghat development and beautification of the river front at Kedarnath, Haridwar, Kanpur, VAranasi, Allahabad, Patna and Delhi. An NRI Fund for Ganga , set up to finance special projects, through NRI enthusisiam towards conservation of the Ganga. A project on the river Ganga called ' Jal Marg Vikas(National WAterways - I) will be developed between Allahabad and Haldia to cover a distance of 1,620 km. This will enable commercial navigation of at least 1,500 tonne vessels. This project would be completed over six years at an estimated cost of Rs 4,200 crore.

J&K WINDOW

PACKAGE FOR KASHMIRI MIGRANTS

Centre has allocated an amount of Rs. 500 crore in the Union Budget under the 'Relief and Rehabilitation of Jammu and Kashmir Migrants' for the Kashmiri migrants living in many parts of the country to expedite the process of their rehabilitation .Currently, 60,452 migrant families are registered in the country out of which 38,119 are staying in Jammu , 19338 in Delhi and 1,995 in other states This fund had a three- fold surge from Rs.151.87 crore to Rs.660 crores in the year 2013-14. Another Rs.160 crores have been earmarked for providing relief to the migrants from the border, specially women who lost their spouses and the children rendered homeless and also to reimburse the payment by the State government for ex-gratia to the relatives of the civilians, SPOs and the police personnel of Jammu and Kashmir killed in various terrorist attacks and cross border firing. ❑

SPECIAL OUTLAY FOR J&K IN UNION BUDGET 2014-15

The Centre has allocated an outlay of Rs 200 crore for a project aimed at building sports infrastructure like playfields, coaching, skill development and up gradation of indoor as well as outdoor stadiums in the state to the level of the international stadiums in the Jammu and Kashmir valley , considering the pool of talent in the field of sports in the state but not having good infrastructural facilities to prosper. Apart from sports, Pashmina Promotion Programme and other crafts production have been allotted Rs.50 crore . The Centre has also proposed to set up an IIT in Jammu region and an IIM in Kashmir. Rs. 500 crore have also been earmarked for an Ultra Mega Solar Power Project in which Ladakh will be included along with Rajasthan , Gujarat and Tamil Nadu. ❑

WORLD'S HIGHEST RAIL BRIDGE

The world's highest railway bridge is under construction in the Himalayas which is expected to be 35 meters taller than even the Eiffel Tower is slated to be completed by 2016.It will be built over Chenab river having an arch shaped steel structure that will connect sections of the mountainous regions of Jammu and Kashmir. The bridge will be as high as 359 metres after its completion and will cross the mark of world's current tallest railway bridge standing at 275 meters is built over the Beipanjiang river in China's Guizhou province. Though its work commenced in 2002, the project was halted in 2008 due to safety and feasibility issues prior to getting a nod after two years. ❑

Macroeconomics of Union Budget

Lekha Chakraborty

The Finance Minister has endorsed the need for a "new monetary framework" in his budget speech. This announcement by Finance Minister needs to be co-read with the Urjit Patel recommendations for Central bank independence, and rules-based monetary policy. The shift of macroeconomic policies from discretion to rules – both in fiscal and monetary policy – a new consensus gaining momentum in India

THE PRESENT government has inherited an economy characterised by low growth, high inflation, high current account deficit and large fiscal imbalance at the Union level. What has struck me about Union Budget 2014-15 is not the fiscal arithmetic, but the macroeconomic framework. One could sense a deal for fiscal-monetary policy co-ordination in the budget speech, especially with the announcement of Finance Minister for a "New Monetary framework". The paper focuses on the macroeconomic framework of the budget rather than dealing with the fiscal arithmetic, in terms of policy announcements and budgetary allocations.

The dynamics between North Block and Mint Road is always challenging, and so far India has witnessed a fiscal dominance, over monetary policy. The announcement by Finance Minister on "new monetary framework" for India needs to be co-read with the advancements in RBI seeking more 'central bank independence' to manage inflation and how it plays out in the macroeconomic context of India in light of the *Expert Committee to Revise and Strengthen the Monetary Policy Framework (*Urjit Patel Committee report).

The underlying macroeconomic framework of the budget revealed two thematic priorities of the present government; (i) growth revival and (ii) macroeconomic stability. This sets the track. The Union Budget was simultaneously ensuring a 'continuity' and 'change'. The 'continuity' elements in the budget may be to ensure a bipartisan approach in tackling the issues of national interest, especially in case of fiscal consolidation path of earlier government. However the 'changes' suggested in the budget in terms of new monetary framework is disturbing.

Fiscal Consolidation

The growth revival and fiscal consolidation involve conflicts and tradeoffs. The Finance Minister's speech highlighted the significance of fiscal prudence. He was honest in accepting that controlling the fiscal deficit to 4.1 per cent of GDP in the current fiscal is the biggest challenge of the government. The budget set the fiscal consolidation path for medium term, with the aim to reduce fiscal deficit to 3.6 per cent in 2015-16 and 3 per cent of GDP in 2016-17.

Though the Economic Survey highlighted that "India needs a sharp fiscal correction, a new Fiscal Responsibility and Budget Management (FRBM) Act with teeth", budget has not specified

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anything other than the accepted target of 3 per cent of GDP for fiscal deficit. However, the path of fiscal consolidation was vaguely spelled out that the target would be achieved with increase in revenue buoyancy than expenditure cuts. This is a welcome shift. However regarding the deficit targets, there is not much change in the present budget compared to the previous Interim budget (Table 1).

These deficit targets are in conformity with the New FRBM rules adopted in September 2012. The New FRBM envisaged that effective revenue deficit will be eliminated by 2015-16 and the revenue deficit will be controlled to sub-two per cent of GDP within same period.

The path of fiscal consolidation is envisaged differently in the present budget, though the targets are kept the same. The path of fiscal consolidation is set on an optimistic increase in the non-tax revenue estimate from 1.4 per cent of GDP to 1.7 per cent of GDP for 2014-15 (BE). The nontax revenue is expected to rise on the account of dividend from RBI which has been revised by RBI following the new accounting practice recommended by the Malegam panel for the central bank for closure of its Annual accounts in June 2014. It is expected that Rs 46,000 crores will be paid to the government as dividend in 2014-15, as compared to Rs 33,000 crores in 2013-14.

Revenue buoyancy is also expected from the non-debt capital receipts side, the Government has increased the disinvestment target from Rs. 36,925 crore as per interim budget to Rs. 43,425 crore in 2014-15 (BE), with the estimate of divestment of Government stake in non-Government companies remaining at Rs. 15,000 crore.

The analytical framework of the fiscal consolidation highlighted by the Finance Minister was different from the earlier frameworks. The Finance Minister surprisingly has not highlighted the popular neo classical frameworks that fiscal deficits crowd out private investment or raising interest rates. Empirical evidence revealed that fiscal deficits do not raise interest rates or crowd out private investment (Chakraborty 2002, 2007, 2008, Chakraborty and Chakraborty, 2006, Vinod, et al 2014) and proved a different discourse of link between fiscal policy stance and output. In the Union Budget 2014 rather what he highlighted as the framework of fiscal consolidation is the "intergenerational debt burden, that today's debt is next generation's tax burden". This is appealing in a sense that government uses the deficit for productive purposes including infrastructure investment which can "crowd-in" rather than "crowd-out" private corporate investment. Whatever be the framework he used, fiscal deficit reduction was given emphasis in his speech by curtailing "mindless populism" as well.

New Monetary Policy Framework

Even if for argument sake, we highlight that inflation is the most important obstacle for achieving macroeconomic stability and growth, the question remains. Is inflation strictly a monetary phenomenon in India? There are equally convincing discourses which highlight that supply side shocks determine inflation, in addition to the monetary determinants. The General Budget 2014-15 has identified the need to tackle "price volatility in agriculture", by constituting a Price Stabilisation Fund of Rs 500 crores. However, the Iraq war and bad monsoon instil more supply side irregularities in price determination and the fiscal route to inflation management should have been spelt out more clearly in the budget. Instead, the Finance Minister has emphasised the need for new monetary framework, which is a change, compared to earlier budgets.

In India, we have been accustomed to fiscal policy dominance, and always the first mover advantage in policy making was vested with budget policy makers. What I hint here as fiscal dominance is definitely not the financing of deficits through printing money (which is technically called as 'seigniorage financing of deficits). We have come out of monetising deficits through printing money a few decades back. What I highlight here as a new macroeconomic consensus is the move towards providing more central bank independence in tackling inflation. If so, the framework of this budget raises concern. Is this really a new macroeconomic policy consensus?

Given that the inflation in India during the last decade is the highest among the G-20 countries, it is pertinent to focus on inflation containment, as its macroeconomic consequences in terms of negative real interest rates and falling financial savings, depreciation-inflation spiral and worsening of income distribution (Report of RBI, 2014). However, when there is a growing consensus across nations after the global financial

Table 1: Deficit Targets

	2013-14 RE		2014-15 BE		2015-16 Target		2016-17 Target	
as % of GDP	Interim Budget	General Budget	Interim Budget	General Budget	Interim Budget	General Budget	Interim Budget	General Budget
Effective Revenue Deficit	2.2	2.0	1.8	1.6	0.0	0.0	0.0	0.0
Revenue Deficit	3.3	3.3	3.0	2.9	2.0	2.2	1.5	1.6
Fiscal Deficit	4.6	4.6	4.1	4.1	3.6	3.6	3.0	3.0

Source: Government of India (2013, 2014): Budget documents, Ministry of Finance.

crisis for central banks to move away from single role of price stability towards multiple indicator approach, Urjit Patel's report indicates a move towards inflation targeting in India. This report therefore raises a concern before the new government in terms of the degree of flexibility and linkages between central bank and government, technically the linkages between monetary policy and fiscal policy.

The renewed debates towards independent, inflation targeting central bank has genesis in a series of three reports submitted - Percy Mistry report, 2007; Raghuram Rajan report, 2009 and Financial Sector Legislative Reforms Commission Report (FSLRC), 2013. These three reports emphatically directed the policy discourse towards price stability as the primary goal of central bank in India, and Urjit Patel report too forms a part of this camp in terms of monetary policy framework. This trend in monetary policy framework can cause a concern for the new government in terms of policy co-ordination in containing inflation.

The New Keynesian macroeconomics was transformed into what we now label as New Consensus Macroeconomics (NCM) (Arestis, 2009). The major policy implications of the NCM paradigm are particularly important for inflation containment. The NCM pitches that price stability can be achieved through monetary policy since inflation is a monetary phenomenon; as such it can only be controlled through changes in the rate of interest. It is, thus, agreed that monetary policy is effective as a means of inflation control (Arestis, 2009). This is controversial in the context of developing countries like India, as inflation is not strictly monetary process. The conceptual framework of inflation targeting in the context of India raises concern, even more after Finance Minister endorsing to having a "new monetary framework".

