POLICY BRIEFS

THE UNION BUDGET 2019-20

THE ECONOMICS SOCIETY, SRCC

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PREFACE

If one were to list down the forces that effectuated the current global order, one cannot possibly deny the extraordinary impact that the forces of assent, dissent and intent have had in brining the world to its current state. More than anything, these forces define the spirit of the democracy that millions of us live in; the spirit of Indian democracy. Every time a policy gets the parliamentary nod, one cannot help but observe how effortlessly these forces sear into our national fabric. People assent and dissent unaware that they all assent on one common intention that happens to unite them all irrespective of their ideological differences: the ambition for a better them, a better future and a better India.

While most of this assenting and dissenting comes with little to no pre-requisite knowledge, the intention behind this is absolutely clear. People want the best usage of their funds, and the most optimal working of the government they elected.

It is precisely this that has inspired us to undertake the process of decoding the current Indian policy space, and put forth our own suggestions.

UNION BUDGET 2019-20

AGRICULTURE

BY SUSHANT SOHEY
AND DEEPTI MAHAJAN

The Indian agriculture sector contributes roughly 16% to the GDP of the country. Globally, India is the second-largest producer of agricultural commodities (in terms of calorie content) but its share in global trade is as low as 2%. It is also the largest producer of pulses, wheat, spices and spice products. The main source of income of about half the workforce, Indian agriculture is of paramount importance to our economy.

SECTOR ANALYSIS
THE PROBLEM AT HAND

> *"Government schemes fail to meet their purpose due to poor rural digital infrastructure, low awareness levels and alarmingly low levels of digital penetration."*

The Indian agricultural sector is currently plagued by numerous growth-hindering factors like inequalities in land ownership, perpetual informal lending, inconsistency in quantum and quality of agricultural output, lack of access to inputs and innovations, over-dependency on non-renewable resources for irrigation, weather aberrations, poor awareness levels among farmers and labour immobility.

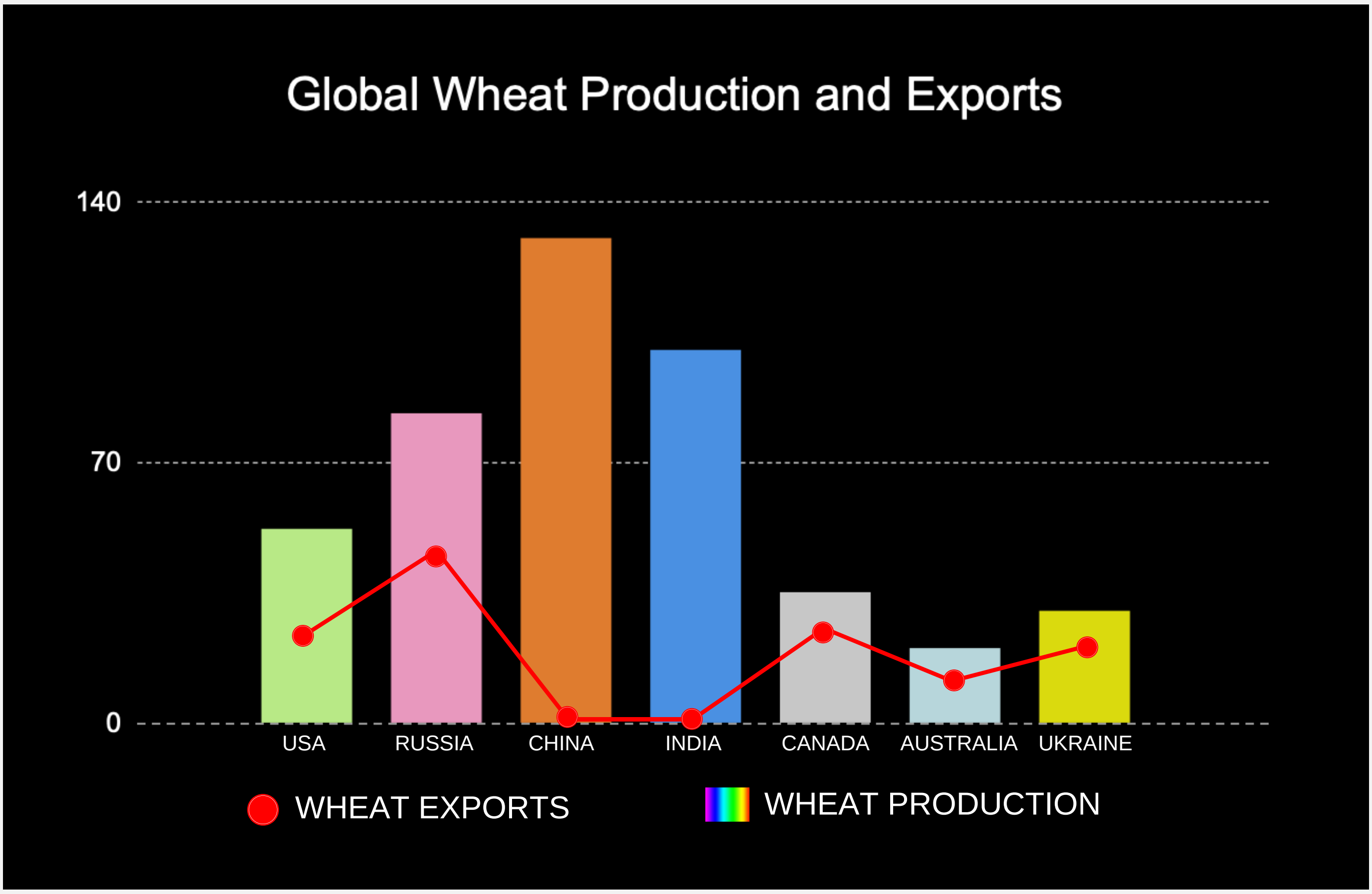
In India, small and marginal farmers account for 86.2% of all farmers but own only 47.3% of cultivable land. These farmers mainly rely on family labour with little to no access to weather forecasts and other necessary technological innovations. While government schemes and technological advancements aim for farmers' welfare, these fail to meet their purpose due to poor rural digital infrastructure, low awareness levels among the beneficiaries of such schemes and alarmingly low levels of digital penetration (merely 25% in rural India).

This sector also faces a hindrance from excessive fragmentation of land (that leads to lower productivity) primarily due to persistent joint family division leaves farmers with small and marginal holdings. Also, around 86% of farmers in India are small and marginal farmers (those

who own less than two hectares) with average operational holdings of 0.6 hectares each.

Moreover, agriculture faces the challenge of highly immobile labour, often in the form of disguised unemployment. Interestingly, research suggests that the higher the degree of unskilled labor mobility between farm and nonfarm sectors, the higher the output response, and the lower the real earnings of unskilled labor in agriculture. Export volumes also go up as unskilled labor is allowed to move between farm and non-farm sectors (Mustafa ACAR, Agricultural Unskilled Labor Mobility: Does It Matter?).

With respect to international trade, India's agri-exports potential is as high as US $ 100 billion against current exports of US $ 30 billion. While India produces a major share of fruits and vegetables produced around the world, its share in international trade of fruits and vegetables is disproportionately less. Due to the limited cold storage capacity, post-harvest losses in agriculture is about Rs. 44000 crore annually which in turn reduces the quantity available for exports.



THE GOVERNMENT'S RESPONSE

The agriculture sector was and continues to be a priority for the BJP government. From rolling out income support schemes to farm loan waivers, this government has chalked out ambitious plans and policies for this sector. A few of their initiatives are listed below:

Agriculture Export Policy

The ambitious Agriculture Export Policy, introduced in 2018, aims to increase India's agricultural exports to US$ 60 billion by 2022 and US$ 100 billion in the next few years with a stable trade policy regime.

Pradhan Mantri Krishi Sinchai Yojana (PMKSY)

To reduce farmers' dependency on rain and provide a permanent solution for drought, the government launched the PMKSY with an investment of Rs 50,000 crore. Moreover, a dedicated Micro-Irrigation Fund has been created with NABARD for encouraging public and private investments in the nascent field of Micro-irrigation.

PM - Kisan Yojna

Under the PM-Kisan Yojna, Rs 2,021 crore was transferred to the bank accounts of more than 10 million beneficiaries that consisted of small and marginal farmers of India.

Pradhan Mantri Fasal Bima Yojana (PMFBY)

was introduced by the government to provide financial aid to the farmers insuring their crops by paying a part of the premium.

Electronic National Agriculture Market

To promote better price discovery, the unified Electronic National Agriculture Market (eNAM), launched in April 2016, now has over 10 million farmers and 110,000 traders registered on the platform.

Investments

The Government of India also plans to triple the capacity of the food processing sector in India and hence, has committed Rs 6,000 crore as investments for mega food parks in the country.

WHAT WE EXPECT

SANKALP PATRA - BJP'S 2019 MANIFESTO

With the aim of doubling farmers' income by 2022, BJP is expected to not only increase the allocation of funds towards welfare and pension schemes but also invest in this sector with a view to increasing productivity.

1) INCOME SUPPORT

a. Expansion of the **PM-KISAN Yojna** to all farmers except those in the exclusion criteria. The revised scheme would cover 14.5 crore farmers with an estimated annual expenditure of around Rs. 87217.50 crores for the year 2019-20.

b. **Social security pension** of Rs. 3000 p.m. to small and marginal farmers upon reaching 60 years of age. The scheme is voluntary and contributory with the entry age fixed from 18 to 40 years with the pension fund managed by LIC. The government is expected to incur an estimated expenditure of Rs 10774.50 crores upto the financial year 2021-22.

2) INVESTMENTS AND CAPACITY BUILDING

a. The manifesto provides for an **investment of Rs. 25 Lakh crores** to enhance farm productivity. It

promises to establish **National Warehousing grids** along the National Highways to ensure logistical linkages.

b. Focus points to improve the **dairy sector** are mobile veterinary dispensaries, immunization schemes and social security and insurance schemes. **Fishing Sector** is expected to receive an allocation of Rs. 10000 crores under Matsya Sampada Yojana with an aim of bringing out 'Blue Revolution' in India.

c. The manifesto aims to bring an additional 20 lakhs hectares of land in hilly, tribal and rainfed area under chemical free **organic farming** in the next five years. It also aims at launching a dedicated e-commerce portal for organic farming.

d. **PM Krishi Sinchai Yojana** aims to realize 100% irrigation potential of the country within a defined time-frame.

e. In the sphere of convergence of agriculture and technology, the manifesto provides for creating a **mobile app-based system** for promoting the availability of agri-implements and better knowledge of the market prices. It calls for transforming farmers from **'annadaata' (food provider) to 'urja-daata' (energy provider)** by tapping the unrealized potential of renewable energy. It also provides for the implementation of second-generation land reforms and digitization of land records.

WHAT WE WANT

POLICY RECOMMENDATIONS

1) INCLUSIVE GROWTH: ACCESS AND EXPANSION OF PM-KISAN YOJANA (TENANTS AND LANDLESS FARMERS)

To ensure inclusive growth, universal access and awareness is imperative. The experience of Green Revolution corroborates the fact that given access to resources (both physical and financial), technology, farm inputs and institutional credit, farmers with **small and marginal holdings** can also experience economic gains from technological innovations irrespective of land-size thus ensuring an inclusive growth. With the aim of expanding the number of beneficiaries and supporting the poorest sections of the society, PM-KISAN Yojana should be expanded to landless farmers and tenants too. Since data in this regard is non-existent, the first step in this direction would be prepariton of a database which differentiates between different classes of farmers and tenants.

2) RENEWABLE ENERGY AND SUSTAINABLE DEVELOPMENT: FROM CROP-GENERATORS TO ENERGY-GENERATORS

In order to encourage the practice of harvesting renewable energy among farmers, government must incentivize farmers to generate and use renewable energy. To provide an alternate source of income and encourage the generation of energy, a concept of **support price for surplus energy should be introduced** wherein, the farmer gets a pre-determined price for surplus energy generated from the government.

