ISSN-0971-8400

YOJANA

MARCH 2015 | A DEVELOPMENT MONTHLY | ₹ 20

Special Issue

Union Budget 2015-16

Transforming India into a Global Manufacturing Hub
Amitabh Kant

Budget 2015-16 : Impact on Growth, Employment and Welfare
D.K.Srivastava

Shifting Accountability? Reading the Budget from Women's Perspective
Neetha N

Analysing Economic Health
Ashima Goyal

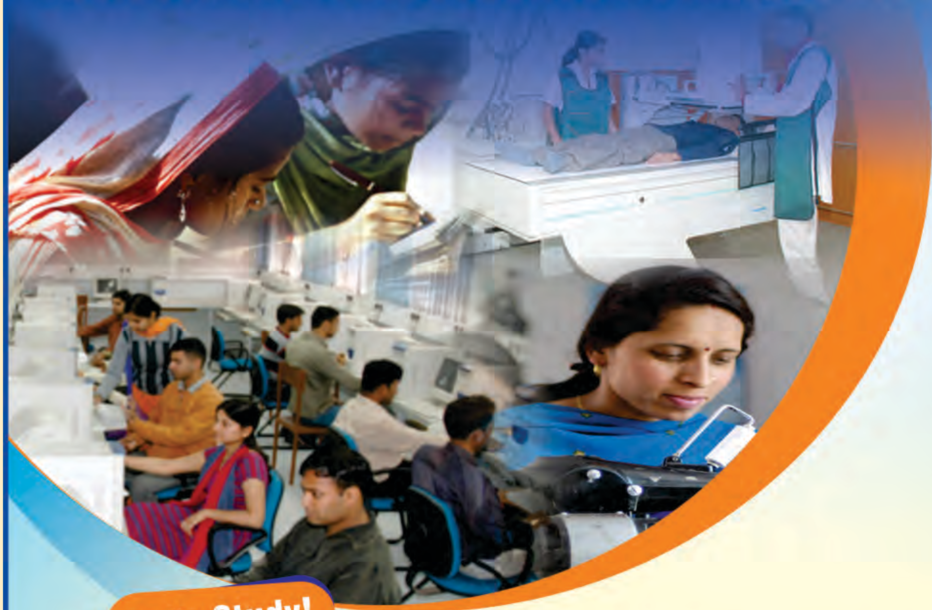
Rail Budget : A Bold Pathway for Progress
G. Srinivasan

Special Article
True to the Spirit of Federalism
Pravakar Sahoo

Focus Article
National Skill Development Programme : The Way Ahead
Swadesh Singh

Open School - That Touches & Changes the Life

विद्याधनम् सर्वधनं प्रधानम्



Let's Study!

Continue Your Education
Adopt Open Schooling

Courses	Admission Fee (without Late Fee)			Dates for Admission
	Male	Female	Exempted Category	
• Open Basic Education (Class III, Class V & Class VIII)	-	-	-	30th June (every year)
• Secondary (Class X) (i)For 05 subjects (ii)For each Additional Subject	 ₹ 1350 ₹ 200	 ₹ 1100 ₹ 200	 ₹ 900 ₹ 200	Block -1 : 16th March - 31st July (without late fee) 1st August - 15th Sept. (with late fees) Block -2 : 16th Sept. - 31st Jan. (without late fee) 1st Feb. - 15th March (with late fees)
• Senior Secondary(Class XII) (i)For 05 subjects (ii)For each Additional Subject	 ₹ 1500 ₹ 230	 ₹ 1250 ₹ 230	 ₹ 975 ₹ 230	Block -1 : 16th March - 31st July (without late fee) 1st August - 15th Sept. (with late fees) Block -2 : 16th Sept. - 31st Jan. (without late fee) 1st Feb. - 15th March (with late fees)
• Vocational Education Programmes (6 months to 2 years duration)	Based on Course & Duration			1st Session : 30th June (every year) 2nd Session : 31st Dec. (every year)

Contact your nearest Study Centre or Concerned Regional Centre for Admission
For detailed information of Late Fee, Study Centres, Regional Centres etc.
please log on to NIOS Website : www.nios.ac.in

National Institute of Open Schooling

(An Autonomous Institution under Ministry of Human Resource Development, Govt. of India)

A - 24/25, Institutional Area, Sector - 62, NOIDA, Gautam Budh Nagar (Uttar Pradesh)

Toll Free No.1800-180-9393; email: lsc@nios.ac.in website: www.nios.ac.in

The Largest Open Schooling System in the World

March 2015 **Vol 59**

YOJANA

Chief Editor : Deepika Kachhal
Senior Editor : Shyamala M. Iyer
Sub Editor : Vatica Chandra

Joint Director (Production) : V.K. Meena
Cover Design : Gajanan P. Dhope
E-mail (Editorial) : yojanace@gmail.com
(Circulation) : pdjucir@gmail.com
Website : www.yojana.gov.in
https://www.facebook.com/pages/Yojana-Journal

Let noble thoughts come to us from all sides
Rig Veda

CONTENTS

Our Representatives : Ahmedabad: Amita Maru, Bangalore: B.S. Meenakshi, Chennai: A. Elangovan, Guwahati: Anupoma Das, Hyderabad: Vijayakumar Vedagiri, Kolkata: Antara Ghosh, Mumbai: Bhavana Gokhale, Thiruvananthapuram: Neetu Sona.

YOJANA seeks to provide a vibrant platform for discussion on problems of social and economic development of the country through in-depth analysis of these issues in the wider context of government policies. Although **published by the Ministry of Information and Broadcasting**, Yojana is not restricted to expressing the official point of view. Yojana is published in Assamese, Bengali, English, Gujarati, Hindi, Kannada, Malayalam, Marathi, Oriya, Punjabi, Tamil, Telugu and Urdu.

EDITORIAL OFFICE : Office of Chief Editor (YOJANA), has shifted to Soochana Bhavan. (Ph: 24362971). The present address for Yojana (English) is Room No. 647, Soochna Bhavan, C.G.O. Complex, Lodi Road, New Delhi - 110 003.
Business Manager (Hqs.) : Ph :24367260, 24365609, 24365610

For new subscriptions, renewals, enquiries please contact : Business Manager (Circulation & Advt.), Publications Division, Min. of I&B, East Block-IV, Level-VII, R.K. Puram, New Delhi-110066, Tel.: 26100207;] Sales Emporia : Publications Division: *Soochna Bhavan, CGO Complex, Lodhi Road, New Delhi -110003 (Ph 24365610) *Hall No.196, Old Secretariat, Delhi 110054(Ph 23890205) * 701, B Wing, 7th Floor, Kendriya Sadan, Belapur, Navi Mumbai 400614 (Ph 27570686)*8, Esplanade East, Kolkata-700069 (Ph 22488030) *'A' Wing, Rajaji Bhawan, Basant Nagar, Chennai-600090 (Ph 24917673) *Press road, Near Govt. Press, Thiruvananthapuram-695001 (Ph 2330650) *Block No.4, 1st Floor, Gruhakalpa Complex, M G Road, Nampally, Hyderabad-500001 (Ph 24605383) *1st Floor, 'F' Wing, Kendriya Sadan, Koramangala, Bangalore-560034 (Ph 25537244) *Bihar State Co-operative Bank Building, Ashoka Rajpath, Patna-800004 (Ph 2683407) *Hall No 1, 2nd floor, Kendriya Bhawan, Sector-H, Aliganj, Lucknow-226024(Ph 2225455) *Ambica Complex, 1st Floor, above UCO Bank, Paldi, Ahmedabad-380007 (Ph 26588669) *KKB Road, New Colony, House No.7, Chenikuthi, Guwahati 781003 (Ph 2665090)

SUBSCRIPTION : 1 year ₹ 100, 2 years ₹ 180, 3 years ₹ 250. For SAARC countries by Air Mail ₹ 530 yearly; for European and other countries ₹ 730 yearly.
No. of Pages : 84

Chief Editor's Desk

Focus on Investment and Growth

The much awaited first full budget of the present government finally arrived amidst considerable speculations. However instead of expected popular announcements, the budget proposed a number of small, but effective steps to promote investment and growth. The Finance Minister tried to address some fundamental issues with the aim of achieving long term sustainable growth with GDP above 8 per cent and making India the fastest growing economy in the world.

Consistent with Government's vision of inclusive growth, the budget recognized the role of people in a country's development and made an attempt to empower them to better their own lives. The budget laid foundation for expanding livelihood and investment opportunities on one hand and building social security system on the other.

Increasing tax deduction limit to ₹ 1.5 Lakhs under New Pension Scheme, allowing tax deduction upto ₹ 25,000 on health insurance premium, announcement of Pradhan Mantri Suraksha BimaYojna and Pradhan Mantri Jeevan Jyoti Bima Yojana to cover death risk of ₹ 2 lakh each for a nominal premium are some major initiatives in this direction. In order to support programmes for Women Security, Advocacy and Awareness, ₹ 1,000 crore have been allocated to the Nirbhaya Fund in the year 2015-16.

To tap the immense potential of youth population of the country and to enhance their employability, the budget announced a series of initiatives. Several institutes ranging from a senior secondary school within 5 kms of every child to higher institutes of technical and skill education have been proposed to come up in various parts of the country. While 'Nai Manzil' aims at integrating education and livelihood for Minority Youth, Micro Units Development Refinance Agency (MUDRA) Bank seeks to refinance Micro-Finance Institutions with Priority to SC/ST youth. Self-Employment and Talent Utilisation (SETU) programme will support all aspects of start-up businesses, and self-employment activities, particularly in technology-driven areas. National Skills Mission will consolidate skill initiatives spread across several ministries and allow standardization of procedures and outcomes.

To give a boost to 'Make in India' campaign, the budget announced measures to make it simpler and cheaper to set up manufacturing projects. Deferment of GAAR (General Anti Avoidance Rules) with grand fathering provisions, reduction in corporate tax from 30 per cent to 25 per cent over the next four years and proposals to rationalization of tax structure sends out a positive message that India is all for stable and predictable tax regime. Implementation of uniform Goods and Service Tax (GST) from April 1, 2016 will weed out tax inefficiencies which exist in the system today and pave the way for GDP growth. Another major focus is on facilitating 'ease of doing business' in India with simplification, rationalization and digitization of processes.

Recognising the need for a robust Infrastructure to support these initiatives, the budget proposed an enhanced outlay of ₹ 70,000 crore for the sector, apart from creating a National Investment Infrastructure Fund (NIIF) with annual inflow of ₹ 20,000 crore, and introduction of tax free infrastructure bonds in rail, road and irrigation sectors.

The budget also sought to ensure flow of funds by tapping dormant resources and directing them into the formal financial system. While Gold Monetisation Scheme, development of sovereign gold bond and introduction of an Indian gold coin will help in translating gold savings into economic investments, proposal to bring about a comprehensive law on black money with provision of 10 yrs imprisonment and 300 per cent penalty will help in leveraging hidden and unaccounted monies. Further proposal to abolish wealth tax and to impose 2 per cent surcharge on super rich with an annual income of more than ₹ 1 crore will add to tax collections.

To meet the budget deficit Finance Minister proposed an increase in the service tax rate from 12.36 to 14.00 per cent which would impact individuals spending. Though unpopular, the move will be rationalized once GST is implemented.

Last but not the least, the budget accepted recommendations of 14th Finance Commission and raised States' share in total divisible pool of tax revenues from 32 per cent to 42 per cent. This will not only increase the pool of resources available to the states but also raise flexibility to help states design, implement and finance programmes according to their specific needs.

In summary, the budget has taken optimistic steps towards long term welfare of the people and laid a road map for the country to move ahead and make a difference in the life of every Indian. The budget is forward looking with great statement of intent.

Budget 2015-16: Impact on Growth, Employment and Welfare

D K Srivastava

The budget goes to show that even when there is a resource crunch, it is the joint effort of all stakeholders including the state governments, the public enterprises, the external investors, banking and financial institutions, and industry and above all the people at large who with their joint effort can make the India growth story succeed

BUDGET 2015-16 of the central government sets out ambitious short and long term targets relating to growth and welfare. There is a direct link between growth, employment and people's welfare. Growth creates employment opportunities, which lead to increased earnings and therefore to improved welfare. In this context, the budget of the central government for 2015-16, can be examined for its impact on employment through growth as well as through more direct employment-promoting policy initiatives.

Growth and Welfare: Short-term and Long Term Targets

For growth, the target for 2015-16 is achieving an 8 to 8.5 per cent growth. The longer term target is to achieve a double digit growth, the minimum of which would be 10 per cent. On welfare, the budget wishes to achieve by 2022, that is, by the 75th anniversary of our independence, 13 specific objectives as indicated below:

1. Ensuring housing for all by completing 2 crore houses in urban areas and 4 crore in rural areas;
2. Ensuring that each house has basic facilities of 24-hour power supply, clean drinking water, a toilet, and road connectivity;
3. Making sure that each family has at least one earning member;
4. Substantially reducing poverty;
5. Electrification of all villages;
6. Connecting all habitations by all weather roads;
7. Providing medical services in each village and city;
8. Educating and skilling youth;
9. Increasing agricultural productivity;
10. Ensuring communication connectivity to all villages.
11. Skilling young population and making in India;
12. Encouraging entrepreneurship in India; and
13. Developing India's Eastern and North Eastern regions.

In achieving both the growth and welfare objectives, the central and state governments as well as the public sector enterprises and departmental enterprises and the private sector will have to play a critical role. The feasibility and desirability of these objectives can be examined from a

---

The author is presently Chief Policy Advisor, EY India and Honorary Professor, Madras School of Economics. He was a Member of the Twelfth Finance Commission, Principal Consultant to the Eleventh Finance Commission, and Economic Advisor to the Tenth Finance Commission. His recent works include 'Federalism and Fiscal Transfers in India' in co-authorship with Dr. C. Rangarajan. He is the co-editor of 'Development and Public Finance: Essays in Honour of Raja J. Chelliah and Environment and Fiscal Reforms in India.

fiscal as well as broader economic policy perspective.

Growth Prospects

According to the revised GDP numbers brought out by the Central Statistical Organisation, GDP growth in 2014-15 is estimated to be 7.4 per cent. For 2015-16, the budget states a growth target in the range of 8.0 to 8.5 per cent. This implies an increase in the growth rate of about 1 percentage point. This requires an increase in the investment rate of about 4 to 5 percentage points, given the incremental capital-output ratio of 4 to 1. Thus, for 2015-16, the overall investment rate should rise to about 35-36 per cent. For the longer term target of 10 per cent growth, India would need an investment rate of 40 per cent. Thus, we should look for increasing our saving rate to about 37-38 per cent and investment rate to 40 per cent. The difference between domestic saving and desired investment rate can be financed by current account deficit of about 2 per cent. At these levels, we can have a non-inflationary and sustained growth of 10 per cent. At least half of this journey should be completed in 2015-16 itself. In this endeavor, key economic agents will have to play a critical role. The main economic players in the economy are central and state governments, which together, the government refers to as 'Team India'. In addition, the departmental enterprises, namely posts and railways, the central and state level public sector enterprises, private industry and investors, both domestic and external, and the households are the key economic players in this joint economic endeavor. In the stated policy of the government, India's growth ambition can bear fruit only as a joint effort of all of these stake holders.

Role of Central Government

The central government plays a critical role in the growth endeavor directly by public investment and indirectly by facilitating private investment. As per the 2015-16 budget, the direct increase in public investment by the central government is going to be limited. This is because of a considerable pressure on central government revenues. The budget for 2015-16 has provided only for an increase in the capital expenditure to GDP ratio of 0.2 percentage points from 1.5 per cent in the 2014-15 revised estimates to 1.7 per cent in 2015-16 budget estimates. Clearly this increase is too inadequate to meaningfully uplift the growth rate directly from the central budget. This limited additional fiscal space for investment by the central government has been forced on the Finance Minister because of the need to adhere to fiscal deficit path as committed under the Fiscal Responsibility and Budget Management Act. The Finance Minister has adhered to the fiscal deficit target of 4.1 per cent of GDP in the revised estimates for 2014-15. He has created a narrow additional fiscal space of 0.3 per cent points of GDP compared to the consolidation path envisaged earlier, which had envisaged a fiscal deficit to GDP ratio of 3.6 per cent. However, even with this adjustment, the room for additional expenditure, it has been possible to budget for an extra capital expenditure of only 0.2 percentage points of GDP.

The main economic players in the economy are central and state governments, which together, the government refers to as 'Team India'. In addition, the departmental enterprises, namely posts and railways, the central and state level public sector enterprises, private industry and investors, both domestic and external, and the households are the key economic players in this joint economic endeavor. In the stated policy of the government, India's growth ambition can bear fruit only as a joint effort of all of these stake holders.

The pursuit of growth will be facilitated more by centre's policy initiatives including those affecting the public sector and the private investors and centre's fiscal relationship with the state governments.

Role of State Governments

Given the limited scope for direct additional public investment by the central government, the role of state governments becomes critical. After the recommendations of the Fourteenth Finance Commission, and in fact, beginning from the 2014-15 budget, fiscal transfers are being given to the states such that there has been an increase in the transparency of transfers and autonomy for choosing priorities for the state governments. In the 2014-15 budget, a large volume of transfers that were being given directly to local level autonomous bodies have been given to the states as state plan grants. This has increased transparency in transfers. In the 2015-16 budget, a part of this increase in plan grants is being given to the states as their share in central taxes. On these funds, states have full autonomy and no conditions can be attached as to how they spend these funds. Although, these changes are more compositional in nature and do not give additional resources in the hands of the state governments except marginally, the idea is to improve the efficiency of utilization of these funds. Part of this efficiency will come, if the states are able to increase their capital expenditure and spend it on improving state level infrastructure, which will support the overall growth initiative.

Role of Departmental and Public Sector Enterprises

The remaining thrust for increasing investment can come from the departmental and public sector enterprises. The government has already planned considerable expansion of railways and services provided by the post and telegraph department. It is the right time for the other public enterprises to activate their expansion plans. If they borrow from the market to finance this investment, it will not become part of government's fiscal deficit. The FM has increased outlays on both the roads and the gross budgetary support to the railways, by Rs.14,031 crore, and Rs.10,050 crore respectively. The CAPEX of the public sector units is expected to be Rs. 3,17,889 crore, an increase of approximately Rs. 80,844 crore over RE 2014-15. It is estimated that investment in infrastructure will go up by Rs. 70,000 crore in the year 2015-16, over the year 2014-15 from the Centre's Funds and resources of CPSEs. Beyond this, it is the private sector that will have to play a critical role.

Role of Private Sector

The private sector consists of households, private industry, and private investors, both domestic and external. The households provide savings as well as investment. Although the overall saving rate of the household sector has not fallen by any significant margin, more recently, their savings kept in the financial form as a ratio of GDP have fallen. We expect the household financial savings rate to improve now that the overall inflation rate has fallen and the real interest rate has started to increase.

Among the private investors, the external investors would look for a better investment climate including the assurance of better infrastructure, faster clearance of investment proposals and clear and transparent tax provisions. The government has been working on all of these aspects and slowly the investment climate is improving in India. The Finance Minster has also announced the intention of the government to reduce the corporate income tax from 30 per cent to 25 per cent in the next 4 years. This would help attract potential investors to increase investment. Some of the external investors have been dissuaded from investing in India because of particular tax provision called the general anti-avoidance rules (GAAR). The government has clearly indicated that the application of this provision is being postponed by two years. Furthermore, when implemented, it will only have prospective effect. This will improve the attractiveness of India as an investment destination.

The government has reaffirmed its commitment to introduce a comprehensive goods and services tax (GST) replacing existing mix of central and state indirect taxes that have proved to be distortionary. GST is expected to play a transformative role in the way the India economy functions. It will add buoyancy to the economy by developing a common Indian market and reducing the cascading effect on the cost of goods and services.

On the demand side, however, there are critical challenges. In 2014-15, all major components of demand have shown subdued growth. Private final consumption expenditure has grown by about 7 per cent. Expenditure of fixed capital formation, that is, investment expenditure grew by only 4 per cent and exports by less than 1 per cent. Again, any strong stimulus to demand is not likely to come from the side of the central budget as they have planned only for an increase in the overall expenditure of 5.8 per cent in nominal terms. If the inflation is about 4 per cent, that would give a real increase of only about 2 per cent. Clearly on the demand side also, the state governments will have to play a critical role. Export demand is likely to slow sluggish growth since the global growth prospects are rather weak. Much will depend therefore once again on the reduction of interest rate and stimulation of private demand. With inflation in general and petroleum product prices in particular keeping low, household demand is also expected to pick up as the real disposable incomes of households increase and cost of products fall.

Among the private investors, the external investors would look for a better investment climate including the assurance of better infrastructure, faster clearance of investment proposals and clear and transparent tax provisions. The government has been working on all of these aspects and slowly the investment climate is improving in India.

Direct Support to Employment

There is a more direct way through which the central budget would facilitate growth in employment. This comes from the policy emphasis on skilling India. The budget recognizes that India is one of the youngest nations in the world with more than 54 per cent of the total population below 25 years of age. The budget has proposed to launch a National Skills Mission through the Skill Development and Entrepreneurship Ministry. The Mission will consolidate skill initiatives spread across several Ministries and allow us to standardize procedures and outcomes across our 31 Sector Skill Councils. The central government has also launched the Deen Dayal Upadhyay Gramin Kaushal Yojana and Rs. 1,500 crore has been set apart for this scheme.

Another employment promoting initiative of the budget is the proposal to establish a mechanism to be called SETU (Self-Employment and Talent Utilisation). It will be a Techno-Financial, Incubation and Facilitation Programme to support all aspects of start-up businesses, and other self-employment activities, particularly in technology-driven areas. The budget has set aside Rs. 1,000 crore for this purpose. These are innovative ways of increasing employment opportunities in India.

The FM also observed that the bottom-of-the-pyramid, hard-working entrepreneurs find it difficult, if not impossible, to access formal systems of credit. He has proposed to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of Rs. 20,000 crore, and credit guarantee corpus of Rs. 3,000 crore. MUDRA Bank will refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana. In lending, priority will be given to SC/ST enterprises. This seems to be a welcome move aimed at the most deprived sections of the population.

A large proportion of India's population is without insurance of any kind - health, accidental or life. The budget notes that as our young population ages, it is also going to be pensionless. Encouraged by the success of the Pradhan Mantri Jan Dhan Yojana,the FM has proposed to work towards creating a universal social security system for all Indians, specially the poor and the under-privileged.

Furthermore, the FM has referred to the Pradhan Mantri Suraksha Bima Yojna that will cover the accidental death risk of Rs. 2 lakh for a premium of just Rs. 12 per year. The government will also launch the Atal Pension Yojana, which will provide a defined pension, depending on the contribution, and its period. To encourage people to join this scheme, the Government will contribute 50 per cent of the beneficiaries' premium limited to Rs. 1,000 each year, for five years, in the new accounts opened before 31st December, 2015.

The third Social Security Scheme that the FM announced is the Pradhan Mantri Jeevan Jyoti Bima Yojana which covers both natural and accidental death risk of Rs. 2 lakhs. The premium will be Rs. 330 per year, or less than one rupee per day, for the age group 18-50 year. Together these schemes add to a powerful and innovative social security net.

With a view to enabling all poor and middle class students to pursue higher education of their choice without any constraint of funds, the government has committed to set up a fully IT based Student Financial Aid Authority to administer and monitor Scholarship as well Educational Loan Schemes, through the Pradhan Mantri Vidya Lakshmi Karyakram. This initiative would ease the funding difficulty faced by the deprived sections of the society.

The FM has also proposed to establish a National Investment and Infrastructure Fund (NIIF), and find monies to ensure an annual flow of Rs. 20,000 crore to it. This Trust will raise debt, and in turn, invest as equity, in infrastructure finance companies such as the IRFC and NHB. The infrastructure finance companies can then leverage this extra equity, manifold. He expressed his intention to permit tax free infrastructure bonds for the projects in the rail, road and irrigation sectors. Furthermore, the PPP mode of infrastructure development is to be revisited, and revitalized with the idea of rebalancing of risk. He has acknowledged that in infrastructure projects, the sovereign will have to bear a major part of the risk without absorbing it entirely. For further supporting the Digital India initiative, the government has proposed to expand the National Optical Fibre Network Programme (NOFNP) to 7.5 lakh kms networking 2.5 lakh villages.

These initiatives would add to a powerful milieu of support for increasing education and employment opportunities particularly for the poorer sections of society. The budget goes to show that even when there is a resource crunch, it is the joint effort of all stakeholders including the state governments, the public enterprises, the external investors, banking and financial institutions, and industry and above all the people at large who with their joint effort can make the India growth story succeed. ❑

(E-mail: dkscloud@gmail.com)

Union Budget 2015-16: A Growth-Oriented Budget

N R Bhanumurthy
HK Amar Nath

Overall, this Budget, while trying to be growth oriented, has rightly addressed the processes that help in improving the ease of doing business in the medium to long term. The proposals in the Budget should be 'credit positive' among the long term investors

FOR THE past three years, Indian economy has been facing a slowdown with the growth registering as low of 4.5 per cent (old CSO methodology). This was criticised that such slowdown was largely due to government's policy paralysis. With the new government in the Centre and with a full political mandate, there were huge expectations that the new government would revive the growth by clearing many of the policy hurdles that were constraining the investments. On the back of such huge expectations, the government has presented its first full Budget. Before the Budget, there were three crucial issues that the government had to face that have mixed impact on the government finances. First, the international oil prices have sharply declined compared to the assumption of over $100 per barrel in the 2014-15 Union Budget. This should have a strong positive impact on the revenue deficit through subsidy reduction, while it has also brought down the CPI inflation below the RBI's target. This is clearly luck for the new government. Second, the acceptance of one of the major recommendations of the Fourteenth Finance Commission, which increased the devolution of states' share from 32 to 42 per cent of the divisible pool. Accepting this recommendation, which needs to be implemented from 2015-16, and at the same time continuing with some of the plan allocations (as part of 12th Plan that ends in 2016-17) as well as Central Assistance Schemes, could have constrained the Central finances. Third, the revised GDP numbers by the CSO suggest that the growth in 2014-15 is expected to be at 7.4 per cent. With this base number, the pressure is expected to be high on the new government to achieve much higher than 7.4 per cent, for which the focus needs to be more on the growth oriented policies.

On the back of the above developments, the Union Budget targets a growth of 8.1 to 8.5 per cent for the year 2015-16, which, in nominal terms, turns out to be about 11.5 per cent growth. Has the Budget balanced the growth and development policies? The trends in various indicators presented in Table-1 suggest that between 2014-15 and 2015-16, there is no major shift that happened in these indicators. In Table-2, the fiscal targets that need to be achieved as per the Medium Term Fiscal Policy are presented. If one compares this with the recommendations of the Fourteenth Finance Commission, the Government has already started compromising and has postponed those FRBM targets by two years and projects a fiscal deficit of 3.9 per cent in 2015-16 and 3.5 per cent for 2016-17 before it reaches to 3 per cent in 2017-18. Within the fiscal deficit, the biggest concern is

N R Bhanumurthy is Professor at NIPFP, New Delhi. His areas of research interest are empirical macroeconomics, monetary economics, international economics and fiscal policy. In these areas, he has authored nearly 65 technical papers and couple of books in both Indian and International journals. He is also Secretary, the Indian Econometric Society. HK Amar Nath is Assistant Professor at NIPFP, New Delhi. He has over 22 years' of research experience in the field of socio economic development, focusing on Public Policy, Policy Formulation, Fiscal Federalism and Service Delivery at local body level both urban and rural.

on the quality of fiscal adjustment. If one looks at the revenue deficit and capital expenditure numbers, one doubts whether such adjustments are growth oriented. As the size of fiscal multipliers is very different between revenue and capital expenditures with capital expenditure multipliers being almost double that of revenue expenditures, the fiscal adjustment should have resulted in a higher capital expenditure. As Economic Survey discussed extensively, the important policy strategy that revives the growth and at the same time contains fiscal deficit was expenditure switching policy, which is the crux of expansionary fiscal consolidation. In other words, the strategy was to reduce the revenue deficit (say, through reduction in subsidies), that creates a fiscal space for capital expenditures.

With such understanding, what is reflected in the Budget is a cause for concern. While the revenue deficit is aimed at 2.8 per cent in 2015-16 compared to 2.9 per cent in 2014-15, there seems to be a decline in the capital expenditure (as a ratio to GDP). It works out that only about 1.1per cent of GDP is towards committed capital expenditure in 2015-16. Any further increase appears to be dependent on the extent of disinvestment proceeds, which, going by the recent trends, is not encouraging. The government targets disinvestment proceeds to the extent of Rs. 69,500 crores (compared to Rs. 31,350 crores in 2014-15). In this, even if the government manages a disinvestment of Rs.50,000 crore, the capital expenditure in the 2015-16 is going to be at the most similar to that of 2014-15 numbers. Hence, the Government's claim that the overall fiscal deficit target is relaxed, compared to FRBM targets, so as to increase the public capital expenditure is not visible in the fiscal numbers presented in the Budget. This shows that, particularly after going through the Economic Survey, Government is indeed committed for fiscal consolidation but the constraint that the government faces appears to have forced it to relax on the targets a little. On the revenue projections side, from the Table-1, one can understand the extent of shortfall from the budgeted numbers to actual. Such mismatch was largely due to discreet assumption on the nominal GDP growth numbers (for 2014-15, the GDP growth was assumed at 13.6 per cent and the recent projections show a growth of below 11 per cent). In that sense, the 2015-16 Budget rightly assumes a modest nominal growth of 11.5 per cent, which would reduce the risk of mismatch in revenue projections and actuals. But intrinsically, this Budget assumes a revenue buoyancy of over 1.3 per cent, which is very high and such high buoyancy numbers were not achieved even during the high growth regimes.

Going forward, as depicted in Table-2, the fiscal numbers are expected to see sharp twists. The revenue deficit is expected to be brought down to 2 per cent 2017-18, while the fiscal deficit is expected to reach to 3 per cent. However, going by the medium term trend and the expected impact of 7th Pay Commission, such sharp reduction in revenue deficit would be a great challenge. Even in these adjustments, intrinsically there is a squeeze of capital expenditure, which is at 1 per cent in 2017-18 compared to 1.1 per cent in 2015-16 and 2016-17. At the same time, such adjustments are also expected to reduce the total outstanding liabilities by 4 percentage points between 2014-15 and 2017-18. There appears to be some inconsistency with all these adjustments and at the same time achieving high growth (perhaps double-digit growth as well!).

Keeping aside the above macro-inconsistency, how is this government going to revive growth? The best part of the Budget is that it is trying to improve the ease of doing business in the country as well as provide a number of incentives to the corporate sector as well as the tax payers. The fact that it has reduced corporate taxes from 30 to 25 per cent over a four year period and at the same time removal of skewed exemptions suggests that the Budget is trying to reduce tax uncertainties and litigations that are costly and at the same time improve revenue predictability. It has abolished the wealth tax of 2 per cent and introduced a similar surcharge on the super-rich, which would reduce the cost of collection and also increase the revenue substantially. Increasing of service tax from 12 to 14 per cent could put pressure on the home budgets. However, this measure appears to be largely to ensure smooth shifting to GST regime as and when it is introduced. It also indicates that the GST rate could be as high as 25 per cent. The Budget also differs the implementation of GARR by two years and this should help the corporate sector significantly. The Budget also indirectly helps to improve the savings rate. The increase in the exemptions limits on the PF, allowing infrastructure bonds, hikes in health insurance and pensions schemes limits should help improve the household savings, which in itself should provide higher loanable funds for the investment activities.

Has the Budget neglected the social sector? Preliminary numbers on social sector allocations suggest that there seems to be a decline in the overall allocations and in particular in centrally sponsored schemes such as SSA, PMGSY, IAY, Mid-day Meals scheme, etc. But after the implementation of the 14th Finance Commission recommendations, one is expected to see an increase in state government's allocations in the social sector. Hence, overall it is expected that the total allocation (centre plus state together) on the social sector may not reduce. One risk is that as the next two years would be transition period of shifting a number of central schemes to state governments, there could still be some hard adjustments on the social sector expenditures. However, the government's increased focus on the health insurance and pensions as part of the universal social security scheme is commendable and would improve the overall social security of the citizens.

On the subsidy front, there seems to be some ambiguity. The Economic Survey suggests that there is a decline in the overall subsidy (on fuel, food and fertiliser) to below 2 per cent of GDP. However, the Union Budget speech indicates less on the future subsidy path except to say that the use of JAM (Jan Dhan Scheme- Aadhar number – Mobile number) trinity could help in improving the public delivery mechanism. As the pilot projects on integrating IT with the government programs have been showing huge success, universal implementation of JAM should substantially reduce the burden on the public finances and at the same time achieve intended objectives of the government schemes.

How far will all the Budget proposals help in reviving growth and investments in the country? While the Budget proposals could have differential impacts on the various sectors, overall the government may need to do some more to see the investment cycle revival. At the moment, the private sector is dealing with two constraints: declining rural demand and the bad corporate balance sheets. Both these issues are not dealt adequately in the Budget. There is an overall decline in the rural demand following bad Kharif output as well as the decline in the actual spending under rural development programs. For instance, the number of man-days generated in 2014-15 under the flagship program of the Government, namely MGNREGS, is substantially lower than in 2013-14. This is despite bad monsoons in various parts of the country that has resulted in loss of farm jobs. This has also reflected in the sharp decline in the rural wages. The other significant issue is the bad balance sheets of corporate as well as banking sector. This issue was highlighted well in the Economic Survey but got less attention of the FM. With the corporates sitting on excess capacities and banks absorbing more NPAs means that both demand and supply for credit is subdued. This means there would be negligible increase in the private investments in the short term. One would have expected that the Budget would propose recapitalisation of banks (which could cost exchequer just about 0.3 per cent of GDP) and help clean the balance sheets and start doing business and increase their profitability. But that did not happen and one can only wonder how the growth would increase to 8.1 - 8.5per cent in the next year.

As discussed, the Budget has focussed more on the process and less on the tinkering of taxes. One of the present challenges of the government is unearthing black money. To this end, in the Budget, the government has proposed to discourage cash transactions. All the payments above certain limit are compulsorily made through debit/credit card. Use of Pan Card details have been made mandatory for purchases of high-end items such as jewellery, gold and also properties. To encourage credit or debit card transactions, the government plans to bring some more incentives soon.

In 2013-14 and 2014-15, the purchase of gold has created instability on our external account, pushing the Current Account Deficit to unsustainable levels. In the Budget, as there are huge stocks of gold which is neither traded nor monetised, Gold monetisation scheme has been introduced that will allow depositors to deposit gold and earn interest on it. However, as it appears, the main beneficiaries of this scheme could be jewellers who generally stock the gold in raw form. In addition to this the depositors will also be able to withdraw their gold as and when they need it irrespective of price fluctuations in the form of gold. To reduce import of gold, the government plans to mint pure gold coins with Ashok chakra which will reduce the demand for coins minted outside India. Monetising gold by banks will result in an increase in availability of funds for lending and increasing investment. This will help in monetising the fixed assets like gold and reduce the gap between gross capital formation (GCF) and gross fixed capital formation (GFCF).