Revival of Economic Growth

The fall in economic growth is attributed to global economic slowdown. Also, Government of India remained complacent about the fact that even after a decline average growth was higher than the emerging market economies. The alternative arguments put forward by many others attributed this decline to the "policy paralysis". Union Budget 2014 has taken some measures related to revival of growth which includes boost to infrastructure projects, a relook into mining regulations, a step forward to GST reforms and FDI in core sectors. The financial sector reforms and the steps towards financial inclusion also indicate a reinforcement of real and financial sector towards the revival of economic growth.

Institutions and Size of Government

In recent years, institutions have become the central focus of economists studying the processes of growth and why nations have differed so greatly in their economic development goals (Nelson, 2008, Acemoglu and Robinson, 2012). What are institutions exactly? North (1991) defines "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction." The big focus of the new government is on 'less government' and maximum governance. The governance may also be market-oriented. The appointment of Expenditure Reforms Commission, announced in the Union Budget, is bold and welcome. However, the expenditure is concentrated in a few Departments of Government of India. As per the Union Budget 2014, around eighty per cent of public expenditure is concentrated in 10 Departments (Table 2).

Conclusion

The economic growth plummeted. Identifying the plausible policy priorities for growth revival is the single most significant agenda before the new government. What was the policy priorities highlighted in Union Budget 2014? There is simultaneously continuity and a change. The change relates to the new macroeconomic consensus to undertake inflation management. The Finance Minister has endorsed the need for a "new monetary framework" in his budget speech. This announcement by Finance Minister needs to be co-read with the Urjit Patel recommendations for Central bank independence, and rules-based monetary policy. The shift of macroeconomic policies from discretion to rules – both in fiscal and monetary policy – a new consensus gaining momentum in India. Union Budget has set a broad path to address the issues related to "Policy paralysis", which includes infrastructure investment,

Table 2 : Expenditure Budget across Departments

Grand Total	1794892	
Ministry of Finance	640404	35.68
Ministry of Defence	285202	15.89
Ministry of Consumer Affairs, Food and Public Distribution	115952.6	6.46
Ministry of Rural Development	83852.46	4.67
Ministry of Human Resource Development	82771.1	4.61
Ministry of Chemicals and Fertilisers	73618.55	4.10
Ministry of Home Affairs	65745.28	3.66
Ministry of Petroleum and Natural Gas	63543	3.54
Ministry of Health and Family Welfare	39237.82	2.19
Ministry of Road Transport and Highway	34345.2	1.91

Source: Government of India (2014) : Union Budget 2014 documents.

tax reforms, controlling bad subsidies and governance reforms. Though the revival of fiscal dominance is widely acknowledged, has a new discourse towards inflation targeting and central bank independence begun a new consensus in India, aftermath to Union Budget 2014?

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FACTUAL CORE

INTERPRETATION

Union Budget: Contours & Dimensions

Sona Mitra

It would be good for the government not to pay much attention to the misconceived theories that public provisioning for the poor is equivalent to 'populism' and would lead to higher fiscal deficit and low GDP. On the other hand, steps to improve public provisioning of basic necessities would definitely augur well for the overall growth of the economy by bringing down the levels of social and economic inequalities and would go a long way to achieve a sustained path of development

THE UNION Budget 2014-15 comes as the first holistic policy document of the new government, which is expected to deal with a range of issues plaguing the country through fiscal policy measures. This government is also faced with formidable challenges in terms of fulfilling high expectations of a large number of people from this budget. Expectations from the government in its budget revolved mainly around tackling some of the major challenges confronting the Indian economy. As a run-up to the budget, the government had announced a number of policy changes such as, allowing FDI in defence, reforms in environmental clearances, allowing hike in prices of non-subsidized LPG cylinders, raising train fares by 14.2 per cent and freight rates by 6.5 per cent, and declaring potato and onion as essential commodities by bringing them under the Essential Services Maintenance Act (ESMA).

Major Economic Challenges

At present, the economy is burdened with three major problems. The first is the high rate of inflation led by an almost double digit rate of food price inflation. Food-articles have registered an inflation of 9.5 per cent, over the last year led by an increase in the prices of commonly consumed vegetables such as onion and potatoes and cereals. Second, there has been a significant slowing down of the rate of growth of GDP. The rate of growth of GDP at 4.5 per cent and 4.7 per cent in 2012-13 and 2013-14 respectively has been primarily due to the collapse in the industrial growth rates. The rate of growth of industry, provisionally estimated at 0.5 per cent, implies almost nil absolute increase in outputs in 2013-14 compared to the previous year. The growth rate in the agriculture sector has remained around 4 per cent in the last year. However, the rate of growth of the service sector, although still the highest at almost 9 per cent (Economic Survey 2013-14), has also been affected negatively. Finally, the third and the last problem faced by the economy in on the external side. The increase in the Current Account Deficit (CAD) specifically in the last year had raised the import bills substantially. Although, the Economic Survey 2013-14 reports a decline in CAD from 4.7 per cent of GDP in 2012-13 to 1.7 per cent of GDP in 2013-14, such declines do not appear to be sustainable given the measures, such as increased import duty on gold, to control CAD are temporary in nature.

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However, these problems on the economic front also lead to major challenges of economic and social inequalities confronting the new government. The spending gap between the rich and the poor in India has almost doubled in the last five years. The education and health indicators in India fare poorly in comparison to other developing countries. Every third illiterate person in the world is an Indian. Of approximately 200 million children in the 6-14 age-group, only 120 million are enrolled in school; more than 35 per cent of children drop out from school before reaching class VIII. India accounts for 21 per cent of the world's global burden of disease (WHS, 2013). India is home to the greatest burden of maternal, newborn and child deaths in the world. Infant Mortality Rate at 44 per 1000 live births in 2011 and Maternal Mortality Ratio at 178 in 2010–2012 (RHS, 2012) put India far behind the targets set by the global MDGs.

Access to land is directly linked with the concerns over food security, environmental sustainability and cycles of poverty. In India, rural landlessness has been on the increase as per government's own estimates. Social exclusion, discrimination and exploitation based on caste and gender inequalities in several of the above-mentioned aspects continue to persist. These often form the core of the uneven redistribution of the gains from economic growth.

Apart from health and education, inequality in terms of access to land and livelihood for a large section of rural population also constitute a major problem. Access to land is directly linked with the concerns over food security, environmental sustainability and cycles of poverty. In India, rural landlessness has been on the increase as per government's own estimates. Social exclusion, discrimination and exploitation based on caste and gender inequalities in several of the above-mentioned aspects continue to persist. These often form the core of the uneven redistribution of the gains from economic growth. The evidence for such exclusions is rampant in terms of access to essential services and other aspects of socio-economic development.

Keeping in mind the major economic and social problems, there is thus, a growing need for government intervention through pro-active policy interventions to remove such discrepancies. It also requires adequate provisioning in social sectors through annual budgetary outlays. The total budgetary spending on social sectors in India used to be a meager 5.3 per cent of GDP in 2004-05. Though it has increased over the last decade, the figure still lingers around 7 per cent of GDP. Of this 7 per cent of GDP of public spending on social sectors, the direct contribution from the Union Budget (i.e. excluding the direct spending from the State Budgets) has been around only 2 per cent of GDP. This level of public spending on social sectors is significantly lower than that of the developed as well as many developing countries.

The poor quality of infrastructure in these sectors (e.g. schools, hospitals, Anganwadi Centres etc.), the shortage of qualified and trained human resources for delivery of services (e.g. teachers, doctors, para medical personnel, Anganwadi Workers etc.), the shortage of human resources for management of the programmes (e.g. staff for monitoring and supervision as well as finance and accounts staff), the unacceptably low levels of unit costs for provisioning of various services in these sectors, are all manifestation of the deficiency of public resources in social sectors in India.

It is also disconcerting that India's public spending on social security payments for the poor has been negligible. The country's total public spending on social security for the poor (comprising the old age pension scheme, widow pension scheme, and disability pension scheme etc.) has been less than 0.15 per cent of GDP even in the most recent years.

It is in this context that the Union Budget 2014-15, raises expectations in terms of providing a comprehensive roadmap for addressing the above issues.

Policy Priorities

The budget speech of the Union Budget 2014-15 begins with a mention of most of the challenges indicated above. However, the policy priorities underlying the proposals and allocations in the budget do not seem to be much different from those of the erstwhile government. The policy paradigm followed in the last five years specifically was that of fiscal parsimony, with a certain adhocism in the approach towards public provisioning of essential services and social protection for the underprivileged sections. In the wake of the government's inability to step up the tax-GDP ratio, the approach was marked by expenditure compression policies followed by the government in order to contain the fiscal deficit, which eventually resulted in inadequate provisioning for the social sectors.

In the wake of the government's inability to step up the tax-GDP ratio, the approach was marked by expenditure compression policies followed by the government in order to contain the fiscal deficit, which eventually resulted in inadequate provisioning for the social sectors.

The new government, on the other hand, has also been under pressure from the private sector to showcase its commitment towards a sustained, long term high rate of growth of GDP in its policies, implying a continuation of similar policy direction, minus the minimum adhoc support to social

Table A: Total outlay of Union Budget (in Rs. Crore)					
	2012-13 (Actuals)	2013-14 (BE)	2013-14 (RE)	2014-15 (IB)	2014-15 (BE)
GDP (at current market prices)	10113281	11355073	11355073	12876653	12876653
Total Union Budget	1410367	1665297	1590434	1763214	1794892
as % of GDP	13.9	14.7	14.0	13.7	13.9
Total Plan Expenditure	413625	555322	475532	555322	575000
as % of GDP	4.1	4.9	4.2	4.3	4.5
Total Non-Plan Expenditure	996747	1109975	1114902	1207892	1219892
as % of GDP	9.9	9.8	9.8	9.4	9.5

Source: Union Budget 2014-15

sectors displayed by the previous government. However, it is important to look at the Union Budget 2014-15 carefully in order to ascertain the broader policy direction that the new government has adopted, given that budgets are considered as one of the major fiscal policy instruments for the government that provides a roadmap for future policies.

Union Budget :Overall Magnitude

The total size of the Union Budget in 2014-15 has been pegged at Rs. 17.94 lakh crore as compared to Rs. 17.63 lakh crore in the Interim Budget (IB). Of this increase of Rs. 31000 crore, between the IB and the main budget, two-third is in the Plan Expenditure domain, which has increased from Rs. 5.55 lakh crore to Rs. 5.75 lakh crore while the remaining one third has been accounted for by Non-Plan Expenditure. The total expenditure in the Union Budget, 2014-15 is 13.9 per cent of GDP, compared to 13.7 per cent of GDP in the IB (Table A).