3) INVEST IN DIGITALIZATION: RURAL INFRASTRUCTURE AND DIGITAL LITERACY

Creation of direct digital marketing platforms connecting producers to consumers, developing rural infrastructure to increase its pool of policy beneficiaries, conducting digital workshops and building digital help centers to increase digital literacy levels are a few steps the government must undertake.

4) LABOUR MOBILITY

To increase labor mobility, the government in alignment of its vision of building rural infrastructure, should concentrate on initiating a transitional shift of workforce from agriculture to rural construction. Interestingly, agricultural sector employs 64.1% of the rural workforce while its share in rural output is limited to 39.2%. Also, the government should tap the vast unrealized potential of employment opportunities in the manufacturing sector which is expected to contribute 25% to the GDP of the country.

5) FARM PRODUCTIVITY: MANAGING COOPERATIVES AND FPOs

Several economists believe that there is an inverse relationship between farm size and per-hectare agricultural productivity. However, taking into account factors like soil quality, technology used and the quality of labour, **the farm-productivity variable is in fact, a U-shaped curve** (Foster, Andrew D. and Rosenzweig, Mark Richard, Is There Surplus Labor in Rural India?). Productivity falls in case of small and intermediate land holdings due to factors like disguised unemployment, effects of changing land-man ratio, falling MPL and increases eventually. Hence, **land holdings larger than a certain threshold are in turn more productive than the small farms** because the landowners have requisite resources and funds for the economies of scale stage to kick in.

To combat the problem of excessive fragmentation of land due to joint family divison that further leads to low productivity, the government should aim to increase the number of cooperatives and FPOs which would pool together land and focus on their better management. Around 85% of the world agricultural production is undertaken by cooperatives.

6) FARMER'S WELFARE: PREVENTION OF FARMERS SUICIDES

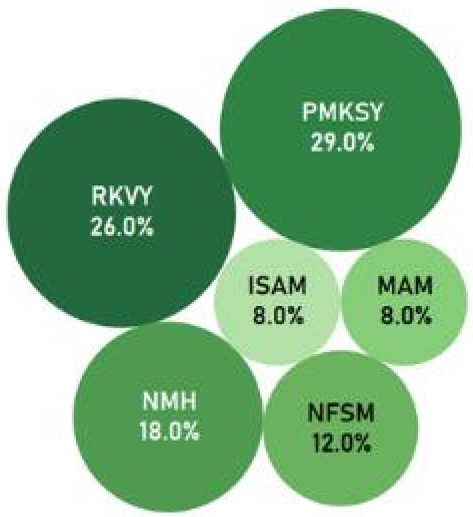
Factors that influence farmers' decision to take such extreme steps are socioeconomic and psychological factors. In order to prevent farmers from getting into the vicious circle of debt trap, one must focus on expanding institutional credit and crop insurance facilities. Also, to ensure that farmers take sound financial decisions right from sanctioning of loans to fund management, free financial advisory services should be provided to farmers. Early psychiatric intervention in the form of 24/7 counselling and stress management services can help tackle these challenges on the psychological front.

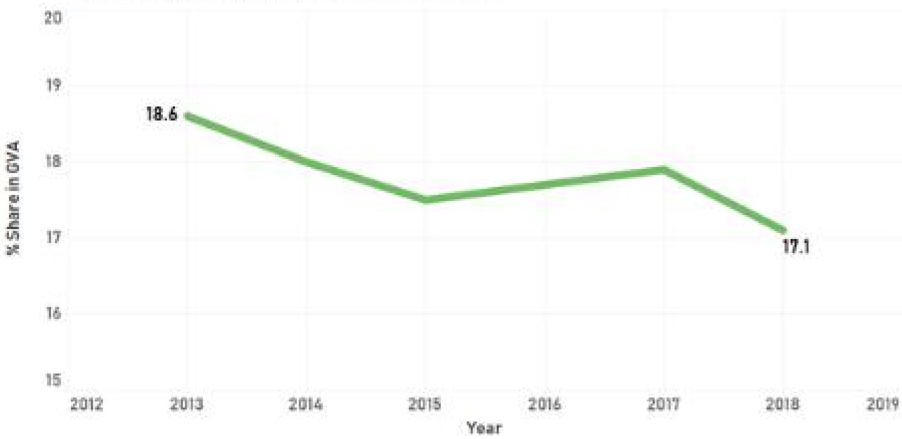
7) INTERNATIONAL TRADE

To tap the unrealised export potential of US $ 70 billion, government should adopt the strategy of 'export what is demanded' rather than 'export what is produced'. To ensure that the quality and quantum of output matches the international standards, the government should set up mega food parks, undertake agricultural research to increase crop yields, invest in biotechnology and improve credit facilities. It should remove all export restrictions on agricultural exports and should also invest in value chain infrastructure like cold storages to facilitate the export of processed agricultural products.

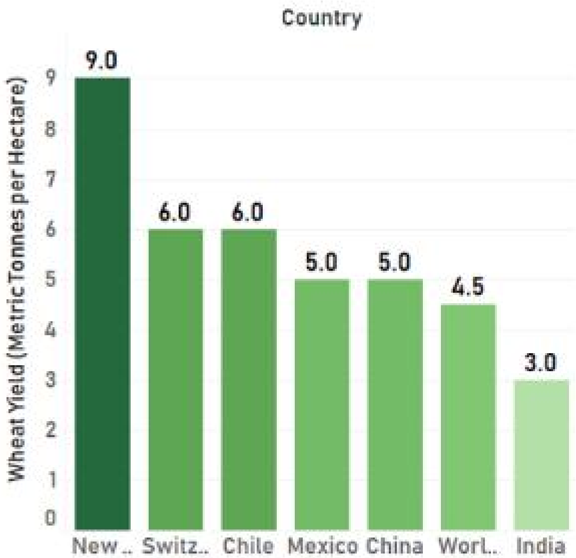
UNION BUDGET 2019-20

SECTOR: AGRICULTURE

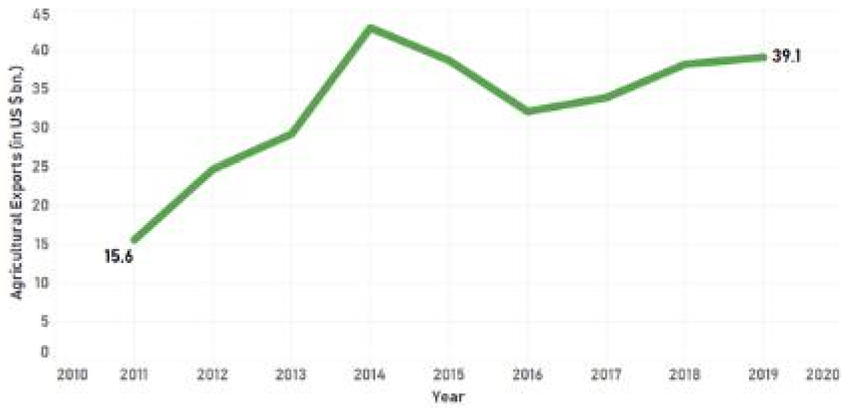




GOVERNMENT SCHEMES WITH FUND ALLOCATION



PERCENTAGE SHARE IN GVA



WHEAT YIELD IN COMPARISON WITH OTHER COUNTRIES

AGRICULTURAL EXPORTS OVER THE YEARS

58%

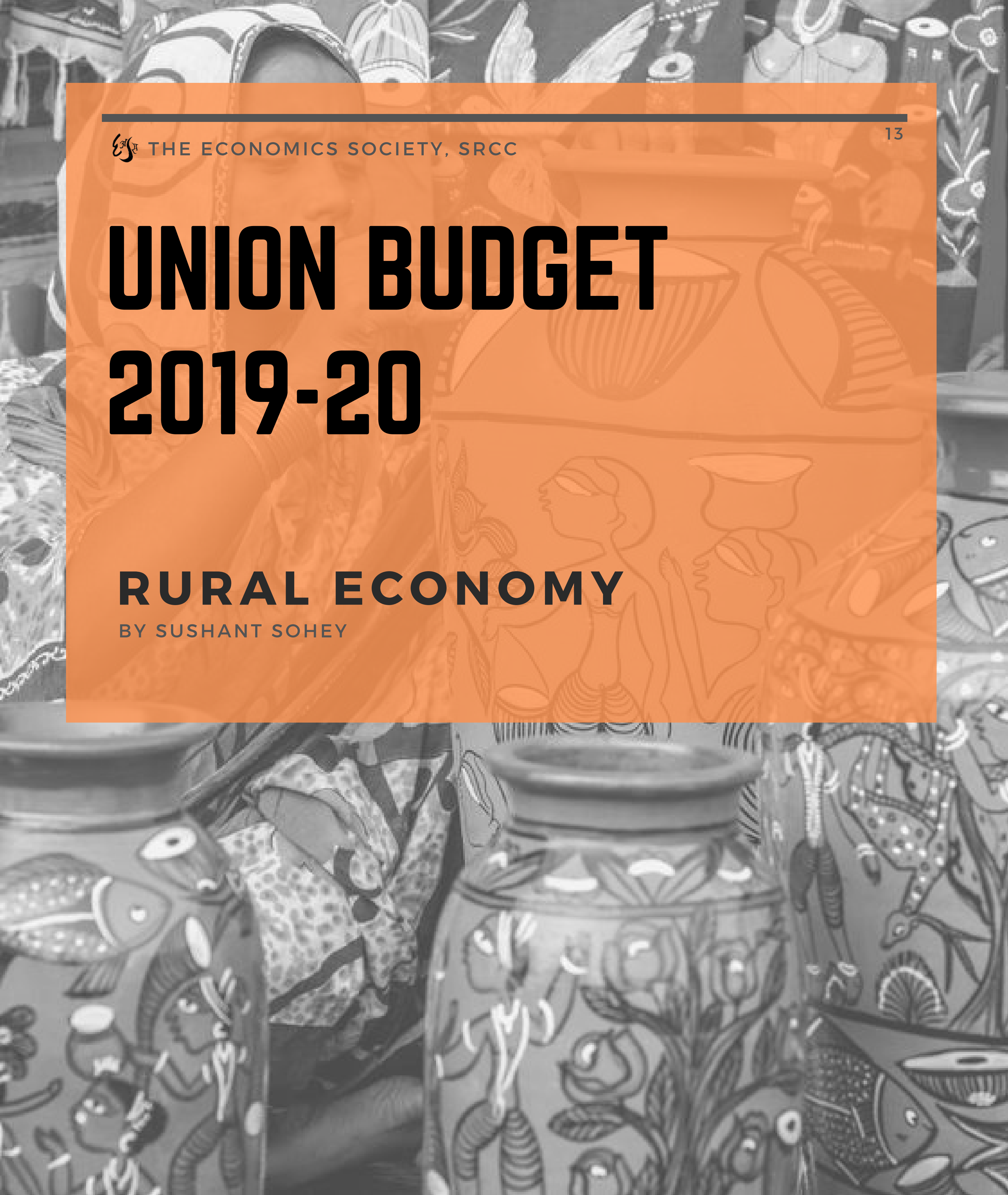
of Indian Population is employed in this sector

$ 1.6 BN.

Amount raised by Agri-food Startups in 2013-17

2ND

Largest fruit producer and largest producer of spices



UNION BUDGET 2019-20

RURAL ECONOMY

BY SUSHANT SOHEY

India is predominantly a rural country. Our rural economy is home to 70% of the population and 73% of the workforce and contributes around 46% to GDP. Rural economy is undergoing a structural transformation. More than half of Indian industrial production comes from the rural areas with Rural construction accounting for half of the total building activity in the country. Hence, it is imperative for the upcoming budget to ensure the growth of both farm and non-farm sectors. The value of rural services is about a quarter of the total services output.