Table-1: Recent trends in various fiscal indicators (as percentage of GDP)

Fiscal indicators	2013-14 Actual	2014-15 BE	2014-15 RE	2015-16 BE
Revenue Receipts	8.9	9.4	8.9	8.1
Capital Receipts	0.4	0.1	0.3	0.6
Total Expenditure	13.7	14.2	13.3	12.6
Revenue Expenditure	12.1	12.4	11.8	10.9
Interest Payments	3.3	3.4	3.3	3.2
Capital Expenditure	1.7	1.8	1.5	1.7
Revenue Deficit	3.1	3.0	2.9	2.8
Fiscal Deficit	4.4	4.6	4.1	3.9
Primary Deficit	1.1	1.3	0.8	0.7
Gross Tax Revenue	10.0	10.8	9.9	10.3
Transfers to states				
Devolution	2.8	3.0	2.7	3.7
National Calamity Relief fund	0.0	0.0	0.0	0.0
Other transfers transferred (grants & loans)	1.8	3.1	2.7	2.3
Additional transfers under MPLAD& CSS	1.0	0.0	0.0	0.0
Total States' Share in Gross Tax Revenue	5.6	6.2	5.4	6.0

Table-2: Fiscal targets as per revised MTFP (as percentage of GDP)

Fiscal indicators	2014-15 RE	2015-16 BE	2016-17 Target	2017-18 Target
Effective Revenue Deficit	1.8	2.0	1.5	0.0
Revenue Deficit	2.9	2.8	2.4	2.0
Fiscal Deficit	4.1	3.9	3.5	3.0
Gross Tax Revenue	9.9	10.3	10.5	10.7
Total Outstanding Liabilities	46.8	46.1	44.7	42.8

Source: Union Budget: 2015-16

There are other proposals that address the Prime Minister's vision of Digital India. Expansion of National Optical Fibre Network Programme and networking of 2.5 lakh villages will result in expansion of electronic connectivity, helping the infrastructure to make use of it in expanding their services, particularly banking sector. Digitisation and expansion of e-network will help in improving the growth of both the financial sector and industry significantly. Focus is also given to clean technology. Allocation has been made to towards encouraging manufacturing of electric vehicles, substitution of thermal power with renewable energy. Increased priority is given to enhance the capacity in the generation of Solar energy (1 lakh megawatts), Wind energy (60000 MW), Biomass and small Hydro. These steps help in maintaining the ecological balance.

As the broader policy of the government is to achieve inclusive growth that also results in higher employment opportunities, the Budget also focusses on the MSME sector. One of the major hindrances of the MSME sector growth is financial access. To improve the financial flows, the government introduced MUDRA bank. This is expected to address the major constraint of the sector.

Overall, this Budget, while trying to be growth oriented, has rightly addressed the processes that help in improving the ease of doing business in the medium to long term. The proposals in the Budget should be 'credit positive' among the long term investors. ❑

(E-mail:nrbmurthy@gmail.com amarhk@gmail.com)

True to the Spirit of Federalism

Pravakar Sahoo

The recommendations of the 14th FC have come at the right time, when the new regime believes in more fiscal autonomy to States. Infact, the first thing the new government did when it came to power was to abolish the Planning Commission, which was designing developmental schemes that resulted in an increase in discretionary plan transfers. Since the the Planning Commission has been abandoned, its better that states get their own resources to fend for themselves and develop independently

SINCE THE Government of India Act-1935 established a clear-cut demarcation of subjects coming under the Centre, States and, both Centre and States, fiscal federalism in India has evolved. It has undergone many changes through different constitutional amendments, changes in criteria for devolution of resources etc to full-fill the core objectives of federalism viz., reducing fiscal imbalances and ensuring provision of equal level of public services like education, health etc across states at similar rate of taxes. Like most of the federations where resources are in favour of the central government to achieve the objectives of stabilization and distribution, Indian federalism suffers fiscal imbalances, both vertical and horizontal, where there is a mismatch of resources and expenditure responsibilities at different layers of the government. Though inter-governmental transfers, through Union Finance Commission (FC), Planning Commission (PC) and Central Ministries, take place to reduce vertical fiscal imbalance and regional disparity in provision of basic public services across the sub-national governments, the problems still remain. Like every Finance Commission, the 14th FC tries to fulfill the objectives of fiscal federalism along with the intention to make a true cooperative and competitive federalism.

Over the years, the composition of fiscal transfers from centre to states have changed, while the share of statutory transfers through FC has marginally declined, the plan grants which have discretionary element, have increased. The share of transfers through centrally sponsored schemes (CSS), by passing state budget till 2013-14, has increased which has been felt as impingement in to State's domain in deciding their socio-economic objectives by centre. The intervention of centre in the subjects of the state list and also concurrent list on account of the widening CSS has been a major complaint of the states. There are few issues which remain in the domain of centre-states financial relations such as multiple channels of transfer; limited scope of FC transfers; methodological weakness and too much reliance on the "gap-filling" approach, and multiplicity of objectives failing to focus on the main objective of reducing disparities.

The role of the 14th FC was mandated with more burdensome responsibilities in fiscal, economic and social areas. The 14th FC had been asked even to suggest measures to raise tax ratios of both Centre and States, suggest actions towards fiscal autonomy, improve performance of public sector enterprises, address the rising trend of widening inequality in government spending across states, tackle challenges in ecology, environment and climate change. Further, it was supposed to assess the impact of GST and device

The author is Associate Professor, Institute of Economic Growth (IEG), Delhi.

a compensation mechanism for the states and give recommendation on pricing of public utilities and public sector undertakings for financial sustainability and efficiency.

Union and States Finances

The 14th FC starts, as mandated by Terms of References (ToRs), with review of fiscal finances of the central and states governments to facilitate the fiscal consolidation roadmap recommended by 13th FC, before getting into the share of vertical devolution to States and horizontal distribution of devolution across States. As the tax-GDP ratio of the central government has declined from 11.9 per cent in 2007-08 to 10.2 per cent in 2012-13 due to slow down of Indian economy and rate cuts in union excise duties as a response to global financial crisis, the 14th FC commission notes that there is considerable potential to increase tax-GDP ratio. In addition to reduced tax-GDP ratio, Non-tax-revenues and non-debt capital flows also slowed down due to declining receipts on loans outstanding from States governments, low dividends from public sector undertakings and low disinvestment receipts. Overall, there has not been any improvement in the revenues of the central government. More importantly, the commission notes the huge revenue forgone, almost 5 per cent of GDP or 50 per cent of the total tax revenues of the centre per annum in the last decade on account of tax concessions and exemptions. On the other hand, the total expenditure for the year 2013-14 is 13.94 per cent of GDP where as gross tax revenues of the centre was 10.2 per cent of GDP clearly indicating the fiscal imbalance at the central level. The composition of the expenditure is also biased against the Capital Expenditure (CE) over a period of time. For example, CE as percentage of total expenditure declined from 16.79 per cent in 2001-02 to 12 per cent in 2013-14.The commission had to take into consideration fiscal position of the central government before finalizing the tax devolution to the states.

As reported in the Table-1, the fiscal position of the states have improved as both gross fiscal deficit (GFD) and revenue deficit (RD) of the States declined from 2004-05 to 2012-13. Infact, the states have revenue surplus in recent years. This improvement has been contributed mainly by increase in revenue receipts mainly due to increase in own tax revenues and also higher tax devolution. There has been marginal moderation in revenue expenditure since 2010-11 due to good reduction in interest payment (1.2 per cent of GDP) though increase in expenditure in social and economic services neutralized the fiscal improvement to a large extent. Moreover, the capital expenditure of the states either stagnated or marginally declined in recent years. The 14th FC observes that though the fiscal position of the States has improved, there is still presence of horizontal fiscal imbalances at state government level.

After analyzing the union and States finances, the 14th FC projects the revenue and expenditure of the Union and States for the period 2015 to 2020. Against the state projections of revenues and expenditures, which are generally underestimated and overestimated respectively, the FC assessment shows that own revenue receipts/GDP ratio of States will be 8.58 per cent between 2015-16 and 2019-20 and expenditure needs would be 11.12 per cent of GDP leading to 2.7 per cent pre-devolution deficit. Therefore, the 14th FC plans to fill this 2.7 per cent deficit through tax devolution and revenue deficit grants. For the Union Government, the FC projects gross revenue of the central government to rise from 12.25 per cent of GDP in 2015-16 to 12.92 per cent of GDP in 2019-20 and net revenue of the government after tax devolution to States would increase from 8.25 per cent in 2015-16 to 8.62 per cent in 2019-20.

The 14th FC observes that there has been substantial increase in transfers from Union to States but discretionary components have increased undermining the role of Finance Commission. As Table 2 reports that the statutory transfers through Finance Commission increased from 60 per cent during FC-VIII to 69 per cent in FC-XI but have slowed down marginally during last two FCs. As reported, most of the FC transfers are predominantly in the form of tax devolution and to some extent, in grants which include grants for revenue-deficits states, disaster management and sector-state specific grants.

Last few decades has witnessed more Non-FC transfers in total union transfers. For example, NON-FC transfers increased from 42.6 per cent in 2007-08 to 49.3 per cent in 2010-11 mostly through centrally sponsored schemes and union assistance to state plans. Within the plan transfers, the normal plan assistance, given on the basis of Gadgil-Mukherjee formula, has witnessed a declining trend where as discretionary grants through CSS have increased.

Table-1: Trends in Aggregate Receipts and Expenditure of the States

	2004-05	2007-08	2009-10	2010-11	2011-12	2012-13	2013-14 (RE)
Total own Revenue Receipts (Tax and Non-tax)	7.0	7.3	7.0	7.1	7.3	7.6	7.8
Total transfers (tax and grants)	4.1	5.2	5.1	4.9	4.9	4.8	5.4
Revenue Expenditure	12.4	11.6	12.3	12.0	11.9	12.2	13.2
Capital Expenditure	2.3	2.6	2.5	2.2	2.3	2.2	2.6
Total Expenditure	14.7	14.2	14.9	14.1	14.3	14.4	15.8
Gross fiscal deficit/ GDP	3.3	1.4	3.0	2.1	1.9	1.9	2.5
Revenue deficit/GDP	1.2	-0.9	0.6	0.0	-0.3	-0.2	0.0
Primary deficit/GDP	0.6	-0.6	1.2	0.5	0.4	0.4	1.0
Revenue Deficit/GFD	36.8	-62.4	19.2	-1.9	-14.1	-10.4	-1.0

Source: 14th FC report, 2015.

14th FC recommendations:

There were representations of views from both Union and states government to the 14th FC for tax devolution and grants in aid. The general demands from States are on the share of vertical devolution and criteria for horizontal distributions. On vertical devolution, major suggestions from the States, as always, included increase in the share of tax devolution, expansion of divisible pool by including non-shareable CESS, surcharges and non-tax revenues (like telecom and coal auctions), ensuring minimum guaranteed tax devolution and reduced role of CSS. The substantive point being made is that majority of resources to states should flow in the form of untied transfers (tax devolution) rather than grants, and plan transfers should be non-discretionary in nature. For example, while the relative share of the tax devolution constitutes around 46.8 per cent of total transfers during 2009-10 to 2014-15, the plan grants including CSS have majority stake around 54 per cent of the total transfers. The CSS with conditions and matching grants from States are opposed by majority of States as some States cannot even ensure matching grants to access CSS funds. Moreover, states feel that CSS impinges on their fiscal autonomy and they have very little say in designing and implementation. Sometimes, the announcement of the CSS in the middle of the financial year also disturbs the fiscal plan and priorities of the States. Overall, the FC had to take note of increasing expenditure of the union on States subjects which should be primarily in states domain.

However, the 14th FC recognizes that aggregate fiscal transfers to states accounted around 50 per cent of the gross revenue receipts and there is little scope to further increase this. The commission recognizes that aggregate transfers (tax devolution, non-plan grants, plan grants including CSS) has been more than 60 per cent of total divisible pool in recent years, therefore there is little scope to increase the share except changing the composition of transfers. Therefore, the focus has been on the composition of transfers which will lead to more fiscal space to the States to design their own developmental objectives rather than increasing the aggregate transfers. As a departure from the previous FCs, the 14th FC does not distinguish between general and special category states and rather takes a note of fiscal and cost disability and expenditure responsibilities of the special category states to fill the resource gaps through tax devolution. Further, the commission suggests post-devolution revenue deficit grants in case there is still post-devolution fiscal gap. Regarding the roadmap for fiscal consolidation, the 14th FC suggests 3 per cent fiscal deficit in 2016-17. The FC projects that revenue deficit to progressively reduce to zero before 2019-20. Keeping in mind the importance of risks arising from government guarantees, off-budget borrowings and accumulated losses of financially weak public sector enterprises should be a part of total extended public debt in their respective budgets as a supplement to the budget document.

The FC and Planning Commission (PC) take equalization as the most important general objective while making federal fiscal transfers. Therefore as required from time to time, different FCs and PCs keep changing the method of federal fiscal transfers to ensure the objective of equalization. After the seventh FC, the high (almost 90 per cent) weightage given to population has been gradually lowered and alternative measures such as inverse formula and distant formula have been given more importance in sharing both income and union excise duties. All previous FCs have focused on criteria for distribution of taxes such as population and its composition; fiscal capacity measured through per capital income or income distance from highest per capita state or inverse of it; cost disability in terms of area; and fiscal efficiency or discipline; backwardness, poverty ratio, revenue gap etc. However, most of these criteria have been multiplied by the scale factor population thereby giving more importance to population. The 14th FC almost follows the earlier FCs with some changes in approach and methodology but primary focus has been on the tax devolution. The commission has also followed the mandate of sustainable economic development by giving forward looking incentives, like 13th FC, for management of ecology and environment. Noting the view of the union and states and also expenditure responsibilities of both level of governments, the 14th FC recommendations include (1) Considering fiscal autonomy and revenue expenditure needs of the

Table-2: Transfers from the Union to States as Percentage of Gross Revenue Receipts

Commission	Finance Commission Transfers			Other Transfers			Total Transfers
	Share in Central taxes	Grants	Total FC Transfers	Plan Grants	Non-Plan Grants	Total Other Transfers (5+6)	
FC-VIII (1984-89)	53.48	6.65	60.13	35.8	4.07	39.87	100
FC-IX(1989-95)	52.98	8.48	61.46	35.91	2.63	38.54	100
FC-X(1995-2000)	62.06	6.55	68.61	29.52	1.87	31.39	100
FC-X1(2000-2005)	58.38	11.00	69.38	28.65	1.97	30.62	100
FC-XII (2005-10)	56.79	12.12	68.91	28.34	2.75	31.09	100
FC-XIII (2010-15)	57.94	9.51	67.44	31.14	1.42	32.56	100

Source: 14th FC report, 2015.

states, the FC recommends the share tax devolution to 42 per cent of total divisible pool. This 10 per cent increase is more than what the 13th FC which recommended i.e. share of 32 per cent of total divisible pool; (2) against the wish of the states, the CESS and surcharges, which constitutes 13.14 per cent of center's gross tax revenue in 2013-14, could not become part of the divisible pool due to constitutional provision and moreover these levies are for specific purposes and (3) the FC also does not recommend any minimum guaranteed devolution as desired by few States.

For the horizontal distribution of tax devolution across states, the 14th FC commission mostly follows the previous FCs by focusing on population, income or fiscal capacity (distance formula), area, environment and ecology, and socio-economic indicators with change in weights. Highest weight (50 per cent) has been given to distance formula, actual per capita income of a state from the highest per capita income state, to supplement States with low fiscal capacity. The second highest weight has been assigned to population (1971 census) at 17.5 per cent and 10 per cent 2011 population. Giving weight to the 2011 population, as desired by most of the states, helps capture the demographic changes in the States due to migration and age since 1971 as per census. Following the FC-XII, the weight to area is fixed at 15 per cent but there is floor limit of 2 per cent for smaller states. Finally, to incentivize States to protect forests, which is a national good with huge ecological benefits though at the cost of economic activities for the states, is given 7.5 per cent. The FC has recommended 'post-devolution revenue deficit grants' for a total of Rs 1,94,821 crore to eleven States on account of expenditure requirements of the states, tax devolution and revenue mobilization capacity of the states.

As per the ToRs, 14thFinanace Commission recommends measures (grants-in-aids) to supplement resources of local bodies and gives suggestions to strengthen the State Finance Commission (SFC) for further and effective fiscal decentralization. In this context, the 14th FC recommended a grant of Rs 2,87,436 (Rs 2,00,292 for Panchayats and Rs 87, 143 crore for municipalities) to 2.5 lakh local governments in India comprising over three million elected representatives, for the period 2015-20 compared to 13th FC recommendation of 1.93 per cent of the divisible pool of taxes for the period 2010-15 amounting Rs 87,519 crore. The criticism of the 13th FC is due to the use of Census 2001 numbers for calculating population shares of local grants-in-aid whereas 14th FC has taken 2011 census population for distribution of grants. Further, the grants have two components-basic and performance based grants- which have fixed ratios of 90-10 and 80-20 for Panchayats and municipalities respectively. It is quite innovative to transfer grants on the basis of performance, which will be evaluated on the basis of proper accounting, delivery services, own revenue mobilization etc of local governments. It is hoped that this component of grants will make local bodies more responsible and effective.

Regarding disaster relief, the 14th FC suggested that the percentage share of states will continue to be as before and follows the existing mechanism. This will be to the tune of Rs 55,097 crore. FC further recommends measures for National Disaster Response Fund (NDRF) by suggesting assured funding from the centre in case CESS levied for this purpose is discontinued. Further, FC suggests granting tax exemptions to private sector to contribute to NDRF, invoking corporate social responsibility clause and encouraging contribution from public institutions and others to help strengthen the financial position of NDRF. It is also recommended that states need to contribute 10 per cent to the Sate disaster response fund with the rest 90 per cent coming from the Union Government.

The Finance Commission has also made recommendations on cooperative federalism, GST, fiscal consolidation roadmap, pricing of public utilities and public sector undertakings. In case of GST, the commission does not advocate fixing the amount of compensation to the States but suggests centre to initially bear an additional fiscal burden arising due to the GST as per the lines of compensation provided in the implementation of VAT. Regarding pricing of public utilities, the 14th FC recommends series of measures to improve the fiscal health and efficiency such as 100 per cent metering for all electricity consumers; 100 per cent metering of drinking water; to set up a Rail Tariff Authority (RTA) and urge expeditious replacement of the advisory body with a statutory body; proper accounting systems in the State Road Transport Undertakings for making explicit the types of subsidies, the basis and actual reimbursement by State Governments etc.

Implications and Conclusion

First, the recommendation of states' share to 42 per cent of total divisible pool from the 32 per cent recommended by the 13th Finance Commission is historic and a huge jump. For example, total devolution to states will increase by over 45 per cent in 2015-16 FY from 2014-15. If the total transfers to states in divisible pool is around 60 per cent, 42 per cent out of this would constitute around 70 per cent of the total transfers through tax devolution making it the primary source of resource transfers to states. By doing that, the 14th FC has achieved many goals in one shot. This would reduce fiscal space of the centre desisting it to have expansionary fiscal approach on states subject. Infact, it would certainly reduce the encroachment of centre in States domain through plan transfers, particularly through conditional CSS. The huge increase in untied tax devolution would give states the fiscal space to design their own developmental schemes and programs as suitable. Together with grants in local bodies, grants in aid for revenue-deficit (for 11 states) and share in coal auction means a huge increase in fiscal transfers to states. This would take care of an age-old problem of states depending on centre for developmental projects. Further, the FC minimized the conditionalities and incentives in transfers both from centre to states and states to local bodies putting huge trust on each layer of government, which is a symbol of true cooperative and competitive fiscal federalism. Now its time for States to stand on their own and deliver. All other recommendations of FC are well founded and meant to improve the fiscal sustainability and efficiency in the fiscal system of the country.

However, as reflected in the dissent note of the panel member Prof. Abhijit sen, the increase in the tax devolution share to 42 per cent would disrupt plan transfers. Some of the centrally sponsored specific social-economic programmes would get reduced funding or close. Already 8 out of total 66 CSS schemes have witnessed a complete stop of central funding in the budget 2015-16. Another 24 schemes will see reduced funding from centre and increased funding from the states and only 34 schemes will get full funding from the central government from now. Its not clear whether states will immediately compensate for withdrawal of central government in these schemes. In that case, the beneficiaries of these schemes might get affected. Some of the schemes like backward regions grant fund which are meant mostly for poor states may suffer from this pruning of plan transfers. Since the Panchayat Raj ministry works as an implementing agency for many of the programmes, the funds for this ministry would drastically go down. This has already happened in the budget 2015-16 where Panchayat Raj ministry has got very negligible funds compared to previous budgets.

Moreover, there is also the apprehension about the use of money by the States when there is no hand holding by an Institution like Planning Commission. The quality and capacity of state administration varies widely across States and therefore, the increased untied fiscal transfers along with reduction in tied developmental plan schemes may lead to misuse of money. Of course, well governed states with proper institutions and vision may prosper with more funds.

Overall, the 14th FC recommendations are meant to give fiscal autonomy to states to design their own developmental objectives. It is hoped that with more resources in their hands, States will be responsible and effective in delivering public services to their citizens which would bring about true competitive federalism in India. The suggestion of the FC to create "New institutional arrangement consistent with the overarching objectives and strengthening cooperative federalism", which will enable to identify grants for sectors that have implications for across states, is welcome.

The recommendations of the 14th FC have come on the right time, when the new regime that believes in more fiscal autonomy to States. Infact, the first thing the new government did when it came to power was to abolish the Planning Commission, which was designing developmental schemes that resulted in an increase in discretionary plan transfers. Since the Planning Commission has been abandoned, its better that states get their own resources to fend for themselves and develop independently. ❑

(*E-mail:pravakarfirst@gmail.com*)

Transforming India into a Global Manufacturing Hub

Amitabh Kant

Make in India is opening investment doors. Multiple enterprises are adopting its mantra. The world's largest democracy is well on its way to becoming the world's most powerful economy

THE MAKE in India program was launched in September 2014 as part of a wider set of nation-building initiatives. Designed to transform India into a global manufacturing hub, Make in India was a timely response to a critical situation:by 2013, the much-hyped emerging markets bubble had burst, and India's growth rate had fallen to its lowest level in a decade. The promise of the BRICS nations had faded, and India was tagged as one of the so-called 'Fragile Five'. Global investors debated whether the world's largest democracy was a risk or an opportunity. India's 1.2 billion citizens questioned whether India was too big to succeed or too big to fail. India was on the brink of severe economic failure.

Process

Make in India was launched against the backdrop of this crisis, and quickly became a rallying cry for India's innumerable stakeholders and partners. It was a powerful, galvanising call to action to India's citizens and business leaders, and an invitation to potential partners and investors around the world. But, Make in India is much more than an inspiring slogan. It represents a comprehensive and unprecedented overhaul of out-dated processes and policies. Most importantly, it represents a complete change of the Government's mindset – a shift from issuing authority to business partner, in keeping with government's tenet of 'Minimum Government, Maximum Governance'.

Plan

To start a movement, you need a strategy that inspires, empowers and enables in equal measure. Make in India needed a different kind of campaign: instead of the typical statistics-laden newspaper advertisements, this exercise required messaging that was informative, well-packaged and most importantly, credible. It had to (a) inspire confidence in India's capabilities amongst potential partners abroad, the Indian business community and citizens at large; (b) provide a framework for a vast amount of technical information on 25 industry sectors; and (c) reach out to a vast local and global audience via social media and constantly keep them updated about opportunities, reforms, etc.

The author is member of Indian Administrative Service (Kerala Cadre : 1980 Batch), presently posted as Secretary, Department of Industrial Policy & Promotion (DIPP), Government of India. Has extensive experience in infrastructure creation, International Marketing, Travel & Tourism and Hospitality industry. He have conceptualized and executed the positioning and branding of Kerala as "God's Own Country" and later the "Incredible India" campaign. Both these campaigns have won several International awards and embraced a host of activities – Infrastructure development, product enhancement, changes in organizational culture and promotional partnerships based on intensive market research. He has structured large infrastructure projects for diversification of India's tourism product and sourced international funding through the Asian Development Bank (ADB), Japanese Bank for International Cooperation (JBIC) and UNDP. He has contributed widely to national newspapers and journals.

The Department of Industrial Policy & Promotion (DIPP) worked with a group of highly specialised agencies to build brand new infrastructure, including a dedicated help desk and a mobile-first website that packed a wide array of information into a simple, sleek menu. On September 25th 2014, Make in India was unveiled in the presence of domestic and global business leaders, policy-makers and members of the media at a high-profile event in New Delhi.

The event was accompanied by a comprehensive digital strategy, resulting in a significant surge of interest on social media, TV and newspapers.

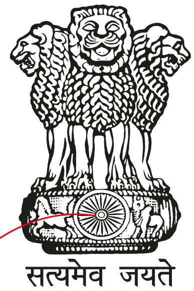
At launch, #MakeInIndia trended worldwide for one hour. Over 48 hours, there were more than 99,000 mentions with over 1.08 billion impressions and a reach of 94 million. As of January 31st 2015, Make in India has garnered well over 3 million Facebook fans, with a new fan joining every three seconds; on Twitter, @MakeinIndia_ adds a new follower every 32 seconds; and there are 5.67 million pages views on makeinindia.com.

Partnerships

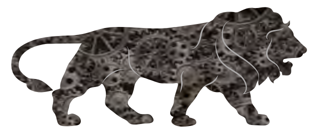
The Make in India program has been built on layers of collaborative effort. DIPP initiated this process by inviting participation from Union Ministers, Secretaries to the Government of India, state governments, industry leaders, and various knowledge partners.

Next, a National Workshop on sector specific industries in December 2014 brought Secretaries to the Government of India and industry leaders together to debate and formulate an action plan for the next three years, aimed at raising the contribution of the manufacturing sector to 25% of the GDP by 2020. This plan was presented to the Prime Minister, Union Ministers, industry associations and industry leaders by the Secretaries to the Union Government and the Chief Secretary, Maharashtra on behalf of state governments.

Make in India Logo-Thought Behind



The Ashoka Chakra is a central element in India's national emblem and also forms the centrepiece of India's national flag. The wheel denotes peaceful progress and dynamism – a sign from India's enlightened past, pointing the way to a vibrant future.



Since time immemorial, the Lion has been the official emblem of India. It stands for strength, courage, tenacity and wisdom – values that are every bit as Indian today as they have ever been.

These exercises resulted in a road map for the single largest manufacturing initiative undertaken by a nation in recent history. They also demonstrated the transformational power of public-private partnership, and have become a hallmark of the Make in India program. This collaborative model has also been successfully extended to include India's global partners, as evidenced by the recent in-depth interactions between India and the United States of America.

Progress

In a short space of time, the obsolete and obstructive frameworks of the past have been dismantled and replaced with a transparent and user-friendly system that is helping drive investment, foster innovation, develop skills, protect IP and build best-in-class manufacturing infrastructure. The most striking indicator of progress is the unprecedented opening up of key sectors – including Railways, Defence, Insurance and Medical Devices – to dramatically higher levels of Foreign Direct Investment.

A workshop titled "Make in India – Sectorial perspective & initiatives" was conducted on 29th December, 2014 under which an action plan for 1 year and 3 years has been prepared to boost investments in 25 sectors.

The ministry has engaged with the World Bank group to identify areas of improvement in line with World Bank's 'doing business' methodology.

An eight member investor facilitation cell (IFC) dedicated for the Make in India campaign was formed in September 2014 with an objective to assist investors in seeking regulatory approvals, hand-holding services through the pre-investment phase, execution and after-care support.

The Indian embassies and consulates have also been communicated to disseminate information on the potential for investment in the identified sectors. DIPP has set up a special management team to facilitate and fast track investment proposals from Japan, the team known as 'Japan Plus' has been operationalized w.e.f October 2014.

Various sectors have been opened up for investments like Defence, Railways, Space, etc. Also, the regulatory policies have been relaxed to facilitate investments and ease of doing business.

Six industrial corridors are being developed across various regions of the country. Industrial Cities will also come up along these corridors.

100 Days of Make in India

- 90 million bank accounts have been opened, thanks to the Jan Dhan initiative.
- Entry and exit regulations have been eased out, exim regulations made infinitely easier, six PSUs brought out sickness and five PSUs closed down.
- The process of applying for an Industrial License (IL) and an Industrial Entrepreneur Memorandum (IEM) has been taken online. The site, EBIZ is available 24x7 making it easier to file applications and making online payments of service tax.
- The initial validity period of an Industrial License has been increased from 2 to 3 years, giving licensees enough time to procure land and obtain the necessary clearances. MHA has also stipulated that it will grant security clearances on industrial license applications within 12 weeks.
- With respect to Employees Provident Fund Organization (EPFO) and Employees State Insurance Corporation (ESIC), the amount of time taken to register was a hindrance. Now both the processes have been automated and ESIC registration number is now being provided on a real time basis.
- A security manual for licensed defence industry has been recently issued.

Automobiles

- Largest tractor manufacturer; 2nd largest two wheeler manufacturer; 2nd largest bus manufacturer; 5th largest heavy truck manufacturer; 6th largest car manufacturer; 8th largest commercial vehicle manufacturer
- India's car market potential: 6+ Millions units annually by 2020

Auto Components

- Over 35 IPOs of Global OEMs & Tier 1 procuring from India
- 4th largest producer of steel with competitive advantage over neighbors
- Close proximity to key markets - ASEAN, Japan, Korea & Europe provides for economies of scale

Aviation

- 9th largest civil aviation market in the world, about $12 billion in value terms
- Potential to become the third-largest aviation market in the world by 2020 and the largest by 2030

Biotechnology

- Amongst top 12 biotech destinations in the world; 3rd in the Asia-Pacific region.
- Government expenditure plans: USS3.7 billion during 2012-17, more emphasis on biotech parks to facilitate product development, research& innovation

Chemicals

- 3rd largest in Asia & 6th largest by output in the world
- India's colourant industry: valued at US$6.8 billion, with exports accounting for nearly 75 per cent
- Key growth factors: A large population + dependence on agriculture + strong export demand

Construction

- Approx. US$650 billion required for urban infrastructure over the next 20 years
- Investment opportunities: Residential, Commercial, Retail & Hospitality.
- Technologies to promote sustainable cities & integrated townships; green building solutions
- Foreign investment rules in India's construction sector have been eased - built-up area requirement

Make in India-Budget 2015-16

- Revival of growth and investment in domestic manufacturing for job creation.
- Simplified Tax System for Ease of Doing Business.
- Expert committee to examine possibility and propose draft legislation to replace multiple prior permissions with easier mechanism.
- Basic custom duty on 22 inputs/ raw materials reduced to minimise impact of duty inversion and reduce manufacturing cost in various sectors.
- Permanent Establishment norms to be modified to encourage fund managers to relocate to India.
- General Anti Avoidance Rule (GAAR) to be deferred by two years. To be applied prospectively to investments made on or after 01-04-2017.
- Rate of Income Tax on royalty and fees from technical services reduced from 25 per cent to 10 per cent to facilitate technology inflow.
- Basic customs duty on 22 inputs/raw materials and Special Additional Duty (SAD) on certain other inputs/raw materials reduced to minimize impact of duty inversion and reduce manufacturing cost in various sectors.
- Rental income of REITs from their own assets to have pass through facility.
- Tax pass through to be allowed to both category I and Category II Alternate Investment Funds.

and minimum capital requirement reduced

Defence Manufacturing

- FDI update: Up to 49 per cent FDI is now allowed under the government route and beyond 49 per cent with the approval of cabinet committee on security wherever it is likely to result in access to modern and 'state-of-art' technology in the country
- 53 per cent of the defence items for manufacturing by private sector have been de-licensed and dual use items having military as well as civilian applications deregulated
- Portfolio investment and investments by FVCIs together allowed up to 24 per cent under the automatic route

Electrical Machinery

- Demand drivers: capacity creation in infrastructure, power, mining, oil & gas, refinery, steel, automotive & consumer durables
- By 2022, the generation equipment industry in India is projected to grow to USD 25-30 billion

Electronic Systems

- Expected demand to reach USD 400 Billion by 2020, aided by government schemes like the National Knowledge Network (NKN), National Optical Fibre Network (NOFN)
- Attractive incentive package scheme providing capital subsidy up to 25 per cent for 10 years

Food Processing

- A rich agriculture resource base
- The establishment of food parks – a unique opportunity for entrepreneurs, including foreign investors
- Investment opportunities in: Fruits and Vegetables, Beverages, Dairy, Food additives & nutraceuticals, Meat and Poultry, Fish, seafood and fish processing; Food preservation and packaging, etc

IT and BPM

- The IT-BPM sector constitutes 8.1 per cent of the country's GDP and contributes significantly to public welfare
- 60 per cent of firms use India for testing services
- National Policy on Information Technology 2012 aims to increase revenues of IT and BPM industry to US$300 billion by 2020 and expand exports to US$200 billion by 2020

Leather

- Total production value of US$11 billon with great potential for exports and a huge domestic market
- Projected growth of 24 per cent per annum
- Mega Leather Clusters (MLCs) sub-scheme - to create new production centres for the leather industry with all the required infrastructure and support services

Media and Entertainment

- The industry is expected to register a CAGR of 14.2 per cent, reaching INR 1785.8 billion in 2018
- The size of the Indian film industry is expected to reach INR 219.8 billion by 2018, up from INR 125.3 billion in 2013

Mining

- India has vast minerals potential with mining leases granted for longer durations of 20 to 30 years
- Projected growth – 7 per cent

Oil and Gas

- New Exploration Licensing Policy and the Coal Bed Methane Policy to encourage investments across the industry value chain
- 48 per cent of the country's sedimentary area is yet to be explored. The city gas and distribution sector offers opportunities for both incumbents and new companies

Pharmaceuticals

- Expected to rank among top 3 pharmaceutical markets in terms of incremental growth by 2020
- Expected to be the 3rd largest global market for active pharmaceutical ingredients by 2016, with a 7.2 per cent increase in market share

Ports

- Increase in cargo-handling capacity – 800 MMT in 2014 from 575 MMT in 2009
- Increasing trade activities & private participation in port infrastructure development
- Sagarmala project planned aimed at port-led development in the coastal states.
- Special Economic Zones are being developed in close proximity to several ports – comprising coal-based power plants, steel plants and oil refineries

Railways

- 100 per cent FDI under the auto route in the railway infrastructure segment
- Priority: Port connectivity
- Infrastructure projects: High-speed train projects, railway lines to and from coal mines and ports, dedicated freight corridors

Roads and Highways

- Extensive road network of 4.86 million kms: 2nd largest in the world
- Private sector: Key player in the development of road infrastructure
- The Indian government plans to develop a total of 66,117 km of roads under different programmes

Renewable Energy

- India stands fifth in the world in the overall renewable energy capacity installation with an installed capacity of 33,792MW (end 2014)
- India plans to scale up renewable energy to 165 MW, of this solar

energy will be 100 GW by 2019-20

- Major policy incentives given by the Government, including accelerated depreciation, generation based incentives; feed in tariff and viability gap funding are expected to add massive investments in the renewable energy sector

Space

- India is a world leader in low cost space exploration and Indian space program stands out as the most cost effective in the world. The Mars Orbiter Mission cost $74 million, a fraction of the cost incurred for similar missions undertaken by other countries
- With 30 Indian and 40 foreign satellite launches so far, India has the potential to be the launch service provider of the world. India has launched 40 satellites for 19 countries

Textiles and Garments

- India has the second-largest manufacturing capacity globally
- India has the highest loom capacity (including hand looms) with 63 per cent of the world's market share
- India enjoys a comparative advantage in terms of skilled manpower and cost of production over major textile producers
- Textiles exports from India projected to be around US$300 billion by 2025

Thermal Power

- The government is targeting a capacity addition of 88.5 GW during 2012-17 and 86.4 GW during 2017-22
- A growing population is likely to boost demand for energy
- Investment opportunities: Power generation, transmission and distribution, power trading and power exchanges

Tourism

- Foreign tourist arrivals to India has risen 7.1 per cent to 7.5 million in 2014
- Factors expected to drive growth of tourism are focused marketing and promotion efforts, liberalization of air transport, the growth of online travel portals, growing intra- regional cooperation and more effective public private partnerships
- More than half of the Ministry of Tourism's Plan budget is channelized for funding the development of destinations, circuits, mega projects as well as rural tourism infrastructure projects

Wellness Makeinindia.Com

- The sector is growing at 20 per cent from year to year and is projected to amount to INR 162 Billion in 2014
- Government of India has set up Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH) with the aim at mainstreaming these ancient health-care systems with targeted thrust.