Resource Mobilisation Policies

On the resources side, the budget proposes to finance the incremental spending in the current fiscal year from the additional receipts targeted to come mainly from higher Non-Tax Revenue. This budget projects a total receipt of Rs. 2.12 lakh crore from Non-Tax Revenue while the figure for this head projected in the interim budget was Rs. 1.8 lakh crore. This is because the new government expects higher amounts to accrue from 'Dividends and Profits' (up from Rs. 77,229 crore to Rs. 90,229 crore, which includes Dividends from PSUs as well as Surplus of RBI, Nationalised Banks and Financial Institutions to be transferred to the government) and 'Non-Tax Revenue from Economic Services' (such as communication

Table B: Revenue and Capital Receipts as Share of GDP						
		2012-13 Actuals	2013-14 BE	2013-14 RE	2014-15 IB	2014-15 BE
A	Revenue Receipts	879232	1056331	1029252	1167131	1189763
	as % of GDP	8.7	9.3	9.1	9.1	9.2
	Of which,					
	Net Tax Revenue	741877	884078	836026	986417	977258
	as % of GDP	7.3	7.8	7.4	7.7	7.6
	Non-Tax Revenue	137355	172252	193226	180714	212505
	as % of GDP	1.4	1.5	1.7	1.4	1.7
B	Capital Receipts (net of Borrowings and other Liabilities)	40950	66468	36643	67452	73952
	as % of GDP	0.40	0.59	0.32	0.52	0.57
C	Fiscal Deficit	490190	542499	524539	528631	531177
	as % of GDP	4.8	4.8	4.6	4.1	4.1

Source: Union Budget, 2014-15

Note: A+B+C sum up to 13.9 percent which is the size of the current budget. The tax revenue figures are net of states' share. The gross tax revenue to GDP for India has been around 17 percent in the last few years.

Table C: Budgetary Outlays for Select Union Ministries (Figures in Rs. Crore)						
		2012-13 (Actuals)	**2013-14 (BE)**	**2013-14 (RE)**	**2014-15 (IB)**	**2014-15 (BE)**
1	**Agriculture** (including Special Central Asst. for State Plans, like, RKVY)	24254.42	29772.83	26070.87	29962.94	31062.94
	as % of GDP	0.24	0.26	0.23	0.23	0.24
2	**Consumer Affairs, Food and Public Distribution**	86676.52	91591.45	93339.86	115948.99	115952.63
	as % of GDP	0.86	0.81	0.82	0.90	0.90
3	**Defence** (including Defence - Civil Estimates)	230642.11	253346.51	253788.01	279202.87	285202.87
	as % of GDP	2.28	2.23	2.24	2.17	2.21
4	**Drinking Water and Sanitation**	12968.63	15265.70	12006.24	15266.85	15266.85
	as % of GDP	0.13	0.13	0.11	0.12	0.12
5	**Health and Family Welfare**	27885.19	37330.00	30847.31	38737.82	39237.82
	as % of GDP	0.28	0.33	0.27	0.30	0.30
6	**Housing and Urban Poverty Alleviation** (Figures for 2014-15 IB and BE include the BSUP and IHSDP components of JnNURM, which were earlier reported under MoF)	933.18	1468.02	1207.72	6008.62	6008.62
	as % of GDP	0.01	0.01	0.01	0.05	0.05
7	**Human Resource Development**	66054.67	79451.00	74621.30	81441.10	82771.10
	as % of GDP	0.65	0.70	0.66	0.63	0.64
8	**Minority Affairs**	2174.29	3530.98	3130.84	3734.01	3734.01
	as % of GDP	0.02	0.03	0.03	0.03	0.03
9	**Petroleum and Natural Gas**	97423.04	65188.41	85566.13	63543.00	63543.00
	as % of GDP	0.96	0.57	0.75	0.49	0.49
10	**Road Transport and Highways** (Figures include the Special Central Asst. for State Plans)	22536.58	31302.14	30338.53	31257.20	34345.20
	as % of GDP	0.22	0.28	0.27	0.24	0.27
11	**Rural Development**	53180.99	80250.50	61863.93	82261.46	83852.46
	as % of GDP	0.53	0.71	0.54	0.64	0.65
12	**Social Justice and Empowerment**	4939.72	6725.32	5723.35	6845.63	6845.63
	as % of GDP	0.05	0.06	0.05	0.05	0.05
13	**Tribal Affairs** (Including Special Central Asst. for State Plans)	3072.63	4295.94	3896.05	4397.96	4497.96
	as % of GDP	0.03	0.04	0.03	0.03	0.03
14	**Urban Development**	8465.00	10363.75	9548.20	19589.46	20009.46
	as % of GDP	0.08	0.09	0.08	0.15	0.16
15	**Women and Child Development**	17035.72	20440.00	18285.65	21093.88	21193.88
	as % of Total Union Budget	1.21	1.23	1.15	1.20	1.18
	as % of GDP	0.17	0.18	0.16	0.16	0.16

Source: Union Budget, 2014-15

services, roads and bridges, and receipts from power, petroleum, coal & lignite, new & renewable energy etc.). Also, it is important to be aware of the possible impact of a higher dependence on Non-Tax Revenue from Economic Services in a period of high inflation. The government also projects to raise Rs. 58,425 crore by way of divesting PSUs as compared to the target of Rs 51,925 crore in the IB. However, it is to be kept in mind that the targets are difficult to achieve given that in the fiscal year 2013-14, the disinvestments receipts have been at Rs. 20,841 crore compared to the targeted Rs. 55,814 crore.

The tax revenue, the most important source of revenue for the government, has been estimated at Rs. 977,258 crore as against the figure of Rs. 986,417 crore in the IB. Putting in place a 'stable and predictable tax regime' to spur growth and ensure an investor-friendly environment was shared as one of the top priorities for this government. In this regard, the primary focus in the domain of taxation should have been on efforts to step up the country's tax-GDP ratio, which is much lower than that in most developed countries and a host of other developing countries. At around 17 per cent of GDP, India's tax-GDP ratio constrains the fiscal policy space available to the government for providing resources for public provisioning of essential services and social protection for the poor and underprivileged sections. The revenue situation as per centage of GDP is provided below in Table B. It clearly shows that Net Tax Revenue as share of GDP remains stagnant and the rise in revenue receipts is based on marginal increases in non-tax revenue collection.

The budget speech of the Finance Minister did make substantive references to the proposed transition to Goods and Services Tax and the Direct Taxes Code. These proposed reforms would bring in stability in the tax laws as demanded by the private investors but in its present form, these would not be enough for the government to augment the country's tax-GDP ratio.

Also, according to the Union budget 2014-15, the aggregate amount of revenue foregone due to all kinds of exemptions in the central taxes is projected to be Rs. 5.73 lakh crore. This is equal to to 5 per cent of GDP for the year 2013-14, which is less than the 6 per cent of revenue foregone in 2012-13. The government has announced the retention of retrospective amendments which would help in curbing tax dodging. However, the budget proposals do need to have stronger measures towards reducing the amount of tax revenue foregone due to the plethora of exemptions in the central tax system. The budget speech of the Finance Minister did make substantive references to the proposed transition to *Goods and Services Tax* and the *Direct Taxes Code*. These proposed reforms would bring in stability in the tax laws as demanded by the private investors but in its present form, these would not be enough for the government to augment the country's tax-GDP ratio.

Public Expenditure Priorities

On the expenditure side, the allocations for most of the development sectors in this budget have either been retained at the same level as those proposed in the IB or have been marginally increased. As has been mentioned at the outset that Rs. 31000 crore more has been allocated in Union Budget 2014-15 compared to IB. Given this, major increases in allocations have been observed for Ministries of Defence and Road Transport and Highways by Rs. 6000 crore and Rs. 3000 crore respectively. Apart from this, allocations for most Ministries pertaining to social sectors have been retained at the same level or have been increased marginally. While most social sector Ministries such as the Urban Development, Health and Family Welfare, Women and Child Development show meagre increases by Rs. 500 crore and Agriculture and Human Resources by a little more than Rs. 1000 crore, the high allocations for Defence and Road and Transport does reflect policy priorities of the current government (Refer Table C).

In terms of some of the major Centrally Sponsored Schemes such as the National Rural Employment Guarantee Scheme (NREGS), National Rural Health Mission (NRHM), Sarva Shiksha Abhiyan (SSA), etc, the allocations however, have been retained at the same level as the IB figures. This implies inadequate increases over allocations made in the 2013-14 RE (Table D). The allocation for MGNREGA is pegged at Rs. 34000 crore and that for Food Subsidy at Rs. 1.15 lakh crore. However, with the apprehension of drought conditions in certain parts of the country this year due to deficient monsoon, the allocations for MGNREGA and Food Security needed to be stepped up. Also, there is an unpaid wage bill of Rs. 5000 crore pending since last fiscal year in MGNREGA. Removing that component of pending wages, the allocations seem to be largely inadequate. On the food security front, the deficiencies in financing the National Food Security Act (for which CBGA's estimation indicates the requirement of resources worth Rs. 1.37 lakh crore for 2014-15) would persist this year as well.

While most social sector Ministries such as the Urban Development, Health and Family Welfare, Women and Child Development show meagre increases by Rs. 500 crore and Agriculture and Human Resources by a little more than Rs. 1000 crore, the high allocations for Defence and Road and Transport does reflect policy priorities of the current government.

Table D: Allocations across Major Centrally Sponsored Schemes (in Rs. crore)				
Major Schemes	**2012-13 (Actual)**	**2013-14 (RE)**	**2014-15 (IB)**	**2014-15 (BE)**
Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	30274	33000	34000	34000
Ajeevika/National Rural Livelihood Mission (NRLM)	2195	2600	3859	4000
Indira Awaas Yojana (IAY)	7869	13184	16000	16000
Pradhan Mantri Gram Sadak Yojana (PMGSY)	8884	9700	13000	14391
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	5357	1040	11247	11270
Swarna Jayanti Shahari Rozgar Yojana (SJSRY)/ NULM	794	778	1003	1003
Rashtriya Swasthya Bima Yojana (RSBY)	1002	789	1434	1434
Sarva Shiksha Abhiyan (SSA)	23873	26608	27758	28258
Mid- Day Meal (MDM)	10849	12189	13125	13215
Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	3172	3123	5000	5000
National Health Mission (NHM)	18047	16396	24691	21912
Pradhan Mantri Swasthya Suraksha Yojana(PMSSY)	989	1377	1456	1906
Rastriya Swasthya Bima Yojna(RSBY)	1002	789	1434	1434
National Rural Drinking Water Programme (NRDWP)	10490	9700	11000	11000
Nirmal Bharat Abhiyaan (NBA)	2474	2300	4260	4260
Rashtriya Krishi Vikas Yojana (RKVY)	8400	7089	9864	9954
National Food Security Mission (NFSM)	1723	1738	2205	2030
National Mission for Empowerment of Women (NMEW)	10	31	90	90
Integrated Child Development Services (ICDS)	15712	16432	18691	18691

Source: Union Budget documents, 2014-15, 2014-15 (I).