SECTOR ANALYSIS

MODI 1.0 - THE STORY SO FAR

Monsoon is the lifeline of the rural economy. Demand in the rural economy is directly linked and in fact, highly dependant on rains. Rains determine a household's prosperity and hence with sluggish and delayed rain there has always been a sharp decline in the sales of consumer durables like tractors, scooters and televisions. Unfortunately, the dependence of sector growth has even spread to the FMCG sector, which just strengthens the adverse impact a dry year could have on the nation's economy.As growth in sales keeps on declining due to low demand, firms would cut production leading to job losses all this happening at a time when unemployment levels are at an all time high: signs of an impending rural crisis.

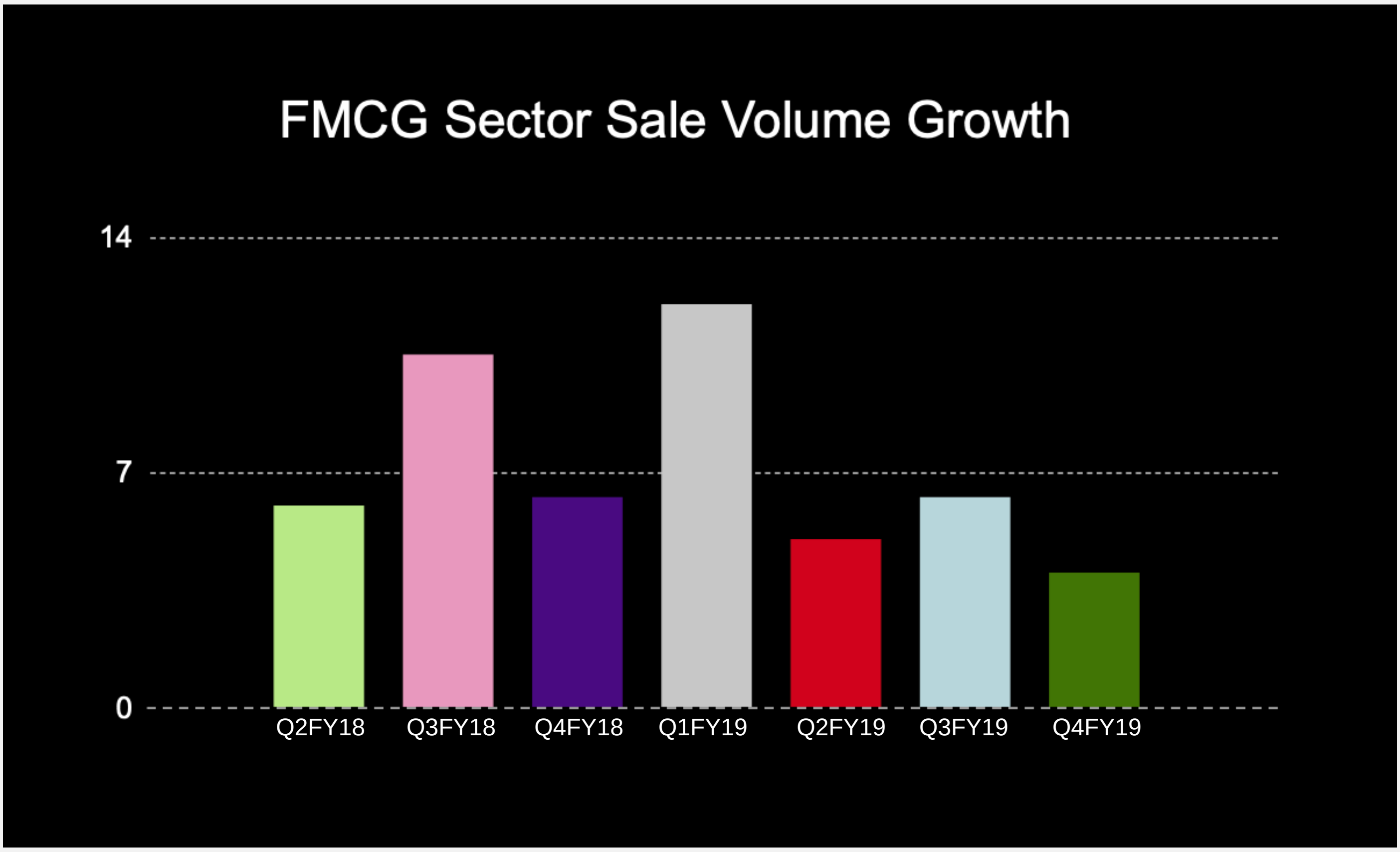
"As growth in sales keeps on declining due to low demand, firms would cut production leading to job losses all this happening at a time when unemployment levels are at an all time high: signs of an impending rural crisis."

With clear signs of deepening distress, the rural economy is currently also facing a period of a slump in employment opportunities and rural wages. MGNREGA offered only 38 days of employment per household in 2018-19 as compared to 45.8 days in 2017-18. General rural wage growth witnessed a fall of 20-30 percent with non-farm wage growth falling to around 4 percent. Notwithstanding the rural construction sector picking up, rural economy is witnessing a situation of "wage growth deceleration". Further,

annual wholesale inflation last year was reported at minus 0.07 percent for food and 4.45 percent for non-food articles. Also, agricultural growth rate in 2018-19 has come down to 2.7% from 5% in the 2017-18.

Another interesting fact is the huge income disparity a farmer and a non-agriculture work, the latter's being thrice as much as the former's. Among non-agricultural sectors, the manufacturing sector contributes 18% to rural output, but employs only 8% of the rural workforce. While, the services sector contributes 27% to rural output with the value of rural services about a quarter of the total services output of India. Hence, the rural economy is attempting to largely reduce its dependence on agriculture and more ambitiously, shift to formal work setting with an increase in salaried employment. Although encouraging, the grim reality is that the workforce employed as casual labourers is still more than workforce under formal employment.

Among all these economic phenomena, the rural economy is also witnessing a rapid transformation in its social structure. The rural communities inhabiting rural areas are fast evolving; caste-based occupations are fading away and rural families are evolving from joint to nuclear families. The dynamic of rural areas is slowly evolving into that of urban areas and hence their needs.



THE GOVERNMENT'S RESPONSE

The first five years of the NDA government majorly focused on inclusion and development of rural infrastructure. Some of the major schemes are:

Prime Minister's Jan Dhan Yojana

Launched in 2104, PMJDY is a national mission on financial inclusion with an aim of providing banking services to all the households in the country. It provides a platform for universal access to banking facilities with objectives like at least one basic banking account for every household, financial literacy and access to credit.

Pradhan Mantri Awas Yojana (Gramin)

PMAY-G (Housing for all) aims at providing a pucca house, with basic amenities, to people who are either homeless or living in kutcha and dilapidated house, by 2022. To ensure that assistance is targeted at those who are genuinely deprived, the scheme selects the beneficiaries using housing deprivation parameters in the Socio Economic and Caste Census (SECC), 2011 instead of among the BPL households. Under the scheme, the government plans to construct 60 lakh such houses in 2019-20 and another 70 lakh and 65 lakh houses in 2020-21 and 2021-22 respectively.

Prime Minister's Ujjwala Yojana

This scheme aims to safeguard the health of women & children by providing them with a clean cooking fuel – LPG. Out of a targeted 80 million beneficiaries, the scheme has covered around 71.9 million beneficiaries with an estimated fund allocation of Rs. 12,800 crores. LPG coverage has reached 90% of households in early 2019 from 55% in 2014.

Digital Villages

In the interim budget, the government announced its plans to transform one lakh villages into Digital Villages over the next five years with the help of Common Service Centres (CSCs), a public-private initiative that offers digital services to villagers. GoI is expected to invest around Rs. 15,000 crores for this initiative.

Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM)

PM-SYM is a voluntary and contributory pension scheme for unorganised workers, under which the subscriber receives a minimum assured pension of Rs 3000/- per month after attaining the age of 60 years. It aims at ensuring old age protection for unorganised workers.

Deendayal Upadhyaya Gram Jyoti Yojana

Launched in 2015, this scheme aimed at providing electrification to all villages by May 2018 while providing for feeder separation to ensure sufficient power to farmers and regular supply to other consumers. There were 18452 unelectrified villages in 2015 before the government allocated Rs 75, 893 crore under this scheme. A village is considered electrified if at least 10% of its households are electrified, among other conditions. In order to complete household electrification, the central government has launched Pradhan Mantri Sahaj Bijli Har Ghar Yojana with an aim to electrify every rural household.

Ayushman Bharat - PM Jan Arogya Yojana

Launched in September 2018, AB-PMJAY is an entitlement based scheme which provides a benefit cover of Rs. 5 lakh per family per year for all secondary and tertiary care procedures. To ensure that everyone gets access to quality healthcare, there is no cap on family size and age. The scheme also aims at setting up 1.5 lakh primary healthcare centres. As of May 2019, around 2.7 million people had been admitted in hospitals under the scheme and around Rs 3,580 crore had been authorised for admissions.

Pradhan Mantri Gram Sadak Yojana

This scheme was launched to provide all-weather road connectivity to unconnected habitations under a poverty reduction strategy. Under this scheme, about 1.67 lakh unconnected habitations are eligible for coverage which requires construction of about 3.71 lakh km of roads along with provision of maintenance and repair of rural roads.

Swachh Bharat Mission - Gramin

Under SBM-G, around 967.10 lakhs toilets were built since the launch i.e. 2nd October, 2014. Around 622 districts and 5,67,498 villages have declared themselves as open-defecation free (ODF).

WHAT WE EXPECT

SANKALP PATRA - BJP'S 2019 MANIFESTO

BJP’s Manifesto - Sankalp Patra 2019 aims to realise the vision of Gram Swaraj by ensuring that everyone has equitable access to resources. The manifesto majorly focuses on:

1) **WATER**

a, The launch of a new Jal Shakti ministry with an aim to provide adequate water supply to all households and conservation of water sources.
b. Piped water connection would be provided to every household by 2024.
c. 100% disposal of liquid wastewater and reuse of wastewater

2) **WELFARE**

a. Reducing the percentage of families living below the poverty line to single digit by 2024
b. Extension of food security cover by providing subsidised sugar at Rs.13 per kg per family per month in addition to food grains to over 80 crore people.
c. Social Security - Extension of Pradhan Mantri Shram Yogi Maandhan scheme to cover all small shopkeepers and ensure the welfare of artisans by allowing flexible and customized packages of credit, working capital and social security options.

3) **RURAL GROWTH**

a. Road Connectivity aimed at connecting centres of education, healthcare and markets with hinterlands via roads.

b. Digital Connectivity ensuring that every Gram Panchayat is connected through a high speed optical fibre network through BharatNet by 2022.

4) **FINANCIAL INCLUSION**

a. Creation of a data-sharing framework to ensure access to bank branches, payment banks and banking correspondents and provision of access to banking facilities to every Indian within a radius of 5 km under the Jan Dhan Yojana.

b. Launch of a technology enabled programme for broader financial literacy along with mass media campaigns providing information on financial products and their use.

WHAT WE WANT

POLICY RECOMMENDATIONS

1) ALTERNATIVE EMPLOYMENT OPPORTUNITIES

For accelerating growth and employment, the traditional suggestion has always been to diversify towards non-farm sectors i.e. shifting workforce from agriculture to the manufacturing sector. However, this recommendation no longer holds true since the onset of technological innovations and concepts like automation and Artificial Intelligence has made the manufacturing industry capital intensive and the constant withdrawal of labor from the agriculture sector has led to a decline in the availability of skilled workforce competent enough to operate advanced machinery that would increase the productivity. Further, investment in food processing, warehousing and other tertiary sectors will help in increasing employment opportunities in tertiary sector.

2) TACKLE PRIVATE CONSUMPTION SLOWDOWN

Due to sluggish monsoon, private consumption of goods decline. Measures such as direct income, reducing tax slabs, liberal lending and higher MSP could be used for reviving consumption in the rural economy. The focus should also be on reducing GST on consumption based goods, reducing corporate tax to 20% in order to incentivise production and reducing personal tax liability. Also, alternatives can be looked upon to reduce dependency of rural demand on monsoon by reducing dependency on agriculture.