Today, India's credibility is stronger than ever. There is visible momentum, energy and optimism. Make in India is opening investment doors. Multiple enterprises are adopting its mantra. The world's largest democracy is well on its way to becoming the world's most powerful economy.

(facebook.com/makeinindiaofficial
*twitter.com/makeinindia_*
youtube.com/MakeInIndiaOfficial)
❑

(*E-mail:amitabh.kant@nic.in*)

FORM IV

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

1.	Place of Publication	:	New Delhi
2.	Periodicity of its Publication	:	Monthly
3.	Printer's Name & Nationality	:	**Dr. Sadhana Rout** Indian, Publications Division, Soochna Bhavan, New Delhi-110 003.
4.	Publisher's Name, Nationality & Address	:	**Dr. Sadhana Rout** Indian, Publications Division, Soochna Bhavan, New Delhi-110 003.
5.	Editor's Name, Nationality & Address	:	**Mrs. Shyamala Mani Iyer** Indian, Publications Division Soochna Bhavan, New Delhi-110 003.
6.	Names and addresses of individuals who own the newspaper and partners of shareholders holding more than one percent of the total capital	:	Wholly owned by Ministry of I&B Information & Broadcasting, Govt. of India, New Delhi-100 001.

I, Dr. Sadhana Rout hereby declare that the particulars given above are true to the best of my knowledge and belief.

Date: 10.02.2015.

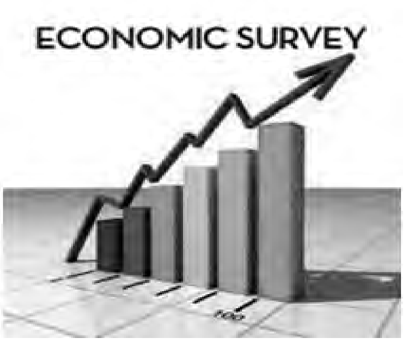
(**Dr. Sadhana Rout**)
Signature of Publisher

ECONOMIC SURVEY 2014-15

OVERVIEW

Analysing Economic Health

Ashima Goyal



It is to be hoped that the implementation will be better in the coming year, so that such comparisons are no longer possible. The many interesting reform ideas in the budget and the ES deserve a real chance, and if they get that, it would really add up to a big bang

THE ECONOMIC Survey takes the view that a number of small steps will add up to big bang reforms. It finds that in the current juncture, infrastructure and especially construction has the largest potential for productivity gains and for generation of employment appropriate to the skills available. Therefore, it would be sensible to relax the fiscal deficit to allow such investment and give private firms the required push in view of their balance sheet problems, even as JAM more effectively and cheaply wipes every tear of those less favoured by fortune. Since these views are close to the government's political philosophy, it is no wonder that many of them are reflected in the budget.

The 8 per cent growth target seems satisfactory. The CSO draws on a vastly improved database of firms for the revised GDP figures. As actual measurement replaces earlier approximations, the new figures are likely to be more reliable. But many other data such as credit and IIP growth suggest considerable slack in the economy so it would seem that potential growth was earlier underestimated.

Conditions for growth may actually be better than what the Economic Survey (ES) indicates because neither firms' balance sheet problems nor banks' financial repression is as intractable as the ES seems to suggest. Moreover, the JAM trinity has the potential not only to alleviate distress but also to improve productivity. In some ways, however, conditions for growth may be worse because the implementation aspects do not get adequate emphasis either in the budget or in the ES.

The ES argument that more public investment is necessary to set private investment going would be disheartening if it were true, since the budget raises capital expenditure only by 0.3 per cent of GDP, while having met its earlier fiscal deficit target of 4.1 by reneging on its past promise of a double digit increase in capex—growth achieved was only 2.5 per cent. Cutting productive expenditures to meet targets has been the standard past practice. Without governance changes, there seem serious limitations on government investment capacity—this has stagnated at around 1 per cent of GDP for the past few years.

But excess public consumption expenditure has been positively harmful, so changing the composition

The author is Professor, IGIDR and is widely published in institutional and open economy macroeconomics, international finance and governance. She has given consultancy to ADB, DEA-GOI, GDN, RBI, UN ESCAP and WB. She is co-editor of a Routledge journal in Macroeconomics and International Finance, editor of an OUP Handbook on the Indian economy, has received many fellowships, national and international awards, is active in the Indian public debate, has served on several boards and policy committees and is currently a member of the Monetary Policy Technical Advisory Committee. She was a visiting fellow at the Economic Growth Centre, Yale University, USA, and a Fulbright Senior Research Fellow at Claremont Graduate University, USA.

of government expenditure is essential, and even small steps in that direction are to be welcomed. But the government's best contribution to investment continues at present to be improving the ease of doing business.

Are there limitations also on private investment? The ES argues that firms are over-leveraged and so can't invest. But this may not be correct. Figures 1 and 2, using data from the CMIE Prowess data base, show no rise in debt ratios for the biggest 50 (in terms of sales) manufacturing firms, compared to the mid-2000s when they were actively investing. There is also no rise in the ratios for the top 50 infrastructure firms except in 2013; but even for these, borrowing to assets ratios (Figure 2) show no rise. Moreover, many firms had accumulated large cash balances in the 2000s.

Of course the ES, using a much larger data set of BSE top 500 firms, shows debt equity ratios are higher than international norms. But the comparison is not fair for a country where banks remain the chief means of financing investment. Moreover, many firms have used the boom in stock markets since 2014 to bring down debt ratios. The ES remarks that firms are showing the fallout of a classic credit bubble are also inconsistent with figures it gives showing Indian credit GDP ratios growing from 35.5 per cent in 2000 to 51 per cent in 2013.Compare this to the Chinese ratio of 150 and the US of 190. Indian credit growth was below the trend growth of low middle income countries. The ES assures us that India is neither over banked nor are its markets too small compared to its income level. There was no exuberant growth in credit after India's take off. In comparable periods, credit growth in countries such as China and Japan was much faster.

The MCA21 database is said to include 5 lakh firms, compared to the few thousand in the RBI sample that used to be blown up earlier, using paid-up capital, to get final estimates. The sample had also become unrepresentative. The revised national accounts statistics on the base 2011-12 show a large rise in firms' savings and investment compared to the earlier base 2004-05 estimates. For example, in the year 2012-13, estimated private corporate gross savings as a ratio to gross national disposable income rose from 6.1 to 9.7.The similar ratios for gross corporate capital formation rose from 9.2 to 13.5. This does not seem like a corporate sector unable to invest.

Stalled projects have created the real problems, but the ES shows us that there is some turnaround in this. Moreover, it makes the interesting point that stalled projects in the private sector are due to poor business demand more than to regulatory reasons. There was a large rise in service sector projects stalled in 2011 while over Q4 2012 to Q12014, there was a sharp jump in stalled manufacturing projects. These were a consequence of the monetary-fiscal tightening episodes in 2011, and in 2013 in response to global shocks. The reversal of this tightening has begun, boding well for private investment.

The other bogeyman the ES raises is the double financial repression banks are subject to. Is this consistent with the statement that the development of banks and markets is consistent with India's stage of growth? The ES also tells us that the private sector banks share of total advances and deposits has remained constant at around 20 per cent since 2007, despite their higher return on assets. It was the public sector banks that lent to infrastructure and took a knock from the stalling of projects. A widely quoted figure is 70 per cent of bank NPAs are due to problems from land acquisition, so that these problems should ease if the rate of stalling falls as the ES assures us is happening. This is where the government should concentrate. The progress in coal block allocation should help with stalled electricity projects that have externalities for every other kind of project.

The diversity of Indian banks, with a mix of public, foreign and private ownership is a source of strengthening for the financial sector where following

Figure 1: Debt to Equity Ratios in Infrastructure and in Manufacturing Firms

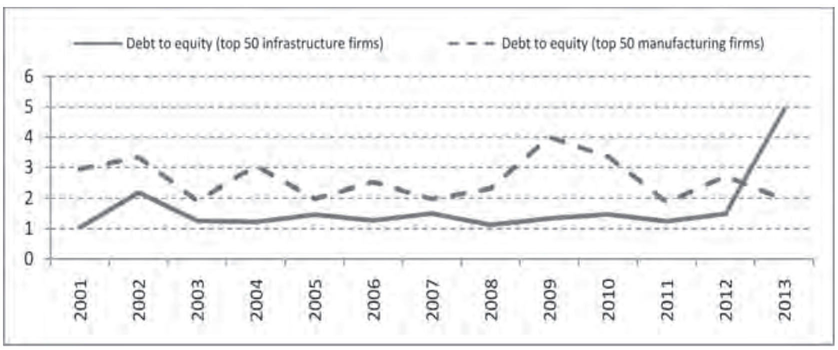
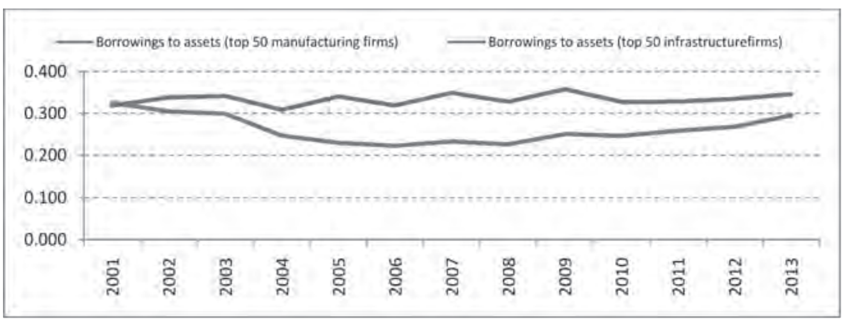


Figure 2: Borrowing to Asset Ratios in Infrastructure and in Manufacturing Firms



similar strategies creates risk. If today private banks are in a better shape than public, it was the reverse just after the global financial crisis, as deposits fled private banks suspected of being implicated in the crisis. Relative competitiveness has changed over time, keeping the banking sector as a whole more stable.

But all types of banks in India are healthier than those abroad, because broad pattern regulations such as loan to value ratios cap leverage. The latter is the assets created against capital held. As the ES warns us, the international literature is emphasizing the importance of direct measures to cap leverage since the Basel III type internal-risk-based capital adequacy norms allow large leverage. In Lehman Brothers the leverage was 30 and in Bear Sterns 33 before their collapse. Basel III for the first time restricts total leverage through a leverage ratio[1] requiring 3 per cent of equity against total assets. But this is still generous in capping leverage only at 33.3 times. RBI prescribes a higher leverage ratio of 4.5 per cent. This allows a leverage of 22:1, but even so, the current leverage is 10:1 for Indian banks, as the ES also assures us. For advanced economies, leverage still averages 25:1. So our banks are in comparatively better shape.

While some PSBs may have made non-commercial decisions, external shocks also were responsible for adverse outcomes. Errors are always possible, but stronger boards and improved governance mechanisms can ensure that independent decisions are made on purely commercial grounds. Private parties must, of course, be prevented from gaming the system and passing on bankruptcies to the tax payer. Processes in debt recovery tribunals must be redesigned to prevent the delays that allow debtors to escape repayment. But disincentives from taxpayer support are not limited to PSBs since no large bank is allowed to fail for the fear of systemic spill overs.

The budget has not made a very large allocation to recapitalize public sector banks—it is arguable that to the extent other regulations already reduce leverage, forcing our banks to hold large capital to reduce leverage would be overkill. Possible trade-offs between large capital buffers and other more direct measures that restrict leverage is an issue that should be explored in international fora. Such prudential measures would be countercyclical and improve the health of international banks (Goyal 2014).

Finally, the double financial repression argument is misleading, because after twenty years of reform, statutory liquidity ratios are now down to 21.5 per cent. But banks voluntarily hold more than 25 per cent as a commercial decision. For many years, banks have been holding more than the statutory requirement. A free decision cannot constitute repression. Interest rates are high at present and there are prospects of realizing large capital gains as they come down.

The JAM trinity has these features precisely because it offers a bouquet of services meeting customer needs. Jan Dhan includes conditional overdraft; insurance; direct benefit transfer and RuPay credit cards. Along with lower transaction costs, and supporting technological advances, these accounts may actually be used and generate revenue.

Finally, the ES underestimates growth potential because it positions JAM as a pure redistribution initiative. An expansion of financial services, beyond just credit, to the poor, that meets real needs would raise their productivity. It would also be sustainable since large under-banked population implies a huge potential market for a well-designed set of banking services.

The JAM trinity has these features precisely because it offers a bouquet of services meeting customer needs. Jan Dhan includes conditional overdraft; insurance; direct benefit transfer and RuPay credit cards. Along with lower transaction costs, and supporting technological advances, these accounts may actually be used and generate revenue. Proposed diversity in types of banks, and easier entry, may lead to a new phase of beneficial competition. Bricks and mortar banks are difficult to scale up. Mobile telephones, however, have large penetration, and there is great potential in mobile banking, which has done very well in some developing countries but lagged in India.

For example, India and Pakistan both started mobile banking in 2008. Both had bank linked models unlike the African model, whose success was attributed partly to mobile service providers (MSPs) being allowed to go alone. In South Asia, no monetary value could be stored in mobiles. Banks were responsible for security, stability and data records. Each transaction was through a customer account.

Even so, expansion was much faster in Pakistan than in India. Goyal (2015a) analyzes the crucial differences to be in more flexibilities and functions, such as higher initial levels and limits; more income categories; a wider Business Correspondent universe; lower transaction costs, such as no mandatory physical presence for customer registration. All this brought in all classes, allowed customization, expanded market size, and led to a virtuous cycle of cumulative inclusive innovation and use, without compromising on security and stability. Since encouraging relevant content creation was critical, the new initiatives may finally lead to a rapid expansion of mobile banking with the emphasis on bank led mobile banking paying off in the ability to provide a wider range of services.

Cooperation between MSPs and banks may be helped also by new trends such as the greater use of digital money in retail, migration of customers to e-commerce, technological changes such as near field communication, the cloud and cheap smart phones, whose sales in India are expected to cross 650 million. The entry of large non-bank players such as Google and Apple in the payment space will provide competition and push innovation.

The recommendations of the 14th Finance Commission are another positive for growth. The ES tends to analyse this more from the point of view of lower fiscal space available to the Centre. But the award, which is accepted by the government, will have far reaching implications. It goes back to the original constitutional mandate to the FC to ensure equal public services across the nation, away from the top down planning approach that had ossified in multiple discretionary central schemes and intervention (Goyal, 2015b). It empowers the states, choosing to trust more context-related experience.

It moves away from multiple and often arbitrary conditionalities to emphasis on overall deficit targets, especially reducing revenue deficits, performance grants to build local capacities and encourage local revenue raising. These are closer to actual services provided and will be more accountable to the people. Another disciplining factor will come from state elections, which have shown that the electorate is increasingly rewarding good governance and better services. States have, in recent years, performed better than the Centre on fiscal consolidation. Overall fiscal consolidation and the composition of expenditure should also, therefore, improve.

One reason why public services are poor is that multiple agencies—Central, State, local and special purpose vehicles—often work at cross purposes with very little coordination (Sriraman, 2014). The 14th FC cuts through this confusion and gives the states more freedom to deliver. But they will also have more responsibility. Under the constitution, states have exclusive jurisdiction on public health, sanitation and water. Poor quality in all three is primarily responsible for underweight children and the generalized poor nutrition in India that imposes an enormous human cost. States will now have to deliver on mitigating these.

Although the budget has retained some centrally sponsored schemes, it has cut back on others. Central assistance to the States has been reduced 20-40 per cent, in order to compensate for increased share of tax devolution. More of health and education expenditure has been left to the states. But skilling them is essential both to really help the poor and for 'Make in India' to be a success. The re-invigorated Inter-State Council can be used to enhance dialogue, cooperation and peer pressure to improve health, water, education, environment, and sanitation for all. The centre also must restructure surplus ministries, shifting from multiple permissions to advice and facilitation.

Indeed, reorganization of the institutions of governance is essential for effective implementation. This has been lacking in the first year of the government and neither the ES nor the budget advances this agenda sufficiently. The ES has a useful discussion of the flaws of APMCs, but the budget does not take this forward. Instead, there is a dangerous suggestion that it is necessary to spend more in rural areas since real rural wages are falling. But it was this kind of expenditure that was the past cause of inflation. Rural wages can rise safely only if productivity rises, and for this, the moves to improve the composition of expenditure are useful. For example, improving the quality and safety of railway services, using innovative financing as is proposed, would benefit rural India and the common man.

Government construction expenditure pushed up rural wages in the past. The ES wants the government to focus on this again. There can be too much emphasis on housing, however. Smart cities should not mean empty flats. It is difficult to change old cities, but also difficult to populate new ones. Incrementalism generally works better than big bang.

While the government has to change its inherited image of an adversarial and non-transparent tax regime, it should not go overboard in allowing corporates and FIIs to escape tax altogether. The G-20 and OECD is seriously pushing initiatives against base erosion and profit shifting (BEPS), which India should join and benefit from. Tax treaties meant for preventing double taxation are used for double no taxation—this is not fair to domestic firms and hurts many types of government expenditure that could otherwise benefit the nation.

The latest OECD survey shows that the incidence of consumption tax is the highest in India, compared to other countries. The budget has only increased this. Implementing GST remains crucial to bring this down. But it also remains a promise as yet. The earlier government's mistake was to rely too much on foreign inflows, use a rural expenditure push for equity, while neglecting difficult domestic reforms. The new government sometimes shows frightening signs of falling into the same trap.

It is to be hoped that the implementation will be better in the coming year, so that such comparisons are no longer possible. The many interesting reform ideas in the budget and the ES deserve a real chance, and if they get that, it would really add up to a big bang.

Readings

Goyal, A. 2015a. 'Growth Drivers: ICT and Inclusive Innovations', Chapter in *Reviving Growth in India*, Pradeep Agarwal (ed.). New Delhi: Cambridge University Press. Available at http://www.igidr.ac.in/pdf/publication/WP-2013-018.pdf

Goyal 2015b, 'Sustaining Indian growth: Interests versus institutions', *India Review* 14(3): July-September.

Goyal 2014a. 'Banks, Policy, and Risks: How Emerging Markets Differ.' *International Journal of Public Policy*, 10(1, 2, 3), pp. 4-26.

Sriraman, S. 2014. 'A Governance Analysis of Transportation in India' Chapter 21 in Handbook of Indian Economy in the 21st Century: Understanding the Inherent Dynamism, Ashima Goyal (ed.), OUP: New Delhi, India.

Endnotes

1 A leverage ratio of 0.03 implies 3 units of capital must be held against 100 units of the asset, that is the accounting or balance sheet leverage is limited to 1/0.03 or 33.3 to 1. ❑

(E-mail:ashima@igidr.ac.in)

Rail Budget: A Bold Path Way for Progress

G Srinivasan

...the railway budget has skillfully skirted skating on thin ice by tweaking the system in a deft way through a process re-engineering that would undoubtedly bring copious benefits to the stakeholders and the shareholders over the long haul if implemented in letter and spirit

IN THE post-Independence era, a very few exceptional Railway Ministers had chosen not to tread the beaten track of populism and yielding to the temptations of the times to unveil a slew of new trains and projects. The Railway Budget presented in Parliament on February 26, 2015 for the next fiscal year beginning on April 1 is indubitably a bold bid in that it purposefully stayed away from the well-trodden track of the past and looks into the future with a plausible leap of faith and a veritable vista of development for this arterial mode of transport. A medium-term massive investment plan of the order of ₹ 8.56 lakh crore for the next five years with no hike in passenger fares but a 10 per cent increase in the freight structure for the base class-100 with a few exemptions for essential items such as salt for human consumption and bulk goods like cement, coal and coke, iron and steel, pig iron, iron ores and petroleum products and rationalization of distance slabs in the next fiscal constitute the cornerstones of the 2015-16 Rail Budget. Senior officials of the Railway Board in their post-budget press briefing said that the budget has modestly changed the slab rates and classification for different commodities. After the restructuring of the slabs, the rate is seen rising by a maximum of 10 per cent in a few commodities and even falling to negative numbers in certain others. Overall, the railways intend to compass ₹ 4000 crore from this exercise out of the budgeted ₹ 1,21,423 crore of freight earnings. Hence, the average hike is a modest three per cent only, they contend.

The Railway Minister struck the right chord while introducing the rail budget in the Lok Sabha stating that for “a network of veins that pump life-giving blood into the heart of India’s economy”, it is rather unfortunate that the railway facilities to users, both individuals and industry, remained far from comfortable. The Minister did not mince words when he pointedly noted that a fundamental factor for the abjectly abysmal level of service to users is the “chronic under investment”. No wonder, as a consequence, capacity augmentation suffered, safety sedulously challenged and the quality of service delivery proved pathetic, leading to “poor morale, reduced efficiency, sub-optimal freight and passenger traffic and fewer financial resources”.

The Railway Minister justifiably expatiated on the benefits of investments in the Railways which will have “a large multiplier effect” on the rest of the economy, besides fostering jobs for the poor and ensuring environmental sustainability. He has also rightly diagnosed the need for significantly improving capacity on the extant high-density networks which works out cheaper as there are no major land acquisition issues and completion is also shorter. Hence, the stress would

The author is former Deputy Editor, The Hindu-Business Line and a freelance journalist.

Rail Budget Summary

- No hike in Railway Passenger Fares
- Plan Outlay proposed Rs. 1,00,011 crore, increased by 52 per cent
- Allocation for passenger amenities up by 67 per cent
- Railways to become prime mover of Indian Economy, Five years action plan proposed
- Rail Budget seeks resource mobilization for higher investment
- Thrust on measurable and sustainable improvement in passenger experience and to make Rail a safer means of travel
- Hot buttons, coin vending machines for railway tickets within 5 minutes, e- catering to select meals from an array of choices
- 200 more stations to come under Adarsh Station scheme; Wi - Fi to be provided at B category stations
- 24X7 helplines for attending passenger problems and security related complaints
- For the safety of women passengers surveillance cameras in suburban coaches
- More General class coaches will be added in identified trains.
- The speed of nine railway corridors will be increased to 160 and 200 kmph
- Train Protection Warning System and Train Collision Avoidance System to be installed on select routes
- 77 new projects covering 9,400 km of doubling/tripling/quadrupling works proposed
- A new department for keeping stations and trains clean under Swachh Rail Swachh Bharat Abhiyan

be on gauge conversion, doubling, tripling and electrification so that the proverbially tardy average speed would pick up pace a tad or so to the lasting benefits of users. It needs to be noted that the bulk of the railways traffic runs on six corridors that link the four metro cities and the diagonals of this quadrilateral. These six corridors are fully choked and hence the focus this time around is to decongest the network by enhancing the capacity of the system. Other over arching focus areas mapped out in the budget cover, among others are customer convenience, safety and turning the system into a self-sustained and sustainable entity in future.

A novel feature in the rail budget is the stupendous hike in electrification proposal for the next fiscal. As against a sanction of 462 route kilometers this fiscal, a length of 6608 route kilometers is sanctioned for 2015-16, an incredible jump of 1330 per cent over the previous year. Considering the fact that electric power is mostly produced through thermal generation tack of using coal, this goes against the de-carbonized paradigm of development India has vowed to promote. If ecological sustenance and less fuel consumption of railways are what make the Indian Railways a preferable mode of transport compared to roads the vehicles plying on which belch out a malignant mix of polluting fuels, how he intends to compass the highest electrification target in the next fiscal for hauling freight and passenger trains without striking at the ecological balance is not rendered clear. However, in order to overtly address such genuine concerns, the rail budget has made a bid from the green movement perspective by outlining new solar power capacity of a massive 1000 megawatts.

The four objectives the Railway Minister laid out, such as delivering a sustained and measurable improvement in customer experience, a safer means of travel, augmenting capacity of the system substantially to modernize infrastructure from 21 million to 30 million daily passengers, track length by 20 per cent from 1.14 lakh km to 1.38 lakh kms and annual freight carrying capacity from one billion to 1.5 billion tonnes would be doable if the Minister followed it up with an appropriate action on the ground. The approach to building partnerships to rope in State governments for railway projects through special purpose vehicles and partnering with public sector undertakings (PSUs) to ensure that sufficient capacity is built to transport critical commodities like coal, iron ore and cement and tapping multilateral and bilateral organizations and other governments to gain access to long-term financing and technology from abroad would be encouraging, provided the understanding is absolute and right resolution machinery is in place in the event of any dispute over contract.

As an auditor himself, the Railway Minister knows what he meant in terms of financing remunerative projects through market borrowings. Apart from the costly borrowings that the system contracts from its own arm, the Indian Railways Finance Corporation (IRFC), it is also intended to tap low-cost long-term funds from insurance and pension funds, multilateral and bilateral agencies which could be serviced through incremental revenues. It is salutary to note that the railways plan to create new vehicles to crowd in private investment from long-term institutional investors and other partners. For the first time, on record, the Railway Minister has spoken openly that he would prefer to "monetize our

Budget Estimates for 2015-16.

❖ The intention is to capture increased revenues and ensure appropriate investments so as to decongest the system and enhance line-capacity. ❖Passenger earnings growth pegged at 16.7per cent and target budgeted at Rs. 50,175 crore. ❖Freight traffic is pegged at an all time high incremental traffic of 85 million tonnes, anticipating a healthier growth in the core sector of economy; Goods earnings proposed at Rs. 1,21,423 crore which includes rationalisation of rates, commodity classification and distance slabs. ❖Other coaching and sundries are projected at Rs. 4,612 crore and Rs. 7,318 crore. ❖Gross Traffic Receipts estimated at Rs 1,83,578 crore , a growth of 15.3 per cent. ❖Ordinary Working Expenses proposed to grow at 9.6per cent over RE 2014-15. Traction fuel bill anticipated to shrink further. ❖Higher provisions made for safety maintenance and cleanliness. Lease charges, interest component of the current and previous market borrowings, at a growth of 21per cent. ❖ Appropriation to Pension Fund proposed at Rs 35,260 crore and appropriation to DRF at Rs 8,100 crore. Appropriation of Rs 7,616 crore proposed to be made to Capital Fund for payment of principal component of lease charges to IRFC.

PROPOSED INVESTMENT PLAN (2015-2019)

Item	Amount (Rs in crore)
Network Decongestion (including DFC, Electrification, Doubling including electrification and traffic facilities)	199320
Network Expansion (including electrification)	193000
National Projects (North Eastern & Kashmir connectivity projects)	39000
Safety (Track renewal, bridge works, ROB, RUB and Signalling & Telecom)	127000
Information Technology / Research	5000
Rolling Stock (Locomotives, coaches, wagons – production & maintenance)	102000
Passenger Amenities	12500
High Speed Rail & Elevated corridor	65000
Station redevelopment and logistic parks	100000
Others	13200
TOTAL	**8,56,020**

assets rather than sell them", putting an end to needless controversies and undue hope that the system may be corporatized or privatized or the lands vested with them would be sold.

The operating efficiency reflected in terms of the percentage of earnings accounted by operating expenses (the lower it is, the better for the system) has distinctly improved from an appalling 93.6 per cent in 2013-14 to 91.8 per cent in the revised estimates for the fiscal 2014-15, thanks to a slew of productive expenditure management programmes put in place that it is an improvement on the 92.4 per cent that the budget had projected in July last year. In the estimates for the next fiscal, this is proposed to be brought down to 88.5 per cent through total productivity gains and toning up efficiency in the functioning of the system for better effect.

In fact, the tangible sense of relief in controlling expenses and improving the operating ratio this fiscal has enabled the Railway Minister to make higher provisions for the Depreciation Reserve Fund (DRF) up ₹1050 crore to ₹7900 crore as the DRF funds vital maintenance tasks like track renewals, the perfunctory provision on which poses a safety threat to the travelling public and freight loaded. Provision for

Eleven major thrust areas of Action Plan: Quality of life in journeys:

❖ **Cleanliness**:-Swachh Rail Swachh Bharat, new department for cleanliness, integrated cleaning by engaging professional agencies and training our staff, 'waste to energy' conversion plants, new toilets covering 650 additional stations compared to 120 stations last year. Bio-toilets. ❖**Bed linen:** NIFT to design; online booking of disposable bed rolls: ❖**Help-line:** 24X7 helpline number 138;toll-free number 182 for security related complaints. ❖**Ticketing:** operation five minutes for issuing unreserved tickets, hot buttons, coin vending machines, single destination teller, concessional e-tickets for differently abled travelers, developing a multi-lingual e-portal, crediting of refunds through banks, unreserved tickets on Smart phones, proliferation of automatic ticket vending machines with smart cards and currency options, integrated ticketing system on the lines of rail-cum-road tickets, Defence Travel System developed for elimination of Warrants ❖ **Catering**: e-catering to select meals from an array of choices. Ordering food through IRCTC website at the time of booking of tickets; integrating best food chains into this project; setting up of Base Kitchens in specified Divisions to be run by reputed agencies for serving quality food; expansion of water vending machines. ❖**Leveraging technology:** Hand-held terminals to Travelling Ticket Examiners (TTEs) for verification of passengers and downloading charts; possibility of extending facility of SMS on mobiles as a valid proof of travel for PRS tickets; integrated customer portal as a single interface to access different services; Introduction of a centrally managed Railway Display Network in over 2000 stations in next two years; "SMS Alert" service to inform passengers in advance of the updated arrival/departure time of trains at starting or destination stations. ❖**Surveillance:** surveillance cameras provided on a pilot basis in selected mainline coaches and ladies' compartments of suburban coaches without intruding into privacy. ❖**Entertainment:** project for introducing on-board entertainment on select Shatabdi trains on license fee basis launched; Mobile phone charging facilities to be provided in general class coaches & increased in sleeper class coaches. ❖**Station facilities:** 200 more stations to come under Adarsh Station scheme; Wi - Fi to be provided at B category stations; facility of self-operated lockers to be made available at stations; provision of concierge services through IRCTC at major stations; online booking of wheel chair on payment basis for senior citizens, patients and the differently-abled passengers through IRCTC on select stations. ❖**Train capacity:** capacity in identified trains be augmented to run with 26 coaches; more General class coaches be added in identified trains; ❖**Comfortable travel:** NID approached to design user friendly ladders for climbing upper berths; increasing quota of lower berths for senior citizens; TTEs be instructed to help senior citizens, pregnant women and differently-abled persons in obtaining lower berths; middle bay of coaches to be reserved for women and senior citizen; NID to develop ergonomically designed seats; introduction of train sets; Provision of Rs. 120 crore for Lifts and escalator which is 76per cent higher; newly manufactured coaches will be Braille enabled; building wider entrances for the ease of differently-abled passengers; allocation for passenger amenities up by 67per cent Y-O-Y. Corporate houses & MPs to be requested to invest in improving passenger amenities at Railway stations through CSR & MPLAD funds; Divisional Committees in each Railway to be chaired by Members of Parliament.

the Railways Development Fund that takes due care of smaller expenses to debottleneck and augment capacity, has been hiked from the revised estimate by as much as over four times to ₹ 5750 crore for the next fiscal. The most glaringly pleasing hike is undoubtedly the projected increase in the Plan size for the system by over 50 per cent to one lakh crore of rupees for 2015-16, a record of sorts if it is implemented in full and in letter and spirit.

Most of its revenue projections are based on high hope when in the current fiscal, passenger and freight revenue receipts had to be slashed and the gross traffic receipts fell by a huge ₹ 917 crore in revised estimates compared to budgetary estimates of ₹ 1, 60,165 crore. Against this revision, the gross traffic receipts are budgeted to fetch ₹ 1, 83,578 crore next fiscal. Unless a miracle occurs and the Ministry of Railways adapts some salutary and sustainable best managerial practices to benefit both the individual rail users and industries, the high revenue receipts may turn out to be off the mark.

Since the Railways decided that its dependence on gross budgetary support (GBS) from the exchequer should not go up to such a level that it is unable to operate without it, the railway minister has made the right recourse to extra-budgetary resource (EBR) route through an innovative tack of tapping institutional finance which he said is a new vista with promising potentials. This would be based on institutional investments in railway projects through railways/PSUs which are projected to net ₹ 17,136 crore that is also designed to speed up completion of capacity augmentation projects, instead of spreading thinly the sparse resources that had been the baleful practice of the past. The idea is that many of these projects pertain to decongest heavy traffic sections and as such are remunerative upon completion. Thus of the ₹ one lakh crore annual plan for 2015-16 fiscal, ₹ 40,000 crore is from the Government of India by way of GBS, ₹ 1645 crore from diesel cess, ₹ 17,793 crore from its own internal resources and balance ₹ 40,000 crore from external borrowings.

It needs to be mentioned that last year, the railways had ₹13,000 crore of external borrowings and to pay back these borrowings, it duly identified workable projects which would give the money to service the debt. That is the reason why the railways now propose to look at partnerships with state governments, public sector undertakings, multilateral agencies and private parties. All of all these put together would give the system around ₹17,000 crore and another ₹ 17,000 crore from IRFC borrowings and an additional ₹ 6000 crore from public-private partnerships (PPP)

In fine, the railway budget has skillfully skirted skating on thin ice by tweaking the system in a deft way through a process re-engineering that would undoubtedly bring copious benefits to the stakeholders and the shareholders over the long haul if implemented in letter and spirit. Critics allege that the investment plan is debt-driven and hence unsustainable, but, in a situation where market forces determine allocative efficiency of resources, the railways will definitely succeed as they have workable plans on the anvil to leverage their inherent advantages in terms of being a relatively cheaper carrier of passengers and freight pan-India. A White paper issued along with the budget document put it that "the next five years should change the face of Indian Railways, Faster trains, modern trains, swanky stations, skilled staff, should be the railways of tomorrow". Perhaps, the Rail Budget 2015-16 is the pathway for such a prospective phenomenal progress for the Indian users of this traditional mode of transport that forms the very texture and tapestry of their existence down the ages. ❑

(E-mail:geeyes34@gmail.com)

Rail Budget : Highlights

- **PLAN OUTLAY 2015-16**

❖ Gross Budgetary Support of Rs 40,000 crore for the Railway's annual Plan. ❖Rs 1,645.60 crore has also been provided as Railway's share of diesel cess from the Central Road Fund. Market borrowing under EBR projected at Rs 17,655 crore, an increase of about 46.5per cent. Balance Plan outlay includes Rs 17,793 crore from Internal Resources and Rs. 5781 crore from PPP. ❖A new financing approach to expand EBR has been projected. This EBR, presently named EBR (Institutional Finance) would be based on institutional investments in railway projects through Railway/ PSUs. This element is projected at Rs 17,136 crore and is aimed at accelerating completion of capacity augmentation projects. Works proposed to be financed through this mode are listed in the Budget documents. ❖Plan Outlay is Rs 1,00,011 crore, an increase of 52per cent over RE 2014-15.