In terms of universalizing healthcare, the budget proposes free medicines for all and long term interventions for improved health infrastructure. The intention of setting up new institutions under healthcare, such as the four new AIIMS, rural health research centres and new medical colleges, expressed in the budget, is certainly a welcome step. Also, the increases in excise duties for tobacco and related products and aerated colas would also have a positive impact. The budget does acknowledge the shortage of staff in health and education sectors but is yet to make adequate provision to this respect. However, the issue of shortage of allied healthcare professionals, specialized Doctors and Nurses for better delivery of public healthcare services as well as that of shortage of staff in school education, both of which have been acknowledged in the latest Economic Survey, do not find much emphasis in this budget.

A number of new schemes and pilot projects for safety of women and gender sensitization have been listed out in the budget speech, but most of these have small allocations. The announcements do raise doubts about utilization of even the existing amount of resources available under the Nirbhaya Fund in 2014-15. There have been few initiatives taken by the Union Ministries to seek these resources for carrying out substantive interventions for tackling violence against women. A large number of schemes with an allocation of Rs.100 crore or less have been proposed for a range of sectors/sections of population including senior citizens, tribal development, rural youth, welfare of girl children, safety of women and gender sensitization, minorities, urban transport, good governance, climate change, R&D in agriculture, tourism and so on, without any clear guidelines for implementation. While these announcements do cater to the much needed sectors/sections of the population and are in the right direction, the allocations are paltry and there are no guidelines. These would need to be developed and allocations would have to be stepped up immensely for such schemes to have the desired impact.

As regarding agriculture and allied sectors, the emphasis on crop insurance, soil health, agricultural marketing, animal husbandry and fisheries etc. is certainly welcome. However, the issue of income security for farmers seems to have missed the attention of the government. The creation of a Price Stabilization Fund (for cereals and vegetables) with an allocation of Rs. 500 crore is perhaps the only concrete measure in the budget to deal with the problem of rising prices of essential commodities, however the guidelines for the need to be spelt out.

There has also been a growing need for additional resources for strengthening the administrative machinery like the Central Board of Direct Taxes (CBDT), Central Board for Excise and Customs (CBEC), Financial Intelligence Unit, Enforcement Directorate etc. that deals with issues of black money. These institutions have been struggling with shortage of staff to the tune of 30,000 as of 2012 as per CBDT's figures. In order to tackle the problem of corruption, a lot was expected from the budget on this front.

Finally, the new proposals in the Union Budget 2014-15 seem to be centred heavily around the development of infrastructure and transport based on a renewed approach to the PPP model of development. However, the budget speech did not mention any policies or interventions to address the possible concerns of displacement due to urbanisation and land acquisition issues.

Centre-State Sharing of Resources

Apart from the above concerns, another important concern linked to the long-term expenditure commitments of the Centre pertains to the sharing of resources between the Central Government and the State Governments which would have a long term bearing upon stable and responsive governance in the country. Over the last two decades, i.e. since early 1990s, fiscal policies adopted in India have strengthened the Central Government's position vis-à-vis the States in terms of control over fiscal resources. The overall quantum of fiscal resources transferred from the Central Government to the States has not kept pace with the growth in expenditure commitments by the States. Moreover, the composition of the overall quantum of fiscal resources transferred from the Central Government to the States has changed in terms of the share of untied resources within such total transfers falling in the last one and a half decades. The policies of the Central Government seem to have neglected the need for greater magnitudes of untied resources being transferred to State Governments.

The B. K. Chaturvedi Committee on restructuring the CSSs, which submitted its report in 2011, had recommended increasing the Central Assistance (CA) to State and UT Plans. In a bid to accept the Committee's recommendations, the erstwhile government reported a large part of the money meant for CSS under CA to State Plan in the Interim Budget. Now, Union Budget 2014-15 has followed the same format of reporting allocations for the large CSS under CA to State Plan. As a result, there has been a drastic increase in the quantum of the Central Assistance to State Plans from Rs. 1,11,313 crore in 2013-14 RE to Rs. 3,30,764 in 2014-15 BE. However, this method of reporting has only inflated the CA to State Plan artificially. In practice, in most of the schemes reported under the CA, there would only be a 10 per cent flexible component in the funds for the States and the rest of the funds would still be tied to the respective scheme guidelines.

However, in terms of transparency and accountability of government finances, the decision to discontinue completely the contentious practice of Central scheme funds bypassing the State Budgets, the Union Budget 2014-15 comes as a welcome step towards increased accountability for government finances.

Under the given economic circumstances of increased inflation and low GDP growth, it is most important for the new government to focus on generating livelihood opportunities as well as stepping up the coverage and quality of public provisioning of essential services and social protection measures. It would be good for the government not to pay much attention to the misconceived theories that public provisioning for the poor is equivalent to 'populism' and would lead to higher fiscal deficit and low GDP. On the other hand, steps to improve public provisioning of basic necessities would definitely augur well for the overall growth of the economy by bringing down the levels of social and economic inequalities and would go a long way to achieve a sustained path of development. ❑

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REVIEW

Resource Mobilization: Did Union Budget Get it Right?

Rohith Jyothish
Pooja Rangaprasad

...the tax proposals in the Union Budget 2014-15 have been seen as investor friendly with a focus on addressing the increasing tax disputes towards fulfilling their intent to provide a stable tax regime

THE FINANCE Minister in his budget speech noted the "urgent need to generate more resources to fuel the economy". He also pointed out that "the tax to GDP ratio must be improved" and acknowledged that the decline in fiscal deficit was "mainly achieved by reduction in expenditure rather than by way of realization of higher revenue." The need to increase the country's tax to GDP ratio was also acknowledged by the previous Finance Minister, Mr. P Chidambaram, in his budget speech in 2013 where he stated that the tax to GDP ratios were "one of the lowest for any large developing country and will not garner adequate resources for inclusive and sustainable development". This acknowledgement by our Finance Ministers is pertinent considering the consistently low levels of tax to GDP ratio in the country, one of the lowest among G20 countries and the lowest in BRICS.

Tax-GDP Ratio and Fiscal Policy Space

The Economic Survey 2013-14 states that tax-buoyancy (ratio of growth in tax revenues to growth in GDP) "the lower than-budgeted growth in revenues and the growth in taxes, more so in indirect taxes, has not been encouraging and the uphill task before the government is taking measures to augment resources." But unfortunately, in a fiscally conservative economic environment, successive governments have resorted to expenditure cuts to attain fiscal deficit targets as envisaged in the Fiscal Responsibility and Budgetary Management Act, 2003. As important as fiscal consolidation is for a sustainable economy, when it is achieved through cutting social sector expenditures, the dynamics of fiscal policy space need to be re-examined.

The size of government spending also known as the 'fiscal space' enables public provisioning of essential services to address pervasive human development deficits plaguing the country like malnutrition, hunger, poverty, lack of clean drinking water supply and sanitation facilities. It is largely determined by the magnitude of revenue receipts it can garner. India falls far behind developed countries and several comparable developing economies in terms of tax-GDP ratio. As seen in the above chart, Brazil's tax-GDP ratio is 33.2 per cent of GDP compared to India's 16.3 per cent of GDP.

The size of the Union Budget is bigger than the Interim Budget by Rs 31,000 crore. The Budget Estimate puts the size of the Union Budget

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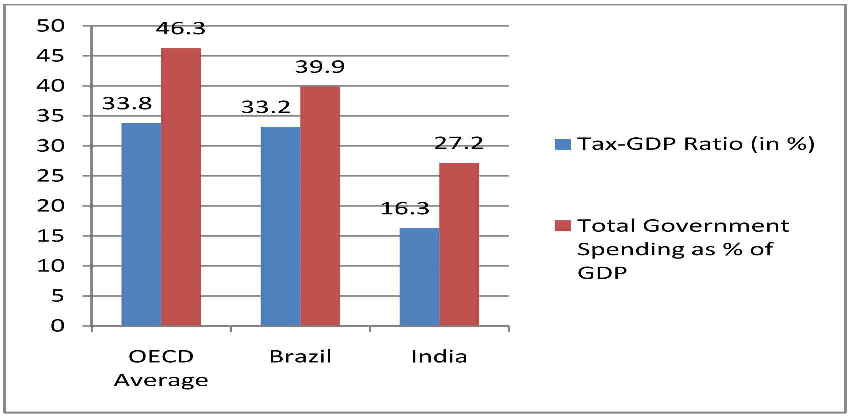
Fig 1

A Comparison of Tax-GDP Ratio and Total Government Spending as per cent of GDP: India, Brazil and OECD Average (as of 2010)



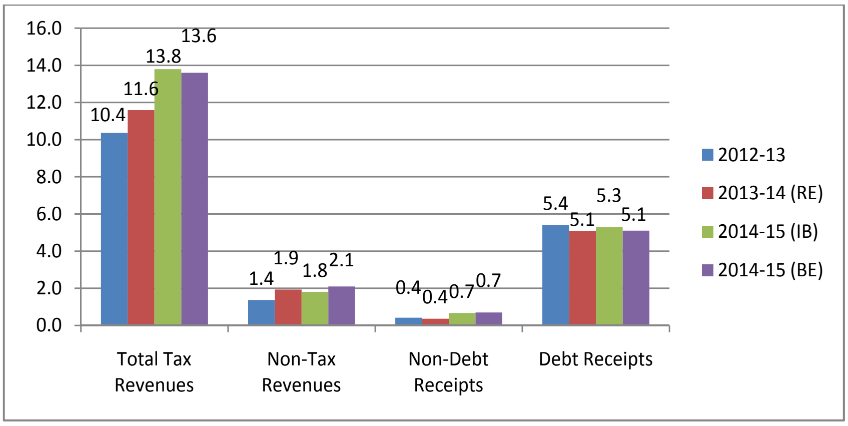
Source: Has the Tide Turned? Response to Union Budget 2014-15, Centre for Budget and Governance Accountability

at 13.9 per cent of the country's GDP which is down from a peak of 15.9 per cent in 2009-10. Even if we combine the budgetary spending of both Centre and States, the peak combined budgetary spending of Centre and States was 28 per cent in 2009-10 (Indian Public Finance Statistics 2012-13). The magnitude of government spending relative to the size of the economy is much higher in developed and in several comparable developing economies. For instance, Brazil's was at 39.9 per cent while the average for OECD countries was at 46.3 per cent in 2010 (OECD Factbook 2014).

The fig. 2 shows the various sources of revenue in the last four budgets presented. As is evident, the shortfall in Tax Revenues is expected to be made up for by the increase in Non-Tax Revenues. The Medium Term Fiscal Policy Strategy Statement states that the 10 per cent increase in Non-Tax Revenues over 2013-14 RE has been planned through "unlocking of resources from out of unspent balances lying in the Public Account such as Guarantee Redemption Fund and Social Infrastructure Development Fund". Tax revenues were expected to grow at 21.15 per cent in the Interim Budget which has now been revised to 17.24 per cent over 2013-14 RE. Despite the revision, the new expected growth in tax revenues seems ambitious.