3) PILLARS OF DEVELOPMENT: EDUCATION, HEALTH AND NUTRITION

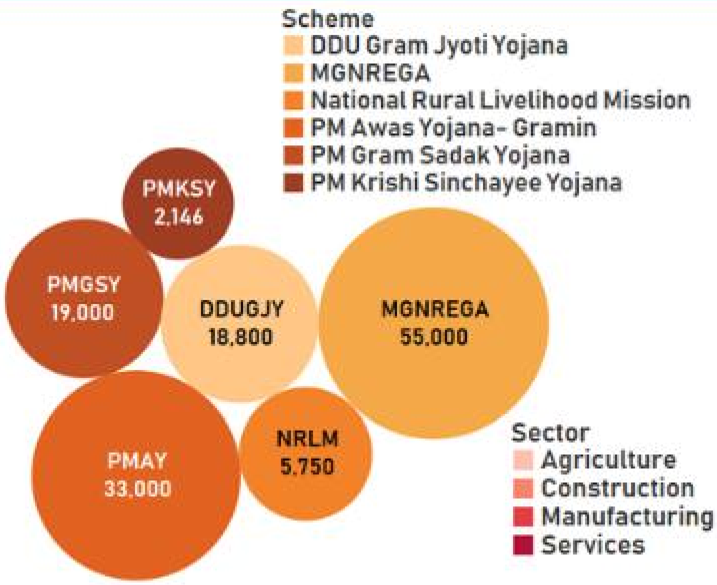
The manufacturing sector contributes 18% to rural output, but interestingly employs only 8% of the rural workforce. One of the main reasons for this is lack of job-based skills in rural youth. In order to increase their employability, developing educational infrastructure is imperative.

Further, India is far away from a stable economy when it comes to health and educational infrastructure. Sky-high death tolls due to outbreak of AES in Bihar can be directly associated to inadequate nutritional intake, shortage of doctors and mismanagement of government funds. The focus in the upcoming budget should be on ensuring access, availability and affordability of health, educational and nutritional facilities.

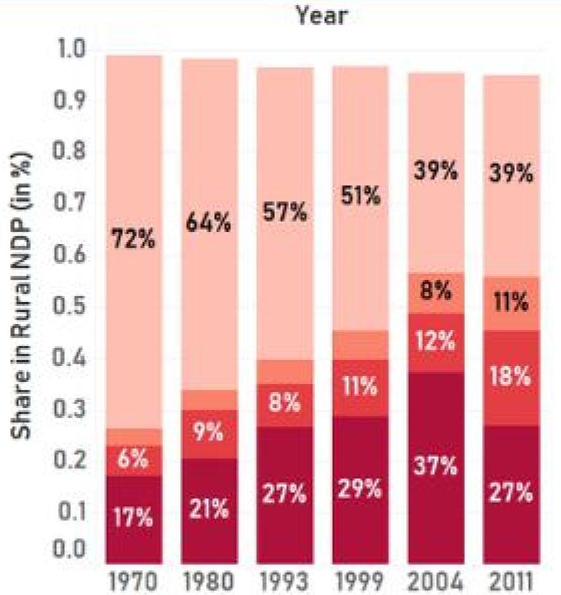
4) PRESERVING NATURAL RESOURCES

Rural population constitutes one of the most vulnerable sections when it comes to scarcity of essential resources. For something as basic as water, rural women have to travel miles away from their home. Hence, it is imperative for the government to prepare a long-term strategy aiming at ensuring access as well as preserving natural resources.

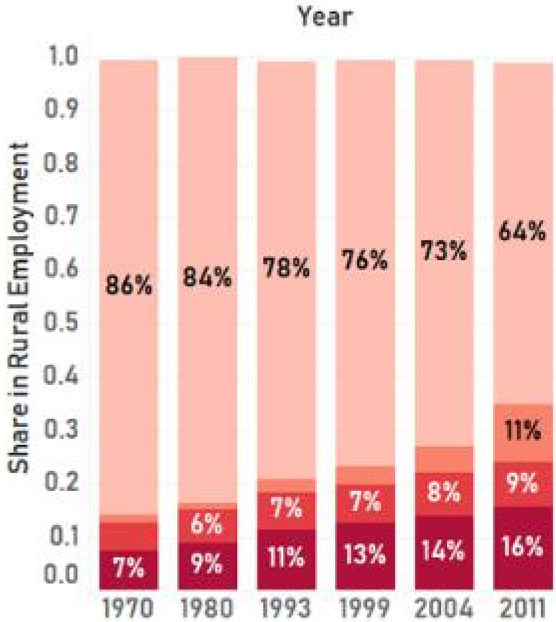
UNION BUDGET 2019-20
SECTOR: RURAL ECONOMY



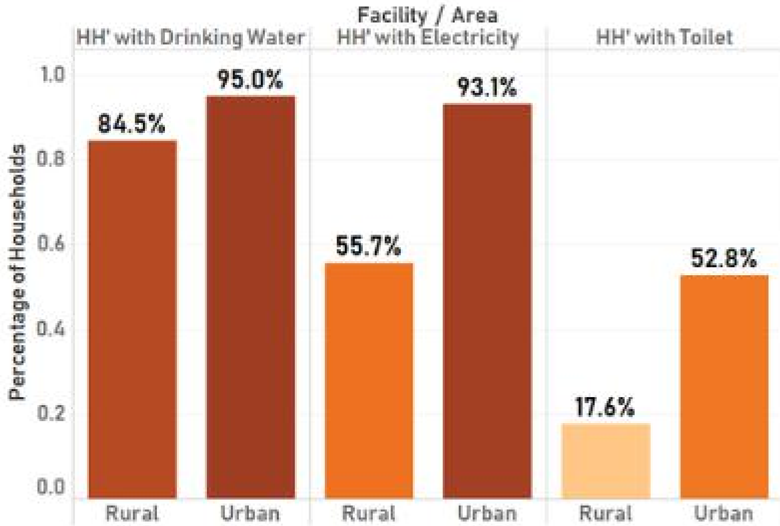
BUDGET OF GOVERNMENT SCHEMES IN FY 2018



SECTORAL SHARE IN RURAL NDP



SHARE IN RURAL EMPLOYMENT



RURAL-URBAN COMPARISON OF FACILITIES

5.3%

rural unemployment rate in India in FY 2018

RS 1.38 LAKH CR

Budgetary allocation to Rural Development Ministry in 2018-19

34%

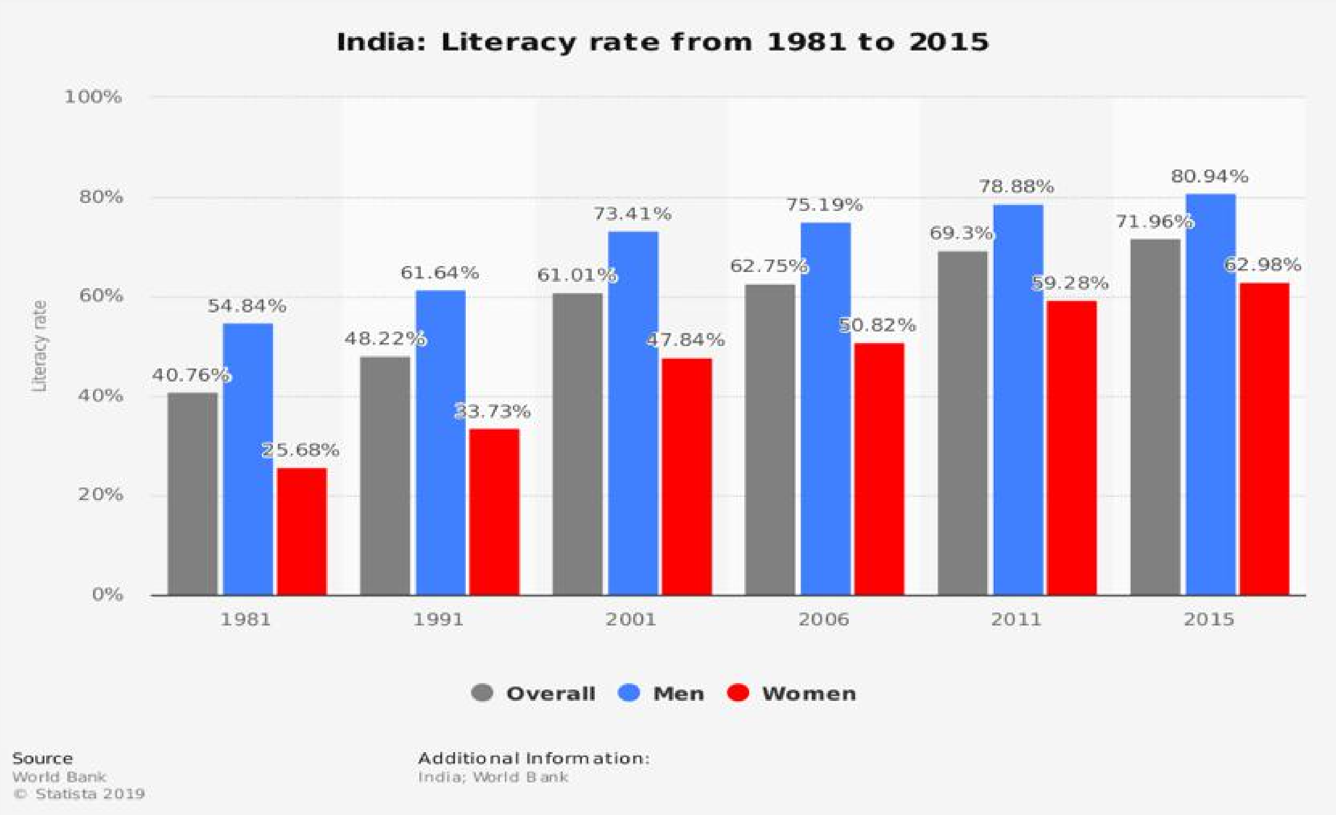
of India's population reside in urban areas in 2018