- **FINANCIAL PERFORMANCE 2014-15**

❖ Net reduction in Gross Traffic Receipts by Rs 917 crore compared to the BE of Rs 1,60,165 crore. ❖Taking into account the likely savings accruing from drop in prices of HSD (high speed diesel) for traction partly offset by higher requirements under certain heads for maintenance, safety and cleanliness activities, the budgeted O. W. E. (Ordinary Working Expenditure) of Rs 1,12,649 crore decreased in the RE 2014-15 to Rs. 1,08,970 crore i.e. by Rs 3,679 crore. ❖Appropriation to the Pension Fund has been increased to Rs. 29,540 crore in RE. ❖Internal resource generation also improved and accordingly the appropriation to DRF has been scaled up to Rs 7,975 crore in RE from the BE 2014-15 provision of Rs 7,050 crore. ❖After taking into account the above, "Excess" of receipts over expenditure stands at Rs 7,278 crore in RE 2014-15 reflecting better financial management. ❖Plan size for 2014-15 increased from Rs 65,445 crore in the B.E to Rs 65,798 crore in the Revised Estimates i.e. by Rs 353 crore with higher provisions under internal resource component and market borrowings for rolling stock requirement.

National Skill Development Program: The Way Ahead

Swadesh Singh

"India is one of the youngest nations in the world with more than 54 per cent of the total population below 25 years of age. Our young people have to be both educated and employable for the jobs of the 21st Century. The Prime Minister has explained how Skill India needs to be closely coordinated with Make in India. Yet today less than 5 per cent of our potential workforce gets formal skill training to be employable and stay employable."

Finance Minister in his Budget speech (28th Feb, 2015)

Three pillars to a better Indian economy are meaningful education system, robust skill development setup and active involvement of businesses in mentoring the workforce. Once these three are implemented, the existing curses of unemployment, poverty, illiteracy, technical know-how disability and incompetence of our products/ services in global market will find no place

FINANCE MINISTER said in his budget speech that Skill India program would be successful if it works in coordination with Make in India program. He also announced a scheme for rural sector. He said, "With rural population still forming close to 70 per cent of India's population, enhancing the employability of rural youth is the key to unlocking India's demographic dividend. With this in mind, we had launched the *Deen Dayal Upadhyay Gramin Kaushal Yojana*. ₹ 1,500 crore has been set apart for this scheme. Disbursement will be through a digital voucher directly into qualified student's bank account."

It is evident from the Finance Minister's budget speech that the Government of India is now looking at skill development as an important link in the nation's growth. While the Finance Minister has sought a co-ordination with Make in India program, the four other flagship programs of the Government of India - Digital India, Smart City, Clean India and Clean Ganga - also need millions of skilled hands.

In the budget, there is acknowledgement of the fact that skill providers are not always able to connect trained youth to jobs and that they need to willy-nilly become entrepreneurs. Hence, the proposal to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of ₹ 20,000 crore, and a credit guarantee corpus of ₹ 3,000 crore is seen as progressive step. MUDRA Bank will in turn, refinance micro-finance institutions through *Pradhan Mantri Mudra Yojana*.[1] Fiscal consolidation of 3 per cent of GDP in two years can be realised only when skilled people get more job opportunities and self-employment opportunities. Proper market access to rural youth is equally important to enhance innovation and entrepreneurship.

This budget does not see education and skill development differently. To ensure a senior secondary school within five-kilometer reach of each child, this budget has announced an upgradation of over 80,000 secondary schools and addition or upgradation of 7,5000 junior/middle, to the senior secondary level. Eventually, all of education and skilling is about gaining employment. So, it is not that how much the Finance Minister has allocated, but in his apparent recognition of how the education and skill development will eventually lead to employment. The need is to execute and this has been addressed in a different way.[2]

Swadesh Singh has worked with BBC Hindi Service and NDTV news channel. He has also taught political Science in a college of Delhi University. He was associated with Youth Leadership Program of Konrad Adhenuer Stiftung (Germany) for two years. His core areas of interest are Indian Politics, ancient Indian culture and social system.

Dilip Shenoy, Chairman of NSDC said in an interview to a newspaper, "Financial support needs to be provided for four kinds of activities in skill development. First, for the segment that do not have the ability to pay for skills training, grant-based schemes have to be introduced and continued; Second, for advancement and popularisation of different elements of skills training such as advocacy, certification and assessments; Third, for initial support to create sustainable models of skill development and fourth, to create a fund for providing skill loan to trainees.[3]

Restructuring Skill Development Program

The experience of skill development program in India teaches us that what matters is not how much money is being invested in the program but how effectively the money is being used in the skill development program. Taking cue from this, the government has, in a welcome move, had set up a Skill Development Entrepreneurship Ministry to coordinate all the efforts.

Cabinet Secretariat's notification says that the Skill Development and Entrepreneurship Ministry has been assigned the task to design a suitable framework for skill training, to reduce the gap between supply and demand for trained labour force, technical training, vocational training and new skill development and assessment of present skill training program and their certification.

While earlier, 60 different programs were being run under 20 different ministries, all these will now come under the Skill Development Ministry. The National Skill Development Corporation and National Skill Development Agency were coming under Finance Ministry and Employment and Training Directorate - which runs Industrial Training Institutes (ITIs) and other vocational training programs - came under Labour Ministry. Now, these will also work under the Skill Development Ministry. Similarly, technical education wing of Human Resource Development Ministry, National Rural Livelihood Mission (NRLM) and Aajivika Program will also be a part of the Skill Development Ministry. This will ensure that there is no repetition of work and monitoring and evaluation of the programs would be easier.

Status of Skill Development Program

The National Skill Development Corporation has developed a capacity of 82 million training with 159 training partners having 1,408 centres in 356 districts in 27 states and five Union Territories. Department of Rural Development has 577 functional rural self employment training institutes spread over 556 districts. The Ministry of Textiles is implementing integrated skill development schemes wherein implementing agencies are operating training centres pan-India. The Ministry of Micro, Small and Medium Enterprises has 18 existing technology centres with 15 new technology centres in the pipeline. Moreover, there are 11,964 industrial training institutes (government 2,284 and private 9,680) affiliated to National Council for Vocational Training in the country.[4]

One of the biggest challenges faced by the country is not the absence of skill but the lack of a proper mechanism to train and certify the workforce. An internationally accepted training and certification system needs to be evolved to create skilled manpower. There has to be a concrete syllabus to train our manpower.

One of the biggest challenges faced by the country is not the absence of skill but the lack of a proper mechanism to train and certify the workforce. An internationally accepted training and certification system needs to be evolved to create skilled manpower. There has to be a concrete syllabus to train our manpower. Besides training and certification, we should also be able to give assurance to skilled people that they will be employed. If the percentage of skilled people among the total workforce in UK is 70 per cent, it is 75 per cent in Germany, 80 per cent in Japan and 96 per cent in South Korea. But in India, it is just two per cent.[5] Minister for Skill Development and Entrepreneurship has earlier informed during Question Hour in Lok Sabha that modalities for setting up training centres and training modules are being worked out. He had said that the modalities would depend upon the assessment of gaps and taking into consideration, the facilities and the funding.

Intellect Vs Skill

India, so far, has been a country that celebrates knowledge and intellect. Skills, however, are not celebrated. There is a need to de-textualize Indian Education System, which Father of the nation Mahatma Gandhi talked about a century ago. Gandhi asked people to do their own work and earn for themselves. This requires each hand to be skilled.

China became a manufacturing giant by steering secondary school students into formal skilled training programs. By contrast, in India, students who do not go on to tertiary education have few vocational options other than government-run Industrial Training Institutes (ITIs) that are poorly managed and often outdated. For example, the ITI syllabus for car mechanics includes considerable training on carburettors, which were widely phased out of cars in the 1990s.

Quality Vs Quantity

However, besides focusing on the quantitative aspect of skilled labour force, the policy makers also need to focus on the qualitative aspect of the skill programs. India needs to go beyond the numerical targets for skills training by lifting the quality of ITIs and working with the private sector to improve apprenticeship programs.

To be sure, it's not as if India's youth are inherently employable. Skills are indeed needed. A September, 2012 Ernst and Young report for FICCI estimates that only 20 per cent of India's workforce receives some kind of training and 80 per cent of entrants into the pool do not have the opportunity for training. Many of those trained are hardly employable though they may have certificates. The difficulty in filling up jobs in India in 2012 was 48 per cent when the global standard was 34 per cent. [6] Among those who are trained, a significant number is unable to find jobs or is dropping out because of low pay, poor working conditions, lack of jobs near home and even 'low status' of available jobs in society.

New National Skill Development Policy

Central government is working on a new National Skill Development Policy. Expected to bridge the existing skilled workforce gap of 30 crore, the new National Skill Development Policy aims to skill one in every four Indian by 2020. The top 10 high growth industries, such as retail, auto, construction and IT, are expected to require about 245 million people by 2022 (including current incumbents) if India manages an average annual GDP growth rate of nearly 8 per cent. The key drivers of economic growth would be creating more and more employment opportunities with increasing the share of manufacturing in GDP to 25 per cent. Manish Sabharwal of Team Lease said in an interview, "To achieve the impossible trinity of cost, quality and scale, India needs to address three traffic jams between the Centre and the states, delivery and finance, the two human capital ministries and the rest." Sabharwal believes that unless legislative and executive solutions are found to these jams, India's demographic dividend will be under stress.[7] We can hope that after the new National Skill Development Policy, we would be able to find executive solutions to problems of skill development.

The ambitious target set by the Government, if implemented in the right spirit, will help bridge gaps in crucial sectors such as infrastructure, healthcare and manufacturing. ASSOCHAM highlights the following key issues to be resolved in order to ensure successful implementation of NSDP 2015:

- Streamlining the Institutional Structure - Complex structures in the existing policy, spread across multiple sectors and schemes. Lack of Trained Personnel.
- The National Skill Development Policy 2009, with the bandwidth to facilitate nearly 3.1 million personnel (compared to over 12 million new entrants), leaves open a huge gap in the skill development requirements of the nation. The chamber recommends immediate measures to strengthen the skill development and training infrastructure with support from the private sector.

Expected to bridge the existing skilled workforce gap of 30 crore, the new National Skill Development Policy aims to skill one in every four Indian by 2020. The top 10 high growth industries, such as retail, auto, construction and IT, are expected to require about 245 million people by 2022 (including current incumbents) if India manages an average annual GDP growth rate of nearly 8 per cent.

- Mismatch in Providing Vocational Training-The existing skill development policy does not focus on providing vocational training to casual workers, leading to a shortage of skilled laborers. With close to 90 per cent of the labour force comprising the casual workforce, it is imperative for the government to provide vocational training in a more regularized manner so as to ensure better ratio of skilled to unskilled labour. ASSOCHAM is confident of the success of the upcoming Policy and strongly believes that it will not only augment skilled workforce in India, but also enhance employee productivity; thereby reinforcing the Government's 'Make in India' initiative.[8]

Skill Development, Education and Industry

Streamlining of skill development programs and education wing of India has to be paid heed to in light of global best practices in education and vocational training. Countries around the world have recognized the very roots of education and skill development, which rest in changing the norms as per the industry's demands and trend of economic development.

Korea interpreted the issue of lack of skill development arrangement in as early as 1970s and hence they imposed in-plant training obligations for large firms; under the Job Skill Development Program run in the country, employers provide training to insured employees assisted by funds from the government. Germany has in place an apt dual system of vocational education that integrates school-based and work-based learning; trainees spend a day or two in vocational school and three to four days at the employer's place, progress of trainees is evaluated by way of final analysis where they show theoretical as well practical knowledge gained, thus making Germany a place with employers and vocational schools having a joint educational and training responsibility.[9]

Training and Trainers

12 million people are expected to join the workforce every year and by all means such large talent pool has to be made capable. We know that agricultural growth rate would not cross 4-5 per cent Hence, the main part in the economic growth of the country would be played by secondary and tertiary sectors, which in turn need aptly qualified skilled labour.

With the 'Make in India' dream and acceptance of skill development as a national priority for the next one decade, reforms will come only when the government integrates skill development, education system and the Indian industry. Quality of training, trainers, standardization of training process and effective assessment should be paid attention to.

National Skills Mission

One of the important announcements of the Budget 2015 was of National Skills Mission. Finance Minister said in his speech, "We will soon be launching a National Skills Mission through the Skill Development and Entrepreneurship Ministry. The Mission will consolidate skill initiatives across several ministries and allow us to standardise procedures and outcomes across our 31 Sector Skill Council."

The government's proposal to launch a National Skills Mission to create more job-ready youth in the country is a welcome step. The mission will work through the Skill Development and Entrepreneurship Ministry and aims to consolidate skill initiatives spread across several ministries. In addition, the Government's National Skills Mission would enhance employability and focus on need for youth to become job seekers to job creators.

The proposed National Skill Mission will help youth to become employable first. More fund allocation for MNREGA and initiatives like 'Make in India' will provide a platform for employing this skilled workforce. For that, additional focus on Skilling of both urban and rural youth would be required. Skilling of women in rural India should also be in priority. We need to make women in rural India partners in the growth of Indian economy.

Burdened by the pressure of an expanding labour market, the world's youngest workforce is today faced with the challenge of 'skilling', with a vast majority not being 'job ready' or having any certified abilities. Government's thrust to boost growth and facilitate investment in high productivity sectors promises to create a vast pool of job opportunities in the coming years. If we want to leverage the demographic dividend, then we will be having a target group of over 850 million Indians in the working age group by 2020 for skill training. This will account for 28 per cent of the global workforce.

Over the next two years, the government plans to open more than 1000 training centres across the country and would spend about Rs. 15,000-20,000 crores. Skill training programs would be designed to meet demands in countries like China, US, Japan, Russia, Germany, Middle East countries apart from domestic demand. The government also plans to tie-up with international placement agencies for expertise and job placement. For international market we need to work on course module of the skills. Even for similar types of skills or trades, provisions differ in terms of target groups, per-trainee cost, duration, curriculum, pedagogy, competency testing and certification systems.

Skill development centres cannot be allowed to become a mode of corruptly procuring funds from the government, rather they are to be made the birthplace of able workforce in India. We have seen how data and reports on such activities are forged by supervisors; hence need is to build a transparent and competent reporting mechanism, where details of such centres, trainers, trainees, training modules and work assigned post the completion of training be accessible with ease.

Trainers for the skill development mission are to be wisely procured, based on laid down criteria, and the existing ones must be considered with respect to basic instructional skills and know-how of the present trends. Along with this, training content should pay heed to rapidly changing industrial needs and technology. It is being felt that getting trainers is always a tough task and because of their scarcity, they are commanding a premium in the skills training market. As per NSDP-2009, India plans to train 500 million people by 2022 to improve the efficiency of its labour force and increase productivity of industries. But in the last three years or so, the country has not been able to train more than 10 million workers per year as against the need for training around 40 million.[10] A lack of awareness, student retention and good quality trainers are some of the reasons attributed to the low achievement.

Partnership

The partners in skill development should be business houses who should be eligible for CSR benefits for the money spent on training students in-house. It cannot be denied that on-the-job training system would add to the throughput of businesses as well. Organizations like CII should be taking initiatives to train youth from deprived sections.[11]

The skills ministry should also tap the potential of other groups like ex-servicemen and make them partners. The Ministry has taken a good initiative and is likely to partner with the defence ministry to create an army of trainers made up of retired officers who would be deployed to help young people in jobs and business. The Skill Development Minister had said, "With 1.5 million people, we have the third largest armed force in the world. Every year around 50,000 people from our armed forces retire after 10-20 years of service, who come under the level of junior commissioned officers and below. These ex-servicemen can be trained to become trainers and who in turn, will be skilling the youth of our country in various job roles or provide them the opportunity to become entrepreneurs.[12]

All in all, the existing curriculum at the school and university level has to be aligned with existing and upcoming needs of the Indian industry. Certification should be sensible in a way that global universities and employers consider the same, thus opening extensive prospects for students around the world.

Conclusion

Three pillars to a better Indian economy are meaningful education system, robust skill development setup and active involvement of businesses in mentoring the workforce. Once these three are implemented, the existing curses of unemployment, poverty, illiteracy, technical know-how disability and incompetence of our products/ services in global market will find no place.

The ministry also has to take care of the implementation of national skill qualification framework in a way that states utilize the funds apportioned for this task resourcefully with nil leakages at even the most basic level. Distinct ministries would undertake skill development in their respective sectors; hereafter coordination and apt supervision would be the sole key to success.

Active participation of women should also be in consideration. According to one report of UNDP, if women's participation reaches at a level of 70 per cent then we could increase our economic growth rate by 4.2 per cent.[13]

Skill development centres cannot be allowed to become a mode of corruptly procuring funds from the government, rather they are to be made the birthplace of able workforce in India. We have seen how data and reports on such activities are forged by supervisors; hence, the need is to build a transparent and competent reporting mechanism, where details of such centres, trainers, trainees, training modules and work assigned post the completion of training be accessible with ease. Perpetual work prospects i.e. employability of Indian labour force and constant supply of skilled personnel to the businesses is the paramount aim; hence 'continuous skill development' is the buzzword.

Be it school/university education, NSDC, NSDA, NSDF, NSQF, ITIs, polytechnics or the multi-faceted industrial setup of India, all have to come at one place with a single goal of extending quality education and skill development to every Indian citizen and their deployment at suitable place of work.

Endnotes

1 http://businesstoday.intoday.in/story/union-budget-2015-16-skill-and-education-mission-work/1/216366.html

2 ibid.

3 http://economictimes.indiatimes.com/jobs/budget-2015-skill-development-needs-more-funds-says-nsdc-ceo-dilipchenoy/articleshow/46404539.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

4 http://articles.economictimes.indiatimes.com/2014-12-10/news/56917316_1_skill-development-institutes-entrepreneurship

5 http://articles.economictimes.indiatimes.com/2015-01-12/news/57983307_1_entrepreneurship-rajiv-pratap-rudy-skill-development-skilled-workforce

6 http://ibnlive.in.com/news/india-2022-high-on-skills-but-low-on-jobs/406769-7.html

7 ibid

8 http://www.business-standard.com/article/news-cm/new-national-skill-development-policy-2015-to-reinforce-india-s-growth-story-115020600789_1.html

9 http://www.merinews.com/article/integrate-skill-development-education-system-and-indian-industry/15903887.shtml#sthash.aNSyJdOJ.U8jgxK4h.dpuf

10 National Skill Development Policy – 2009

11 CII Skill Development Initiative: Affirmative Action

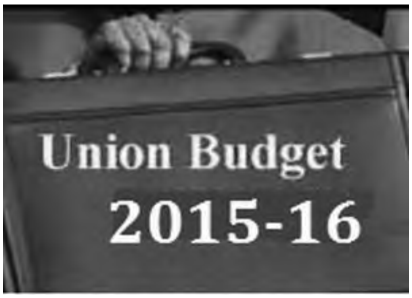
12 http://www.livemint.com/Politics/ptTZcI17XE5ipp2T3bWm1K/Skills-ministry-to-create-army-of-trainers.html?utm_source=copy

13 UNDP Report-2011 ❑

(E-mail:swadesh171@gmail.com)

Union Budget: Processes and Procedures

Ravindra H Dholakia



(An) important reform required is the establishment of a high powered committee consisting of economists and macroeconomic managers to be in charge of preparing fiscal policy for the country similar to the proposed Monetary Policy Committee. This will ensure professionalism, transparency and accountability in the whole process. Ultimately, the credibility of the whole budget making exercise among the investors and producers should increase and it should help them to perceive less risk and manage uncertainties

FISCAL POLICY is one of the two macroeconomic policies that help in the management of the economy. The other is the Monetary policy. In order to clearly distinguish the role and scope of these two policies, a workable definition of each of them is in order. A fiscal policy is any policy that directly affects governments' revenues and expenditures. A monetary policy, on the other hand, is any policy that directly affects the quantum and cost of liquidity in the system. Since, the definition of fiscal policy involves all three layers of the government in a federal democracy like ours, it is very complex to consider the policy in its totality. However, the role of the union government in India is historically predominant compared to states and local bodies taken together. For instance, in terms of expenditure, the union government spends around 55 to 60 per cent of the combined government expenditures in the country. Similarly, in terms of revenues, its share is again around 55 per cent.

Of late, the role of states has been increasing, firstly because their share in the central taxes has been increasing as per the recommendations of successive Finance Commissions; and secondly, because several social sector programs and schemes are systematically and logically transferred to them by the centre. The Fourteenth Finance Commission has recommended substantial increase in the devolution of resources from the centre to the states. Still, the relevance and significance of the union government in the fiscal policy for the whole economy remains central, because the gross revenues through major central taxes are still under the purview of the centre. As a result, revenue and expenditure decisions of the central government become the most decisive components of the fiscal policy of the nation. Presentation of the annual union budget is, therefore, an important event in our economy since it represents the single most comprehensive statement of the fiscal policy of the nation.

Objectives

Fiscal policy, by its very nature, has several diverse objectives unlike sectoral policies or even monetary policy that may have only one or, at most, a few related objectives. Governments' revenues and expenditures have both the short run and long run aspects. Fiscal policies have, therefore, corresponding short run as well as long run objectives. Short run objectives would include stabilizing the economic activities and performance of the economy by countering and immunizing the economy from exogenous adverse

The author is Professor at IIM Ahmedabad for the last 30 years. He has extensively published in the fields like regional economic development, productivity studies, macroeconomic policy issues, public finance, healthcare and labor economics. He has worked as a member in the Sixth Central Pay Commission, and High Powered Committees on Savings & Investment, Management of Public Expenditures, Leveraging Postal Networks, etc. appointed by the Government of India.

and favourable shocks; redistributing income and wealth in the economy to achieve equity goals; and to alleviate conditions of the poor and the economically vulnerable sections by ensuring equal access and protecting their entitlements to various public and merit goods as an obligation of the government. Long run objectives of the fiscal policy would be to achieve high sustainable economic growth with equity and to increase welfare of all sections by improving physical quality of life. It is obvious that the fiscal policy must address both the flows of savings and investments in the economy over time in order to meet these objectives.

Procedures

Given the overwhelming importance of the union budget, it is inevitable that in a democratic nation like India, it becomes a political statement of intent, vision and policy roadmap for the party in power. It has to be meticulously prepared, presented and widely debated before being finally adopted. Since, it deals with government's revenues and expenditures, it has to have the Parliamentary approval and is enacted as a finance bill. As a result, all procedures usually followed for presenting (a bill or) an act to the Parliament have to be thoroughly followed in this case too. It would include a formal presentation, publication and wide circulation to the public, inviting comments, debates and discussion on it and finally getting approval in the Parliamentary session by elected representatives of citizens. Thus, the union budget represents a comprehensive statement of the union fiscal policy not when it is presented to the Parliament, but when it is approved by the Parliament with all modifications incorporated.

It is clear from the discussion so far that fiscal policy at any level of the government as reflected in the budget formulation in a federal democracy like India is a long drawn out process and is highly time consuming. The frequency of this exercise is, therefore, limited to only once in a year under normal conditions. More frequent changes in the fiscal policy affecting all government revenues and expenditures in a year, though theoretically possible, are neither desirable nor feasible. As a result, the stabilization of economic activities and performance can be addressed by the budget only to a limited extent. Monetary policy has to assume more active role for such purposes. The union budget can only play a facilitating role and lay down basic framework for saving, investment, growth and price stability. Moreover, if the basic disturbance or stimuli to warrant policy response is not of permanent nature but only temporary in character, a fiscal policy change that would last for a year may turn out to be more destabilizing than stabilizing. Only a permanent or long lasting disturbance needs a fiscal policy response if at all. This is because the impact of any fiscal policy changes on the desired macroeconomic aggregates is invariably felt over time with distributed lags.

Given the overwhelming importance of the union budget, it is inevitable that in a democratic nation like India, it becomes a political statement of intent, vision and policy roadmap for the party in power. It has to be meticulously prepared, presented and widely debated before being finally adopted. Since, it deals with government's revenues and expenditures, it has to have Parliamentary approval and is enacted as a finance bill. As a result, all procedures usually followed for presenting (a bill or) an act to the Parliament have to be thoroughly followed in this case too.

Processes Involved

The processes involved in the formulation of the union budget in India take almost four months. The process begins in the month of November with a notice sent from the Ministry of Finance inviting detailed formal proposals for both revenue and capital expenditures and detailed statements on revenue and capital receipts to all other ministries, departments and formal entities under the union government. The ministries and departments carry out a very in-depth assessment of their needs of both human and material resources for continuation of their regular and routine activities as well as for the proposed new activities, projects and schemes during the forthcoming fiscal year. As of now, the ministries and departments do not have to make any special efforts to justify the amount of human and material resources needed for continuation or mere maintenance of activities, projects and schemes already under implementation. They fall under non-plan category of expenditures.

Any new activities, projects and schemes including expansion of the existing ones have to be thoroughly justified in the proposals prepared by the ministries and departments. These proposals have to consider both the revenue and capital expenditure commitments required if accepted. The justification for all such proposed activities is in terms of the estimated impact of such expenditures on meeting the stated goals and objectives of the respective ministries and departments in providing the public and merit goods. These proposals largely form the plan category of expenditures.

It is evident that this is a huge task considering the expanse and scale of spread of government organizations throughout the nation. Central ministries and departments have to obtain such proposals from the ground level operating units. It calls for a very efficient, effective and vibrant communication channel between the centre and the periphery, unless the whole organization is autocratic and highly centralized in practice. Although, there is an impression that our governmental organizations work in highly centralized environment governed largely by top-down flows, the fact remains that there is plenty of flexibility, freedom and autonomy available at various levels in the government hierarchy. As a consequence, the budget proposals have to be invited with a time deadline from the top through a bottom-up process and have to be appropriately collated at different levels before sending it upwards to the central ministry or department. For those departments and ministries where there is a stream of revenues available in the form of fees, penalties, taxes, levies, etc., similar proposals on the revenue side are also made with suggested revisions or modifications if any.

This whole process takes considerable time, but it is absolutely inevitable in a decentralized democratic system. At different layers and levels, the government organization can involve people's effective participation in the preparation of the budget. However, as of now, people's participation in the making of the annual budget in the country is confined to only a very aggregative level if at all. It is also largely in terms of seeking advice, suggestions and specific inputs from selected few individuals from different walks of life and representatives of various unions, organizations, corporations, associations and sectors. Although, our budget making process allows the possibility of effective participation of community and stakeholders right from the grass-roots, it is not actually materializing for want of clear instructions and adequate time availability at the lower levels because of casually delayed communications from the above levels.

When all these proposals from below are collected, collated and classified appropriately at the aggregate levels in the Ministry of Finance, it also carries out a simultaneous exercise independently for overall consistency in the budget arithmetic. At this stage, the budget formulation has to recognize several constraints on both expenditure and revenue sides. Similarly, it has to consider the constraints imposed by the Fiscal Responsibility and Budget Management (FRBM) Act in terms of magnitude of revenue deficit, primary deficit, fiscal deficit and overall public debt.

On the revenue side, the constraints to be considered are in terms of the plausible assumptions on the basis of which various tax and non-tax receipts are to be estimated. These assumptions are invariably in terms of the macroeconomic environment likely to prevail in and for the economy resulting in precise estimates of macro aggregates like real income or output produced by sectors, imports, exports and changes in the price levels, exchange rate, corporate profits, and volume of transactions and so on.

Ultimately, all these calculations depend directly on two fundamental assumptions about the growth of real income (Gross Domestic Product at constant prices) and inflation rate likely to prevail during the coming year. These are then the assumptions behind the budget or basically the targets underlying the budget formulation. Any deviation from these two targets would render budget calculations about revenue receipt and FRBM targets irrelevant and question the competence of the budget making exercise. Mid-term reviews are, therefore, frequently carried out particularly when some powerful exogenous shocks strike necessitating revisions in the underlying assumptions and targets of the budget.

Ultimately, all these calculations depend directly on two fundamental assumptions about the growth of real income (Gross Domestic Product at constant prices) and inflation rate likely to prevail during the coming year. These are then the assumptions behind the budget or basically the targets underlying the budget formulation. Any deviation from these two targets would render budget calculations about revenue receipt and FRBM targets irrelevant and question the competence of the budget making exercise. Mid-term reviews are, therefore, frequently carried out particularly when some powerful exogenous shocks strike necessitating revisions in the underlying assumptions and targets of the budget.

On the expenditure side, the constraints at the aggregate level are in terms of the committed expenditures. These would typically include interest payments on the cumulative public debt incurred over the past years. Similarly, pension liability of the central government also needs to be met. Salaries to the existing government staff also present a committed expenditure item unless the government plans to reduce its employment during the ensuing year. Several laws have been enacted recently with huge commitments of public expenditures in the form of subsidies, e.g. the Food Security Act, Right to Education Act, etc. Moreover, there are other subsidies committed by government to people. Although these and the defence expenditures are strictly not committed expenditures in any economy, it is politically and practically a very sensitive matter and can be considered quasi-committed expenditures by the government. All of the above committed expenditures have to be provided and the flexibility of governments to cut or reallocate these expenditures is almost non-existent.

In this context, it may be noted that the magnitudes of such committed expenditures in the GDP in the year 2013-14 were of the order of 3.3 per cent for interest payments; 2.3 per cent for salaries & pensions; 2.2 per cent for major subsidies and 1.1 per cent for defense expenditures. Altogether, they accounted for 8.9 per cent of GDP. Coincidentally, the total revenue receipts of the union government in the year 2013-14 were also 8.9 per cent of GDP! Thus, all of the revenue receipts of the union budget in 2013-14 were exhausted by the committed expenditures. Any fresh capacity creating expenditures or new projects and schemes have to be met out of non-debt creating capital receipts like disinvestment proceeds and fresh public borrowing increasing the debt of the government.

The final step in the process of formulating the union budget is taken at the highest levels in the Ministry of Finance by reconciling all proposals for expenditures and revenues received from various ministries and departments with the overall macroeconomic constraints discussed above. Whatever freedom and flexibility yet existing in the formulation of the budget is essentially exploited by regrouping and recasting schemes, projects and plans to suit the specific objectives behind the budget for the year.

After the FRBM act, the union government is required to prepare the budget for a given year in the context of the broad fiscal parameters forecasted for the next three years. The Ministry of Finance prepares a clear fiscal consolidation plan for the medium term with an explicitly announced fiscal strategy paper spelling out specific targets and assumptions about several relevant fiscal and macro aggregates over years. All these documents form an integral part of the union budget documents and are available for public debate and scrutiny.

Role of Economic Survey

In the whole process of formulation of the union budget, there is a simultaneous independent study carried out by a professional economist wing headed by the Chief Economic Adviser within the Ministry of Finance and supported by the Central Statistical Office. They carry out a critical appraisal of the performance of the Indian economy during the past and particularly during the last year. It is a study of the SWOT – strength, weakness, opportunity and threats faced by the Indian economy and hence the future course of action required to achieve better performance and use the available resources most optimally. It spells out clearly the current problems faced by the economy that can be addressed by the present budget. Thus, a budget should ideally be evaluated within the framework of the Economic Survey.

It provides a specific roadmap for policy changes and proposed initiatives the government can follow. It covers all aspects and sectors in which the central government can be interested with a specific focus on the fiscal policy. In short, the Economic Survey provides a reasonably clear roadmap for the changes in fiscal policy of the central government over the medium to long run.

In a democratic federal nation like India, where the Reserve Bank of India is reasonably autonomous, political considerations often overrule the prudence in fiscal matters. There is, therefore, a felt need to follow certain stringent fiscal rules to discipline governments to ensure adherence to well accepted norms of fiscal prudence. FRBM act is an effort towards this end.

In case, the Finance Minister deviates from the path or specific recommendation about fiscal policy given in the Economic Survey, barring a few exceptions, he makes it a point to explicitly mention it and provide detailed justification for why he has chosen to deviate temporarily. This has been the trend specifically after 1991 reforms in the country. It raises the status of the Economic Survey as a credible document providing expected fiscal policy path the government is likely to follow. It helps in reducing unnecessary speculations about future fiscal policy changes and creates an environment of reduced uncertainty for long term domestic and foreign investors.

Agenda for Reforms

By and large, it is agreed among economists that the fiscal policy should address long term goals and permanent disturbances in macroecosscal matters. There is, therefore, a felt need to follow certain stringent fiscal rules to discipline governments to ensure adherence to well accepted norms of fiscal prudence. FRBM act is an effort towards this end. However, the rules prescribed therein like zero revenue deficit or fiscal deficit not exceeding 3 per cent of GDP are not sufficient to ensure logical changes in fiscal policies under sharp cyclical fluctuations in the economy. Counter-cyclical fiscal policy rules need to be first agreed upon and then formalized in the budget making processes.

Another important reform required is the establishment of a high powered committee consisting of economists and macroeconomic managers to be in charge of preparing fiscal policy for the country similar to the proposed Monetary Policy Committee. This will ensure professionalism, transparency and accountability in the whole process. Ultimately, the credibility of the whole budget making exercise among the investors and producers should increase and it should help them to perceive less risk and manage uncertainties.

Finally, the budget processes as described above can be effectively used for ensuring effective participation of people and community at various stages. This is consistent with the concept of decentralization of decision making in a multi-level budget formulation exercise. Since the country is fast moving towards greater fiscal autonomy and accountability of lower levels of governments from more centralized system, sharpening the existing processes to include people's participation is only logical. ❑

(E-mail: rdholkia@iimahd.ernet.in)

Union Budget 2015-16: Thrusts

- **Encouraging Entrepreneurship**

  - **MUDRA Bank:**

  ➢Micro Units Development Refinance Agency (MUDRA) Bank, created to encourage entrepreneurs to set up micro units. ➢The Bank will refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana ➢A corpus of Rs20,000 crore, and credit guarantee corpus of Rs 3,000 crore for the bank.➢Priority to SC/ST enterprises while lending.

  - **Atal Innovation Mission (AIM) to be established in NITI.**

  ➢An Innovation Promotion Platform involving academics, entrepreneurs, and researchers and draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India. ➢Will promote a network of world-class innovation hubs and Grand Challenges for India. ➢ Initially, a sum of Rs 150 crore will be earmarked for this purpose

  - **SETU**

  ➢SETU (Self-employment and Talent utilization) mechanism to be set up ➢A Techno-Financial, incubation and Facilitation programme to support all aspects of start-up businesses and other self-employment activities, particularly in technology-driven areas. ➢Initial funding of Rs 1000 crore in Niti Aayog for this purpose.

- **Social security schemes**

  The Budget has made provisions towards creating a universal social security system for all Indians, specially the poor and the underprivileged.