Fig 2

Major Sources of Revenue for the Government (in Rs. Lakh Crore)



Source: Compiled by CBGA from Union Receipts Budgets of various years

Among Non-Tax revenues, major sources are from 'Dividends and Profits' (includes Dividends from PSUs as well as Surplus of RBI, Nationalised Banks and Financial Institutions to be transferred to the government) which is Rs. 90,229.28 crore, a 16.8 per cent projection over and above that in the interim budget. 'Non-Tax Revenue from Economic Services' (such as, communication services, roads and bridges, and receipts from power, petroleum, coal & lignite, new & renewable energy etc.) is Rs. 79,535.63 crore, a 23.7 per cent over that in the interim budget. It needs to be scrutinized in detail what could be the possible impact of this higher dependence on Non-Tax Revenue from Economic Services in a period of high inflation. Projections for non-debt capital receipts other than recovery of loans and advances (disinvestment proceeds) are estimated at an ambitious Rs. 63,425 crore.

Budget Highlights

The government has committed to the introduction of Goods and Services Tax (GST) within a year and to review the current Direct Taxes Code (DTC) Bill based on comments received from all stakeholders. In keeping with their electoral promise of a stable, non-adversarial tax regime, some measures have been introduced with an aim to minimize tax disputes. The option to obtain an advance tax ruling in respect of income tax liability has been extended to resident tax payers as well. The importance of Advance Pricing Agreements (APA), a vehicle for tax authorities and the concerned firms to agree well in advance of an audit on a particular transfer pricing methodology and the way that it will be applied, in minimising tax disputes has been acknowledged in the budget. A 'Roll Back' provision has also been introduced so that an APA entered into future transactions may also be applied to international transactions undertaken in previous four years in specified circumstances. In addition, the range concept to compute arm's length price and the use of comparable prices of similar transaction for multiple years was also announced. Though these transfer pricing measures have long been recommended by trade and industry groups and multinationals, the possible impact on revenue generation needs to be examined closely.

There was pressure to roll back the retrospective amendments with respect to indirect transfer of a capital asset situated in India, introduced in 2012 by the previous government. The retention of these amendments is a welcome move against the background of aggressive tax dodging gaining global attention, including the recently launched project by G20/OECD countries examining international tax reforms needed to address tax dodging by MNCs, called Base Erosion and Profit Shifting (BEPS). While the Finance Minister clarified that this government will not normally resort to retrospective amendments in future, all cases arising from the earlier amendments will be further reviewed by a High Level Committee to be constituted by the CBDT before decisions are taken.

In a relief to personal income tax payers, the exemption limit has been increased from Rs. 2 lakh to Rs. 2.5 lakh. The surcharge on the income tax of the super-rich introduced last year has been retained, which is also a welcome move. On the indirect taxes front, there has been a 5 per cent hike in excise duty to be levied on aerated drinks with added sugar and an 11 per cent to 72 per cent hike in excise duty on tobacco products.

The recently constituted Special Investigation Team (SIT) on black money, as per Supreme Court orders, has been allocated Rs. 8.93 crore in this Budget for managing infrastructure and logistical requirements. In addition, the re-introduction of Kisan Vikas Patra (KVP), a savings option for small savers, is seen as a potential instrument to address black money in the system which needs further scrutiny.

Structure of Taxes

The Finance Minister announced a net loss of Rs 22,200 crore as a result of Direct Tax proposals while a net gain of Rs 7,525 crore is envisaged through indirect tax proposals. Unlike Indirect Taxes, which affect the rich and poor alike, Direct Taxes are linked to the tax-payer's ability to pay, and hence are considered to be progressive. Ideally, the tax structure in a country like India should be progressive, i.e. the proportion of tax levied on the individual, group of individuals, organizations or companies should increase as their net wealth or income or returns from property increase. Progressivity in the tax structure is born out of the principles of equity and justice and the share of Direct Tax revenue in the total tax revenue of the country is one of the indicators of the same.

Piketty and Qian (2009), in a paper comparing income tax reforms in China and India, note that progressive taxation is "one of the least distortionary policy tools available that controls the rise in inequality by redistributing the gains from growth".

Table 1 and Fig 3 show the composition of the total (both centre and states) Tax-GDP ratio in India. As is evident, indirect taxes are 11.6 per cent of GDP while direct taxes account for only 5.7 per cent of GDP.

(In per cent)

Table 1

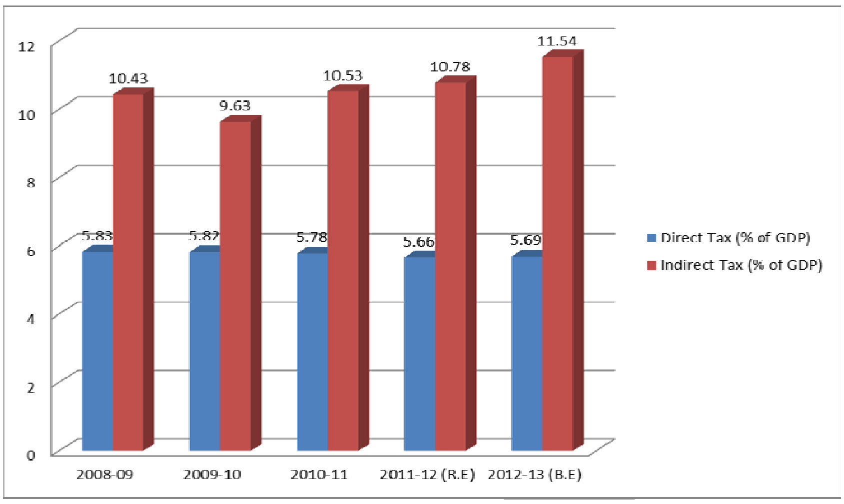
Year	Total Direct Tax (per cent GDP)	Total Indirect Tax (per cent GDP)	Tax-GDP Ratio (per cent)
2008-09	5.9	10.5	16.4
2009-10	5.8	9.7	15.5
2010-11	5.8	10.5	16.3
2011-12 (RE)	5.6	10.7	16.4
2012-13 (BE)	5.7	11.6	17.2

Source: Indian Public Finance Statistics 2012-13

As per cent of total tax revenue, direct taxes account for only 37.7 per cent in India which is far below the G20 average of almost 50 per cent. Even developing countries such as South Africa (57.5 per cent), Indonesia (55.85 per cent) and Russia (41.3 per cent) have a more progressive tax structure. Property Taxes (which include tax on wealth, tax on immovable property and estate, inheritance and gift tax) constitutes only 0.40 per cent of total tax revenue of the country as opposed to 4.85 per cent (BRICS average) and 7.60 per cent (G20 average).

Fig 3

Direct Taxes Vs Indirect Taxes in India's Total (Centre and States) Tax-GDP ratio



Source: Indian Public Finance Statistics 2012-13

Against this background, reforms in our property tax regime would have been useful, especially focusing on re-introducing inheritance tax and reforming wealth tax. Unfortunately, there's nothing in the budget that addresses the lack of progressivity in our tax structure.

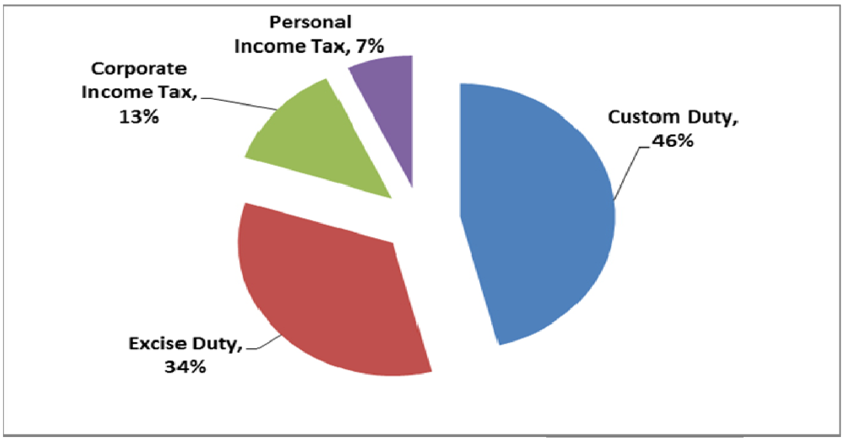
Tax Exemptions

The total magnitude of revenue foregone in the Central government tax system has seen a marginal decline from 5.9 per cent of GDP for 2011-12 and 5.7 per cent of GDP for 2012-13 to 5.0 per cent of GDP for 2013-14. Although, the Ministry of Finance has noted that in terms of the absolute magnitude of revenue foregone, there has been an upward trend. These tax exemptions (also known as tax concessions or incentives or deductions) refer to the exceptions to the general rule, pertaining to specific tax laws, rather than the complete removal of taxation.

Contrary to popular opinion, the highest proportion of tax revenue foregone is not on account of Corporate Income Tax but Customs Duties, as indicated by Fig 4.

These exemptions/deductions also explain the lower effective or actual tax rates being paid as opposed to the statutory taxes notified in the law. For instance, larger profit-making companies are noted to be paying a lower Effective Tax Rate (ETR) than lower profit-making companies. Despite a Statutory Tax Rate of 30 per cent, companies that made a profit greater than 500 crore paid an effective tax rate of only 20.97 per cent. The fig 5 provides details of actual or effective tax rates being paid by small versus large companies.

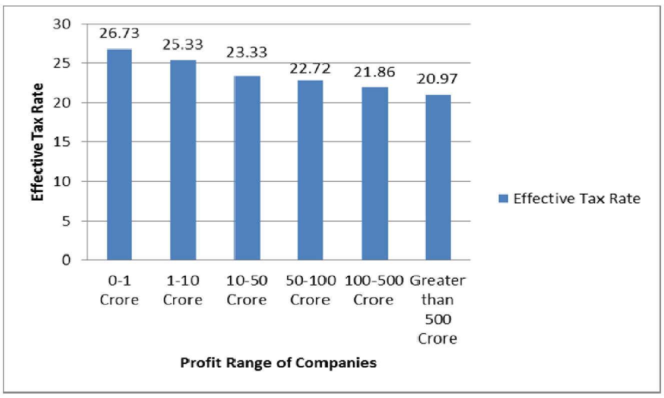
Fig 4
Revenue Foregone due to Exemptions in Specific Taxes as a per centage of Total Revenue Foregone (in 2013-14)



Source: Compiled from Union Budget 2013-14, Ministry of Finance, GoI

Against this background, the need to review all tax exemptions is important to understand which incentives are still justified with sound economic and social reasons. A cost-benefit analysis for each type of exemption needs to be institutionalised on a periodic basis to understand their effectiveness in terms of the basic objectives of such exemptions.