UNION BUDGET 2019-20

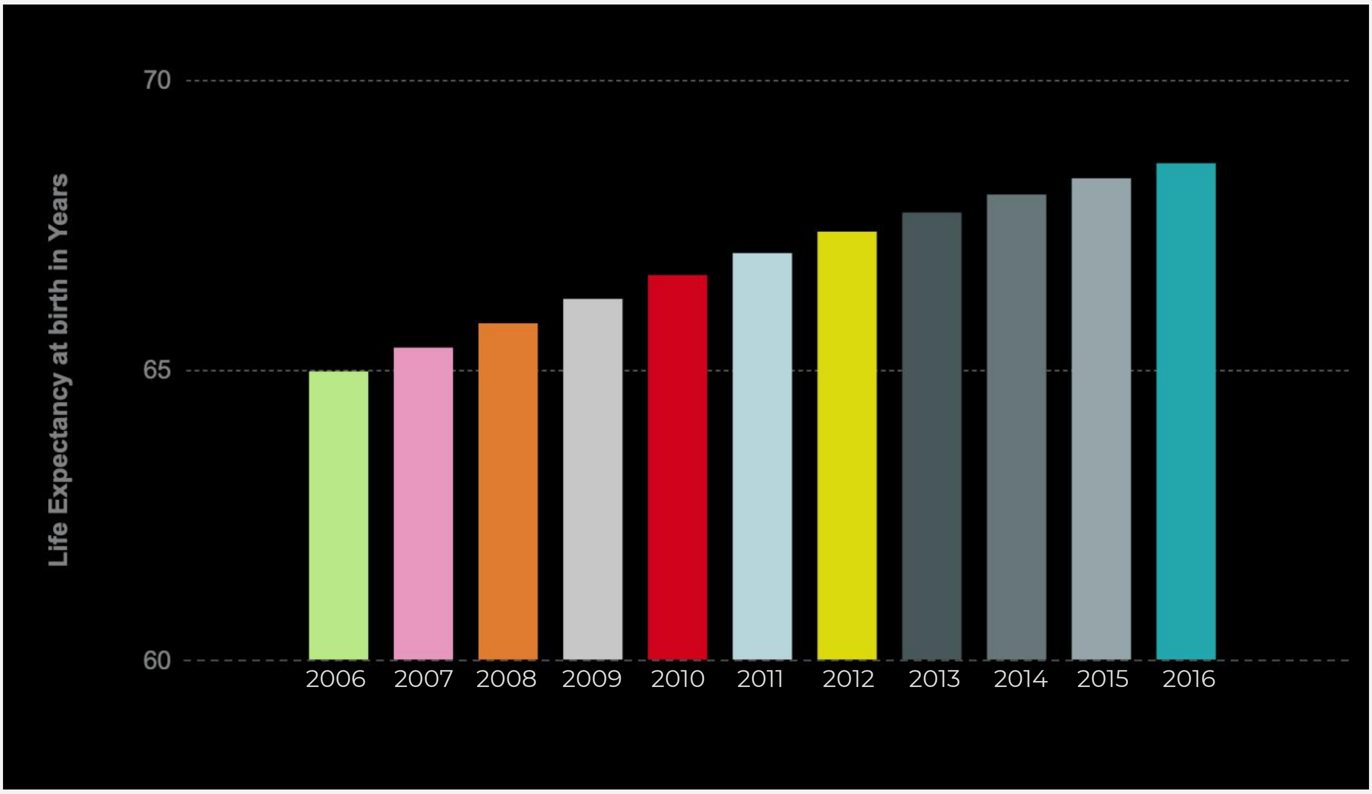
EDUCATION AND HEALTHCARE

BY SANJANA CHANDALIYA
AND DEEPTI MAHAJAN

India has shown a positive trajectory in the fields of education, healthcare and social protection in the past decade. Although India stands far behind at the international level and was ranked 131 in the 2016 Human Development Index (a composite index of life expectancy, education and per capita income) among a total of 188 countries, statistics show gradual improvement in these sectors.



LIFE EXPECTANCY IN INDIA, 2006-16



THE GOVERNMENT'S RESPONSE

The Modi government has introduced some out-of-the-box policies in the fields of education and healthcare in the first leg of its governance:

Ayushman Bharat/Modicare

providing a coverage of up to Rs 5 lakhs per family per year for secondary and tertiary care hospitalisation to over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries).

Pradhan Mantri Jan Aushadhi Scheme (PMJAS)

is a direct market intervention scheme to make available quality generic medicines at affordable prices to all citizens through a special outlet known as Jan Aushadhi.

10% Reservation in Jobs and Higher Education

for economically backward classes in general category for those whose family income is less than Rs 8 lakhs per annum and who own less than 5 acres of land and area of residential house is below 1000 sq ft. This reservation is over and above the existing 50% reservation enjoyed by SC, ST and OBC.

The situation of India's education and healthcare has definitely improved under the Modi regime. With schemes like Ayushman Bharat and PMJAS, the government has been successful in reducing the expenditure of households on healthcare, bringing back the poor and vulnerable above the Poverty Line. Furthermore, a total of 17,150 HWCs have become functional under Ayushman Bharat. The Draft National Education Policy has been lauded for the proposal of Early Childhood Care and Education, structural changes in schools and policies for higher education.

WHAT WE EXPECT

SANKALP PATRA - BJP'S 2019 MANIFESTO

HEALTHCARE

1) To set up one Medical College or Post Graduate Medical College in every district by 2024

2) Doubling the number of MBBS and Specialist doctors in the country by 2024, so as to increase the doctor-population ratio to 1:1400

3) To create an Essential Devices list and a separate pricing policy for medical devices

4) Modi 1.0 had the target of establishing 1.5 lakh Health and Wellness Centres (HWCs) by 2022. The government aims to fulfil this target and take it to the next level by providing telemedicine and diagnostic laboratory facilities at these HWCs by 2022.

5) Under Mission Indradhanush, the GOI had promised to ensure immunisation to more than 90% of children up to two years of age and all the pregnant women left uncovered by 2018. This target has not been achieved and the GOI aims to give a boost to the mission and achieve full coverage by 2022.

EDUCATION

1) To establish National Institute of Teacher Training, which will have four year integrated courses and determine the quality standards for teachers

2) To increase the number of Kendriya and Navodaya Vidyalayas to 200 by 2024

3) To increase the number of seats in central universities and other institutions by 50% till 2024

4) To launch Study India programme to motivate foreign students to enrol for higher education in India

5) To promote excellence in educational institutions so as to register their names in Top 500 universities in the world

DRAFT NATIONAL EDUCATION POLICY (NEP), 2019

Some of the salient features of NEP, 2019 headed by K. Kasturirangan, former Chairman of ISRO, are as follows:

1) A proposed shift in **Curriculum Framework** of schools from 10+2 structure to 5+3+3+4 design, wherein the initial five years will the **Foundational Stage** focusing on learning through play. The next three years are the **Preparatory Stage** where theory subjects will be introduced with greater emphasis given on activity based learning rather than book study. The **Middle Stage** comprises of instilling STEM skills among students leading to the final stage of **High School** of four years, focusing on analytical and multidisciplinary aspects of education.

2) **Right to Education** proposes to extend the ambit of free and compulsory education from ages 6 to 14 years to all children from ages 3 to 18.

3) **Three Language Formula** proposes to teach Hindi, English and any one of the Modern Indian Languages (languages spoken in modern India such as Sanskrit, Punjabi, Marathi, Malayalam, Tamil, etc.) in Hindi-speaking states and Hindi, English and the regional language in non-Hindi speaking states.

4) In Higher Education, the NEP 2019 aims to increase Gross Enrolment Ratio from current level of 25.8% to 50% by 2035. It proposes setting up of an independent body **National Higher Education Regulatory Authority (NHERA)** to replace individual regulators in higher education, including professional and vocational education. The draft policy also recommends separating National Assessment and Accreditation Council (NAAC) from University Grants Commission (UGC), which was earlier a part of UGC.

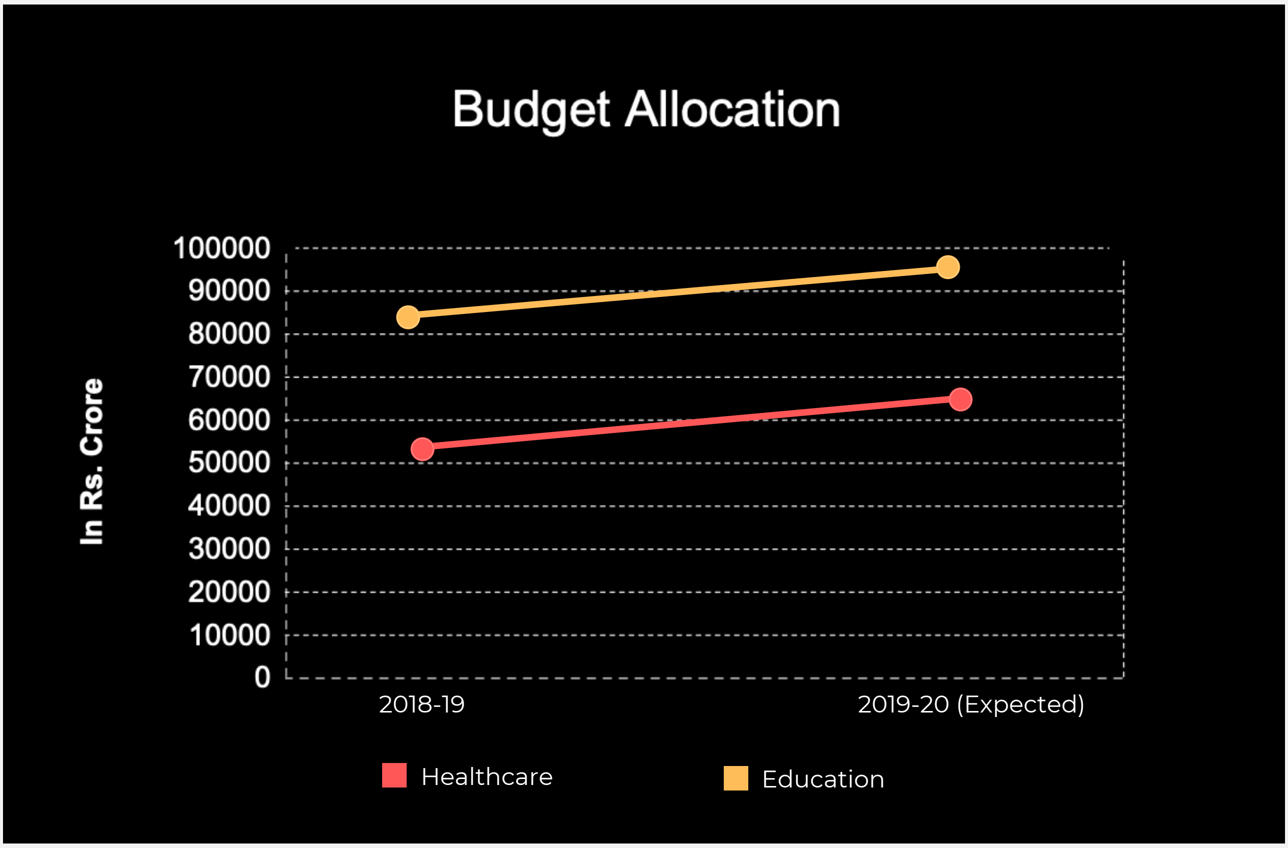
5) Another major reform proposed by the policy is to establish a National Research Foundation, an autonomous body, for funding, mentoring and building the capacity for quality research in India. The foundation will be provided with an annual grant of Rs 20,000 crores.

BUDGET ALLOCATION

IN THE PAST AND AS EXPECTED

The expected budget allocation for the Education sector is Rs 93,847.64 crores, an increase of 10% ovee the previous budget of Rs 85,010 crores in 2018-19.

In Healthcare sector, the expected budget allocation Rs 61,398 crores which is a whopping 16% increase from Rs 52,800 crores in 2018-19.



WHAT WE WANT

POLICY RECOMMENDATIONS

1) Transforming education and skill development should be the key focus in the budget. With global trends in education demanding upskilling/reskilling to the automated industry, the education policy must ensure that the workforce is aligned to the market needs and are hence, employable and adaptable to disruptive but constant changes in the technology.

2) There must be a provision to provide students post middle school options for pursuing vocational training with a defined course curriculum developed by National Skill Qualification framework. Further, apprenticeship opportunities with local industries in line with the model followed in countries like Germany should be given too.

3) The model of community colleges, established by NGOs in partnerships with local industry needs to be implemented across the country. Industries must be encouraged to allocate a significant part of their CSR spend on setting up/ sponsoring vocational training institutes. This would solve the problem of a current dearth of quality teachers/ trainers and will encourage people to consider vocational training as a viable career option.

4)While healthcare services continue to be exempt from GST, high taxes levied on inputs such as consumables, on medical equipment (in the range of 12% - 18%), as well as on medicines must be reduced.

Moreover, a few of the policies already implemented must be amended for better results.

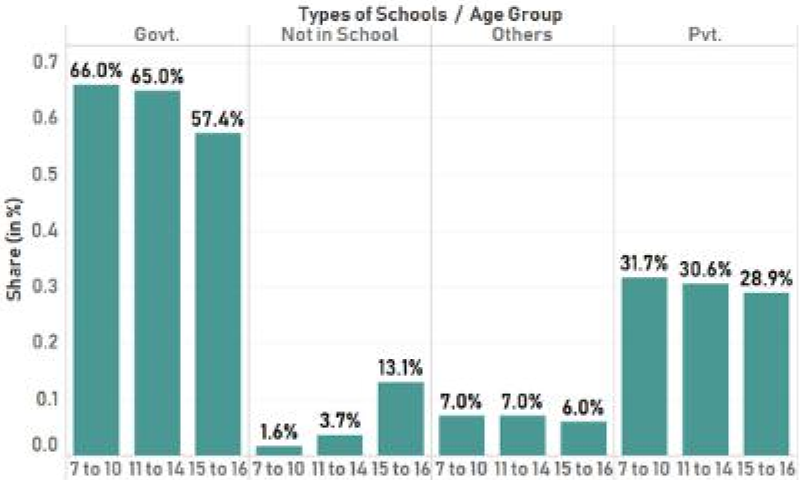
1) In the 10% reservation scheme, the criteria for family income (Rs 8 lakhs per annum or less) is set very high. This amounts to a family income of approximately Rs 67,000 per month or less, which is very high to qualify as economically backward.