  ➢**Pradhan Mantri Suraksha Bima Yojna** to cover accidental death risk of Rs 2 lakh for a premium of just Rs 12 per year. ➢**Atal Pension Yojana,** will provide a defined pension, depending on the contribution, and its period. ➢Government contribution 50 per cent of the beneficiaries' premium limited to Rs1,000 each year, for five years, in the new accounts opened before 31st December, 2015. ➢**Pradhan Mantri Jeevan Jyoti Bima Yojana** to cover both natural and accidental death risk of Rs 2 lakhs. Premium of Rs 330 per year, or less than one rupee per day, for the age group 18-50. ➢Unclaimed deposits of about Rs3,000 crore in the PPF, and approximately Rs6,000 crore in the EPF corpus to go towards the creation of a **Senior Citizen Welfare Fund**. Will subsidize the premiums of vulnerable groups such as old age pensioners, BPL card-holders, small and marginal farmers and others. A detailed scheme would be issued in March. ➢A **new scheme for providing Physical Aids and Assisted Living Devices for senior citizens**, living below the poverty line announced. ➢An integrated education and livelihood scheme called '**Nai Manzil**' to be launched this year to enable Minority Youth who do not have a formal school-leaving certificate to obtain one and find better employment.

- **Infrastructure**

  ➢A **National Investment and Infrastructure Fund (NIIF),** proposed to be created with an annual flow of Rs 20,000 crore. This will enable the Trust to raise debt, and in turn, invest as equity, in infrastructure finance companies such as the IRFC and NHB. The infrastructure finance companies can then leverage this extra equity, many fold. ➢**Tax free infrastructure bonds** for the projects in the rail, road and irrigation sectors to be issued., ➢In order to revisit and revitalise the PPP mode of infrastructure development where the major issue involved is rebalancing of risk it has been decided that in infrastructure projects, the **sovereign will have to bear a major part of the risk** without, of course, absorbing it entirely.

- **Skill Development**

  ➢**National Skills Mission** launched through the Skill Development and Entrepreneurship Ministry. The Mission will consolidate skill initiatives spread across several Ministries and standardize procedures and outcomes across our 31 Sector Skill Councils. ➢**The Deen Dayal Upadhyay Gramin Kaushal Yojana** launched to cater to rural youth employment opportunities. Rs1,500 crore has been set apart for this scheme. Disbursement will be through a digital voucher directly into qualified student's bank account. With rural population still forming close to 70 per cent of India's population, enhancing the employability of rural youth is the key to unlocking India's demographic dividend. ➢With a view to enable all poor and middle class students to pursue higher education of their choice without any constraint of funds, a fully **IT based Student Financial Aid Authority** to administer and monitor Scholarship as well Educational Loan Schemes, through the **Pradhan MantriVidya Lakshmi Karyakram** is proposed to be set up. This is ensure that no student misses out on higher education for lack of funds.

- **Monetising Gold**

  ➢India is one of the largest consumers of gold in the world and imports as much as 800- 1000 tonnes of gold each year. Though stocks of gold in India are estimated to be over 20,000 tonnes, mostly this gold is neither traded, nor monetized. The Budget proposes to: ➢Introduce a **Gold Monetisation Scheme**, which will replace both the present Gold Deposit and Gold metal Loan Schemes. The new scheme will allow the depositors of gold to earn interest in their metal accounts and the jewelers to obtain loans in their metal account. Banks/other dealers would also be able to monetize this gold. ➢Develop an alternate financial asset, a **Sovereign Gold Bond**, as an alternative to purchasing metal gold. The Bonds will carry a fixed rate of interest, and also be redeemable in cash in terms of the face value of the gold, at the time of redemption by the holder of the Bond. ➢Commence work on developing an **Indian Gold Coin**, which will carry the Ashok Chakra on its face. Such an Indian Gold Coin would help reduce the demand for coins minted outside India and also help to recycle the gold available in the country.

- **Measures to curb/unearth Black Money**

  ➢**New Comprehensive Law on Black Money** to be proposed: ➢Evasion of tax in relation to foreign assets to have a punishment of **rigorous imprisonment upto 10 years**, be non compoundable, have a **penalty of 300 per cent** and the offender will not be permitted to approach the Settlement Commission. ➢Non filing of return/filing of return with inadequate disclosures to have a punishment of rigorous imprisonment upto 7 years. ➢Undisclosed income from any foreign assets to be taxable at the maximum marginal rate.➢ Mandatory filing of return in respect of foreign asset. ➢A new structure which **includes electronic filing of statements** by reporting entities is being put in place. This will ensure seamless integration of data and more effective enforcement.

  ➢A new and more comprehensive Benami Transactions (Prohibition) Bill to be introduced to curb domestic black money. This law will enable confiscation of benami property and provide for prosecution, thus blocking a major avenue for generation and holding of black money in the form of benami property, especially in real estate. ➢Proposal to amend the Income-tax Act to prohibit acceptance or payment of an advance of Rs20,000 or more in cash for purchase of immovable property. ➢Quoting of PAN is being made mandatory for any purchase or sale exceeding the value of Rs1 lakh. The third party reporting entities would be required to furnish information about foreign currency sales and cross border transactions. Provision is also being made to tackle splitting of reportable transactions. To improve enforcement, CBDT and CBEC will leverage technology and have access to information in each other's database.

- **Swachh Bharat**

  The Central Government will impose a **Swachh Bharat Cess** on all or certain taxable services at a rate of 2 per cent from a date to be notified. The proceeds from this Cess would be utilized for Swachh Bharat initiatives. In a related development, the Scheduled rate of Clean Energy Cess levied on coal lignite and peat is being increased form Rs. 100 per tonne to Rs. 300 per tonne. The effective rate of Clean Energy Cess is being increased from Rs. 100 per tonne to Rs. 200 per tonne. Similarly, Excise duty on sacks and bags of polymers of ethylene other than for industrial use is being increased from 12 per cent to 15 per cent.

- **JAM (Jan Dhan Yojana, Aadhaar and Mobile) TRINITY** to help in transferring benefits (like subsidies) in a leakage proof, cashless well targeted manner to the poor and vulnerable and enable them to achieve their economic aspirations.➢ As of December 2014, over 720 million citizens allocated an Aadhaar card. Enrolments expected to exceed 1 billion by December 2015. ➢ Linking the Aadhaar number to an active bank account key to implementing income transfers. Over 100 million bank accounts with registered Aadhaar numbers by December 2014. ➢ Number of bank accounts expected to increase further through Jan Dhan Yojana. Cooking gas subsidies to be paid directly via Direct Benefit Transfer into the bank accounts of 9.75 crore recipients. ➢ Two alternative financial delivery mechanisms: • Mobile Money – With over 900 million cell phone users and close to 600 million unique users, mobile money offers a complementary mechanism of delivering direct benefits to a large proportion of the population. With several cell phone operators reportedly applying for a payment bank license, mobile money platforms offer tremendous opportunities to direct Aadhaar based transfers. • Post Offices – India has the largest Postal Network in the world with over 1,55,015 Post Offices of which (89.76 percent) are in the rural areas. The Post Office (either as payment transmitter or a regular Bank) can seamlessly fit into the Aadhaar linked benefits-transfer architecture by applying for an IFSC code which will allow post offices to start seeding Aadhaar linked accounts.


ACCESS PUBLISHING INDIA PVT. LTD.
www.accesspublishing.in
AFFORDABLE & UPDATED!
₹ 775/-
MAJID HUSAIN
D R KHULLAR
N D ARORA
ASHOK KUMAR SINGH
A R KHAN
DEEPASHREE
S MAITRA
S B HUSAIN
VIMAL RARH
DUSHYANT K SHARMA
K K SHARMA
G RAJESH
2015
GENERAL STUDIES
PAPER I
FOR CIVIL SERVICES PRELIMINARY EXAMINATION
Teaching Experience of Most Authors
20 to 40 YEARS
₹ 695/-
2015
CSAT
V SASIKUMAR
N D ARORA
PREM SAHAJPAL
SANJAY MONGA
SANJEEV JOON
R A SHARMA
GENERAL STUDIES
PAPER II
FOR CIVIL SERVICES PRELIMINARY EXAMINATION
OTHER POPULAR BOOKS
Price: ₹ 495/-
ETHICS, INTEGRITY AND APTITUDE
For Civil Services Examination
Price: ₹ 425/-
Environment & Ecology
for Civil Services Examination
MAJID HUSAIN
Price: ₹ 395/-
INDIAN ECONOMY
for the Civil Services Examination
S Maitra
Price: ₹ 245/-
Insights of a retired IAS officer
Writing Skills
for Civil Services Examination
G SUBBA RAO
Prelims Special
D R Khullar
INDIAN AND WORLD GEOGRAPHY
For Civil Services Preliminary Examination
PAPER I
Prelims Special
N D Arora
INDIAN POLITY, GOVERNANCE AND NATIONAL MOVEMENT
For Civil Services Preliminary Examination
PAPER I
Prelims Special
READING COMPREHENSION
For Civil Services Preliminary Examination
PAPER II
CSAT
Prelims Special
LOGICAL REASONING, ANALYTICAL ABILITY AND GENERAL MENTAL ABILITY
For Civil Services Preliminary Examination
PAPER II
CSAT
Price
₹ 295/-
for each Book
Address: 14/6, Ground Floor (Backside), Shakti Nagar, Delhi - 110 007
Email: info@accesspublishing.in, Ph.: 011-23843715, Mob.: 9810312114

YE-332(2)/2014

Shifting Accountability? Reading the Budget from Women's Perspective

Neetha N

...the foregoing gendered reading of the Union Budget suggests that with reduced central allocations for gender sensitive programs, the roles of state governments become critical in advancing women's equality and development. In such a scenario, unless every individual state provides for services and measures benefiting women, the aim of attaining gender equity will continue to be a dream

THE BUDGET, 2015-16 was a much awaited one, not only because it is the first full budget of the present government, but also due to the rapidity at which strategic economic changes have been taken up. Any change in the overall development approach or its pace is bound to affect women more than men given the patriarchal power relations in families as well as social and economic spheres. In recent years, concerns and issues of women attracted unprecedented importance, especially in the context of growing violence against women. Accordingly, violence against women has taken a central stage in all the discussions, even significant enough to become a central concern expressed in the recent election manifestos of different political parties.

Violence against women is an outcome of the low status of women, which is evident from the various development indicators. Literacy rates, though have improved overtime, continue to remain low with almost one third of women still being illiterate. Sex ratio has been a matter of concern for many decades from now, with 2011 Census showing only 914 women against 1000 men. Another important and worrying trend has been the low and declining participation of women in employment. Work participation of women as per the latest NSS data (2011-12) is only around 22 per cent and has shown a consistent decline over the years especially in rural areas where it declined by about 8 percentage points. This biased gender development is reflected in the UN Gender Inequality Index where India has a value of 0.617 in 2011 putting the country at 129th position among the 149 countries globally.

It is in this background that one has to analyse the present budget and its implications for women. Gender sensitivity of budgets can be analysed at three levels. Social sector spending is critical for promoting gender equality though the allocations and spending under the head are not specifically meant for women. The second one is by looking at programmes/schemes and allocations for women specific programmes. Allocations under the gender budget statements of different ministries and departments (excluding those schemes/programmes which are exclusively for women) is yet another way of understanding the gendering of various schemes/programmes.

While doing any analysis of the present budget, one important fiscal change needs to be taken into account. This is the restructuring

The author is Senior Fellow at the Centre for Women's Development Studies (CWDS), New Delhi. Earlier she was Associate Fellow and Coordinator, Centre for Gender and Labour at the V.V. Giri National Labour Institute, NOIDA. Her current areas of research include social and economic dimensions of women's employment; women's paid and unpaid work relationships; female migration a paid domestic work. She has published extensively in national and international books and journals.

of the Central Assistance to State-increased devolution- in line with the recommendation of the 14th Finance Commission. With the increased share of states (32 per cent to 42 per cent) in total tax revenue, the Central government has restructured its spending patterns also. Thus, some schemes have been discontinued; some have now a changed pattern of centre-state sharing while a few continue to remain under the centre. Added to this is the fact that there has been no aggregate increase in taxes because of which, the amount left with the central government to spend has declined keeping in tune with the objective of reduced fiscal deficit.

Social Sector Spending: The Backbone of Gender Equality

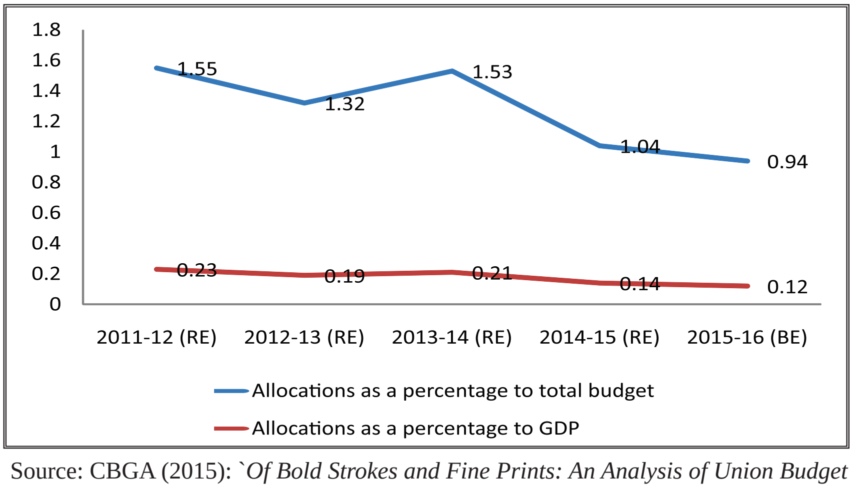
Social sector expenditures are critical for social and economic equality and are important for all sections of the population. However, it is more critical for the disadvantaged sections especially for women across all classes as it directly impacts their work burden and time allocations. Women are known to have more concentration in the informal sector which lack basic social security measures. Hence unless state invests more on education, health, housing and sanitation, the standard of living of many households are bound to become lower and lower which would adversely affect women's status given the unequal gendered power relations in families. Further, some of these provisioning have direct bearing on women's unpaid housework and care work. Availability of clean drinking water reduces women's drudgery of collecting and carrying water. Similarly, provisioning of basic health facilities addresses care demands on women as care givers. It has also been acknowledged that the lack of proper and safe sanitation facilities is one of the major reasons for increase in the drop-out rate of girl children from schools. Poor allocations and reduction in social sector has been an issue which has been in public debate since many years with social sector expenditures showing fluctuations over years. Share of social sector expenditure in total GDP, as per the data compiled by the Centre for Governance and Budget Accountability (CGBA), has declined from 3.40 per cent to 2.57per cent which includes food subsidy. In the changed fiscal context, where the states assumingly could contribute more to social sector spending, the implications of the cut need to be carefully analysed.

If one looks at the pattern of central government funding for specific schemes, the centre's commitment is largely for capital expenditures and not for recurring costs. With many schemes already on run, the capital expenditures of these schemes are bound to be less and less over the years which would mean that the financial burden of implementing the programmes will eventually fall on the state governments. The issue is not with regard to states taking the responsibility of these schemes but how this will affect the overall expenditure and its pattern. If one looks at the implementation of existing social sector programmes, there are wide variations across states which is reflective of the states' commitment and interest in such programmes. Since the funding for the states are going to be more and more untied and hence flexible, given the lack of political will on women's issues, states' could allocate less and less resources at an overall level as well as change the pattern of its allocation. Any reduction or change in the pattern of allocation is bound to have gender implications as within social sector, heads like health, drinking water and sanitation are hugely gender sensitive investments. Added to this, the increased freight charges and diesel prices are surely to push prices of basic commodities and thereby women's unpaid work burden is bound to go up. Women's drudgery will help members of the family survive but her nutritional requirement is bound to be neglected and challenged.

Exclusive Schemes for Women: Welfare with Protection

Schemes exclusively for women are meant to address some of the specific concerns of women and are important to ensure women's equality, despite it being framed within a patriarchal understanding of women's position. The Gender Budget Statement (GBS) which is a part of the expenditure budget, provides data on women specific programmes as well as programmes where 30 per cent or more allocations are put aside for women. About Rs. 17 crores are allocated in the budget for exclusive women schemes/programmes in 2015-16. However, there is a decline in allocation over the years not only in absolute terms but also in terms of

Figure 1: Allocations for Women Exclusive Programs/Schemes



Source: CBGA (2015): *`Of Bold Strokes and Fine Prints: An Analysis of Union Budget 2015-16'*, Centre for Budget and Governance Accountability, New Delhi proportion to total budget as well as that of GDP (Figure 1).

In the context of an overall decline in allocations for exclusive women programmes, there have been substantial changes in the allocations of the Ministry of Women and Child Development, which is the nodal ministry for women's development and welfare. A comparison across last two budgets shows that the allocations for many programmes have remained poor and to make matters, worse, have declined. Four schemes/programmes have no allocations in the present budget as is evident from the table below. Two schemes, assistance for shelter homes for vulnerable women and assistance to states for the implementation of Domestic Violence Act (2005) have larger gender implications. As per Census 2011 data, the proportions of women who are widowed or deserted are increasing which would mean than more women are likely to require shelter homes. It is true that the allocation for the implementation of the domestic violence act in the previous years remained largely unspent which could be a reason for its removal this time alongside the expectation that states would now be able to allocate resources if required from their enhanced share in national tax revenue. However, the fact that the allotted funds were not spent in the previous years is sufficient enough to judge the priority that the issue got at the state level. Thus, leaving a greater role to the state governments on this critical area is indeed a matter of worry.

Maximum decline in allocation has been for the Rajiv Gandhi Scheme for Empowerment of Adolescent girls (SABLA). The scheme which addresses the nutritional and other health concerns of adolescent girls shows a steep cut. The central allocation has been reduced to Rs. 10 crores and as per the budget documents, funding to the states is to be now through Nirbhaya Fund. With no clear cut allocations for the states, what will happen to this decisive scheme is a matter of concern. Though violence against women is stated as a central concern officially, one sees a drastic decline in the allocation for 'one stop crisis centres' which are meant to support women in situations of violence. Though in the details of the budget document, it is stated that such centres would be opened in cities with a population of more than 2.5 million no details of source of funding is given. Further, these centres are part of an emergency response system which could be used only after any violence. There has to be a greater emphasis on schemes that provide institutional support such as shelter homes which do not find any mention in the budget at all.

Table 1: Allocations for Women Exclusive Programmes of the Ministry of Women and Child Development

Programmes/schemes	2014-15 (BE)	2015-16 (BE)	Difference in allocation
Hostels for Working Women	25	30	5
STEP	20	30	10
CSWB	80.91	73.57	-7.34
Rashtirya Mahila Kosh	20	0	-20
One Stop Crisis centre	20	2	-18
Swadar	115	50	-65
Restorative justice to rape Victims	30.00	0	-30
NCW	19.5	25.15	5.65
Gender Budgeting	1.00	2.00	1
Conditional Cash transfer for girl child with insurance cover (Dhanalakshmi)	5.00	0	-5
Comprehensive Scheme for Combating trafficking (Ujjwala)	16.00	20.00	4
Priyadarshini Scheme	15.00	5.00	-10
Rajiv Gandhi Scheme for Empowerment of Adolescent girls (SABLA)	700	10	-690
Assistance for construction of shelter homes for single women/destitute and widows	20.00	0	-20
Assistance to states for implementation of Protection of women from Domestic Violence Act	50.00	0	-50
Women's helpline	10.00	1.00	-9
Indira Gandhi Matrritva Sahyog yojana (IGMSY)	400.00	438.00	38
NMEW	90	25	-65

Source: Union Budget 2015-16, Expenditure Budget, Volume 1, Part A of Gender Budget Statement

Apart from the above schemes/ programmes, two schemes which are of particular relevance for women's equality under the MWCD are the Rajiv Gandhi National Creche Scheme and Beti Bachao Beti Padhao Campaign. The allocation for Rajiv Gandhi National Creche Scheme which provides crèche facilities for economically weaker sections has increased from Rs. 62.50 in 2014-15 to Rs.102.97 crores. This is a welcome change as child care like any other care work is highly gendered and is increasingly being cited as an issue contributing to the poor work participation rates of women. For the poor women, who may not have a choice as far as paid employment is concerned this additional allocation, though meagre, hopefully will aid in making better choices. Further, allocating higher amount for such programmes would definitely help in advancing the dialogue on unpaid care work and importance of state provisioning. Beti Bachao Beti Padhao Campaign which was introduced in the last year, primarily meant to address the issue of skewed sex ratio is another programme that merits attention in the

Table 2: Allocation for women exclusive programmes by Ministries

Ministry/Department	2014-15 (BE)	2015-16 (BE)	Difference in allocation
Agricultural Education and Research	14.95	44.23	29.28
Ministry of Finance-Nirbhaya Fund	1000	1000	0
Health & Family Welfare	3788.44	3852.11	63.67
Rural Development - Indira Awas Yojana (Rural Housing)	16000	10025	-5975
Other Ministries except MWCD	533.06	1124.62	591.56
Total of all women exclusive allocation except that of MWCD	21321.5	16001.73	-5319.77

Source: Union Budget 2015-16, Expenditure Budget, Volume 1, Part A of Gender Budget Statement

context of a slew of cuts on women's programmes. The programme is not part of the MWCD but the Education Ministry and had an allocation of Rs.100 crores as in the earlier year.

Not only has there been a decline in the allocations of MWCD, but allocations for women specific programmes for rural development also show a decline on account of the reduced allocation for rural housing, the rationale for which is puzzling in the context of a gendered and unequal distribution of property rights. Nirbhaya Fund for safety of Women which was initiated in 2013-14 with an allocation of Rs.1000 crore continued to get same allocations during the subsequent budgets as well. The fund which has now an accumulated amount of about Rs. 3000 crores including the current allocation has no clear plans for its utilization except some broad statements. Thus, how the fund would be utilised is still uncertain except for two programmes. The first one, announced in the Railway Budget is to install surveillance cameras on a pilot basis in select coaches and ladies' compartments. The second aimed at Women's Safety on Public Road Transport, has a budget expenditure of Rs.653 crores.

If one looks at the issue of violence against women, all the substantial interventions and allocations are geared to greater IT led surveillance. International studies have shown that there is no evidence that CCTVs or the fear of being watched has reduced crime and on the other hand it could lead to greater controls over women, restricting their freedoms. What is required is to push public provisioning of essential services as women are always the ones who depend more on public provisioning, which is not given adequate attention in this budget.

Part of the Full: Nowhere Half, Yet Cuts

Apart from women exclusive schemes/programmes, GBS also reports schemes for which at least 30 per cent or more are women beneficiaries. Here again, there are reduction in allocations in many ministries/department such that, of the 13 significant allocations from the perspective of women's equality, only 5 show an increased outlay. The most significant increase in the gender outlay is with regard to Department of Agriculture and Cooperation which is a much awaited change. The role of women in agriculture as farmers seems to have finally been recognised at least in the budget document which is a significant development.

Apart from this, however, the allocations do not offer any more reasons to rejoice. One is puzzled by the decline in the allocation for women and child development, largely due to the decline in the allocation for the Integrated Child Development Scheme (ICDS). ICDS budget have been halved from Rs.16000 crores to Rs.8000 crores which has a direct implication in terms of nutritional and health conditions of pregnant women. Apart from this, reduced budgetary support for the programme implies that a mass of 'honorarium' workers employed in the programme will not see an improvement in wages or other conditions of work. This is in contrast to the present government's election manifesto promising improvement in the conditions of anganwadi workers and helpers who are the pillars of this

Table 3: Allocation for Programmes with 30 per cent or more women beneficiaries by Ministries/Departments

Ministries/Departments	2014-15 (BE)	2015-16 (BE)	Difference in allocation
Agriculture & cooperation	750	3539.06	2789.06
Health & Family Welfare	11824.01	9977.82	-1846.19
School Education and Literacy	16208.16	12472.07	-3736.09
Higher education	7621.57	7446.34	-175.23
Labour and Employment	175	250	75
Micro, Small and Medium Enterprises	515.09	412.37	-102.72
Minority Affairs	2151.5	2262.68	111.18
Panchayati Raj	6906	0	-6906
Rural Development	13332	12817.68	-514.32
Social Justice & Empowerment	1821.02	1997.08	176.06
Tribal Affairs	1361.6	1487.2	125.6
Women and Child Development	11300.54	8072.36	-3228.18
Youth Affairs and Sports	99.49	99.37	-0.12
Other Ministries/depts	1848.55	1510.94	-337.61
Total	75914.53	62344.97	-13569.6

Source: Union Budget 2015-16, Expenditure Budget, Volume 1, Part B of Gender Budget Statement programme. Since the union government increasingly will be committed in meeting the capital cost of the programme which is reflected in the reduction, the onus of ensuring better pay and conditions of work falls on the state governments. Many state governments such as Tamil Nadu and Kerala are already paying higher rates than the central allocation and may continue to do so. But what about states for whom these issues are of no priority, is an issue that needs attention.

Another cut in the allocation that is troubling, from a women's angle, is that of the Ministry of Health which shows a decline of about Rs. 1850 crores. All the indicators of women's health are matters of concern which is revealed in the proportions of women who are anaemic such that more than 75 per cent women are anaemic in rural India. A related important commitment which has gender implication, given that a large section of women are in the informal sector, is the provision for universal social security, which includes contributory pension, accident and life insurance schemes, for which Rs. 1200 crores have been allocated. There are no details or time lines given and the allocation is too less and cannot cover even 3 per cent of the working population. Given the poor share of women in the recognised segment of the workforce, only a small section of women are going to benefit directly from the scheme. Apart from this, the contributory component envisaged in the scheme would be a barrier for women, for known reasons, to avail the benefits. The full gender impact of the health insurance schemes and other schemes including the Atal Pension Yojana cannot be assessed unless more details are available on the actual implementation of the programme. One significant programme from a gender perspective is MGNREGA as women constitute a large proportion of its beneficiaries. Contrary to the fears of a possible reduction, allocations for MGNREGA have remained stable at Rs. 34,000 crores. The continuation of the programme is surely to benefit many poor women and could arrest the declining work participation of women in rural areas. Allocations in infrastructure development, which would boost construction industry, is the only other hope as far as other employment opportunities for poor women are concerned. Here again, given the poor share of women in large organised construction industry, there is not much to expect.

Conclusion

To conclude, the foregoing gendered reading of the Union Budget suggests that with reduced central allocations for gender sensitive programs, the roles of state governments become critical in advancing women's equality and development. In such a scenario, unless every individual state provides for services and measures benefiting women, the aim of attaining gender equity will continue to be a dream. Given the fact that women are yet to become an important political constituent and that their issues have not occupied a central stage in political mobilisation, not many progressive changes can be expected from the states though wide variations could be visualised across states. ❑

(E-mail:neethapillai@gmail.com)

Union Budget 2015-16: Education Resources & Provisions

Ashish Joshi

The budget indicates a shift in focus from school to higher education. But just the increase in allocation in budget will not address the problems facing Indian education especially higher education .It has to be matched with educational reforms

THE GOVERNMENT has proposed to set aside Rs. 69,074.76 crore for the education sector, out of which, there was an increase in the Higher Education Budget from Rs. 23,700 crore in 2014-15 to Rs. 26,855.26 crore in 2015-16, indicating a shift in focus from school to higher education in the national budget presented in Parliament.

An integrated education and livelihood scheme called 'Nai Manzil' will be launched this year for which Rs. 3,738 crore have been allocated.

While the spending on School Education & Literacy has been marginally reduced to Rs. 42,219.5 crore, the Government is stressing on Skill Development with an allocation of Rs. 1,543.46 crore to the newly formed Ministry of Skill Development and Entrepreneurship. Additionally, the total spending for Ministry of Labour & Employment has been proposed for Rs. 5,315.22 crore in 2015-16.

The additional highlights of Budget 2015-16 for Education, Employment and Skill Development include the following:

- Ensure a Senior Secondary School within 5 km reach of every child, while improving quality of education and learning outcomes.
- A student Financial Aid Authority, to administer, monitor and front-end all scholarship as well Educational Loan Schemes, through Pradhan Mantri Vidya Lakshmi Karyakram.
- A post graduate institute of Horticulture Research & Education is to be set up in Amritsar.
- Three new National Institute of Pharmaceuticals Education and Research in Maharashtra, Rajasthan & Chattisgarh and two Institute of Science and Education Research is to be set up in Nagaland & Orissa.
- Girl Child Education: A drive for constructing toilets in the remaining elementary schools was stated and Beti Bachao-Beti Padhao campaign was launched;
- Creation of Employment for the Youth: Launched the 'Make in India' campaign and combined it with a detailed process and policy re-engineering to make India a Global Manufacturing Hub for creation of job opportunities for millions of youth;
- To make India the manufacturing hub of the World through Skill India and the Make in India Programmes.
- Less than 5 per cent of our potential work force gets formal skill training to be employable. A National Skill Mission to consolidate skill

The author belongs to Indian Civil Services and presently with Delhi Govt. as Member- Secretary, Delhi Dialogue Commission and Member (Finance), Delhi Urban Shelter Improvement Board (DUSIB). He has experience of formulating and implementing public policies related to social sector.

initiatives spread accross several ministries will be launched.

- An IIT to be set up in Karnataka and Indian School of Mines, Dhanbad to be upgraded in to a full-fledged IIT.
- Five new All India Institute of Medical Science (AIIMS) to be set up in J&K, Punjab, Tamil Nadu, Himachal Pradesh and Assam. Another AIIMS like institution to be set up in Bihar.
- Government to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of Rs. 20,000 crore, and credit guarantee corpus of Rs. 3,000 crore, which will greatly increase the confidence of young, educated or skilled workers.
- Rs. 1,500 crore has been set apart for 'Deen Dayal Upadhyay Gramin Kaushal Yojana' scheme, which will enhance the employability of rural youth.
- SETU (Self-Employment and Talent Utilization) to be established as Techno-financial, incubation and facilitation programme to support all aspects of start-up business. Rs.1000 crore to be set aside as initial amount in NITI.
- An initial allocation of Rs. 34,699 crore to be made for supporting employment through MGNREGA.

Allocations to the school sector was cut by around 10 per cent in its planned outlay from Rs.43,517.9crore in the last budget to Rs.39,038.5 crore in the year that begins on 1 April. In comparison, higher education has been given a plan allocation of Rs.15,8555.26 crore in 2015-16, as against Rs.13,000 crore pegged in the revised budget for 2014-15. In other words, the higher education sector saw an increase of nearly 22 per cent. It is apparent that the central government wants to focus more on higher education and target more than 2 crore near-productive population in higher educational institutes.

Keeping the government's focus on higher education, more institutes of excellence have been announced — including two Indian Institutes of Management (IIMs) and two Indian Institutes of Technology (IITs). While one IIT will come up in Karnataka, the second one will be created by upgrading the Indian School of Mines (ISM), Dhanbad to an IIT. ISM has been admitting students along with the IITs through the prestigious joint entrance exam system. The school has been demanding an IIT status more so after Institute of Technology at Benaras Hindu University (BHU) was upgraded to an IIT a few years back. ISM upgradation will have two benefits— Jharkhand will get an IIT, and second instead of developing an IIT from scratch, this upgradation will need less resources both in terms of finance and human capital. The two proposed IIMs will come up in Jammu and Kashmir and Andhra Pradesh. The announcement for an IIM in Andhra Pradesh is not new as the government had promised to provide it an IIM, after the division of the state. The state government has already finalized land for its establishment. Once all of them are operational, India will have 20 IIMs and 23 IITs. On specific allocations, IITs have been allocated a planned outlay of Rs.1,835crore, less than the Rs.2,320 crore outlay in the previous budget estimate. Separately, the government has allocated Rs.1,000crore more to set up new IITs and new IIMs. Some of them will start operations this year. Besides, the government intends to address education sector concerns and bring about better education loan facilities for higher education. The objective is to ensure that no student misses out on higher education due to lack of funds.

Central government may be thinking of asking states to focus on elementary education as this section of the school system has achieved near universal enrolment and does not have accessibility problems. The budget also outlined government plans to establish a senior secondary school within 5km reach of every child. But the government has to focus on quality enhancement. Return on investment is key for any sector. Question is that, after years of heavy allocation for school sector, the quality has not improved and this aspect needs attention. The Economic Survey too had highlighted the issue of quality in elementary schools and need for improvements.

However, budget missed the opportunity to promote private investment in higher education. Government should have focused more on school sector and allowed more private play in higher education. In that count, its a missed opportunity. In the school education sector, the government has allocated Rs.27,575 crore, same as last year, to the Prarambhik Shiksha Kosh that funds several schemes including Sarva Shiksha Abhiyan and mid-day meal scheme. The Mid-day Meal Scheme suffered a drastic fund cut from Rs.1,296.5 crore last year to Rs.132 crore this year. This could be because the states may be asked to spend a greater portion from their own corpus that they will receive due to tax devolution as envisaged in the 14th Finance Commission Report.

No one really expected the Government to change course drastically when it came to the agenda on education, skill development, or that of generating employment. The highlight in Union Budget 2015-16 is also not in how much money has been allocated, but really in how the system will work to deliver.

For instance, launching a National Skills Mission through the Skill Development and Entrepreneurship Ministry was something industry was expecting.

However, the fact that it is intended to consolidate skill initiatives that are spread across several ministries and standardize procedures and outcomes for the 31 Sector Skill Councils, is indeed welcome. This is because the skill development providers have had to deal with the problem of having to deal with varying requirements of different ministries for at least five years now. Also, there is an attempt to link and co-ordinate the Skill Mission with Make in India.

There is now also a creditable attempt to cut leakage by introducing digital vouchers for qualified students to benefit from the Deen Dayal Upadhyay Gramin Kaushal Yojana where Rs 1,500 crore have been earmarked for assistance. This is basically a revamped version of Aajeevika Skills that was launched by the previous regime as a sub-mission under the National Rural Livelihood Mission. It seeks to train 10 lakh rural youth, above the age of 15 years, by 2017. This attempt at ushering transparency is also visible in the decision to set up an IT-based Student Financial Aid Authority to administer and monitor scholarships as well as educational loan schemes, through the Pradhan Mantri Vidya Lakshmi Karyakram for needy students wanting to pursue higher education.

There is acknowledgement of the fact that skill providers are not always able to connect trained youth to jobs and that they need to willy-nilly become entrepreneurs. Hence, the proposal to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of Rs 20,000 crore, and a credit guarantee corpus of Rs 3,000 crore is seen as progressive. MUDRA Bank will, in turn, refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana.

Fiscal consolidation of 3 per cent of GDP in two years can only be realised only when skilled people get more job opportunities and self-employment opportunities. Proper market access to rural youth is equally important to enhance innovation and entrepreneurship.

Of course, there is the increased outlay on education sector to Rs 68,968 crore that includes mid-day meals and Rs 79,526 crore for rural development activities including MGNREGA. To ensure a senior secondary school within five km reach of each child, the Budget has announced an upgradation over 80,000 secondary schools and will add or upgrade 75,000 junior/middle, to the senior secondary level.

Eventually, all of education and skilling is about gaining employment. So it is not how much has the Finance Minister allocated, but in his apparent recognition of 'how' the education, skill development will eventually lead to employment. The need is to execute and this has been addressed in a different way. Public spending on education would need to be raised to 6 per cent of GDP. Presently, it is around 3.2 per cent-3.5 per cent. If budget allocation for education is around 6 per cent, it can truly revolutionise this sector. By doubling the amount of funds, it can vastly improve access to the “last man in the line” and also the quality of education.

There is a huge shortage of teachers across all the sectors. It is understood that India requires a faculty totaling 1.16 million for all the Universities. As against this, India has a total faculty strength of 810,000, which means that there is presently a shortage of 350,000. In 2020, the shortage will rise to 1.38 million.

The budget indicates a shift in focus from school to higher education. But just the increase in allocation in budget will not address the problems facing Indian education especially higher education .It has to be matched with educational reforms.

But there is no sign of educational reforms taking place.