Fig 5
Effective Income Tax Rate: Small Vs Large Companies (2012-13)



Source: Compiled from Statement of Revenue Foregone, Union Budget 2014-15, Ministry of Finance

It is pertinent to note here that this exercise of estimation of revenue foregone by the Ministry of Finance is based on certain assumptions and it cannot be assumed that the actual revenue that could be collected if all such exemptions are removed would be around 5 or 6 per cent of GDP. The Economic Survey 2013-14 has also recommended the need to review the exemptions in the Central government tax system, expressing the need for caution in interpreting the data.

Conclusion

Overall, the tax proposals in the Union Budget 2014-15 have been seen as investor friendly with a focus on addressing the increasing tax disputes towards fulfilling their intent to provide a stable tax regime. The retention of retrospective amendments and the surcharge on income tax for the super-rich are welcome proposals in augmenting revenues. Additional efforts towards raising revenues through direct taxes such as property taxes (inheritance tax, wealth tax etc) could be considered by the government. There is a need to review exemptions in the Central government tax system (5 per cent of GDP in 2013-14), as recommended by the Economic Survey 2013-14 as well. ❑

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NORTH EAST DIARY

RS.53,706 CRORE ALLOCATED FOR DEVELOPMENT

The Centre has earmarked a sum of Rs.53, 706 crores to give an impetus to the development and the social welfare of the north eastern states for 2014-15.Citing global demand for the production of organic food, Rs.100crore have been allocated to boost organic farming in the region .In view of improper connectivity in the region, the rail network will also be expanded , for which an additional amount of Rs.100 crore has been set aside in addition to the amount provided in the Interim Budget. Apart from this, a 24 x 7 exclusive news channel called 'Arun Prabha' will also be launched as a platform to promote the rich and diverse cultural and linguistic heritage of the region. A Sports University has also been planned to set up in Manipur. An institute on the lines of Indian Agricultural Research Institute at Pusa, New Delhi, will also come up in the state of Assam. ❑

RAILWAY PROJECTS TO BE IMPLEMENTED

Considering untapped potential for the domestic tourism in the region, the Centre proposes to give top priority to the 23 railways projects that have been in the pipeline in the north eastern region. An outlay of Rs.5,116 crore has been earmarked for the fiscal 2014-15, showing a 54 per cent surge from the earlier allocations. Out of these 23 ongoing projects , 11 are national projects. Dudhnoi-Mendipathar line Lumbding-Badarpur-Silchar guage conversion, Harmuti-Murkongselek and Balipara-Bhalukpong lines are expected to be commissioned soon. Few trains have also been announced in the recently released Railway Budget like Kamakhya –Bengaluru Premium Express, three express trains namely Guwahati-Naharlagun Daily Intercity Express, Guwahati-Murkongselek Daily Intercity Express and Kamkhya –Katra Express Weekly via Darbhanga and also Guwahati-Mendipathar Daily Passenger train. ❑

7 NEW PROJECTS FOR NE BY DoNER

The Ministry of Development of North Eastern Region (DoNER) has sanctioned seven new projects for development, costing Rs 87.88crore under the scheme of Non Lapsable Central Pool of Resources (NLCPR). These projects include construction of roads, irrigation scheme and also the renewal of electrical installations. A project worth Rs 1764.76 lakh will construct an approach road from Chokpot in South Garo Hills to Jetra .The Ministry also sanctioned Thengkhari Barhola Pathar Irrigation Scheme worth Rs 410.32 lakh . Rs 1616.58 lakh were sanctioned for constructing a road from Katlicherra in Hailakandi district to Veterbond-Dulavcherra in Karimganj district. Also, Rs 1949.98 lakh were given to construct a 23 -km long Nyodu Sibe Siru Road in West Siang district and Rs 950.81 lakh were given to construct a 6.5 km long road from Pakoti to Kamsha village. ❑

ASSAM TO GET 600 CRORE FROM NABARD

The National Bank for Agricultural and Rural Development (NABARD) will invest Rs 600 crore under its scheme of Rural Infrastructure Development Fund (RIDF) in many sectors in 2014-15 in the state of Assam.The bank will emphasize on cold storage facility in Assam as needed by the sericulture, farmers, food processing and tribal development. For this , the Centre has allotted two funds namely Financial Inclusion Fund (FIF) worth Rs 8.45 crores to fund the development and promote financial inclusion and Financial Inclusion Technology Fund (FITF) worth Rs 26.47 crores to meet the expenditure of adopting to new technologies to aid financial inclusion. ❑

CENTRE PLANS FOR DEVELOPMENT OF REGION ALONG INDO CHINA BORDER

Centre will spend Rs. 5000 crore to develop the region along the Indo –China border to encourage villagers to settle there upto a distance of 50 km from the border, by developing facilities like healthcare , schools and the power sector. Presently , there are no fences as there is no proper demarcation of the border. The Union Home Ministry has already earmarked a sum of Rs. 24,000 crore to develop the infrastructure such as a proper road network, runway ground, and telecommunication system and border outposts for security forces deployed near the border areas. The number of Indo Tibetan Border Police force in Arunachal will be doubled and around 54 new outposts will be set up near the border and the number of security personnel is also planned to increase upto 30,000. ❑

SPECIAL FOCUS ON NORTH-EASTERN REGION

Union Ministry for Agriculture will give special emphasis on agricultural education and the research in the north eastern region ,citing its key role in bringing new technologies and help in skill up gradation. The Centre has directed Indian Council of Agricultural Research (ICAR) to identify and explore the feasibilities of expanding more agricultural and veterinary institutions in all the eight states of the region, to meet the needs of the local farmer community. Agriculture Ministry will also empower the Central Agriculture University (CAU) located at Imphal. ❑

Infrastructure and Energy Sector Review

Hiranmoy Roy
Anil Kumar

The Budget envisions the creation of Infrastructure Investments Trusts (InvITs) and Real Estates Investment Trusts (REITs). To compete in the global market, the finance ministry has proposed several tax incentives for these trusts in line with the promise to create a framework of fast- track, investment friendly and strong Public Private Partnerships (PPP) to build and execute large scale projects that are of vital importance for India

THE MAIDEN budget of the present government has laid the roadmap for providing long term funds on a sustained basis to the cash-starved infrastructure. The Budget envisions the creation of Infrastructure Investments Trusts (InvITs) and Real Estates Investment Trusts (REITs). To compete in the global market, the Finance Ministry has proposed several tax incentives for these trusts in line with the promise to create a framework of fast- track, investment friendly and strong Public Private Partnerships (PPP) to build and execute large scale projects that are of vital importance for India.

The investors in the trust will get similar treatment on capital gain as companies. Moreover, the interest income from the trust's investment in infrastructure projects will not be taxable and there would be no withholding of tax for the infra projects. More interestingly, the dividend received by the trust can be distributed to the trust's unit holders without any tax and it can acquire controlling stake in income-generating infrastructure projects. The government has very clearly intended its focus on the sector by proposing to provide tax-pass through to infrastructure investment trusts and REITs.

The budget has proposed to increase the corpus of Rural Infrastructure Development Fund (RIDF) by an additional Rs. 5,000 crores from the target given in the interim budget to Rs. 25,000 crores which helps in creation of infrastructure in agriculture and rural sectors across the country. This will definitely add further momentum to rural development.

Provisions have also been made to increase warehousing facilities for increasing the shelf life of the agricultural produces and thereby earning capacity of the farmers. Keeping in view this urgent need for availability of scientific warehousing infrastructure in the country, an allocation of Rs. 5,000 crores has been made for the year 2014-15 for further creation of this facility.

India has emerged as the largest PPP market with 900 projects in some of the iconic infrastructure like airports, ports, highways which are seen as models for development globally. The weaknesses of PPP framework in India are the rigidities in contractual arrangements, the need to develop more nuanced and sophisticated models of contracting and develop quick dispute redressal mechanism. Thus, an institution to provide support to mainstreaming PPP's called 3P's India will be set up with a corpus of Rs. 500 crores.

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Sixteen new port projects are proposed to be awarded with a focus on port connectivity which is crucial for boosting trade and generating employment. A policy for encouraging the growth of Indian controlled tonnage will be formulated. Rs. 11,635 crores will be allocated for the development of outer Harbour Project in Tuticorin in phase –I and SEZ will also be developed in Kandla and JNPT. Moreover, a comprehensive policy will also be announced to promote Indian ship industry in the current financial year.

New airports in tier –I and tier –II cities will be launched for implementation through Airport Authority of India or PPP's.

The road sector needs huge investment. The Finance minister has proposed an investment in NHAI and state roads of amount of Rs. 37,880 crores, which includes 3,000 crores for North East. During this financial year, a target of national highway construction of 850 km will be achieved. Government will also initiate work on select expressways in parallel to the development of industrial corridors. For project preparation, NHAI will set aside a sum of Rs. 500 crores.

So far as energy sector is concerned, power tariff is supposed to go up marginally by 3.5 paise per unit due to doubling of green cess on coal to Rs. 100 per tonne. In the budget, provision has been made for Rs. 1000 crores kitty and tax sops to boost domestic manufacturing of solar and wind power equipment. The power companies also received a booster in extension of 10 - year tax holiday under section 80 IA to all units that begin generation, transmission and distribution by March 31, 2017. Finance Minister has also allocated Rs. 500 crores for building solar power plants of up to 4,000 MW in Rajasthan, Gujrat, TamilNadu and Ladakh in J & K. Another Rs. 500 crores has been provided for launching one lakh solar pump sets which would save power and diesel subsidy. Rs.100 crore would be spent to put up solar panels for generating up to 1 MW from each project. To ensure the benefits of this allocation to domestic manufacturers, import duty on sheets, flat copper wire etc. used for making solar panels has been reduced to 5 per cent. At the same time, duty on import of certain metals for making bearings for wind generators has also been reduced. But domestic manufacturers are of the opinion that these concessions are too little and very late. They fear an onslaught of dumping from several countries which would benefit the most from large spending.

To promote cleaner and more efficient thermal power, it was proposed to allocate an initial sum of Rs. 100 crore for preparatory work for a new scheme of "Ultra –Modern Super Critical Coal Based Thermal Power Technology".

...the existing deadlock in the sector will be resolved and adequate quantity of coal will be provided to the power plants which are already commissioned or would be commissioned by March, 2015 to unlock dead investments. Moreover, an exercise to rationalize coal linkages which will optimize transportation of coal and reduce cost of power is underway.

A big knock is also given to coal sector in the union budget through comprehensive measures for enhancing domestic coal production with stringent mechanism for quality control and environmental protection, which includes supply of crushed coal and setting up of washeries. It is also proposed by Finance Minister that the existing deadlock in the sector will be resolved and adequate quantity of coal will be provided to the power plants which are already commissioned or would be commissioned by March, 2015 to unlock dead investments. Moreover, an exercise to rationalize coal linkages which will optimize transportation of coal and reduce cost of power is underway.