2) The Three Language Formula is disadvantageous for Indian students, as the third language (apart from Hindi and English) will be a choice between Indian languages. Students will not have the opportunity to study any foreign language apart from English. Furthermore, the southern states are worried that the students in North will choose to study languages like Sanskrit, Punjabi, Marathi, etc. instead of choosing a southern language, whereas the students in South will be forced to study Hindi (a North-Indian language).

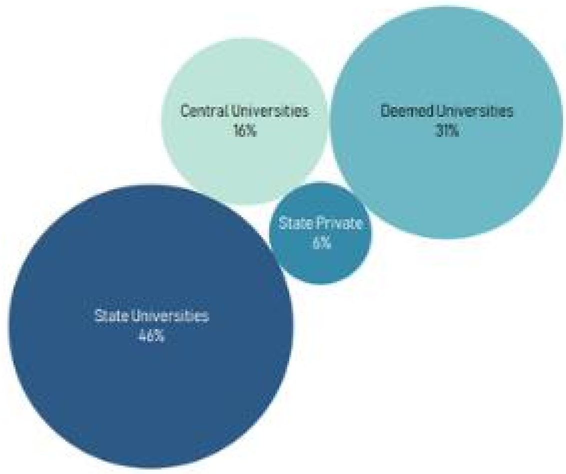
3) The Right to Education has also been imposed on children from 3 to 5 years of age. This compulsion is unnecessary as at this early stage, home-schooling is an equally efficient way of providing early education.

4) According to the National Health Profile 2018, the doctor-population ratio in India is 1:11,082. The proposed ratio of 1:1400 is over-ambitious and is nothing more than a pipe dream.

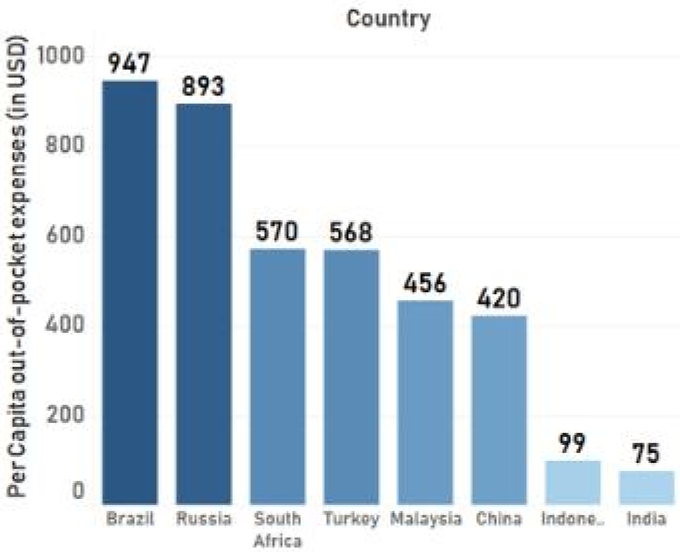
UNION BUDGET 2019-20
SECTOR: HEALTHCARE AND EDUCATION



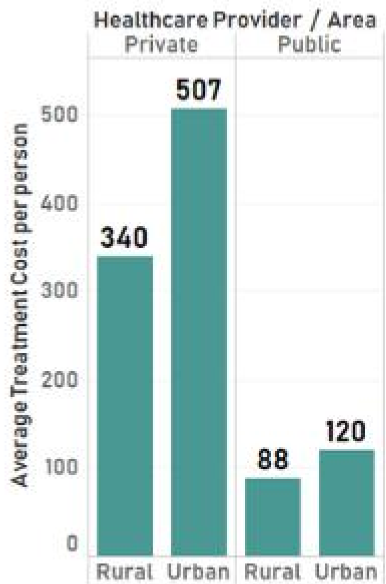
CHILDREN ENROLLED IN DIFFERENT TYPES OF SCHOOLS IN INDIA



TYPES OF HIGHER EDUCATION INSTITUTES IN INDIA



PUBLIC AND PRIVATE HEALTH EXPENDITURE IN VARIOUS COUNTRIES



TREATMENT COST IN INDIA (IN USD)

25.7%

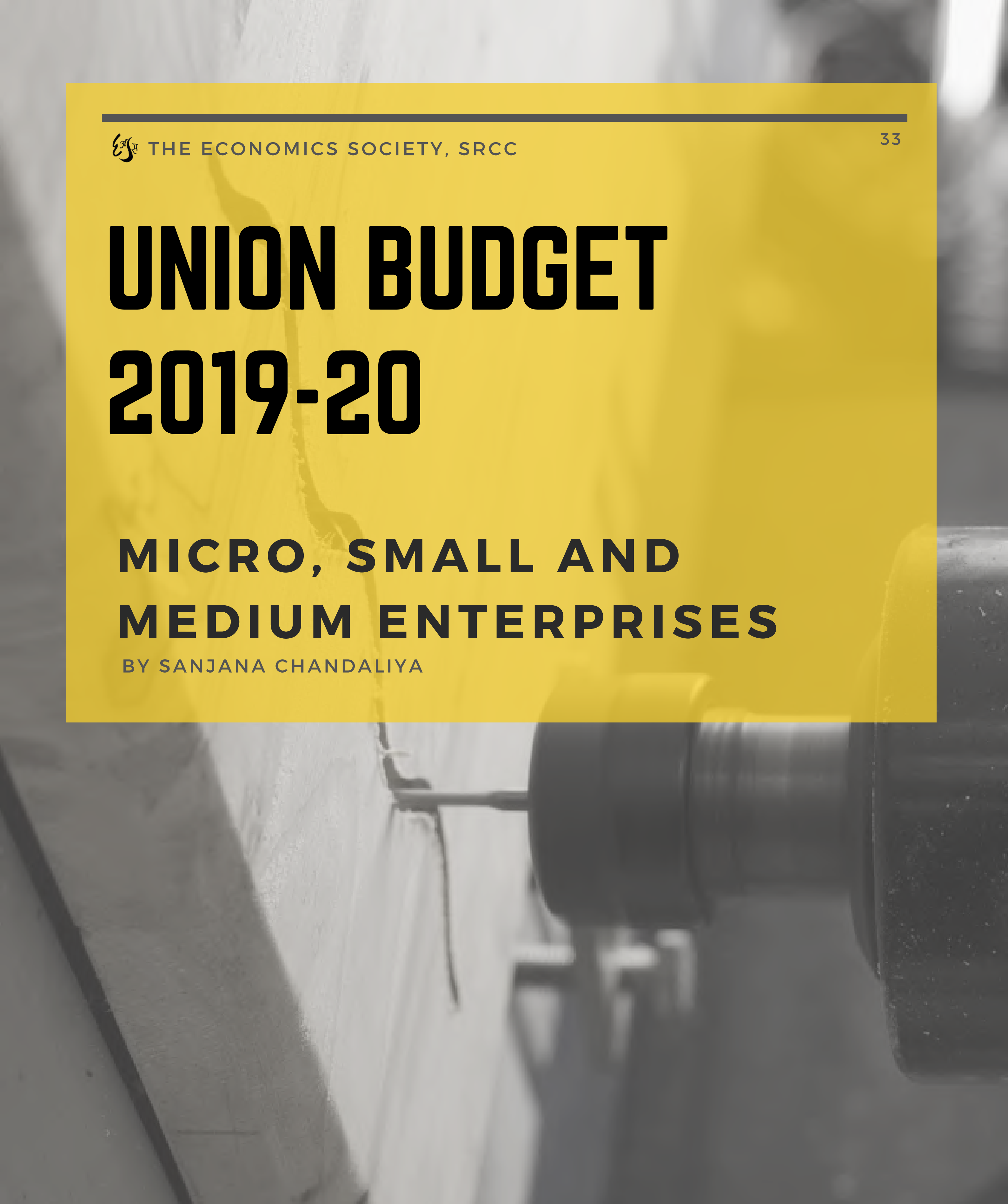
schools in India have Student Classroom Ratio of more than 30:1

1.02%

population growth rate of India in 2019

RS 10500 CR

outlay for Mid-Day Meal scheme in India for FY 2018-19

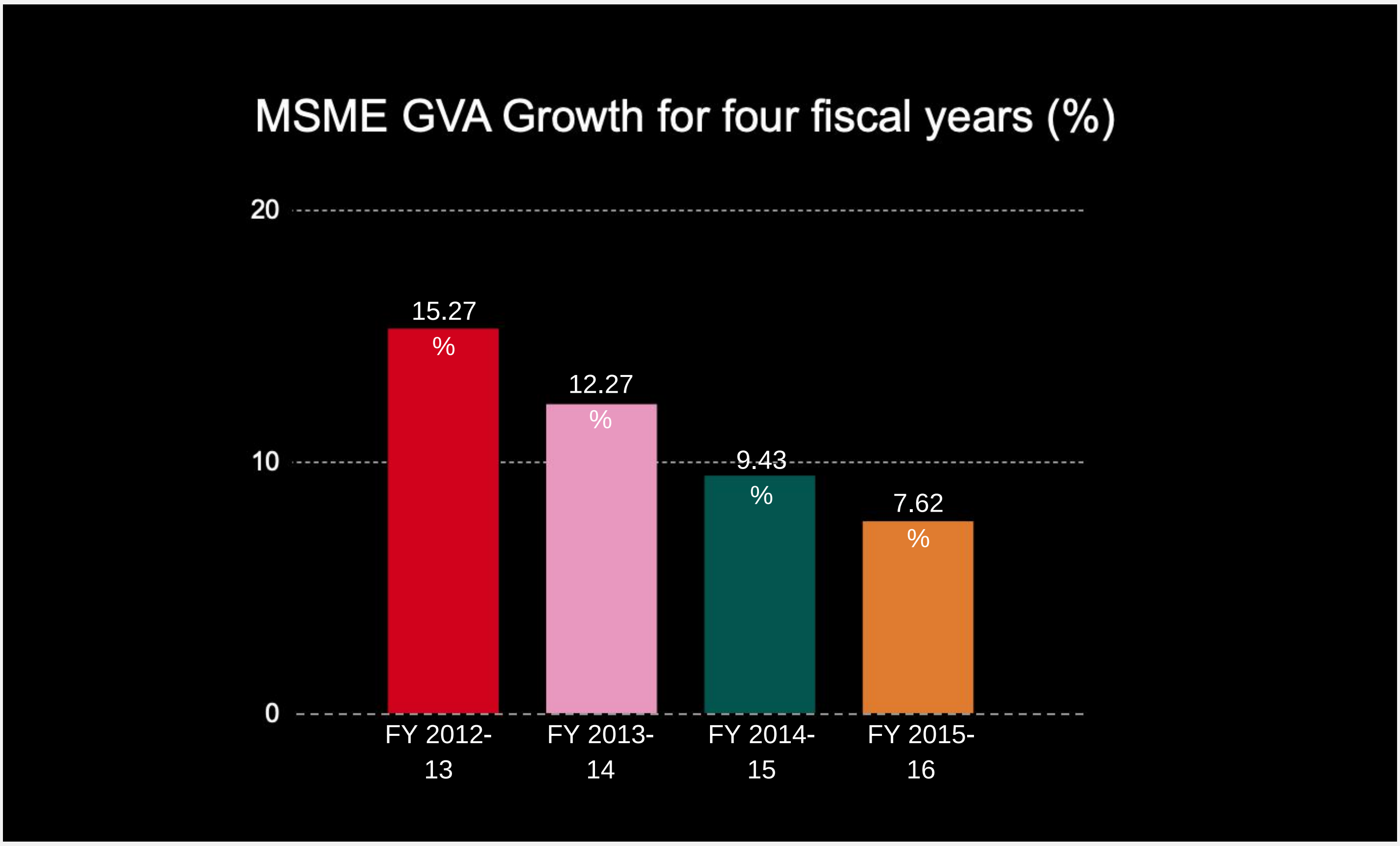


UNION BUDGET 2019-20

MICRO, SMALL AND MEDIUM ENTERPRISES

BY SANJANA CHANDALIYA

The Micro, Small and Medium Enterprises (MSMEs), employing about 120 million people in 65 million units all over India, are one of the most powerful engines of India's growth in the future. With a mammoth contribution of 29% to GDP, 45% to manufacturing output and 40% to total exports, the newly elected Modi government sees huge potential for employment generation and exponential growth in this sector.