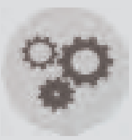
Our out-dated curricula glorify and promote exams-and-marks-oriented approach to teaching. Over emphasis on content has replaced teaching with coaching. Our curricula, with the emphasis on content and the neglect of higher-order thinking skills, do not help students become creative and critical thinkers. The fact that our education system has not produced many innovators indicates that most universities have this unwritten vision: Say no to thinking, creativity, research and innovation. Effective university-industry collaboration paves the way for innovation. Ties with world-class universities can open the gates of opportunities for students, scholars and academics to collaborate with the scholars of the foreign universities in various research projects. Most of our universities are neither ready nor willing to have such collaborations as they are required to be transparent and committed to quality.

The higher education has been adversely affected by commercialisation. Institutions of higher education have been established by non-educationists viz., politicians etc.

The policy makers need to understand that "Education is not the filling of a vessel but the kindling of a flame." – Socrates. ❑

(E-mail:ajoshi.delhishelter@gmail.com)

Encouraging Entrepreneurship



- Encouragement to entrepreneurs to set up micro units: refinance for Micro Finance Institutions from MUDRA Bank (with corpus of Rs. 20000 crores and with Rs. 3000 crores credit guarantee corpus) through Pradhan Mantri Mudra Yojana. Priority for lending to SC/STs.
- Atal Innovation Mission: To be established in NITI to provide innovation platform: Sum of Rs.150 cr. earmarked.
- Rs. 1000 cr. earmarked for Self Employment and Talent Utilization (SETU) Mechanism.
- Loans to Medium enterprises being brought under priority sector lending.
- Small Finance Banks will augment supply of credit to MSMEs.
- A separate 7.5 percent sub target is being created under priority sector lending: will increase finance for micro enterprises

CRITIQUE

Addressing Agricultural Issues: Now, a State Responsibility

Bhuwan Bhaskar

...the General Budget 2015-16 shows good intent to address basic issues of farmers and agriculture like irrigation, farm credit, soil health, rural infrastructure and better price realization for farmers. But the funds allocated for the schemes are far from sufficient and the Central government heavily depends on the complementary spending by states

WHEN THE Finance Minister rose to present the Union Budget for fiscal year 2015-16, he was certainly carrying a bagful of expectations not only of individuals, but of institutions, experts and economists as well. It was said to be an opportunity for the government to start a new era in the journey of Indian economy. Especially, after the Economic Survey 2014-15 projected the growth rate to be around 8.5 per cent with a possibility to move up to double digit, agriculture sector was hoping for a major boost. For, the present 1.1 per cent growth regime for agriculture (as per the Survey) seriously undermines the dream of achieving double digit growth rate of economy. However, as the budget proposals unravelled and fine print of different allocations came out, the agriculture sector, and with it the endeavor to develop rural India, has found itself stumbling.

To begin with, the FM has cut the central Budget support to agriculture by 14.3 per cent in 2015-16 over the 2014-15 revised estimates. Even from the Budget estimate level, the fund allocation this year is down by 10.4 per cent, from Rs.31,322 crore in 2014-15 to Rs.28,050 crore in 2015-16.A major portion of the agriculture ministry's annual allocation is spent on its flagship Rashtriya Krishi Vikas Yojana. But this time, the allocation for RKVY has been slashed by almost half to Rs 4,500 crore as against the 2014-15 revised estimate (RE) of Rs 8,444 crore. The National Food Security Mission, another major programme to boost the production of pulses, oilseeds, wheat and rice has been cut by Rs 530 crore in 2015-16 as against the revised estimate of 2014-15. The allocation is also Rs 630 crore less than the BE for 2014-15.

The only programme that witnessed considerable spurt in allocation was the Pradhan Mantri Krishi Sinchai Yojana, which got around Rs 1,800 crore in 2015-16 BE as against Rs 1000 crore the previous year. This plan couldn't take off in last fiscal year. Some other irrigation projects got another Rs 3,500 crore in 2015-16 BE thus taking the total allocation under the head of micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana in the present fiscal year to Rs 5,300 crore. But again, even this fund is less by Rs 323 crore as compared to last year's BE.

So, why did the Finance Minister present a Budget with double digit growth dreams where allocation to support an ailing agriculture is slashed down. In his own words: "I urge the states to chip in substantially in this vital sector." In fact, the Finance Minister has been repeatedly saying it on various platforms that after giving

The author writes on agriculture/rural development related issues and is currently associated with NASDAQ. He has been in financial journalism for last 10 years.

away around Rs.1,76,000 crore of central funds in favour of states as according to 14th Finance Commission proposals, he has been left with limited fiscal space.

Fair enough. The worrisome part is that there is no specific directive to states for chipping in the required fund to support the agriculture sector. Taking into consideration the dim record of states' spending on agriculture, the targets set by the Finance Minister seems high on good intent without a serious executable proposal. For example, the Budget increased the target for rural credit substantially but lowered the Center's share under irrigation and other centrally-sponsored schemes such as the Rashtriya Krishi Vikas Yojana (RKVY) and the National Food Security Mission (NFSM) by nearly Rs.5,500 crore, hoping that the states will chip in with increased tax devolutions.

"The formula of sharing between the states and the centre is not specified. Therefore, major programmes such as RKVY and NFSM, responsible for over 3.5 per cent growth in agriculture between 2004-05 and 2013-14, may take a hit. The budget cut back central spending in areas where states are anyway unwilling to spend", said Himanshu, Associate Professor, Jawaharlal Nehru University. This is the real threat to the government's plans to rejuvenate the agriculture sector. And merely citing the compulsion of fund crunch can't shield the government from the ramifications of agriculture sector woes. The farm sector grew by 4.1 per cent during the 11th Five-Year Plan period (2007-08 to 2011-12). But for last three years, it has been crawling between 1-2 per cent. Now even if the government achieves 8 per cent growth rate and the agriculture sector doesn't improve, the country can never achieve its social sectors targets. It may create a dangerous rift between rural and urban India as around 65 per cent of Indian population still depends on agriculture for livelihood.

On the rural credit front, the budget sets an ambitious target of disbursing Rs.8.5 trillion, which is Rs.50,000 crore more than previous year. "Farm credit underpins the efforts of our hardworking farmers and, I have, therefore, set up an ambitious target of Rs 8.5 lakh crore of credit during the year 2015-16. I am sure banks will surpass (this target)," the Finance Minister said while presenting the budget to Parliament. Here again, the implementation holds the key. As the food policy expert Devinder Sharma pointed out in an interview that 94 per cent of Rs 8.5 lakh crore farm credit at 4 per cent interest actually goes to the agri business industry. Of course, the Finance Minister has taken this

The farm sector grew by 4.1 per cent during the 11th Five-Year Plan period (2007-08 to 2011-12). But for last three years, it has been crawling between 1-2 per cent. Now even if the government achieves 8 per cent growth rate and the agriculture sector doesn't improve, the country can never achieve its social sector targets. It may create a dangerous rift between rural and urban India as around 65 per cent of Indian population still depends on agriculture for livelihood.

aspect into account and has further expanded the scope of rural credit with focus on small and marginal farmers with Rs1 lakh crore of allocation to National Bank for Agriculture and Rural Development (NABARD). With its focus on agriculture and rural development under various funds set up in NABARD, it has allocated Rs 25,000 crore to Rural Infrastructure Development Fund (RIDF); Rs 15000 crore to Long-Term Rural Credit Fund; Rs 45,000 crore to Short-Term Cooperative Rural Credit Refinance Fund and Rs 15,000 crore to Short-Term RRB Refinance Fund.

The allocation to RIDF has a clear mandate to support the agriculture sector through effective and hassle-free agriculture credit, with a special focus on small and marginal farmers. Rural connectivity will be the major beneficiary out of the continuation of Rs 25,000 crore under RIDF. Of the cumulative RIDF loan sanctioned by NABARD as of 31 March 2014, rural connectivity by way of roads and bridges accounted for 43 per cent. Agriculture & related sectors and social sector projects were sanctioned 43 per cent and 14 per cent, respectively. Andhra Pradesh (undivided), Tamil Nadu, Gujarat, Uttar Pradesh, Madhya Pradesh,West Bengal, Rajasthan are some of the major beneficiaries under RIDF. India Ratings & Research (Ind-Ra), a Fitch group Indian credit rating agency is of the view that the budgetary increase in long-term rural credit fund allocation to Rs 15,000 crore in FY16 from Rs 5,000 crore in FY15 bodes well for agro-based and allied industries, the companies engaged in agricultural infrastructure and the enterprises engaged in building warehouses. The cooperative banks and regional rural banks availing funds from NABARD at concessional rates for on-lending to these activities will have additional resources. This will improve agriculture production and productivity over the long term.

Besides, the government has also proposed Rs 300-crore fund infusion in 2015-16 for NABARD to augment its capital base. It may be counted as a step capable of underpinning some basic problems of Indian agriculture as pointed out by Mr. Harsh Kumar Bhanwala, the Chairman of NABARD. "Over the years, the level of capital formation within the agricultural GDP has slipped to 14 per cent from a high of 17 per cent, and such measures will help increase the share. This is a quantum jump and will also help protect agriculturists face any eventualities," Bhanwala said.

But the allocation of Rs 1500 crore towards generating employment for rural youth again seems to be insufficient. Soil health card is another pet project of the present government which is aimed at checking the imbalanced use of fertilizers and improve productivity. Last year it got Rs 156 cr and this year the allocation has been raised to Rs 200 cr. This program aims at providing soil health cards to all 145 million farm holders in three years. "Government will initiate a scheme to provide to every farmer a soil health card in a Mission mode. I propose to set aside a sum of Rs 100 crore for this purpose and an additional Rs 56 crores to set up 100 Mobile Soil Testing Laboratories across the country", the Finance Minister had said in his last budget and this year in the implementation report, the government said, "The Scheme 'Soil Health Card' will be rolled out shortly. Funds have been released to 12 States for setting up of 47 Mobile Soil Testing Laboratories." This simply means that the issuance of cards to farm holders has not been started yet.

"Agriculture needed much more of a boost in terms of research and investment than what the budget provided. There has been no significant hike in plan expenditures. The only silver lining is the increased allocation towards states (through the finance commission tax devolution from 32 per cent to 42 per cent). The states have to take charge of agriculture programs; but I doubt they will, given their massive arrears. Many cannot even pay salaries on time," said Ashok Gulati, Infosys Chair Professor of Agriculture at the Indian Council for Research on International Economic Relations, Delhi.

On the subsidy front, the Budget has made a provision of Rs 2,43,810.98 crore for 2015-16, which is below the revised estimates of Rs 2,66,691.84 crore for the current fiscal. But this reduction is entirely on account of petroleum subsidy, which is projected to fall by over Rs 30,000 crore thanks to lower global oil prices. Besides, decrease in customs duty on sulphuric acid from 7.5 per cent to 5.0 per cent will also play a role in easing out cost for some agricultural inputs. For food and fertilizer, the subsidy has been slightly increased. Increase in subsidy allocation to complex fertilizers is up by 9.0 per cent year on year whereby fertilizer subsidy has been increased by 3.0 per cent compared to last year. This has been a cause of slight worry as the experts were expecting some kind of subsidy rationalization. But the root cause of subsidies not being tweaked could be found in repeated assertions by the Finance Minister about the difficulties Indian agriculture and the agri community has been facing for sometime. Large part of farm land registered major deficiency in rainfall and that coupled with gradual fall in commodity prices have aggravated the misery of agrarian communities across the country. In such a scenario, the government is well aware that raising the income of farmers is something that can't be left on hopes of recovery in commodity cycle. To help farmers to fetch better farm income, the Finance Minister has reiterated the need to create a national agriculture market.

Large part of farm land registered major deficiency in rainfall and that coupled with gradual fall in commodity prices have aggravated the misery of agrarian communities across the country. In such a scenario, the government is well aware that raising the income of farmers is something that can't be left on hopes of recovery in commodity cycle. To help farmers to fetch better farm income, the finance minister has reiterated the need to create a national agriculture market.

"To increase the incomes of farmers, it is imperative that we create a National agricultural market, which will have the incidental benefit of moderating price rises. I intend this year to work with the States, in NITI, for the creation of a Unified National Agriculture Market", said the Finance Minister. This is a significant policy reform for agriculture sector and it will impact the development of agriculture market trade to a great extent. Apart from it, this will also impact the level of intermediation and facilitate price stability as well as better realisation for the farmers. However, the catch here lies in the statement made by FM itself. The central government has to work with states on it and there might be an infinite delay in sorting out different issues. Concept of national agriculture market was first mooted in the last budget and the action taken report published by the government in this regard says that 'States have reformed their APMC Acts in respect of permitting direct marketing, contract farming and setting up of private markets and nine of them have implemented Rules in this regard. States are being urged periodically to adopt reforms on the lines of the Model Act and beyond.'

Nevertheless, the government in the eighth chapter of Economic Survey for 2014-15 has listed an example from Karnataka saying, "In Karnataka, 51 of the 155 main market yards and 354 sub-yards have been integrated into a single licensing system. Rashtriya e-market Servies Ltd. (ReMS), a joint venture created by the State government and NCDEX Spot Exchange, offers automated auction and post auction facilities (weighting, invoicing, market fee collection, accounting), assaying facilities in the markets, facilitate warehouse-based sale of produce, facilitate commodity funding, price dissemination by leveraging technology. The wider geographical scope afforded by breaking up fragmented markets has enabled private sector investment in marketing infrastructure." We can only hope that the government gets desired support from other states so that this crucial reform could turn into reality.

Besides, the announcement to create up to four crore housing units in the rural sector before 2022 is also a big positive and will have a ripple effect on the rural economy. But there are some important sub-sectors which have been completely overlooked in the budget. The Finance Minister has rightly pressed for finding ways to augur the farm income for farmers, but has remained silent on food processing sector. With government's all out thrust on Make in India, this industry was hoping for some major reform announcement, especially as this sector has been identified as priority sector by the Centre under its 'Make in India' initiative. But all the sector got is an exemption from service tax to certain pre-cold storage services for fruits and vegetables. "The tax exemption is being extended to certain pre-cold storage services in relation to fruits and vegetables so as to incentivize value addition in this crucial sector," Finance Minister said in the Budget. The Budget document explained that exemption would be on services by way of pre-conditioning, pre-cooling, ripening, waxing, retail packing and labelling of fruits and vegetables. The government also clarified that service tax exemption to transportation of 'food stuff' by rail, vessels or road, will be limited to food grains including rice and pulses, flours, milk and salt. The document added that transportation of agricultural produce is separately exempted, which would be continued. The government wants to keep the prices of perishable goods in check and these exemptions can hardly put any surplus money in the farmers' kitty.

Another sector which felt grossly disappointed is Agro exports. India is well placed on this front and by giving adequate support, government could have killed two birds with one stone: brought in valuable foreign exchange and better prices for farmers. But the Budget is more or less silent on this sub-sector.

Crop insurance is another area where the Finance Minister chose to remain silent. Cold chain and warehouses form the most crucial part of agri infrastructure and amidst all the debate about allowing FDI in multi-brand retail, getting investment in these resources was a major logic. Cold chain and warehouses empower the farm producers with augmented holding capacity of their crop and subsequently place them on solid footing while bargaining for their produce. So it was an area where the Finance Minister was expected to roll out some concrete plan. But barring rural infrastructure talks under RIDF, no specific announcement has been made in the budget to address this issue.

In short, the General Budget 2015-16 shows good intent to address basic issues of farmers and agriculture like irrigation, farm credit, soil health, rural infrastructure and better price realization for farmers. But the funds allocated for the schemes are far from sufficient and the Central government heavily depends on the complementary spending by states. There is no specific need stipulated for states to spend on these schemes and this lacunae casts serious doubt on the success of these schemes. Important sectors like crop insurance, food processing, agro export and warehousing have also been left unaddressed which will disappoint the sector watchers. ❑

(E-mail: bhaskarbhuwan@gmail.com)

Budget 2015-16: Social Dimension

Manish Govil

...with the development of additional resources and autonomy to the States the concept of cooperative federalism and the vision of what the Prime Minister has called 'Team India', will play a significant role in delivering the social benefits of the budget

THE BUDGET for FY 2015-16, apart from the expenditure on defence and internal security provides extensively for expenditure on social and welfare requirements. The theme for social agenda seems to have been set much earlier through extensive campaign and coverage of flagship programmes of the Government viz. Jan Dhan Yojana for banking inclusion, Swachh Bharat for cleanliness and sanitation and Make in India for growth. All these programmes got prominently mentioned in the budget and have immense potential in improving the social and welfare quotient. The concern and intent for social and welfare measures is amply clear in the budget speech of FM when he mentions.

"In respect of social and economic indicators, for seven decades now, we have worked in terms of percentages, and numbers of beneficiaries covered. It is quite obvious that incremental change is not going to take us anywhere. We have to think in terms of a quantum jump."

It is further punctuated by the fact that increase in public investment over and above the RE is planned to be ₹1.25 lakh crore. The target of achieving 3 per cent deficit has been extended for next three years: 3.9 per cent for 2015-16; 3.5 per cent for 2016-17; and, 3.0 per cent for 2017-18, which will also require amendment in FRBM Act. Some of the significant budgetary measures undertaken across the spectrum of major segments in social portfolio are mentioned and analysed as below.

Agriculture and Farm Sector:

A majority of the population lives in rural areas which is dependent on agriculture and farm income. Two key issues addressed in the budget are soil and water. An ambitious Soil Health Card Scheme to improve soil fertility on a sustainable basis has been envisaged which will support **"Paramparagat Krishi Vikas Yojana"**. For water, **Pradhan Mantri Gram Sinchai Yojana** is aimed at irrigating the field of every farmer and improving water use efficiency to provide `Per Drop More Crop'. Budgetary allocation of ₹5,300 crore has been made to support micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana.

The following allocations have been made to facilitate finance to farmers : ₹ 25,000 crore in 2015-16 to the corpus of Rural Infrastructure Development Fund (RIDF) set up in NABARD; ₹15,000 crore for Long Term Rural Credit Fund; ₹45,000 crore

The author is a qualified Chartered Accountant providing management consultancy, audit and tax advisory services for over 15 years. Also providing consultancy for some key social, rural and infrastructure projects/schemes of U.P. Government and Government of India like Pradhan Mantri Gram Sadak Yojana, Public Distribution System and Lucknow Metro Rail.

for Short Term Cooperative Rural Credit Refinance Fund; and ₹15,000 crore for Short Term RRB Refinance Fund . It will help in providing hassle-free agriculture credit, particularly to small and marginal farmers. A target of providing ₹8.5 lakh crore of credit to the farmers through banks has been envisaged during 2015-16. The inclusion through Jhan Dhan Yojana will be helpful in this endeavour.

Initial allocation of ₹34,699 crore has been made for supporting employment through MGNREGA. State Governments will have an important role in successful implementation of the scheme particularly in improving the quality of activities and utilization through effective mechanisms like social audit, etc.

The creation of a Unified National Agriculture Market has been provided in collaboration with NITI to enable the farmer to get the best national price for his produce. It is an important initiative to enhance the incomes of farmers which are currently under stress. It will also have the incidental benefit of moderating price rise and release farmers from the clutches of the local traders.

Promoting Entrepreneurship support to Organized sector, marginal traders, etc.

Informal sector generates maximum employment. 62 per cent of about 5.77 crore small business units which run small manufacturing, trading or service businesses are owned by SC/ST/OBC. In Pradhan Mantri Mudra Yojana, lending priority has been given to SC/ST enterprises to create inclusive growth. It has been proposed to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of ₹ 20,000 crore, and credit guarantee corpus of ₹3,000 crore who will refinance Micro-Finance Institutions. This move will promote entrepreneurship and employment opportunities for skilled and semi-skilled workers.

Other important steps in this segment are establishing an electronic Trade Receivables Discounting System (TReDS) for improving the liquidity in the MSME sector significantly. The bankruptcy law reform, that brings about legal certainty and speed, has been identified as a key priority for improving the ease of doing business by bringing a comprehensive Bankruptcy Code in fiscal 2015-16.

The budget proposes to increase access of the people to the formal financial system by leveraging the vast postal network with nearly 1,54,000 points of presence across the villages. The Postal Department will have to obtain license of Payments Bank. This measure will make huge contribution to the Pradhan Mantri Jan Dhan Yojana and carries great social value.

These social security schemes, being sensitive to the needs of the poor, under-privileged and the disadvantaged, have the potential to utilize the Jan Dhan platform to ensure that no Indian citizen will have to worry about illness, accidents, or penury in old age. But the delivery mechanisms and the respective role of the State Governments will have to be harmonized and synergized for effective implementation of these schemes.

A mechanism to be known as SETU (Self-Employment and Talent Utilisation) has been envisioned. SETU will be a Techno-Financial, Incubation and Facilitation Programme to support all aspects of start-up businesses, and other self-employment activities, particularly in technology-driven areas. ₹ 1,000 crore has set aside initially in NITI Aayog for this purpose.

Universal Social Security

A large proportion of India's population is without insurance of any kind-health, accidental or life. Pradhan Mantri Suraksha Bima Yojna has been envisaged to cover accidental death risk of ₹ 2 lakh for a premium of just ₹ 12 per year.

Another scheme to be launched is the Atal Pension Yojana, which will provide a defined pension, depending on the contribution and its period. The Government will contribute 50 per cent of the beneficiaries' premium limited to ₹ 1,000 each year, for five years, in the new accounts opened before 31st December, 2015.

Another scheme is the Pradhan Mantri Jeevan Jyoti Bima Yojana which covers both natural and accidental death risk of ₹ 2 lakhs. The premium will be ₹ 330 per year, or less than one rupee per day, for the age group 18-50 years.

There is a proposal for the creation of a Senior Citizen Welfare Fund out of unclaimed deposits of about ₹ 3,000 crore in the PPF, and approximately ₹ 6,000 crore in the EPF corpus. It will be used to subsidize the premiums of vulnerable groups such as old age pensioners, BPL card-holders, small and marginal farmers and others. A new scheme has also been planned for providing Physical Aids and Assisted Living Devices for senior citizens, living below the poverty line. An integrated education and livelihood scheme called 'Nai Manzil' will be launched to enable Minority Youth who do not have a formal school-leaving certificate to obtain one and find better employment.

Despite serious constraints on Union finances, allocations made this year are as following-SC: ₹ 30,851 crore, ST: ₹ 19,980 crore, Women: ₹ 79,258 crore.

In order to support programmes for women security, advocacy and awareness, ₹ 1,000 crore has been allocated to the Nirbhaya Fund.

These social security schemes, being sensitive to the needs of the poor, under-privileged and the disadvantaged, have the potential to utilize the Jan Dhan platform to ensure that no Indian citizen will have to worry about illness, accidents, or penury in old age. But the delivery mechanisms and the respective role of the State Governments will have to be harmonized and synergized for effective implementation of these schemes.

Infrastructure:

Increased outlays, on both the roads and the gross budgetary support to the railways, by ₹ 14,031 crore, and ₹10,050 crore respectively, are indicative of the thrust of the Government for infrastructure . Infrastructure is the key to growth. The CAPEX of the public sector units is expected to be ₹ 3,17,889 crore, an increase of approximately ₹ 80,844 crore over RE 2014-15. Investment in infrastructure will go up by ₹ 70,000 crore in the year 2015-16, over the year 2014-15 from the Centre's Funds and resources of CPSEs.

The Government intends to establish a National Investment and Infrastructure Fund (NIIF) . Permission has also been given to issue tax free infrastructure bonds for the projects in the rail, road and irrigation sectors. PPP mode of infrastructure development will be revitalized by addressing the major issue involved in rebalancing of risk wherein, the sovereign will have to bear a major part of the risk without, of course, absorbing it entirely. This will boost investment and employment generation.

Establishment of the Atal Innovation Mission (AIM), an Innovation Promotion Platform in NITI Aayog involving academics, entrepreneurs, and researchers will draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India. This platform will also promote a network of world-class innovation hubs and Grand Challenges for India. A sum of ₹150 crore has been earmarked for this purpose.

Financial Markets:

A properly functioning capital market also requires proper consumer protection. A sector-neutral Financial Redressal Agency that will address grievances against all financial service providers has been envisioned in the budget. It envisages active consideration on introducing the Indian Financial Code (IFC), to safeguard the gullible customers from misleading and misselling of financial products and services.

Taxation:

The budget envisions putting in place, a direct tax regime which is internationally competitive on rates, is without exemptions, incentivises savings, and does not realize tax from intermediaries which would match the modernized indirect taxes regime being put in place by way of GST. The service tax has been enhanced from 12.36 per cent to 14 per cent which is prelude to its synergy with GST proposed to be effective from year 2016-17. This rationalisation of

While there is a compositional shift, the aggregate envelope for job creation, poverty elimination and building infrastructure is not disturbed. The States have been also embraced as partners in the process of economic growth. The rationalization of subsidies has been undertaken to ensure the direct transfer of benefits (DBT) to the beneficiary.

taxation and harmonization of GST will have an impact in reducing cascading and overlapping effect of indirect taxes being loaded to the final customer at present thereby hiking the prices. This will be helpful if the Government ensures that reduced prices on account of rationalization of taxes are passed on to the customer and will have a huge social impact by moderation of prices.

The proposed changes in EPF, ESI and NPS are also in the direction of benefiting the employees below a certain threshold of monthly salary, presently ₹15000 per month. This will help in increasing the take home salary to the employees below the threshold limit simultaneously getting the security cover. There will be a100 per cent exemption for contribution to Swachch Bharat, apart from CSR.

The other proposals like Green India, development of tourism, opening of IITs, AIIMs, other institutes in various States are aimed at improving the quality of life, growth and other social parameters. While there is a compositional shift, the aggregate envelope for job creation, poverty elimination and building infrastructure is not disturbed. The States have been also embraced as partners in the process of economic growth. The rationalization of subsidies has been undertaken to ensure the direct transfer of benefits (DBT) to the beneficiary. In scholarship schemes, it will be expanded with a view to increase the number of beneficiaries from the present 1 crore to 10.3 crore. Similarly, ₹ 6,335 crore have so far been transferred directly, as LPG subsidy to 11.5 crore LPG consumers. This will help in checking leakages and inefficiency in distribution of benefits to the actual beneficiary. However, the effectiveness of the scheme will depend on the role played by the State Governments.

A significant thrust has also been made in improving the skills. With a view to enable all poor and middle class students to pursue higher education of their choice, a fully IT based Student Financial Aid Authority is being set up to administer and monitor Scholarship as well as educational loan schemes, through the Pradhan Mantri Vidya Lakshmi Karyakram. National Skills Mission through the Skill Development and Entrepreneurship Ministry is also being launched. This is in synergy with "Make in India" concept and will be a key driver for economic and social upliftment. However, with the development of additional resources and autonomy to the States, the concept of cooperative federalism and the vision of what the Prime Minister has called 'Team India', will play a significant role in delivering the social benefits of the budget. ❑

(E-mail:govilmanish7@gmail.com)

MINING SECTOR REFORMS

MINING TAXATIONS

Macroeconomic Policy Revival in Mining and Environment Federalism: Glimpses from Budget 2015-16

Lekha Chakraborty
Sahil Ravgotra

The contribution of mining sector is already on the decline in India, and it affects economic growth in the long run. India has one of the highest coal reserves in the world, but it is one of the highest importers of coal in the world. Is auctioning the best way of allocating natural resources still remains a moot question. There is also a need to revisit the methodology of calculating the rates and base of mining royalty and taxation

THE BACKDROP of the Union Budget 2015-16 is interesting. One, this is the budget with full electoral mandate in the last thirty years in India. Two, it has the shadow of Fourteenth Finance Commission (hereafter FFC), constituted by Honr' President of India, under Article 280 of the Constitution, whose historic recommendation is to financially devolve 42 per cent of central tax pool, from the existing share of 32 per cent. Three, there are attempts for a new environmental federalism, with clear policy revivals related to natural resources and mining sector; and also for the first time "environment" – forest cover - itself has been incorporated in Finance Commission's devolution formula. Both quantum and criteria of fiscal devolution of FFC are equally refreshing. This paper would be unpacking the aspects related to mining and environmental federalism against the policy announcements of Union Budget 2015-16.

Revival in Mining Sector

The Honr' Finance Minister has highlighted in the Budget Speech that auction of coal mines is one of the top three achievements of the new government in its nine months' period. He further stated that so far "*the states only got benefits of royalty. Now, by the transparent auction process that we are carrying out, the coal-bearing states will be getting several lakhs of crores of rupees.*" The mining taxation and royalty regime needs a relook as India's mining royalty regime is onerous and any upward revision in rates and additional levies can affect the competitiveness of mining sector.

Despite India being the fourth largest producer of minerals in the world[1], the contribution of mining sector to GDP is consistently on the decline from around 3.4 per cent in 1992-93 to 1.9 per cent in 2013-14[2]. India has rich coal reserves (globally among the top 5) but it is one of the highest importers of coal in the world. This might be the pressing reason for the Coal Ordinance 2015 to engage in a better methodology of coal resource allocation. We will be revisiting to this point later.

The impact of macroeconomic policy at the mining firm level is a rare field of research. A major lacuna to date is the paucity of studies on the impact of public policy –especially fiscal policy –on the mining firms and their competitiveness. Chakraborty (2014) is one of the few papers that look at the sector, in particular, its competitiveness. This study showed that the onerous mining royalty regime affects the competitiveness of mining firms, the estimates are illustrative. The study refuted the popular belief that it is the firm level factors – like the debt-equity financing patterns, raw

Lekha Chakraborty is Associate Professor, NIPFP, New Delhi and Research Affiliate, Levy Economics, Institute of Bard College, New York. Sahil Ravgotra is Research Associate, NIPFP, New Delhi and Research Scholar, CESP, Jawaharlal Nehru University, New Delhi.

material costs etc - that alone affect the competitiveness. Using the illustrative panel estimates, the study showed that fiscal policy regime – tax and royalty regime - affects mining competitiveness significantly. If firm competitiveness suffers, it will ultimately affect the revenue augmentation.

MMDR Ordinance 2015

The Economic Survey 2015-16 highlighted that "*Passing the Mines and Minerals (Development and Regulation) (MMDR) Amendment Ordinance, 2015 is a significant step in revival of the hitherto stagnant mining sector in the country.The process of auction for allotment would usher in greater transparency and boost revenues for the States*". (refer Box 1.2 on 'Reform Actions of New Government', page 9, Economic Survey, Government of India).

MMDR Ordinance 2015 suggested provisions for generating a District Mineral Foundation (Section 9B) to address the persons or areas affected by mining operations. The Ordinance suggested that DMF would be funded by the miners operating in those districts through a levy in addition to the royalties paid by the miners. This levy has a ceiling of one-third of the royalty and would be notified by the Central Govt[3].

The Ordinance also suggests a National Mineral Exploration Trust (NMET) for mineral exploration, funded through a levy of another 2 per cent of the royalty. If 'auctioning' is the mode of resource allocation of mining concessions, this will further aggravate the mining taxation burden of the firms and this can affect the competitiveness of firms, and in turn revenue augmentation.

Translating Coal Cess into Carbon Tax

The Economic Survey, 2015-16 noted that "*A carbon tax is a tax on the carbon content of fuels (principally coal, oil, and natural gas) that generate CO_2 emissions when burnt. The tax would apply at a specific rate per ton of coal, per barrel of oil, or per million cubic feet of gas, with the amounts adjusted to equalize implied taxes on carbon content. The rationale of such a tax is to reduce GHG emissions primarily responsible for climate change*".

In the Union Budget 2010-11, carbon tax was introduced in India, at Rs 50 per tonne. In 2014-15, the carbon tax (clean energy cess) was increased from Rs. 50 per tonne to Rs.100 per tonne (100 rupees per metric tonne) and further to Rs. 200 per tonne in the 2015-16 budget (Table 1). This cess is levied on the production and import of coal, lignite and peat, to promote and finance the clean environmental initiatives. This is in line with the "polluter pays principle" to combat pollution. The fund raised by this cess comes to the National Clean Energy Fund (NCEF), which can be used for clean energy technologies or renewable energy resources to reduce dependency on fossil fuels.

Table 1: Tax Revenue from Clean Energy Cess

Year	Rate (Rs. per metric tonne)	Revenue (Rs. crores)
2010-11	50	1066.46
2011-12	50	2579.55
2012-13	50	3053.19
2013-14	50	3471.98
2014-15	100	6217.63
2015-16	200	13118.04

Source: Govt of India (various years), Union Budgets, Ministry of Finance
Source: Govt of India (various years), Union Budgets, Ministry of Finance

Import Policy on Coal and Iron Ore

Despite having huge coal reserves in India (third in global rank), it has to rely on imports to meet the domestic consumption. The irony is that India is one of the highest importers of coal in the world. In the Union Budget 2014-15, custom duty on coking as well as metallurgical coal was increased from nil to 2.5 per cent. There is a further increase in basic customs duty of the metallurgical coke in Budget 2015-16 from 2.5per cent to 5per cent. This would increase the cost of production of power and other coal-related industries in India. Availability of extracted indigenous coking coals is limited and therefore most of the coking coals (close to 35 million tonnes) are imported. It is also significant to reduce the customs duty to nil in line with similar imports from ASEAN countries.

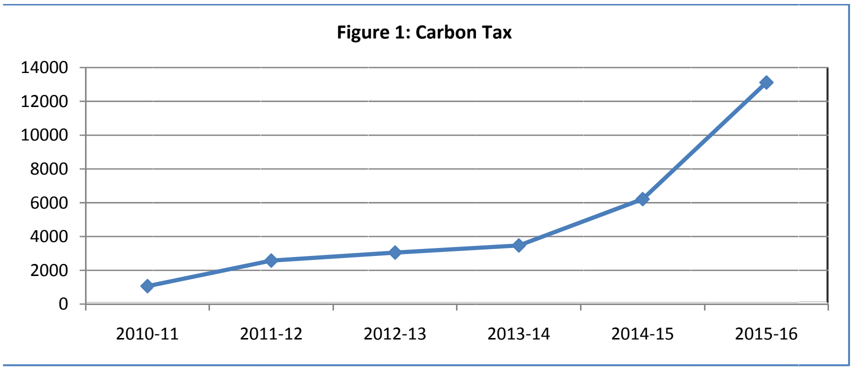
Mining Royalty Regime: Highest in the World

Mining royalty regime in India is in a state of flux. India has one of the highest royalty rates in the world. Particularly, the current methodology of royalty estimation for mining sector requires a relook. Though there has been an increasing trend in the regime shift in mining royalty away from the tonnage royalty regime to *ad valorem*, the rationalization of rates to internationally competitive rates has not yet materialized. Every three years, the royalty rates are revised upwards in India. Though the Planning Commission recommendations (Hoda Committee) have suggested benchmarking our royalty rates to the globally competitive rates of Western Australia, the measures are yet to be taken.

The onerous royalty regime along with the torpid infrastructural projects, land and environmental policies affect the growth of mining sector. The emphasis on mining levies – additional cess, incremental share of royalty for DMF in addition to royalty paid – in the MMDR Ordinance 2015 can be detrimental for economic growth.

The mineral royalty estimated on the basis of ore is becoming redundant across the globe, and many countries have moved towards concentrate as the base of estimating royalty. As recently as five years ago, the Government of India had notified that the levy of royalty rates for non-ferrous non-atomic minerals would be on the basis of concentrates. However, the royalty based on ore was not discontinued. A dual royalty regime therefore based on ores and concentrates came into being.