In the power sector, it is also proposed to take up Ultra Mega Solar Power Projects in Rajasthan, Gujarat, Tamil Nadu and Ladakh in J&K. A sum of Rs. 500 crores has been set aside for this. For agricultural sector, a scheme for solar power driven agricultural pump sets and water pumping stations for energizing one lakh pumps, a sum of Rs. 400 crores is allocated for this purpose. An additional Rs. 100 crore is set aside for the development of 1 MW Solar Parks on the banks of canals. Implementation of Green Energy Corridor Project will be accelerated in this financial year to facilitate evacuation of renewable energy across the country.

It is also intended to accelerate production and exploration of Coal Bed Methane reserves in this budget. The possibility of using modern technology will also be explored to maximize production from such fields. Moreover, the usage of PNG will be scaled up as it is clean and efficient to deliver. We have at present, 1500 km of gas pipeline systems in the country. In order to complete gas grid in the country another, 1500 km of pipe line is required. It is proposed in the budget to develop these pipe lines using appropriate PPP models. This will help increase usage of gas, domestic as well as imported, which in the long run will be beneficial in reducing dependence on any one energy sources.

Investment in mining sector has also been encouraged in this budget and also to promote sustainable mining practices to adequately meet the requirements of industry without sacrificing environmental concerns.

Provision has also been made in the budget for huge revenue benefits to the states, as there was a request from several state governments to revise the rate of royalty on minerals. Royalty can be revised after three years and last revision was made in August 2009, therefore, another revision which is due will be undertaken as assured by Finance Minister to ensure greater revenue to the states.

All the above measures announced in the Union Budget 2014-15 for infrastructure and energy sector have given a direction to these sectors for long term and overall development of the Indian economy. ❑

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Urban Transport Model-BRTS, Ahmedabad

Manisha Verma

The case of Ahmedabad BRTS demonstrates that service delivery can be improved through actively engaging with the users and other stakeholders at various points in the development of the service. The AMC has demonstrated that various institutional deficiencies of urban local bodies may be effectively addressed by creating unique partnerships with users of the service

THIS ARTICLE highlights the innovative ways in which the Ahmedabad Municipal Corporation (AMC) has engaged with the users and citizens to develop a people centric urban mass transport system, the Ahmedabad Bus Rapid Transit System (ABRTS), also known as *Janmarg*, which has been found to have achieved most of its stated goals.

Evidence from urban development projects taken up by several local governments in the country suggests that involvement of citizens in their design and implementation is limited. Studies of Pune metro system by Ashok Sreenivas (2011) and Hyderabad metro by C. Ramachandraiah (2009) conclude that decisions in most Urban Local Bodies (ULBs) continue to be taken in a non-participative, non–transparent and ad hoc manner. The Delhi BRTS also is a case where non-involvement of the users apparently resulted in its below-optimum use.

The success of Ahmedabad BRTS, has been largely possible because of effective and meaningful partnerships created by the State with the citizens including the users. The project benefitted by drawing from the experience of similar projects in other cities of the country that did not adopt a participatory mode. Such partnerships provide a framework for the citizens to engage with the State agencies during the stages of design, construction and operation of any projects which seeks to obtain social goals. The Ahmedabad BRTS also demonstrates that such partnerships may serve to enhance the nature and degree of ownership among the city people towards such projects and even contribute to deepening the sense of citizenship among the people.

Partnering With Citizens

The concept of interactive and inclusive governance recognises citizens as being 'movers and shapers' instead of being perceived as merely 'voters' and 'clients'. The State can broad-base its policies, enhance their acceptability and better the public services by engaging with the citizens. Within this pattern of governance, divergent preferences of interdependent actors are translated into policy choices to 'allocate values' so that the plurality of interest is transformed into co-ordinated action and the compliance of actors is achieved' (Kohler-Koch and Eising, 1999: 5).

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Close partnerships with the citizens also contribute towards enhancing the level of responsiveness of the government towards the users this can act as an effective method of ensuring governmental accountability. The more inclusive modes of 'horizontal' accountability where people can directly engage with core activities of the government is known to complement the prevalent modes of 'vertical' accountability. This tends to break the State's 'monopoly over the responsibility for official executive oversight' (Goetz and Jenkins, 2001: 365) and strengthens accountability and responsiveness of the government agencies at the micro levels.

'Communicative action' with citizens helps to overcome the crisis of legitimacy within representative democracies, which are claimed to be insufficient to meet demands of all sections of society, and devoid of any aggregation of views and preferences, or deliberation of content.

Such partnerships are also argued to strengthen notions of democracy. 'Communicative action' with citizens helps to overcome the crisis of legitimacy within representative democracies, which are claimed to be insufficient to meet demands of all sections of society, and devoid of any aggregation of views and preferences, or deliberation of content. According to Newman (2005: 131), interactive modes are perceived to be 'more responsive to the subtle differences of interest and identity'

Ahmedabad BRTS

ABRTS has won several national and international awards for providing a successful and popular bus-based inter-city transport system. Ahmedabad became the first South Asian city to win the best mass transit system award by the New York based international non-governmental organisation, ITDP, in 2010. It was the joint runner–up of the 'Outstanding Innovation in Public Transport' award by the International Transport Forum (ITF) and International Association for Public Transport (UITP) in 2010. Ahmedabad won the national award for excellence in urban mobility in 2010 and for innovative infrastructure in 2011.

The Gujarat government conceptualised ABRTS in 2000 as one of the measures to provide enhanced urban mobility for Ahmedabad city. It was handed to AMC for execution in 2005. ABRTS set out to provide a safe mode of mass mobility for all the city people of Ahmedabad with special focus on women, children and senior citizens, reduce travel time, road accidents and traffic congestion, provide space for parking, pedestrians, cyclists and roadside vendors and hawkers, and improve road and land use in the city. Against a planned length of 88.8 km, 86 km of ABRTS has been completed in March 2001). More than 1.5 lakh passengers use the service daily with 160 buses of which 60 are air-conditioned. ABRTS provides easy, comfortable and safe of travel with assured, timely and speedy journey in modern and comfortable buses at affordable prices. Speed of the BRTS bus during peak hours is 24-26 km/hr and 28-30 km/hr during non-peak hours. This is reportedly the fastest speed of any urban mobility bus in the country. The all-weather imaginatively built BRTS bus 'stations' are designed to be access-friendly which is not the case with other bus 'stands'. The elderly, physically and visually challenged find this jostle-free environment and safety particularly attractive. There are comfortable seats for the passengers, while security guards provide a sense of security for the day and night travellers. The BRTS operates for longer hours during festivals such as *Navratri* as a large part of the city people prefer this mode to their own personal vehicles. It has become the preferred mode of transport for school and college going children.

This success and popularity of the ABRTS would have been difficult had the AMC not partnered with the citizens to seek their inputs during various stages of its design and execution.

Planning and Designing

The AMC planners witnessed two major challenges as they started with the project. One, BRT systems were fairly new, hence there were no successful examples in the country to emulate. Secondly, this combined with low awareness among the city people regarding BRT systems and their benefits created apprehension within a section of the city people.

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The Delhi BRTS, more like a bus-lane rather than an actual "BRTS", which was operational at that point did not provide a successful model. It has failed to provide a solution to the city's transport problems. People and a section of academicians and transport experts in Ahmedabad feared that the same mistakes would be repeated. Some were of the view that the metro rail system and not the BRTS would resolve the city's mobility problems. Others felt that the traffic woes were largely due to poor transport management and widening the roads and better management of the existing public transport options would address issues of congestion and traffic snarls.

There also existed a general apprehension regarding AMC's capabilities to successfully deliver such an ambitious project as the AMC operated Ahmedabad Municipal Transport Service (AMTS) was observed to suffer from multiple institutional and operational problems resulting in low operative efficiency (AMC and AUDA, 2006). The general view was that functioning of AMTS should be improved rather than taking up a project which would be duplicating similar infrastructure with no perceptible gains.

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As the first step to address these challenges, the AMC team studied the Delhi BRTS in substantial detail to understand the reasons why it failed to accomplish many of its stated goals and to avoid repeating the same mistakes at the planning stage itself. They found that a critical cause for failure of the Delhi model was poor understanding of mobility needs of the city people and inability to integrate the users' preferences in designing the system. There existed no mechanism to encourage people's participation. Hence, the citizens could not proactively engage with the project even if they wanted to. It appeared to be a system imposed on the people. For the ABRTS, the AMC was sure to treat the users and other citizens as *active partners* in development of the city BRTS, rather than passive stakeholders, in order to enhance its effectiveness and thus, its acceptability.

Workshops for Users and Stakeholders

The AMC team adopted a deliberative and consultative approach to engage with the citizens from conception to implementation stage. Several workshops were conducted for the users and for various stakeholders such as owners of privately owned public transport (such as *chhakdas*, *autorickshaws* and buses), 4-wheelers, 2-wheelers in addition to public transport services such as the AMTS and Gujarat State Road Transport Corporation (GSRTC). Workshops were also organised for representatives of peoples' groups, academicians, and experts on urban infrastructure and transport from New Delhi and Gujarat to seek their insights in developing the system. During these workshops, people interacted with the planners and experts on urban mobility. These interactions served multiple purposes. They introduced the new concept of the BRTS and its benefits to the stakeholders, and AMC gained firsthand knowledge of needs of diverse sections of people. AMC sought support of owners of other modes of commercial transport as they could oppose the system if they perceived that the BRT would adversely affect their earning. AMC considered this very crucial as BRTS is envisaged as part of an integral system of urban mobility rather than a stand-alone service. Issues regarding integrating other modes of transport as feeder services were also discussed in detail.

Selecting Bus Routes and Designing Corridors

When AMC had to plan the bus route for its first phase, it sought people's feedback and designed the route passing through educational institutions, residential places, and commercial areas thereby benefitting a mixed section of users. The route accommodated lanes for pedestrians, cyclists and parking spaces. It improved productivity of adjoining land, some of which was encroached and was being inefficiently used. This helped to generate greater acceptance within the users as they could immediately experience its benefits.

Based on its findings from the Delhi BRT where the bus-lanes were used by all buses and also mixed traffic leading to a chaotic situation, AMC opted for a dedicated median corridor strictly for the BRTS buses. This makes the ABRTS a *closed system* as opposed to an *open system* which Delhi has. As there is no interference from other mixed traffic, the BRTS provides assured and speedy travel. Also, the frequency, time and speed of the buses can be monitored. Moreover, BRT buses would have competed with AMTS in an open route which would be counterproductive. As only BRTS buses run in the dedicated corridor, the bus stations are designed with level boarding which provides easy access to the bus and reduced boarding time. This also enables passengers with disabilities to board without difficulty. As a result of the feedback gathered during the workshops, the BRTS bus stations have ramps and grovelled access

AMC opted for a dedicated median corridor strictly for the BRTS buses. This makes the ABRTS a closed system as opposed to an open system which Delhi has. As there is no interference from other mixed traffic, the BRTS provides assured and speedy travel. Also, the frequency, time and speed of the buses can be monitored.

paths leading to the bus stations and within the stations to guide the visually challenged passengers.