SECTOR ANALYSIS

THE PROBLEM AT HAND

The growth in MSME sector has faltered in the recent past, largely due to government policies like demonetisation (liquidity crunch and rise in working capital) and GST (delay in Input Tax Credit and increase in compliance cost); economic fluctuations in international market (depreciation of rupee, cheaper imports of goods from China and increase in price of inputs imported) and NPA crisis in the Indian banking sector making commercial banks apprehensive of granting loans to MSMEs.

However, the sector faces some permanent problems such as lack of skilled labour as well as market accessibility.

THE GOVERNMENT'S RESPONSE

Some of the major government policies that were implemented in the past for the betterment of MSMEs are as follows:

CREDIT GUARANTEE TRUST FOR MICRO AND SMALL ENTERPRISES, wherein the Government of India guarantees a percentage (based on the type of loan and sector) of loan to commercial banks for non-repayment by MSMEs, ensuring greater flow of credit to this risky yet essential sector.

PUBLIC PROCUREMENT POLICY (PPP) to provide market accessibility to MSEs. Under this, the GOI has set a fixed criteria of 25% of total annual purchases that it meets only from goods and services provided by MSEs.

59 MINUTES LOAN PORTAL isan online marketplace for In-Principle loan approval to MSMEs up to INR 1 Crore in 59 minutes from Public Sector Banks

MUDRA (MICRO UNITS DEVELOPMENT AND REFINANCE AGENCY) YOJANA, wherein banking institutions provide loans ranging from Rs 50,000 to Rs 10 lakhs to non-corporate, non-farm micro and small enterprises without any collateral, bank charges and at low interest rates.

2% INTEREST SUBVENTION

on loans taken by all GST registered MSMEs, a move by GOI to achieve pan India registration of all those businesses who are not obligated to register under GST to voluntarily come under the purview of the new taxation regime

PSUs OF UNION GOVERNMENT TO BE COMPULSORILY REGISTERED ON GEM

or Government e-Marketplace to ensure continuous supply of inputs to MSMEs

TREDS (TRADE RECEIVABLES E-DISCOUNTING SYSTEM)

Companies with an annual turnover of more than Rs 500 crores to compulsorily use TReDS. Under this system, the buyer or supplier, on approval of the other party, uploads the invoice on a digital platform. After bidding by financiers, the supplier accepts one of the bids and the discounted amount is credited in his account. On the spot payment under this system ensures high liquidity of Trade Receivables to MSMEs and greater funds availability for the next working cycle.

FALLACIES IN GOVERNMENT POLICIES

Although the government has launched several schemes for the betterment of MSMEs, yet the implementation of these schemes continues to be extremely poor. The reality at the grassroots level outweighs the glory presented by the GOI at the macro level. The harsh truth is that MSMEs are going through a bad phase, resulting in decreasing employment and production.

1) MUDRA Yojana: Several banking institutions have abandoned appropriate due diligence required before granting loans to MSEs such as documentation of price of plant and machinery/commercial vehicle/other purchases to be made, supplier details, identity proof of borrower, address proof of business, etc. so as to meet annual credit targets.

2) 59 minutes loan portal: It sounds fancy on paper to approve a loan in 59 minutes, doesn't it? However to achieve this target, the commercial banks overlook the Credit Appraisal Mechanism, thus increasing the risk of NPAs in future. In fact, the former Governor of RBI Mr Raghuram Rajan has warned that the next wave of NPAs could be in the loans to medium and small enterprises under the SIDBI-run credit guarantee scheme.

3) Experts have advised GOI to change the criteria of classifying MSMEs(both manufacturing and service) into micro, small and medium scale industries from investment in Plant and Machinery to Revenue generated per annum. According to experts, the former criteria disincentivizes the growth of these enterprises and compels them to maintain status quo to receive the benefits from the government. They recommend that the classification should be as follows:

	REVENUE PER ANNUM
MICRO	Rs. 5 crore
SMALL	Rs 5 crore - Rs 75 crore
MEDIUM	Rs 75 crore - Rs 250 crore

WHAT WE EXPECT

SANKALP PATRA - BJP'S 2019 MANIFESTO

With unemployment rate at 3.53%, the highest since 2013, the MSME sector has been a focal point in BJP’s 2019 Lok Sabha election manifesto. BJP has promised to provide an accident insurance of 10 lakh rupees to all traders registered under GST and a pension to small traders.

Further, with steps like raising the limit for exemption from GST to a turnover of Rs 40 Lakhs and extending the GST filing date, this government is trying to save the MSME sector from facing the brunt of the complex, costly and tedious GST process. Hence, lower GST rates, technical assistance to file GST and relaxation of compliances for this sector can be expected.

Additionally, the government also aims to increase the number of ‘Technology Centres’ above 150 by 2024 so as to provide high level skilling to more than 6 lakh people per year. To promote entrepreneurship among the youth, the party has promised to launch a new scheme to provide collateral-free credit up to 50 lakh for entrepreneurs and creation of a ‘Seed Startup Fund’ of Rs 20,000 crore.

WHAT WE WANT

POLICY RECOMMENDATIONS

The government has certainly introduced praiseworthy schemes such as MUDRA Yojana, GeM, TReDS, PPP, etc. to ensure availability of finance and market access to MSMEs. The Government of India should now focus on proper implementation of such policies. After all, quality is more important than quantity.

A Standing Committee of Secretaries should be created which should exclusively deal with resolving policy and implementation issues. The prediction of future NPAs can be avoided by setting up of achievable targets regarding quantum and time period of target credit. This will reduce excessive pressure on the banking sector and enable them to conduct background checks with due diligence before granting loans to MSMEs.

"The government must introduce schemes along with capital subsidy, interest subsidies and reduction in customs duty to promote faster adoption of technology."

Agro-based industries require a push through the promotion of innovation and entrepreneurship in the sector. Furthermore, the MSME sector is faced by several bottlenecks at the grassroots level. Red-tapism and corruption at lower administrative levels need to be combatted urgently. This can be done by digitising of majority of the processes end to end i.e. from availing of finance for purchase of inputs to receiving payment for sale of goods and services.

The inability to scale continues to be a major problem of MSMEs. The government must introduce schemes along with capital subsidy, interest subsidies and reduction in customs duty to promote faster adoption of technology by MSMEs.

More funds should be allotted for labour skill development by setting up of research and incubation centres. Lastly, India suffers from poor infrastructure which is an immense burden on MSMEs since they lack resources, proper amenities and are deprived of the benefit of economies of scale. Improvement is required in transportation by ensuring faster and cheaper road and rail transit.

BUDGET ALLOCATION

IN THE PAST AND AS EXPECTED

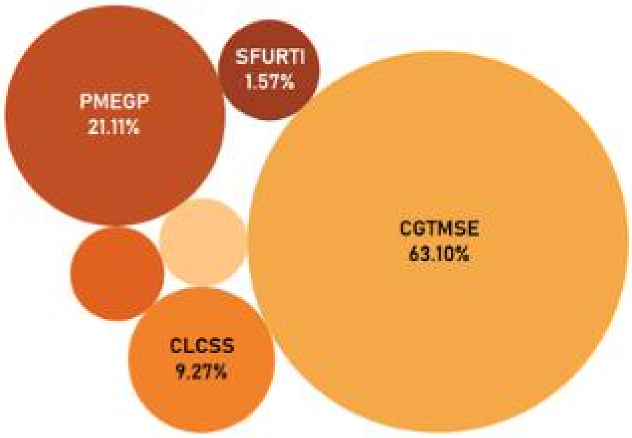
The budgetary allocation to the MSME sector has increased over the years from Rs 6481.96 crore in 2017-18 to Rs 6552.61 crore in 2018-19, and is expected to cross Rs 7000 crore for FY 2019-20.

UNION BUDGET 2019-20

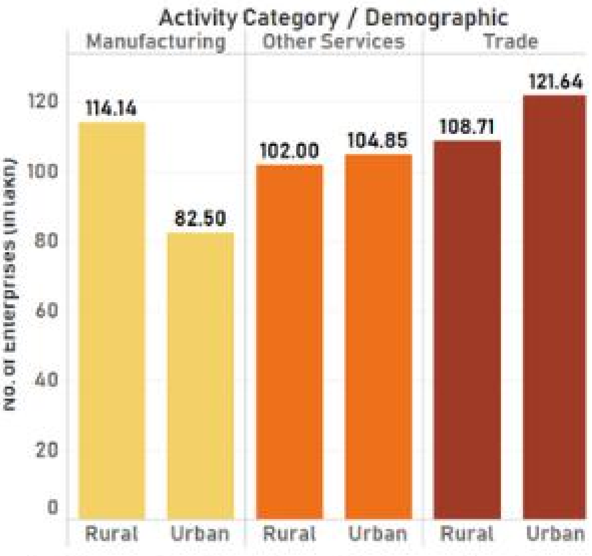
SECTOR: MSMEs

	Revenue per annum
Micro	Rs 5 crores
Small	Rs 5 crores - Rs 75 crores
Medium	Rs 75 crores - Rs 250 crores

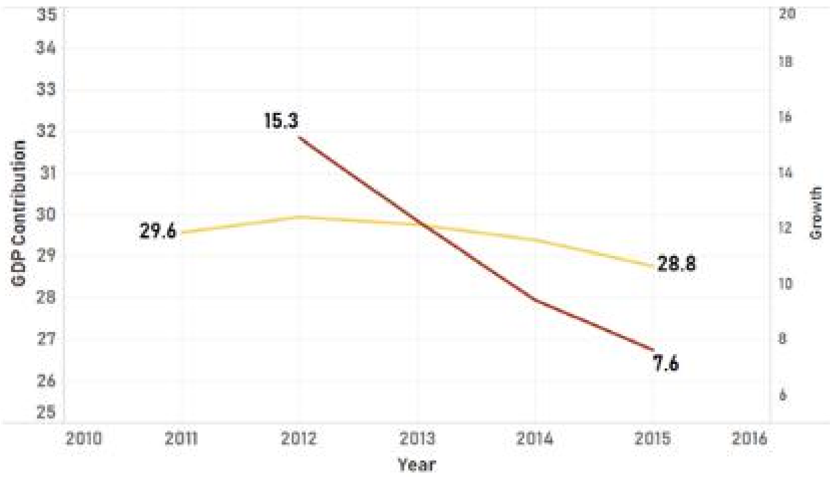
CATEGORIES OF ENTERPRISES



GOVERNMENT EXPENDITURE ON VARIOUS SCHEMES



NUMBER OF MSMES BY ACTIVITIES



GDP CONTRIBUTION & GROWTH OF SECTOR

₹ 6552 CR.