From the public policy perspective, the mining royalty estimation should incorporate the mineral value chain and estimate the mineral royalty on the basis of concentrate, and in plausible cases, the metal at the end of the mine value



Source : Govt of India (various years), Union Budgets, Ministry of Finance.

chain, after the process of beneficiation and smelting process. However, this process has not yet been followed in India for estimating the base of royalty, and the rates are revised every three years, based on the recommendations of Study Group of Mineral Royalty, which needs a relook, particularly the criteria on which the rates are revised so frequently.

The onerous royalty regime along with the torpid infrastructural projects, land and environmental policies affect the growth of mining sector. The emphasis on mining levies – additional cess, incremental share of royalty for MDF in addition to royalty paid – in the MMDR 2015and Union Budget 2015-16 can be detrimental for economic growth.

'Forest Cover' in Finance Commission's Tax Devolution Formula

The TOR of the Fourteenth Finance Commission explicitly mentioned that "*In making its recommendations, the commission shall have regard, among other considerations, to the need to balance management of ecology, environment and climate change consistent with sustainable economic development.*" Although, the TOR of the Thirteenth Finance Commission for the period 2010-2015 also incorporated ecology, environment and climate change, they have not used it as a criterion in the formula for tax devolution. Instead, the Thirteenth Finance Commission had provided for a special grant of Rs.5,000 crore for over five a year period to share horizontally among the states depending on the environmental quality (forest cover and environmental conservation efforts). This special grant was untied in nature for the first two years and conditional thereafter.

For the first time in the history of fiscal federalism in India, environmental quality–proxied by forest cover - itself has been integrated into the fiscal devolution formula. The tax devolution formula of Fourteenth Finance Commission has five criteria: (i) population (1971) with a weight of 17.5 per cent; (ii) population(2011) with a weight of 10 per cent; (iii) area with a weight of 15 per cent; (iv) fiscal capacity (difference of a state's per capita income from that of the state with the highest per capita income) with a weight of 50 per cent; and (v) forest cover with a weight of 7.5per cent. FFC has used "very dense" and "medium density" forest cover as the environmental criterion. This is a significanty step towards ensuring environmental federalism.

Conclusion

The Union Budget 2015-16 has the shadow of the Fourteenth Finance Commission recommendations. From environmental federalism perspective, the increase in the quantum of fiscal devolution to 42 per cent of Centre's tax pool, with 'forest cover' as a criterion is a welcome step. However, as mining taxation regime is onerous and one of the highest in the world, levying more taxes, royalty, duties and cess in the annual budgets can be detrimental, as it affects the competitiveness of the mining sector. The contribution of mining sector is already on the decline in India, and it affects economic growth in the long run. India has one of the highest coal reserves in the world, but it is one of the highest importers of coal in the world. Is auctioning the best way of allocating natural resources still remain a moot question. There is also a need to revisit the methodology of calculating the rates and base of mining royalty and taxation.

Readings

Chakraborty, Lekha (2006), Determining Environmental Quality in a Federal Setting: An Empirical Analysis of Subnational Governments in India, MPRA Working Paper, University of Munich, Germany.

Chakraborty, Lekha, 2014. Revival of Mining Sector in India: Analysing Legislations and Royalty regime, Commissioned Paper for IIC Mid-Year Review of Indian Economy 2013 at the India International Centre, reproduced as Working Paper No. 129, NIPFP, New Delhi (January).

Chakraborty, Lekha 2015. Macroeconomic Policy for Ferrous Mining, individual research project report, National Institute of Public Finance and Policy (NIPFP), New Delhi.

Government of India, 2015, Fourteenth Finance Commission report, Govt of India.

Government of India, 2015, Union Budget documents, Ministry of Finance, New Delhi.

Government of India, 2015, The Economic Survey of India 2015-16, Ministry of Finance, New Delhi

Government of India, 2006. National Mineral Policy, High Power Committee Report (Hoda Committee), Planning Commission, Government of India, New Delhi.

Endnotes

1. After China, USA and Russia; refer http://www.wmc.org.pl/sites/default/files/WMD2014.pdf
2. CSO estimates, Government of India, provisional figures for latest years.
3. In earlier MMDR 2011, it was suggested through profit sharing formula - 26 per cent of profits from the coal miners and 100 per cent royalty equivalent money from other miners-, which has become controversial, and dropped in the present Ordinance. However, the ambiguity remains about the new levies in addition to the existing mining taxes and royalty. ❑

(E-mail:lekhachakraborty@gmail.com)

Taxation and Fiscal Policy Space in India

Rohith Jyothish

The low levels of government spending in India can be attributed to lower levels of revenues, especially tax revenues. When there are more tax revenues, it increases the room in a government's budget so that it can spend more without borrowing

THE FINANCE Minister in his budget speech said that tax collections help the government "to provide education, healthcare, housing and other basic facilities to the people to improve their quality of life and to address the problems of poverty, unemployment and slow development". He also said that to achieve these objectives, the government endeavours to "foster a stable taxation policy and non-adversarial tax administration." He went on to say that an important dimension of the tax administration is to "fight against the scourge of black money".

Limited Fiscal Policy Space

The Union Budget 2015-16 with an estimated size of Rs 17,77,477 crore (12.6 per cent of GDP) is Rs 96,319 crore more than the revised estimates of 2014-15. But relative to the size of the Indian economy, the magnitude of Union Budget spending has seen a continuous decline since a peak of 15.9 per cent of GDP in 2009-10.

Even if we combine the budgetary spending of the Centre and States, India's total government spending compared to the size of its economy is only 27.0 per cent (Indian Public Finance Statistics 2013-14), which is much lesser than that of developed and most developing countries. It is also one of the lowest among some of the fastest growing economies in the world, namely, BRIICSAM (Brazil, Russia, India, Indonesia, China, South Africa and Mexico) countries (Chart 2).

The low levels of government spending in India can be attributed to lower levels of revenues, especially tax revenues. When there are more tax revenues, it increases the room in a government's budget so that it can spend more without borrowing. This lower fiscal space is not expected to improve too much over the course of the next few years (Chart 3).

Even when we compare across BRIICSAM countries, India has one of the lowest tax-GDP ratios (Chart 4) which constraints in fiscal policy space.

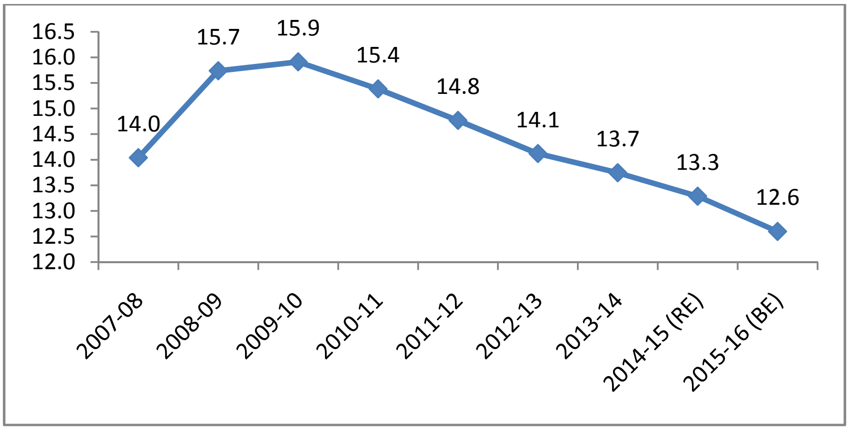
Does a Stable Tax Policy Account for Loss in Revenues?

The Finance Minister said that "we are considered as having a high corporate tax regime but we do not get that tax due to excessive exemptions" and also that "a regime of exemptions has led to pressure groups, litigation and loss of revenue."

The 'Revenue foregone statement under the Central Tax System' reframed as 'Statement of Revenue Impact

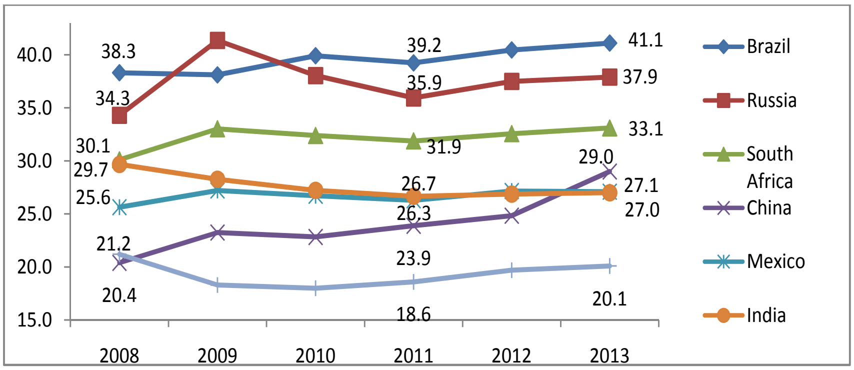
The author works with the Centre for Budget and Governance Accountability, a New Delhi based think-tank that analyses government finances.

Chart 1: Magnitude of Union Budget Spending in India



Source: Union Budget 2015-16

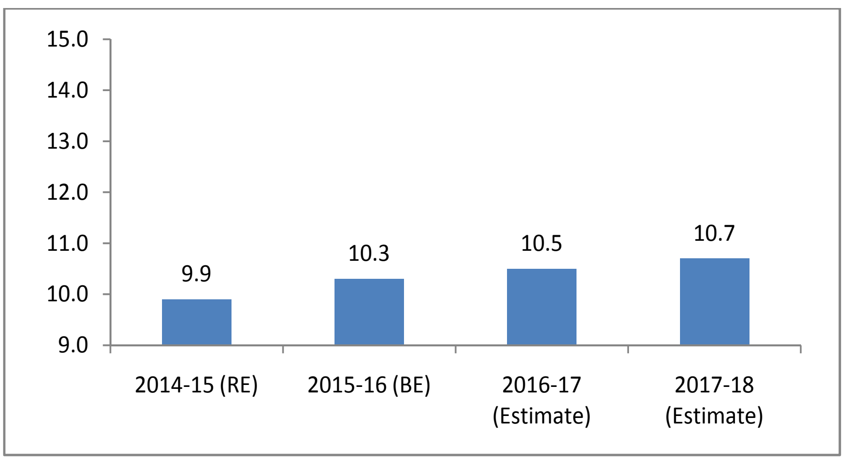
Chart 2: Government Spending to GDP Ratios in BRIICSAM Countries



Source: International Monetary Fund, World Economic Outlook Database, April 2014

Note: Total expenditure consists of total expense and the net acquisition of nonfinancial assets. Apart from being on an accrual basis, total expenditure differs from the Government Finance Statistics Manual 1986 definition of total expenditure in the sense that it also takes the disposals of nonfinancial assets into account

Chart 3: Tax-GDP Ratio (for Gross Central Tax Revenue)



Source: Macroeconomic Framework Statement, Union Budget 2015-16

Note: Gross Central Tax Revenue for 2015-16 (BE) is Rs 14,49740.6 crore out of which Rs 5,23,958.24 crore is transferred to the states

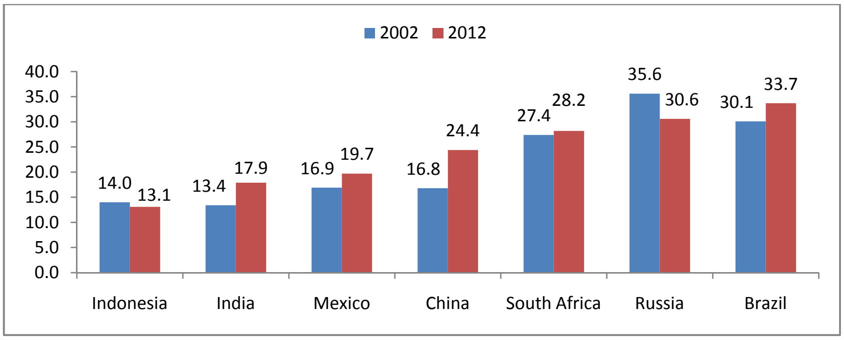
of Tax Incentives under the Central Tax System' shows that aggregate revenue impact of tax incentives is Rs 5,49,984.1 crore for 2013-14 and is projected to be Rs 5,89,285.2 crore for 2014-15. The revenue foregone is estimated to be 43.2 per cent of total tax revenue for the year 2014-15. There is a need for a White Paper on tax exemptions providing detailed sectoral break-up of revenue foregone for different industries, with a comparative assessment regarding objectives of exemptions fulfilled vis-à-vis magnitude of exemptions. The FM announced the phased reduction of corporate tax rate and phased elimination of exemptions from next financial year onwards.

Although it is true that many developing countries have corporate tax rates below 30 per cent, researchers have highlighted this to be a worrying trend. IMF's Keen and Simone (2004)[1] have noted, in their research on tax competition, that downward pressure on corporation tax revenues is more striking in developing economies than developed. Chart 5 compares corporate tax rates across several developing countries.

In spite of the Finance Minister's concern that the "fiscal space has not just been reduced, but squeezed", the focus is on maintaining fiscal discipline rather than augmenting resource mobilization. Even the Economic Survey 2014-15 calls for "expenditure compression" to meet the fiscal deficit targets.

In another bid to promote a non-adversarial tax environment, the General Anti-Avoidance Rule (GAAR) –meant to address important issues such as abuse of tax treaties, use of tax havens for the purpose of reducing tax bills and other clever tax avoidance arrangements – has been deferred for two more years. Yet again, India remains behind its BRICS contemporaries with Brazil having introduced GAAR in 2001, South Africa in 2006 and China in 2008. Introducing GAAR would also be in line with current global efforts to

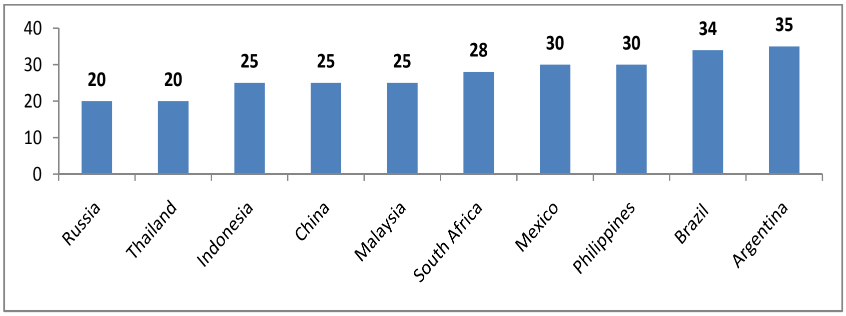
Chart 4: Tax-GDP Ratios across BRIICSAM Countries



Source: Government Finance Statistics Yearbook of various years published by IMF; China Statistical Yearbook 2003 published by National Bureau of Statistics of China; Revenue Statistics in Latin America 2014 published by OECD; Indian Public Finance Statistics 2013-14 published by Ministry of Finance, India

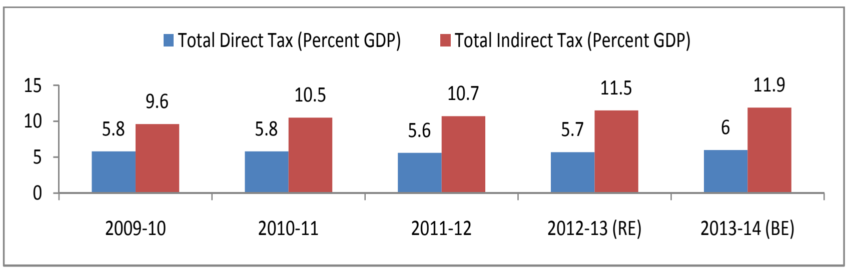
Notes: (1) Figures for Mexico and Brazil are for 2000 and 2011 respectively (2) Figures for India are from 2001-02 and 2013-14(BE) respectively (3) Figure for China for 2002 (4) Figures are for general government except for Indonesia; Indonesia figures are for its central government's budgetary transactions.

Chart 5: Corporate Tax Rates across Select Developing Countries



Source: KPMG Database (as of 28 February 2014)

Chart 6: Direct versus Indirect Taxes in India's Total (Centre and States) Tax-GDP Ratio



Source: Indian Public Finance Statistics 2013-14

address tax dodging by multinational corporations being led by OECD and G20 through the 'Base Erosion and Profit Shifting (BEPS)' initiative. India's involvement in this initiative should in no way hinder efforts to introduce GAAR right now as has been suggested by the Finance Bill 2015.

Towards a Regressive Tax Structure

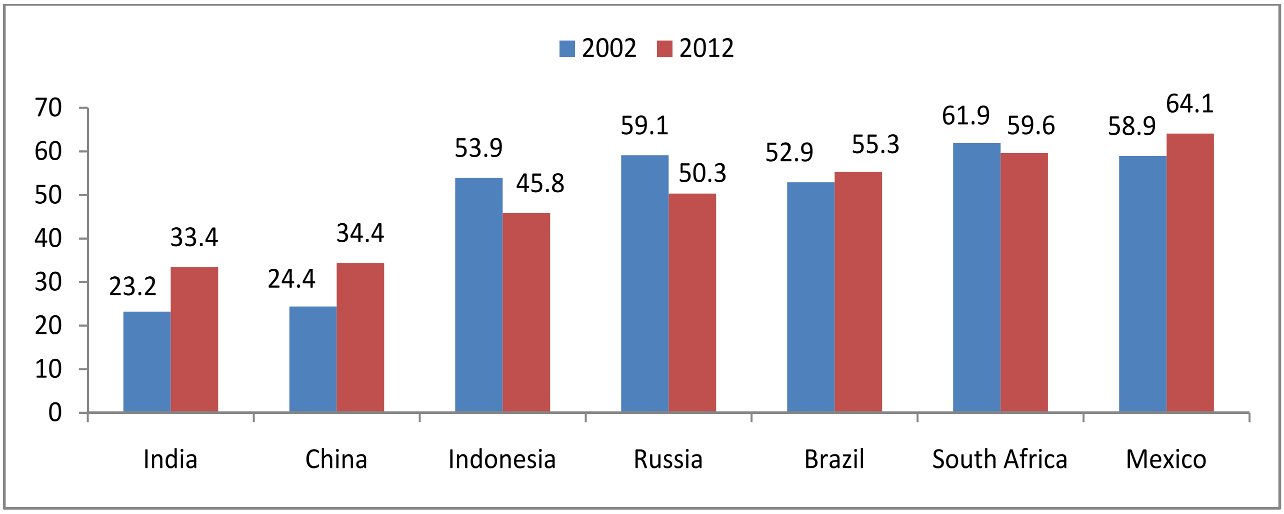
A progressive structure of taxation implies that individuals and corporations pay taxes according to their ability to pay. In India, for every Rs 100 collected as tax revenues, approximately Rs 30 comes from direct and the rest is from indirect taxes, respectively i.e. a major proportion of tax revenues are collected from those on goods and services while the rest come from taxes on income, profit, capital gains, property, goods and services etc (Chart 6).

As is evident from Chart 6, the share of direct taxes in the total tax-GDP ratio has remained stagnant between 5.8 and 6.0 per cent since 2009-10 while the share of indirect taxes has been increasing in an already decreasing overall tax-GDP ratio.

Comparing India's tax structure across BRIICSAM countries (Chart 7), while India has managed to increase its share of direct tax revenues in total tax revenues in the last decade or so, in the last two budgets, there has been a noticeable shift towards augmenting more indirect tax revenues at the cost of direct tax revenues. A regressive tax structure such as this is at a cost to the poor and most vulnerable sections of society.

The major direct tax proposals announced were in the form of exemptions through health insurance etc. according to which an individual taxpayer could get benefits upto Rs 4,44,200 lakhs while among indirect tax proposals, the FM expects the Goods and Service Tax (GST) to "add buoyancy to our economy by developing a common Indian market and reducing the cascading effect on the cost of goods and services." In order to move to a GST regime, service tax will be raised from 12 to 14 per cent subsuming the Education Cess and Secondary and Higher Secondary Education Cess on a date yet to be notified while excise duties on several goods including petrol and diesel will be revised to align with revenue-neutral rates. The direct tax proposals amounts to a revenue loss of Rs 8, 315 crore whereas proposals in indirect taxes are expected to raise Rs 23, 383 crore, the net impact of all tax proposals is a revenue gain of Rs 15,068 crore. This will further aggravate the already regressive tax structure.

Chart 7: Direct Tax Revenue as a Percentage of Total Tax Revenue



Source: Government Finance Statistics Yearbook of various years published by IMF; China Statistical Yearbook 2003 published by National Bureau of Statistics of China; Revenue Statistics in Latin America 2014 published by OECD; Indian Public Finance Statistics 2013-14 published by Ministry of Finance, India

Notes: (1) Figures for Mexico and Brazil are for 2000 and 2011 respectively (2) Figures for India are from 2001-02 and 2013-14 (BE) respectively (3) Figure for China for 2002 (4) Figures for Indonesia, Russia and South Africa for 2012 and China for 2011

Black Money

There were three major announcements to deal with the scourge of black money: (i) The Black Money Bill intending to criminalise tax evasion in relation to foreign assets with imprisonment upto 10 years and penalty of 300 per cent among other features; (ii) Concealment of income/evasion of income in relation to a foreign asset to be made a 'predicate' offence under Prevention of Money Laundering Act, 2002; and (iii) Benami Transactions (Prohibition) Bill to be introduced to curb domestic black money.

Although, the increased focus on money held in offshore accounts, especially by the Special Investigation Team on Black Money appointed by the Supreme Court is welcome, there is still a lack of a comprehensive policy, mapping sectors generating black money in India and the corresponding reforms required. The intent in the budget to curb generation of black money in real estate is a step in the right direction.

Implementation of existing or new legislations in relation to black money requires that the administrative machinery is significantly strengthened. But according to the White Paper on Black Money published by the Central Board of Direct Taxes (CBDT) in 2012, staff shortage across various agencies such as CBDT, Enforcement Directorate, Financial Intelligence Unit, Central Board of Excise and Customs, etc. has been estimated to be 30,000. A report by Asian Development Bank (ADB 2014), which analysed tax administration in Asia and the Pacific, noted that India has one of the most under-resourced and understaffed revenue bodies, in proportion to the size of the population.

Against the backdrop of concerns of round tripping and revenue losses due to misuse of tax treaties, a comprehensive review of all Double Taxation Avoidance Agreements (DTAAs) is required. Currently, no data is available detailing transactions that avail of treaty benefits to analyse the costs and benefits of signing these treaties.

Even with the renewed drive towards offshore tax evasion, there are gaps that could be addressed further. While the G20 leaders' commitment to address these issues is welcome, India has the opportunity to take the lead among emerging economies by translating this to national commitments.

1. Ministry of Corporate Affairs & Ministry of Finance in consultation with SEBI/RBI should put in place central public registers of beneficial owners of companies and other legal entities, with adequate safeguards (such as trusts, foundations etc.)
2. India's leadership on improving information exchange standards globally is noteworthy. While the G20 has adopted Automatic Exchange of Information as the global standard, there are concerns that jurisdictions would be allowed to choose with whom they want to engage in automatic information exchange, rather than being truly multilateral. This could leave developing countries at a disadvantage with more powerful countries refusing to share information. Additionally, non-reciprocity of information sharing should be explored in favour of low income countries unable to send information at present.

3. If companies were required to report sales, profits, and taxes paid in all jurisdictions in their audited annual reports, it would make it difficult to hide money off shore. Though, the G20 has committed to country-by-country reporting, specifically through Action 13 of the G20/OECD Base Erosion and Profit Shifting, India should commit to making this public. Making this information public would enable tax administrations in the poorest countries to easily access this vital information to address BEPS in their contexts.

Availability of data for Income Tax/ Indirect Tax

Since 2001-02, the Union Budget documents have stopped providing information on how much tax revenue is being collected through indirect taxes (like, Customs Duties, Excise Duties, Central Value Added Tax, and Service Tax) from various items or commodities. Provision of such information would facilitate an assessment of the implications of India's indirect taxes on different sections of population (for instance, taxes collected on items of mass consumption vs. taxes collected on luxurious goods) to better inform policies on these issues. India also discontinued publishing category-wise details of income tax payers through the All India Income Tax Statistics (AIITS) in 2000.

According to Thomas Piketty, "India's income tax administration has almost given up compiling detailed income tax statistics, although detailed yearly reports called All-India Income Tax Statistics are available from 1922 to 2000. This lack of transparency is problematic because self-reported survey data on consumption and income is not satisfactory for the top part of the distribution and income tax data is a key additional source of information in every country."

Professor R. Vaidyanathan of IIM Bangalore in 2013 suggested that the Income Tax Department should bring out bulletins as wells as annual reports for providing insights into the nature of direct tax segments. Such details are relevant to understand the nature and extent to which people, commodities and services are covered by taxation and help augment revenues.

This article is based on the CBGA publication, 'Of Bold Strokes and Fine Prints: An Analysis of the Union Budget 2015-16'

Endnotes

1 Keen and Simone (2004), Tax Notes International, Special Supplement. ❑

(E-mail:rohith@cbgaindia.org)

Trends and Implications of Revenue Deficit and Fiscal Deficit

Amiya Kumar Mohapatra

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 revenue deficit as well as fiscal deficit to a great extent and can help in achieving fiscal prudence as proposed by FRBM act

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 to bring 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.

Fiscal policy is as significant as monetary policy in India to arrest economic uncertainty and internal economic upheavals and to ensure fiscal discipline. Fiscal discipline and fiscal consolidation are essential for economic stability and development of our nation. Mounting fiscal deficit and its spillover effects over the years has made it mandatory for the Indian government to frame a special act to coordinate, control and monitor the financial allocation aspects of the budget. 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 to control revenue deficit and fiscal deficit over the years.

In the line of FRBMA, Union Budget 2015-16 can be tested by using various instruments in the context of well defined parameters and their overall impacts on the economy. The major fiscal instruments are revenue deficit and fiscal deficit. Hence, there is a serious need to understand the basic concepts of revenue deficit and fiscal deficit and their impacts and implications on Indian economy. The real test of budget lies in how to contain revenue deficit and fiscal deficit at the desired level, looking at the present needs and long-term growth of the nation.

Revenue Deficit and its Implications-A Post FRBMA Analysis

Revenue deficit is defined as *"the excess of government's revenue expenditure over government's revenue receipts"*. Revenue deficit indicates that the government is unable to meet its current/revenue expenditure from its current/revenue receipts. Revenue

The author is working as Faculty of Economics, Apeejay School of Management, New Delhi. He has been teaching Economics, Finance and Public Policy to graduate and post graduate students. He has to his credit the authorship of five books and eight edited volumes. He has published a number of articles and research papers in magazines and journals of repute. He is the life member of Indian Economic Association and Indian Commerce Association.

receipts are those receipts which neither reduce the assets nor increase the liability. They mainly consist of tax and non-tax receipts. Tax receipts consist of direct and indirect taxes whereas non-tax receipts consist of interest from states, dividends, license fees, fine, penalty, etc. of the government. On the other hand, revenue expenditure is that expenditure which neither increases the assets nor decreases the liability. They are normal/day to day expenditure of the government like salary, subsidies and transfers, etc.

The effective revenue deficit is a new version of revenue deficit which measures the shortfall in revenue receipts over the revenue expenditure and calculated by deducting the grants given for creation of capital assets from revenue deficit.

General Implications

To finance revenue deficit, the government has to depend upon capital receipts as the last resort as revenue receipts are already exhausted. Financing the deficit through capital receipts is precarious as capital receipts either decrease the assets or increase the liability. Increase in liability further leads to increase in future interest payment liabilities and consequently being a part of revenue expenditure, will increase the revenue deficit in future too. On the other hand, disinvestment / selling of assets are like 'selling the family silver'. This will further aggravate the revenue situation through reduction in earnings. Revenue deficit can be minimized by revenue augmentation and revenue mobilization through boosting revenue from tax and non-tax sources.

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.

Fiscal Deficit and its Implications - A Post FRBMA Analysis

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. This furnishes a more holistic view of the government's funding situation in terms of borrowings.

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.
- 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 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 get discouraged. This leads to crowding out effect on private investment.

Trends in Fiscal Deficit

Estimated fiscal deficit in the post-FRBMA, (2004-05 to 2015-16) has been taken for interpretation to study

Figure-1

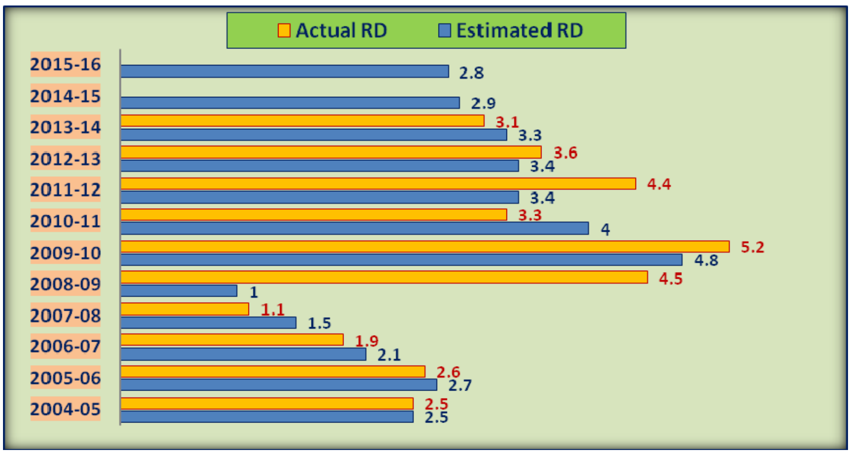
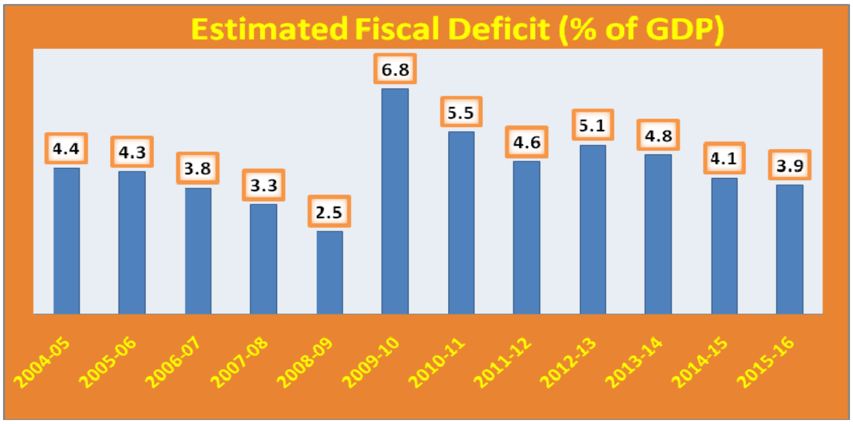


Table-1: Revenue Deficit (RD) -Estimated, Actual & Deviation as per cent of GDP

Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Estimated Revenue Deficit (%)	2.5	2.7	2.1	1.5	1	4.8	4	3.4	3.4	3.3	2.9	2.8
Actual Revenue Deficit (%)	2.5	2.6	1.9	1.1	4.5	5.2	3.3	4.4	3.6	3.1	-	-
Revenue Deficit Deviation	0	0.1	0.2	0.4	-3.5	-0.4	0.7	-1	-0.2	0.2	-	-

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

Figure-2



immediate past effects and to focus on the present needs and future state of affairs of the country.

Firstly, Table 2 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 6.8 per 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 has come down to 5.5 per cent in 2010-11, and further to 4.6 per cent in 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. Post 2011-12, it increased marginally to 5.1per cent in 2012-13, which may be due to euro crisis and persistent recessionary situation in the economy and then descended to 4.8 per cent in 2013-14. But in the recent budget (2015-16), the Finance Minister of India has strictly kept the fiscal deficit at 3.9 per cent of GDP as an adherence to Kelkar Committee proposal. This current budget has not shown serious intent of the government to contain the fiscal deficit to 3per cent of the GDP by 2016-17 as proposed in the Twelfth Plan.

Secondly, 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 between 0.4 to 1.1 indicating seriousness in respect to prudent fiscal management and fiscal responsibility in India.

Thirdly, 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. From 2008-09 till 2015-2016, there has been a steep rise in the estimated absolute fiscal deficit from Rs. 1,33,287 crores to Rs. 5,55,649 crores which is more than four times in a span of seven years.

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.

Nexus between Revenue Deficit and Fiscal Deficit

The primary component of fiscal deficit includes revenue deficit and capital expenditure. In other words, government adheres to borrowing only to finance the revenue short fall and to meet the capital expenses. There is a high degree of positive correlation between revenue deficit and fiscal deficit which is clearly visible in the figure-5. Although revenue deficit has decreased from 4.8 per cent in 2009-10 to 2.8 per cent in 2015-16, still, it contributes substantially to

Table-2: Fiscal Deficit (FD) -Estimated, Actual & Deviation as per cent of GDP

Year	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Estimated Fiscal Deficit (per cent)	4.4	4.3	3.8	3.3	2.5	6.8	5.5	4.6	5.1	4.8	4.1	3.9
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-3

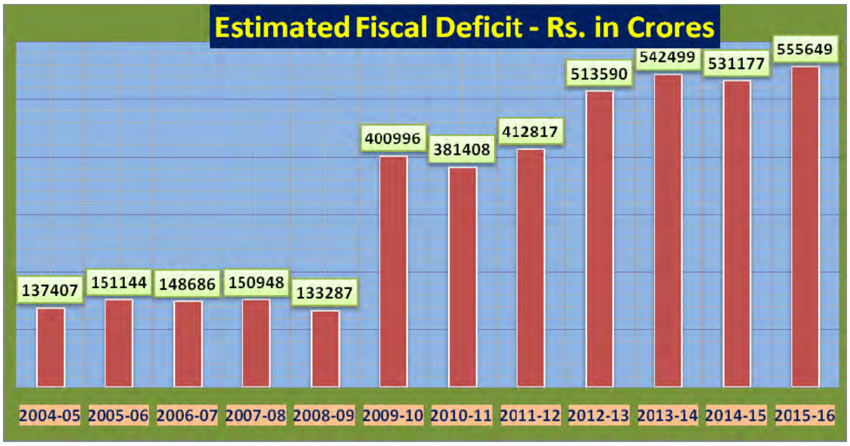


Figure-4

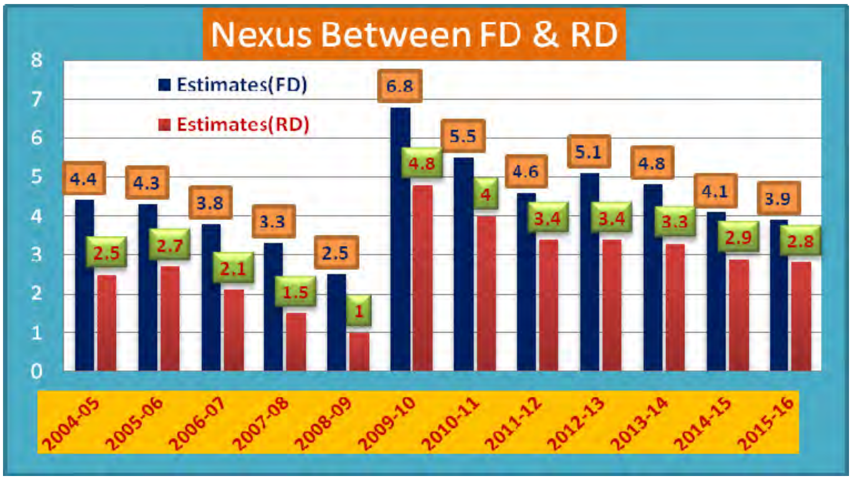
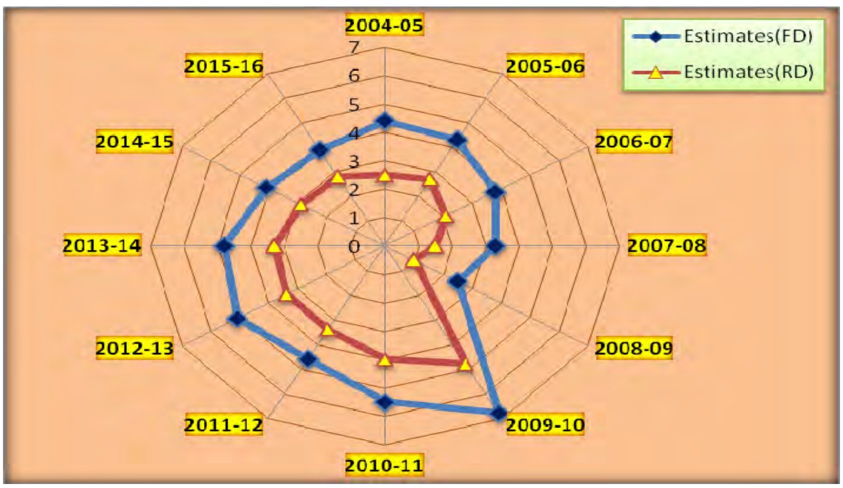


Figure-5



fiscal deficit. Revenue deficit can be minimized only through expansion of the economy, tax buoyancy, increase in tax collection, better tax administration, increase tax-GDP ratio and efficiency in expenditure etc. Subsequently, fiscal deficit can be contained to the desired level as proposed by FRBM Act to 3 per cent of GDP by 2017-18 as proposed in the budget proposal. Improvement in macroeconomic environment, good and maximum governance and above all, people's participation are extremely crucial for getting fiscal consolidation.