Improved Architecture and Operational Systems

Following an approach of participative design, AMC kept few stations constructed initially (before the bus operations started) open to the people for about six months, for them to access them and offer their suggestions to make them more comfortable. The visitors were asked to report on different aspects of the bus stations. AMC officials present at the stations recorded their feedback directly or through a feedback register placed at these stations. Several design flaws were corrected through this exercise. For example, tin roofs for the bus stations got unbearably hot in the harsh summers of Ahmedabad. Based on the user feedback, they were replaced by concrete roofing. Similarly, steel seats which get hot in summer and cold in winter were replaced by wooden chairs better suited to the local climatic conditions.

The visitors were asked to report on different aspects of the bus stations. AMC officials present at the stations recorded their feedback directly or through a feedback register placed at these stations. Several design flaws were corrected through this exercise. For example, tin roofs for the bus stations got unbearably hot in the harsh summers of Ahmedabad. Based on the user feedback, they were replaced by concrete roofing.

Similarly, when the first stretch of 12.5 km was ready in June 2010, AMC decided to run the services free of charge for three months. More than 1.5 m people travelled in ABRTS during this phase. AMC also conducted special trips for groups of industrialists, journalists, students, academicians, doctors, politicians, religious leaders, senior citizens, bureaucrats, prominent citizens, Members of Parliament and the state Legislative Assembly. AMC used this period to demonstrate benefits of the new system and involve the users in enhancing quality of the service. During this phase, AMC assessed the technical abilities of the drivers in terms of driving, safe docking and operating GPS consoles installed inside the buses, and functioning of various other operating systems. The pilot runs helped to educate and silence many of the critics who compared ABRTS to the Delhi model and prophesised its failure.

Opinion Surveys

AMC conducted opinion surveys during the initial pilot runs to gain knowledge on number of passengers travelling each day, which are the busy stretches, peak-hours, peak ridership, time-wise profiles of passengers on different stretches and any deficiency in the service in general. The Municipal Commissioner used this feedback to improve the services. Realizing the important purpose the feedback served, when ABRTS was fully operationalised AMC made the surveys an integral part of the service. They have been made more elaborate to capture information on diverse aspects of the system such as passengers' profile, the aggress and egress modes, shift from other modes of transport, number of accidents and breakdowns per month. AMC is also collecting complaints through a toll free number. The surveys also collect details on the ridership and revenue collection, assess the bus operations in terms of driving and docking of buses at stations, cleanliness of buses and stations, functioning of the Public Information System within buses and at the bus stations, behaviour of drivers and ticketing staff, whether they are in uniform and whether there are instances of rash driving and speeding, information on how people access the buses, their travel patterns, choice of mode of transport to reach the stations to board the BRTS buses and finally reach their destination after alighting. The information has helped AMC to understand the mobility needs and preferences of the users.

Concluding Remarks

While the need for inclusive and participatory decision making and governance has been widely accepted, many ULBs in India still haven't adopted it as an integral component of policy making. The case of Ahmedabad BRTS demonstrates that service delivery can be improved through actively engaging with the users and other stakeholders at various points in the development of the service. The AMC has demonstrated that various institutional deficiencies of urban local bodies may be effectively addressed by creating unique partnerships with users of the service. As conventional structures and mechanisms within the governments may not adequately provide for and encourage such engagements, it is the responsibility of the State agencies to design innovative frameworks for meaningful involvement of its citizens in public service delivery Further, the goodwill generated for

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the civic body among the citizens as a result of engaging with people in the project is likely to generate overall trust and goodwill for the other State projects. Favourable experience with such partnerships tends to encourage the civic bodies to attempt to partner with the users and citizens in other projects which may also benefit from increased citizen interface.

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Budget Initiatives-For the Skilled India

• A national multi-skill programme, called Skill India, to focus on employability and entrepreneurship skills while training youth. • Training and support for traditional professions like welders, carpenters, cobblers, masons and blacksmiths. • Rs 10,000 crore start-up fund to give boost to this programme - incentives to skilled and educated youth to start their own companies in the medium and small scale industry sector. • Rs 200 crore fund to promote 'innovation and entrepreneurship in agro-industry'. • Rs 100 crore for a young India leadership programme • Rs 100 crore scheme for virtual classrooms • Rs 100 crore to give facelift to employment exchanges that will act as career counselling centres for youth.

Development Roadmap-New Initiatives in the Budget

Agriculture

♦ Price Stabilisation Fund with a corpus of Rs 500 crore to help farmers deal with volatility ♦ Lowering of interest rate by 3% on short term crop loans for timely payment ♦ Financing of five lakh Bhoomi Heen Kisan Joint Farming Groups ♦ Soil health cards for farmers with a fund of Rs 100 crore ♦ Mobile testing laboratories with fund or Rs 56 crore ♦ Agri-Tech Infrastructure Fund of Rs 100 cr. to make farming more competitive and profitable by stepping up public and private investment, develop agro - technology and modernise existing agri-business infrastructure ♦ Rs 100 cr. for Kisan TV channel to provide real-time information on new techniques, water conservation and organic farming ♦ Rs 100 cr. for setting up of two more institutions like ICAR in Assam and Jharkhand and agricultural universities in Andhra Pradesh and Rajasthan and Rs 200 cr. for Horticulture Universities in Telangana and Haryana.

Social Sector

♦ Rs 500 cr. for Deen Dayal Upadhyay Gram Jyothi Yojana to provide 24X7 power supply to rural areas ♦ Shyama Prasad Mukherjee Rurban Mission to deliver integrated project-based infrastructure in rural areas based on the Gujarat model of urbanisation of rural areas and implemented using the PPP model ♦ Swatchh Bharat Abhiyan - Total sanitation to be achieved by 2019 with an allocation of Rs 1,000 crore. ♦ Assistance to Disabled Persons for the purchase and fitting of aids and appliances(ADIP) extended to include purchase of contemporary aids and assistive devices ♦ Establishment of a national-level institute for Universal Inclusive Design and Mental Health Rehabilitation as also Centre for Disability Sports ♦ Currency notes with Braille-like signs as also assistance to states to establish 15 new Braille presses and modernize 10 existing Braille presses.

Boost for Solar Power

♦ Rs 500 crore allocation for building solar power plants of up to 4,000 MW in Rajasthan, Gujarat, Tamil Nadu and Ladakh ♦ Rs 500 crore provided for launching a lakh of solar pumpsets ♦ Rs 100 crore to be spent to put up solar plants along embankments for generating up to 1MW from each project ♦ Import duty on sheets, flat copper wire etc used for solar panels reduced to 5 per cent.

Safety of Women

♦ Pilot testing scheme on safety for women in public road transport with allocation of Rs 50 crore ♦ Additional Rs 150 crore on scheme to increase safety of women in large cities by MHA ♦'Beti Bachao, Beti Padhao Yojana' - a focussed scheme to overcome apathy to the girl child .

Health For All

♦ Two key initiatives - free drug service and free diagnostic service as well as universal access to early quality diagnosis and treatment for TB patients ♦ Two National Institutes of Ageing to be set up at AIIMS, New Delhi and Madras Medical College, Chennai. Proposal to set up four more AIIMS-lime institutions in Andhra Pradesh, West Bengal, Vidharbha in Maharashtra and Poorvanchal in UP with allocation or Rs 500 crore ♦ States Drug Regulatory and Food Regulatory Systems to be strengthening by creating new drug testing laboratories and strenghtening the 31 existing State laboratories ♦ 15 model Rural Health Research Centres to be set up in the States to take up research on local health issues concerning the rural population. ♦ National programme in mission mode proposed to tackle malnutrition for which a detailed methodology, costing, time lines and monitor able targets will be put in place in six months time.

Benefits to Pensioners

♦ Minimum pension under EPFO - 95 scheme fixed at Rs 1,000/- to benefit over 28 lakh pensioners ♦ Income ceiling under EPF scheme increased from Rs 6500 to Rs 15,000/- thus increasing the number of employees who will be eligible for PF contributions from employers ♦ Pension drawn by spouse after a beneficiary's death fixed at a minimum of Rs 1000 ♦ Benefits drawn by children increased from Rs 150 to Rs 250 per month ♦ Portability of PF accounts will be achieved by giving the beneficiaries a unique ID number to be seeded with the National Population Register or Aadhar.

Digital India

♦ Rs 500 crore Digital India programme to bridge the gap between digital 'haves' and 'have nots'. ♦ Ensuring broadband connectivity at village level, improve access to services through IT-enabled platforms, greater transparency in government processes and increased indigenous production of IT hardware and software for exports ♦ Focus on support to software product start-ups ♦ National Rural Internet and Technology Mission proposed for services in villages and schools; training in IT skills and e-Kranti for government delivery and governance schemes with an allocated amount of Rs 500 cr.

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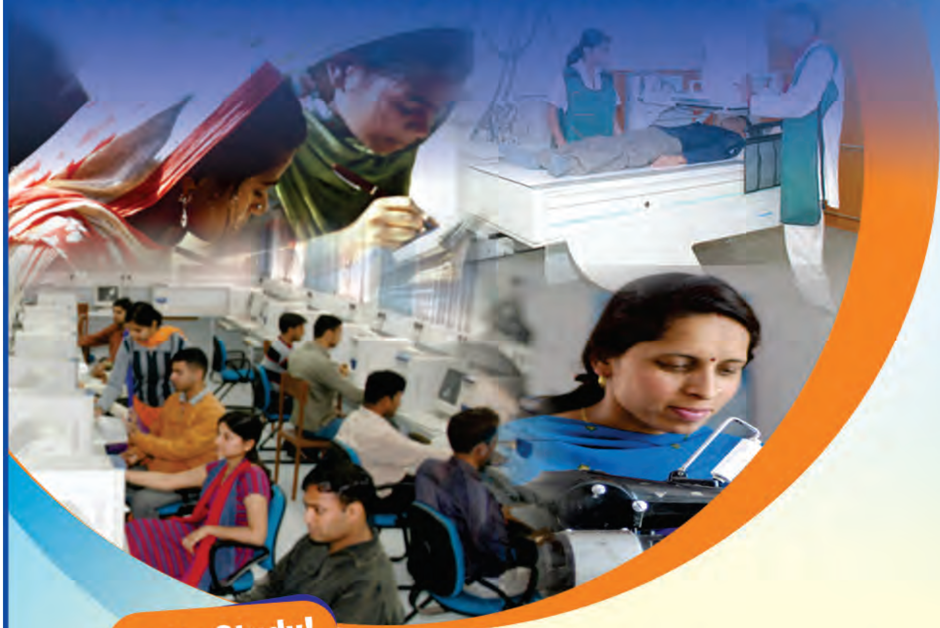

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