Fiscal deficit can be reduced to its desired level only by reducing the revenue deficit not the capital expenditure. This can be possible through revenue augmentation and expenditure rationalization. Efficient and effective management of expenditure is the key to fiscal consolidation that is why expenditure reform commission has been formed to reprioritize and rationalize non-plan revenue expenditure. The intention behind the commission is to rationalize and bring efficiency in the fund allocation among different heads, 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. Rationalization in various subsidies and also restricting the leakages in the process by implementing direct benefits transfer schemes will certainly help in restricting unnecessary expenditure. In addition, centrally sponsored schemes are restructured for greater synergy and effective implementation by which unnecessary overlapping expenditure can be curbed.

There is a need to cut the major subsidies on food, fertilizer and petroleum products. 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 welfare and well being of the masses.

Concluding Remarks

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 revenue deficit as well as 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. 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.

Reference

1. Union Budget Reports from 2003-04 to 2015-16
2. Annual Reports 2010,2011,2012 of CII, India
3. Latest Economic Surveys, Government of India
4. Various Issues of CMIE Reports of India
5. News Paper-Business Standard, Economics. Times and Times of India - Post Budget Analysis. ❑

(E-mail:amiyacademics@gmail.com)

DO YOU KNOW?

MICROBIOME

The term Microbiome was given by Joshua Lederberg. A microbiome refers to the ecological community of symbiotic commensal and pathogenic microorganisms that are living in our body spaces such as in our gastrointestinal tracts, saliva in our mouth, on the surface and in deep layers of skin (including in mammary glands, oral mucosa and in the conjunctiva of our eyes). These microbial communities perform various beneficial functions in our body that can be supporting to our lives. They are needed to digest food and to produce energy from the carbohydrates that is not digested in the upper part of the gut through the process of fermentation and absorption. They serve as a natural barrier against disease-causing foreign bacteria, fungi , parasites, toxins and viruses from invading our body through our drinks or food. They also synthesize essential nutrients and are actively involved in the synthesis of vitamins such as vitamin B1, B2,B3,B6 , B12, Folic acid Pantothenic acid and vitamin K2 (menaquinone) , as well as in the metabolism of bile acids, sterols and xenobiotics. These beneficial microorganisms (generally referred to as Probiota) also reduce the pH near the wall of the gut thereby making it uninhabitable for the harmful bacteria .

The human microbiome consists of more than 100 trillion microorganisms, which is over 10 times more than the number of cells in the human body, although the entire microbiome only weighs about 200 grams . These microbiota are generally non-pathogenic until and unless their growth becomes abnormally high. They exist symbiotically hence do not harm their host. Majority of the population of microbes found in the human body are not bacteria, but belong to a very old biological domain of single-celled organisms called Archaea. According to a study, at specific sites on the body, a different set of microbes may perform the same function for different people. For example, on the tongues of two people, two entirely different sets of organisms will break down sugars in the same manner.

SARFAESI ACT

SARFAESI Act stands for the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act. This act allows banks and financial institutions to auction properties when borrowers fail to repay their loans for residential or commercial properties on time. It enables banks to reduce their non-performing assets (NPAs) by adopting measures for recovery or reconstruction. If a borrower fails to repay his home loan for six months at stretch, the bank gives him a 60-day period to start his repayment. However even if in that time, the borrower doesn’t start repaying , then the bank declares the loan as an NPA and auction the property to recover its debt. The auction price is determined according to the market value of the property based on which the banks fix a reserve or minimum bid price. If the price fetched is more than the bank’s dues, then excess amount is given to the borrower. Such auctions are advertised by the Banks in at least one English and one regional newspaper, 30 days before the auction. Those who are interested to bid must submit their bids in a sealed envelope to the bank and also deposit a certain percentage of the reserve price as earnest money deposit, which can be refunded in case of withdrawal or losing.

These sealed envelopes are opened in front of the bidders on the auction day, and the highest bid is announced. If one wins, he has to pay 25 per cent of his bidding amount to confirm his purchase. The advantage is that these properties are 20-30 per cent cheaper than the market price. Also, there is transparency on the property title as the bank had earlier lent against the property. The disadvantage is that these properties are sold in the condition as they are, like there could be pending litigations or dues against them that will be transferred to the winning bidder automatically.

For exercising the powers conferred by SARFAESI Act, 2002 the guidelines have been issued by the Reserve Bank of India for the registration, measures of asset reconstruction, prudential norms, acquisition of financial assets etc., namely 'The Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003'.Recently in the Union Budget 2015-16, the NBFCs that are registered with RBI and that have an asset size of Rs.500 crore and above will be now considered as ‘financial institutions’ in terms of the SARFAESI Act, 2002. ❑

(Compiled by Vatica Chandra, Sub Editor)
(E-mail: vchandra.iis2014@gmail.com)

Opening up Insurance to More Foreign Equity

Dhiraj Nayyar

For India, the priority is to take insurance to its masses. Indian companies alone have failed to achieve the task even 67 years after Independence. It's time to give up protectionism and invite more foreign participation in insurance. The potential benefits far outweigh the risks

INSURANCE ISN'T just risk management. It is also an instrument of social security. Insurance is not just for prosperous people in rich countries. In fact, it is more important for the less well-off in emerging economies like India. Unfortunately, India is a woefully under-insured country. India's insurance penetration, measured as the percentage of insurance premium collected as a percentage of GDP, is just 3.96 per cent compared with an advanced country average of 9 per cent. India fares marginally better than China, which has a penetration of just 3 per cent. India's insurance density, measured as per capita insurance premium, is just $53 when compared with the advanced country average of between $2,000 and $7,000. By this measure, China outscores India with an insurance density of $178.

There is a reason that India and China lag so far behind the advanced economies on the key measures of insurance coverage. Both markets were long the exclusive domains of state-owned companies; both countries have only recently and only partially liberalised foreign investment; the market share of private and foreign insurance companies is very small.

The reality is that India's insurance market is not competitive enough. The almost oligopolistic nature of the market means that companies, mostly state-owned players, make handsome profits and have little incentive to reach out to the under-insured masses. They also have little incentive to offer innovative products which will appeal to low income consumers. The only way India's insurance industry will become competitive is if more foreign equity investment is permitted entry.

The Union Budget revealed the government's strong commitment to extending the coverage of insurance to India's poor. The Budget announced two new insurance schemes for lower income groups as part of the Government's attempt to formulate a comprehensive social security system. Under the Suraksha Bima Scheme, a premium of just twelve Rupees a year will entitle an individual to accident insurance worth Rs 2 lakh. Under the Jeevan Jyoti Bima Yojana, an individual will have to pay a premium of Rs 330 per year (or less than one Rupee every day) to get a life insurance cover worth Rs 2 lakh. Presumably, the state-owned insurance companies, like LIC and GIC, will roll out these schemes.

However, there is only so much the Government can do. Low income groups need insurance other than

The author is an independent economist. He is a Columnist for Bloomberg View and The Sunday Guardian and is Editor of the book Surviving the Storm: India and the Global Financial crisis.

for life and accidents – every Indian should have access to health insurance; every farmer should have access to crop insurance. The problem is that, at present, neither the state-owned companies nor private insurance companies (which include those with 26 per cent foreign equity insurance) are able and willing to cater to a larger market. For that, companies need to be subject to competition, and should have the knowledge to introduce innovative products and the financial might to stay the course in a tough market. The only investors who fit the bill are foreign investors. They have an advantage in addition to superior knowhow on products. Foreign insurance companies can invest their funds across the globe and therefore diversify their risk basket. Indian companies will usually invest their funds at home, which will concentrate risk. Needless to say, as a result, the cost at which foreign insurance companies can offer premiums will be lower than what Indian companies can. Affordability of insurance will increase because of the presence of foreign insurance providers. If the Government is serious about extending insurance as an instrument of social security, it must liberalise aggressively.

For now, the Government's stated ambition is to increase the amount of foreign equity insurance permitted in insurance from 26 per cent to 49 per cent. This has been a long pending reform but hasn't managed to pass muster in Parliament. The Government has issued a Presidential Ordinance but it is imperative that the new insurance Bill be passed in Parliament. India needs many more insurance companies. It has only 52 insurance companies out of which 24 are in the life insurance and 28 in the non-life insurance business. At the 26 per cent limit, foreign equity in Indian insurance is worth Rs 8,700 crore compared with Rs 35,000 in domestic private equity. At 49 per cent, it is estimated that foreign equity could go up to around Rs 50,000 crore.

Of course, the Government should move quickly to raise the cap above 49 per cent. There is no sound economic logic for keeping ownership in Indian hands. Arguably, such a restriction only enables a local entrepreneur who may not have to notch skills in the insurance business to piggy back on a superior (in skills) foreign company. The amount of investment that would flow into Indian insurance would grow manifold if 74 per cent or 100 per cent foreign equity is allowed. If a foreign insurance company is permitted management control, it would have greater confidence entering the Indian market. Ending the restrictions on foreign equity in insurance should be top of the agenda in the coming years.

The amount of investment that would flow into Indian insurance would grow manifold if 74 per cent or 100 per cent foreign equity is allowed. If a foreign insurance company is permitted management control, it would have greater confidence entering the Indian market. Ending the restrictions on foreign equity in insurance should be top of the agenda in the coming years.

What may be the risks of opening up the sector to foreign investment? Sceptics would point to the role of some of the world's largest insurance companies in precipitating the global financial crisis of 2008. The Indian economy is not like the United States. It cannot fully absorb the systemic collapse of a major financial sector industry. In the years leading up to 2008, Western insurance companies were investing in, and insuring, complex bundled financial products which few understood except those who had financially engineered them. It turned out that too many of those products – which were designed to diversify risk – were in fact, seriously increasing the risk to the system. The opacity of the products and the lack of transparency in the manner in which they were traded were the root causes of the global financial crisis. Of course, insurance companies, like other financial companies looking for high returns, were complicit in endangering the system and inducing a long recession in the Western economies and a protracted slowdown elsewhere in the world.

Still, that is not reason enough to view foreign insurance companies with suspicion. The right way to address excesses is through sound regulation, and not a complete shutdown. The advanced economies have responded to the crisis of 2008 with new and better regulations which rid complex products of their opacity and which are traded via open exchanges, and not over the counter. In India, regulations have not permitted most of the complex products that precipitated the global financial crisis. In that sense, India has little to be afraid of. In fact, India still needs to liberalise its financial markets considerably to get anywhere near the levels of advanced country financial markets. So any fear of foreign insurance agencies operating in India is greatly exaggerated. India has a strong independent regulator for insurance, the Insurance Regulatory and Development Authority of India. It can regulate foreign companies just as it regulates Indian companies.

China's legendary reformist leader, Deng Xiaoping, once said that it doesn't matter whether the cat is black or white as long as it catches mice. For India, the priority is to take insurance to its masses. Indian companies alone have failed to achieve the task even 67 years after Independence. It's time to give up protectionism and invite more foreign participation in insurance. The potential benefits far outweigh the risks. ❑

(E-mail: dhiraj.nayyar@gmail.com)

Goods and Services Tax: Steps Towards Transformational Reform

R Kavita Rao

Without bringing in the consumers who are not interested in an invoice into the GST regime, the success of the regime would be limited to the benefits that can be garnered by the reduction of cascading alone

THE FINANCE Minister in the Budget of 2015-16 has reiterated the government's commitment to bring in the Goods and Services Tax regime from April 2016. The constitutional Amendment Bill has been placed before the Parliament. A lot of work is being undertaken in preparation for this major tax reform. It is often argued that this reform would improve the efficiency of organization of economic activity in India. Some people even suggest that there would an increase in GDP attributable to this tax reform – to the tune of 2 per cent of GDP. This expansion in economic activity is expected to follow from two broad sources: one, the reduction in cascading in the tax regime and second, since VAT/GST is considered a self-policing tax, when a larger set of activities are covered by the tax, the self-policing aspect of the tax should reduce the incentives of dealers to stay out of the regime or underreport within the system. This would mean that what is unaccounted income today, will "come out" and be accounted for in the GST regime, thereby resulting in an increase in GDP.

There are reasons to believe that the first effect would be a clear gain from a move to GST – Central Sales Tax (CST) would be eliminated and with it, the option of branch transfers and the need to maintain branches in every state would be eliminated as well. In other words, now the firms/businesses can optimize on supply chain management. Any efficiency improvements from this effect should manifest themselves as lower costs and prices and assuming demand is sensitive to prices, one should witness some expansion in demand.

Turning to the second effect, there can, in principle, be two mechanisms through which GST would contribute to increase in GDP. First, in the pre-GST era, there are a number of "dealers" who are not a part of the tax regime. For these dealers, purchase invoices have no particular value and as a result, the system can generate a market for invoices, thereby increasing the tax credit claimed by the registered dealers of the system. With a broader coverage in GST, this aspect gets curtailed and hence the tax productivity of the system would be significantly enhanced. Second, turning to invoicing of sales, at present India is considered a predominantly cash based economy, with very little importance accorded to billing of transactions. The success of GST to be the transformational tax it is projected to be, depends on bringing an augmented culture of billing of all transactions.

On the face of it, this does not appear to be a challenge since sale for one person is a purchase for some other person and if the demand

The author is Professor at the NIPFP. She is expert in taxation issues. She has been member of various government committees and has worked and published research papers extensively on GST and Macroeconomic issues.

for invoices of purchases can be ensured, then sales too will be invoiced. However, this argument fails with one set of buyers – the final consumer. The consumer is not interested in bills except for few transactions like those involving consumer durables. And if the consumer does not seek bills, the chain of transactions does not remain robust and self-policing any more. The supplier to the consumer can sell without bills and since he is not seeking input tax credit against these sales, she might be willing to buy without invoices and so on. This difficulty can be overcome in potentially two ways:

1. Augmented administration: in the above case, it is expected that the dealer's records would not match the facts in her premises: for instance, if a part of the purchase are not billed, there can be a mismatch between the stocks on record and the actual stocks in the godowns. Or in the case of a service provider, the use of inputs such as electricity would not match the size of transactions reported. To identify mismatches in this manner would require the tax department to be intrusive and conduct thorough audits at the tax payers premises. In the context of the pronouncements of the present government, where the tax department is being proposed as a tax payer friendly organization, extensive audits may not be considered very acceptable.
2. Introducing measures to improve the billing culture of the country: an alternative to the above is to find ways to encourage the consumer in the country to ask for bills. This can be attempted in many different ways.

It is interesting to note one of the measures proposed in the budget speech in the context of reducing black money in India, could work to augment the effectiveness of GST regime as well.

"One way to curb the flow of black money is to discourage transactions in cash. Now that a majority of Indians has or can have, a RUPAY debit card. I, therefore, propose to introduce soon several measure that will incentivize credit or debit card transactions, and disincentivise cash transactions." (Budget Speech, February 28, 2015)

If one could find an effective mechanism to incentivize the use of plastic money for purchase of goods and services, it would make GST more effective. In this context, it is useful to mention that the use of cards or the lack of it might not be only because businesses do not want to invest in card swiping machines. The consumer may not find it attractive either. So while government needs to explore ways of reducing the costs to business, it is equally necessary to make it attractive for the consumer as well. Mention may be made of experiments in Korea, Mexico and Argentina for instance, where some benefits were extended to consumers as well. In Korea, some benefits were extended within the income tax regime whereas in some of the other experiments, refunds of part of the tax paid were introduced. It is argued that incentives did increase the use of cards and coincided with the period where the tax to GDP ratios in these countries increased considerably.

The system could be structured such that the credit could be made available for a changing set of commodities so as to bring in information on the suppliers of these commodities as well. This could be more effective if the number of people who file returns in the system were higher. A second alternative could be one where lotteries can be instituted for encouraging billed purchases. This strategy can be useful for low value consumables where the consumer has no incentive for asking for an invoice.

Apart from incentivizing the use of credit cards, it is possible to visualize at least two other types of measures that can be used to incentivize billing culture – one, provide a tax credit mechanism for taxpayers within the ambit of income tax. The system could be structured such that the credit could be made available for a changing set of commodities so as to bring in information on the suppliers of these commodities as well. This could be more effective if the number of people who file returns in the system were higher. A second alternative could be one where lotteries can be instituted for encouraging billed purchases. This strategy can be useful for low value consumables where the consumer has no incentive for asking for an invoice. It is ever more important to deal with this segment of demand since, these consumers are not likely to file an income tax return and are more likely to be sensitive to the visible taxes on the invoice in a GST regime. Without bringing in the consumers who are not interested in an invoice into the GST regime, the success of the regime would be limited to the benefits that can be garnered by the reduction of cascading alone. ❑

(E-mail:kavita.rao@nipfp.org.in)

Union Budget 2015 and the Vision of Clean India

Nirupam Hazra

...the problem cannot be dealt only by building toilets. The larger issues, which may not have direct connection with the problem, should also be focused on. And it is not the responsibility of the government alone, all stakeholders need to come forward and take part at various levels to make the vision of clean India a reality

ONE OF the major issues of emphasis for the new government has been the call for cleanliness and better hygiene. It is needless to say how pathetic and disgraceful the state of cleanliness and hygiene is in India—be it at individual level or as a nation. India is the country which has the highest number of people practising open defecation. It is not only a matter of shame, but also sorrow, because cleanliness and hygiene are directly linked with the health of the nation. So, when the new government made campaign for cleanliness as one of its priority projects the problem got its due attention. It became a part of the national discourse and featured among the issues of national importance.

Objectives of Swachh Bharat Mission

Swachh Bharat Mission was not essentially a new programme; rather it is a restructured form of earlier programme named Nirmal Bharat Abhiyan. Nirmal Bharat Abhiyan was restructured into the Swachh Bharat Mission with two sub-Missions - Swachh Bharat Mission (Gramin) and Swachh Bharat Mission (Urban). The proposed objectives of this campaign are:

i. Coverage of all rural households with Individual Household Latrine (IHHLs), cluster toilets, community toilets.

ii. Construction of school and *anganwadi* toilets and Solid Liquid Waste Management (SLWM) activities in all Gram Panchayats.

iii. Creation of enhanced demand, convergent action through various agencies and stakeholders.

iv. Strengthening of implementation and delivery mechanisms.

v. Proper monitoring of Outputs (construction of toilet) and Outcomes (use of toilet) at the Gram Panchayat and household levels.

One of the pre-conditions to attain these proposed objectives is the availability of adequate funds. Any programme of this magnitude should always be backed by timely and adequate funds. For Swacch Bharat Mission, four main sources of fund have been identified:

- Budgetary allocations.
- Contributions to the Swachh Bharat Kosh.
- Commitments under Corporate Social responsibility (CSR).
- Funding assistance from multilateral sources.

Union Budget 2015-16

Union Budget 2015-16 was the first budget since the inception of the campaign. Therefore, it becomes significant to analyse how Swachh Bharat Mission features in this budget as it is one of the primary sources of funding for the programme. But, interestingly, there was no special announcement; rather it made way for funds, if required in future. The major announcement was 2 per cent Swachh Bharat cess, which would be levied on certain or all services on the basis of requirement. Apart from this,

The author is a research scholar and a social worker, Department of Social Work, University of Delhi.

one major step to fund the mission is donation, which has been made 100 per cent tax exempted for non-corporate donors. The donation will be part of Swacch Bharat Kosh constituted to fund the mission. On the other hand, besides arranging the fund, the budget also sets the objective of the mission clear. So far, around 50 lakh toilets have been constructed under this mission, while the aim is to build six crores toilets to fight the practice of open defecation.

Concerns and Criticisms

One of the inherent aims of this Clean India campaign is to promote good health which was also emphasised by Finance Minister in his budget speech. Sanitation and hygiene are directly linked with health and well-being and they are part of preventive health care. The primary cause of disease like diarrhoea is poor sanitation. Studies have shown that better sanitation and access to clean drinking water significantly reduce the rate of diarrhoea morbidity. Sanitation also becomes crucial for child health as it is a key to child survival, development and growth. The huge population of stunted children of India, which is also the highest in world, is attributed to poor sanitation than malnutrition or actual lack of food. A study conducted in association with Asian Development Bank estimated that India loses Rs.240 billion annually due to lack of proper sanitation facilities. Therefore, it is not possible to conceive any public health programme in India without paying due importance to sanitation. But in this budget, no attempt was made to connect sanitation with public health. It could have made the effort more holistic as India is among the countries with lowest spending on public health.

Budgetary allocation is one of the important aspects of any programme; but it is the meaningful utilization of the fund that decides the success of the programme. A initiative like Swachh Bharat Kosh accompanied by tax incentive is crucial for fund mobilization but it requires a proper monitoring and implementation on the ground to instill confidence among the donors. The idea of additional cess in, the name of cleanliness mission could be a problematic proposition. Though it is considered as an enabling provision, the nature and scope of cess would define the future of the mission in many ways. Any additional and direct burden of cess may have a discouraging impact on people in the street. Vision of clean India, instead of being a collective responsibility, will become a collective liability, which will eventually defeat the very purpose of the mission.

An Integrative Approach to Clean India

For a programme like this, engagement of the people is very significant. Mere bureaucratic implementation and routine fund allocation will not result in any substantial change. So far budgetary allocations are concerned, it should have been more articulate and imaginative in nature. Though the fine prints of the mission would be finalized by the concerned ministries, an integrative approach could have been more beneficial. For example, Indira Awas Yojana, the rural housing programme, could be complemented with functional toilet under Swachh Bharat Mission. Though there are provisions for this in Swachh Bharat Mission, it is not properly exploited and realized. Similarly, Rural Employment Guarantee Scheme could make special provision for better sanitation in terms of fund, physical infrastructure and resource generation. Again with Right to Education, the school sanitation can have a special emphasis. Though the modalities of the integration could be different and specific, yet all would be serving a common end and above all, this integrative approach would help individual, family and the community to recognize the lack of sanitation as a serious problem and channelize their concerted effort in a more productive manner. Same could be said of the budgetary allocations under different programmes.

Society and Cleanliness

To make clean India a reality, it is not enough to address the problem from outside overlooking the social reality of India. The idea of cleanliness, is deeply embedded in the caste sanctioned social hierarchy based on purity pollution binary. The task of dealing with dirt and filth is assigned to a particular caste. It is generally the lower castes who work as manual scavenger, toilet cleaner and sweeper, while the upper-castes are absolved due to their caste superiority. This identification of the responsibility of cleanliness with a particular caste is one of the biggest impediments to the vision of clean India. Similarly, culture and traditional practice becomes another barrier. Open defecation is not only about lack of functional toilet at home, it is part of the traditional practice, which considers it is more healthy to relieve oneself in open than to defecate just next to the place one is living. So, building toilet is not always the effective way to fight the practice of open defecation. It demands meaningful and inclusive participation of people overcoming their cultural inhibition and social prejudices.

Conclusion

It is true that, of late, India has shown urgency to address the problem of sanitation and hygiene, which was due for a long time. But to deal with this issue, the government would have to be more inclusive and integrative in its approach. Even the budgetary allocation for this purpose needs to be utilised in more inventive manner. At the same time, it should also be noted that the problem cannot be dealt only by building toilets. The larger issues, which may not have direct connection with the problem, should also be focused on. And it is not the responsibility of the government alone, all stakeholders need to come forward and take part at various levels to make the vision of clean India a reality.

Readings

Cairncross,Sandy 'Water, Sanitation and Hygiene for The Prevention of Diarrhoea' *International Journal of Epidemiology* 39 (suppl.1), 193-205.

General Budget 2015-16: Highlights and Summary

http://pib.nic.in/budget2015/budgetdoc/gbEngRelease.pdf

Hazra,Nirupam (2014), 'Understanding Health Care and Its Challenges', *Social Welfare*, 61(2).

Restructuring of the Nirmal Bharat Abhiyan into Swachh Bharat Mission

http://pib.nic.in/newsite/PrintRelease.aspx?relid=109988

'The Economic Impact of Sanitation in India'

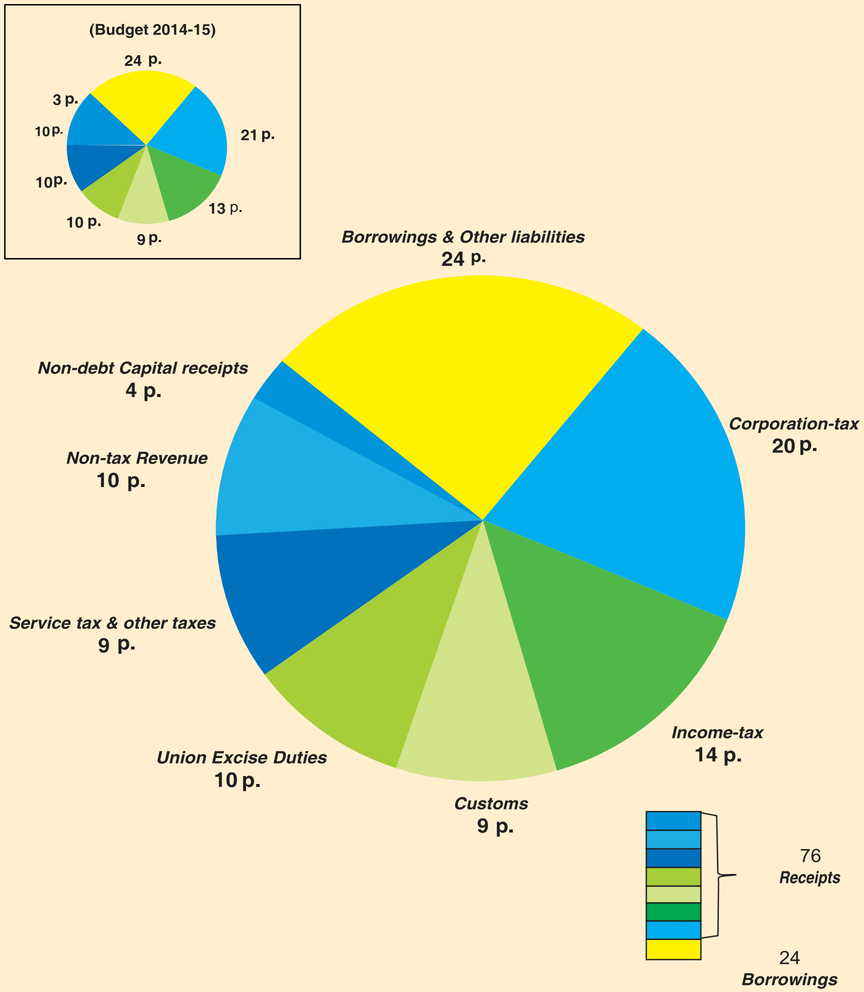
http://www.wsp.org/sites/wsp.org/files/publications/WSP-esi-india.pdf

'Why Improved Sanitation is Important for Children'; UNICEF

http://www.unwater.org/wwd08/docs/kids-sanitation.pdf ❑

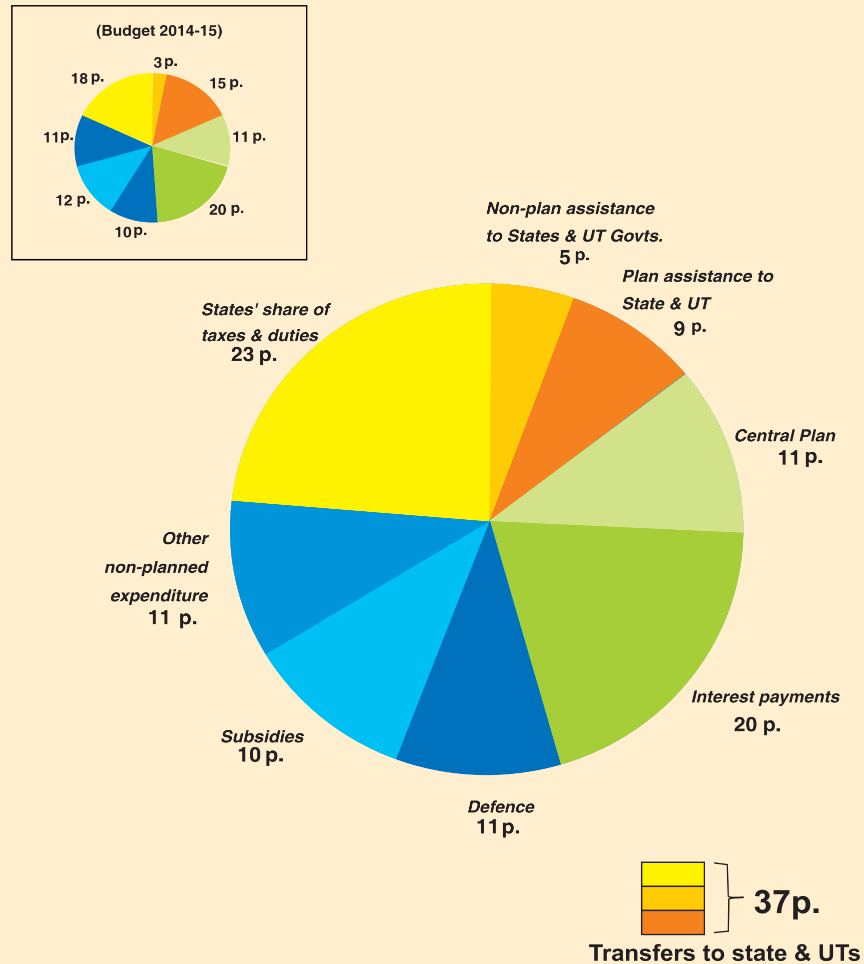
(E-mail:hazra.nirupam@gmail.com)

Rupee Comes From
(Budget 2015-16)



Notes: Total receipts are inclusive of States' share of taxes and duties.

Rupee Goes To
(Budget 2015-16)



Notes: Total expenditure are inclusive of States' share of taxes and duties.

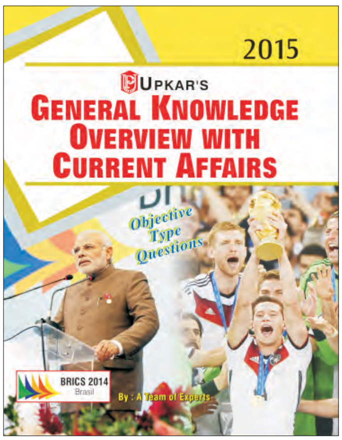
Source: Budget at a Glance (2015-16)

Published on 10 March 2015
Posted on 13-15 March 2015

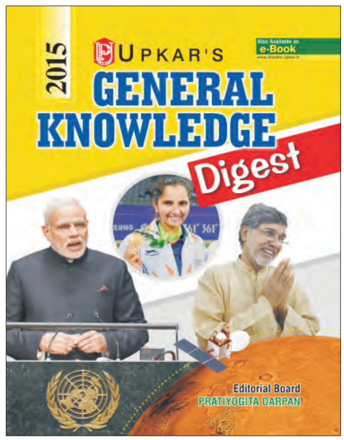
Regd. No. RNI 949/57
Licenced U(DN)-56/2015-17 to post without pre-payment at RMS, Delhi (Delhi Post
Postal Regd. DL(S)-05/3231/2015-17
No. Pages 84

New Opportunities are Beckoning

Move Towards Them With Confidence

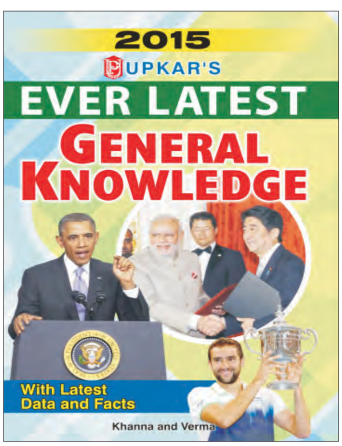


A Team of Experts ₹ 60.00



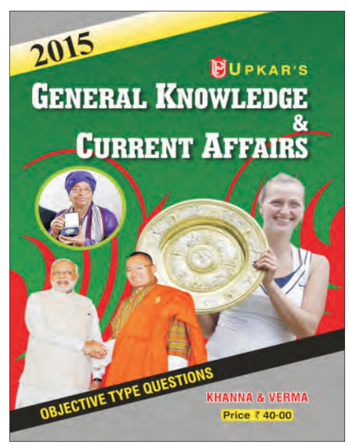
Etitorial Board Pratiyogita Darpan ₹ 125.00

Upkar's G.K. books equip you with everything that is needed to face the Challenges presented by **Competitive Examinations.** *So..........what are you waiting for ? Go ahead and grab the opportunity.*



Khanna & Verma ₹ 170.00

Khanna & Verma ₹ 35.00



Khanna & Verma ₹ 40.00

OTHER USEFUL BOOKS

Upkar's Multi Dimensional Junior General Knowledge	Code 1538	₹ 90.00
Upkar's Modern General Knowledge	Code 990	₹ 220.00
Upkar's Compendium General Knowledge	Code 360	₹ 225.00

UPKAR'S G.K. BOOKS

Crafted just according to your needs

UPKAR PRAKASHAN
(An ISO 9001:2000 Company)
2/11 A, Swadeshi Bima Nagar, **Agra**-282 002. Ph. : 4053333, 2530966, 2531101; Fax : (0562) 4053330
• E-mail : care@upkar.in • Website : www.upkar.in
• **New Delhi** 23251844/66 • **Hyderabad** 66753330 • **Patna** 2673340 • **Kolkata** 25551510 • **Lucknow** 4109080

Printed & Published by Dr. Sadhana Rout, Additional Director General and Head on behalf of Publications Division, Soochna Bhawan, C.G.O. Complex, Lodhi Road, New Delhi - 110 003. Printed at Chandu Press, D-97, Shakarpur, Delhi-110 092 Phone: 22424396, 22526936.