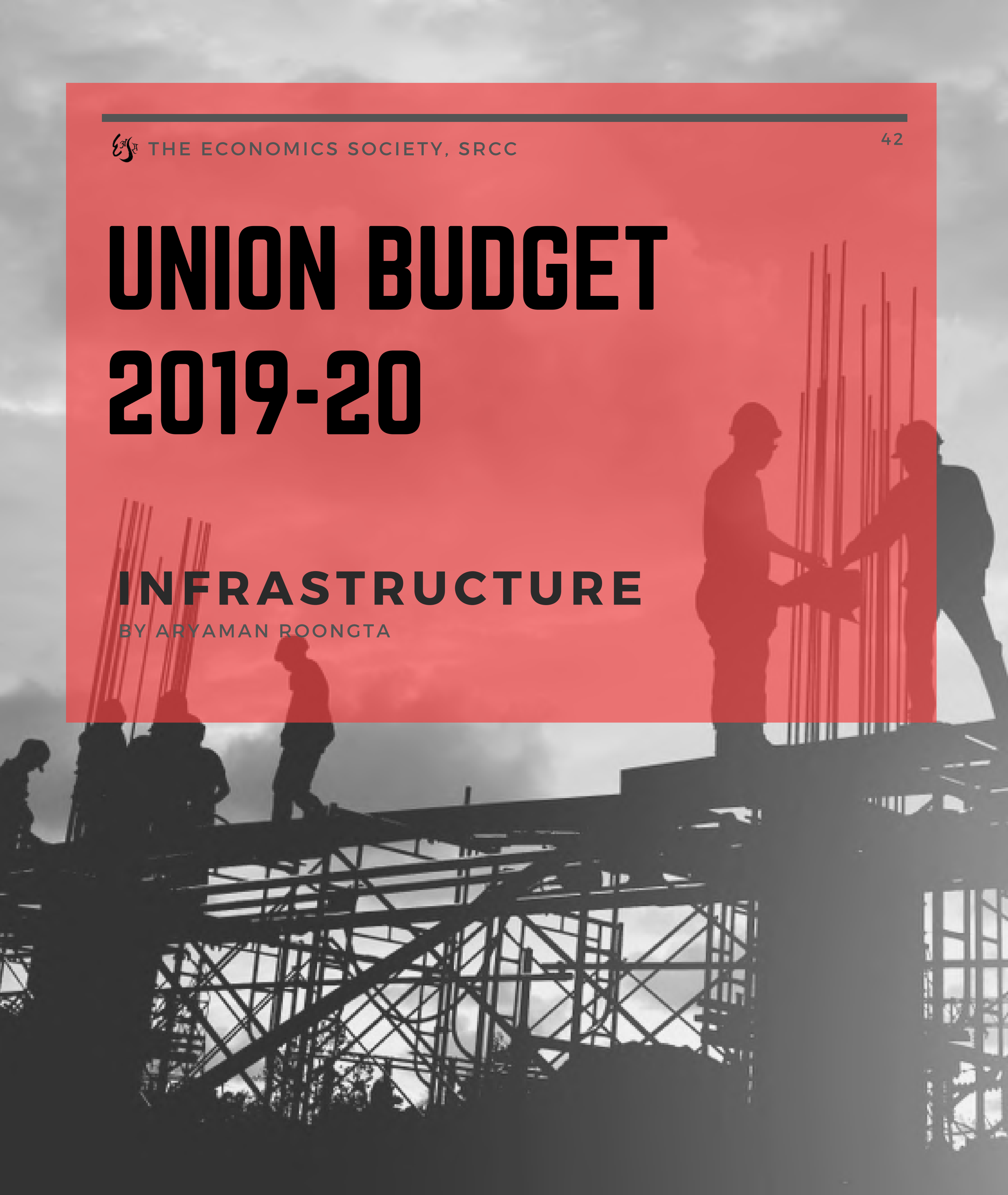
Budget Allocation to the sector in FY 2018-19

23%

Share of MSMEs in commercial credit outstanding (**11.7 lakhs crore** exposure)

120 MN.

Employees in the sector employed in over **65 million** enterprises



UNION BUDGET 2019-20

INFRASTRUCTURE

BY ARYAMAN ROONGTA

In the words of our former Finance Minister Mr. Piyush Goyal, “Infrastructure is the backbone of any nation’s development and quality of life”. The sector is highly responsible for propelling India’s overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country.
It includes various components like power, energy, dams bridges, airways and railways. Through this report, we would be touching upon some of these components briefly.

SECTOR ANALYSIS

MODI 1.0 - THE STORY SO FAR

1) **High budgetary allocation**: The infrastructure sector has witnessed a massive increase in budgetary allocations under the Modi government with the 2018-19 budget allocating a massive Rs 5.97 lakh crores.

2) Private sector involvement: Another interesting trend has been the rise of **Public-Private Partnerships** in a lot of projects and private sector involvement in sectors like roads, communications, power and airports. A report by Geethanjali Nataraj, a senior fellow at the Observer Research Foundation, in 2014 had stressed upon more private involvement in the infrastructure sector citing examples of Healthcare in Punjab to Education in Andhra Pradesh. The Modi government has taken great steps to move in this direction. Indian infrastructure sector witnessed 91 M&A deals worth US$ 5.4 billion in 2017 with the power segment contributing the largest share (39 deals worth US$ 4.4 billion.) In the first half of 2018, infrastructure and real estate witnessed Private Equity/ Venture Capital deals worth 3.9 billion.

3) Improvement in **logistics**: The logistics or supply chain sector in India is growing 10 per cent annually and is expected to reach US$ 215 billion in 2019-20. In 2016, India jumped 19 places in World Bank's Logistics Performance Index (LPI) 2016, to rank 35th amongst 160 countries. India was also ranked second in the 2018 Agility Emerging Markets Logistics Index.

4) **Rising FDI**: FDI received in Construction Development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to June 2018 stood at US$ 24.87 billion and in Construction (Infrastructure) activities stood at US$ 13.11 billion.

PROBLEMS FOR MODI 2.0

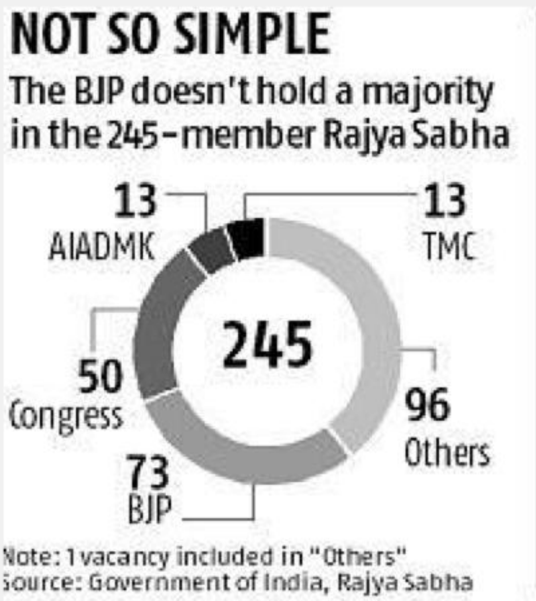
1) Lack of a majority in the Rajya Sabha might become a deadlockfor the government at least for the near future. Many legislations with respect to land acquisition laws and other acts will remain in question, which are crucial for speeding up the infrastructure progress in the country.

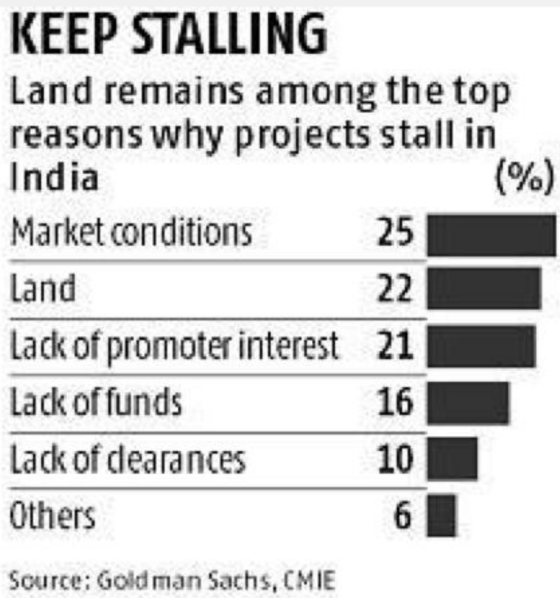
2) Access to land, which is expensive and difficult to acquire, remains the single biggest issue for why road and other construction projects stall in India, according to capital expenditure surveys.

3) Modi's decisiveness may have won over voters, but he doesn't have a track record of **boosting confidence among Indian companies**. They aren't going to start spending until they see signs that the government is making progress on cutting through the perennial regulatory hurdles surrounding land.

4) The value of **stalled projects** has risen to almost Rs 3 trillion since June 2018, even if a flurry was completed just prior to the election. Fewer are being revived. New investment proposals in the last fiscal year were the lowest in 14 years, after rising when Modi first came to power.

5) **Shares** of construction and transport companies such as Larsen & Toubro, Dilip Buildcon and Adani Ports & Special Economic Zone have risen sharply this year on hopes of a "New India." The reality for infrastructure companies is that Old India will be around for a while longer.





SECTOR WISE POLICIES AND ANALYSIS

Airways

UDAAN scheme has made air travel **more affordable** and more and more ordinary citizens are now travelling by air, which has led to overall job creation.

Roadways

India has been announced as the **fastest highway developer in the world** with 27kms of highway built every day. Around 15.8 lakh out of a total 17.84 lakh habitations have been connected with pucca roads under Pradhan Mantri Gram Sadak Yojana. PMGSY allocated Rs 19,000 crore in 2019-20 in the interim budget.

Railways

Railways received its highest ever allocation of Rs 1.58 lakh crore. Railway safety is on a rise. Also with the **Vande Bharat** express inaugurated, it will act as a catalyst to the Make in India programme and thus create more jobs. Recently, Arunachal Pradesh came on the air map and also for the first time, the states of Meghalaya, Tripura and Mizoram have come on the country's rail map.

Waterways

Inland waterways are on the rise and the Sagarmala programme for making ports for **faster handling** of import and export of cargo. The government also plans to introduce container cargo movement to the North East as well, by improving the navigation capacity of the Brahmaputra River.

North East

The allocation for the North Eastern Areas is being proposed to be increased by 21 per cent to Rs 58,166 crore in 2019-20 over 2018-19.

Core Infrastructure Industries

The eight core infrastructure industries include coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity. The cumulative growth of the index was **4.3 per cent** in 2017-18 and 5.8 per cent year-on-year in April-July 2018-19.

Power Sector

During FY18 electricity generation in India reached 1,201.54 billion units (BU). As of July 2018, electricity generation in the country has reached to 421,686.59 GWH. **Installed capacity** increased steadily over the years, posting a CAGR of 9.1 per cent in FY07–18 and stood at 344 GW by the end of FY18. Indian energy sector is expected to offer investment opportunities worth US$ 300 billion over the next 10 years.

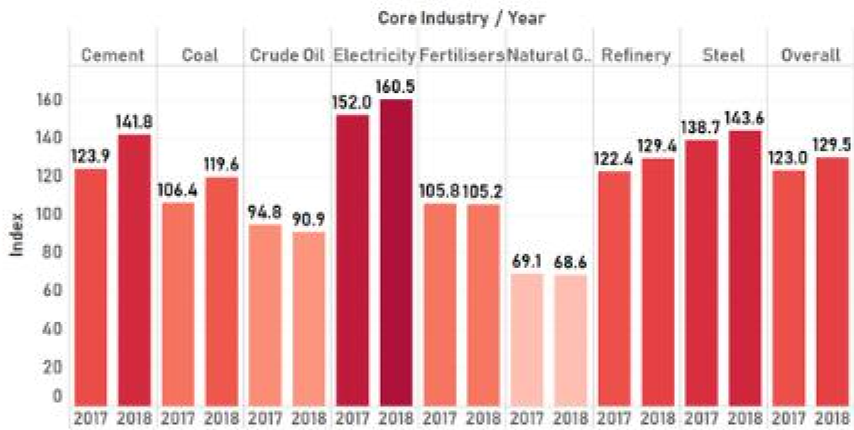
OPPORTUNITIES IN INFRASTRUCTURE

a) Government Initiatives - The Government is making an attempt to revive and give a boost to **Public Private Partnerships**. In November 2017, logistics sector was given the status of infrastructure, to boost investments in the sector.

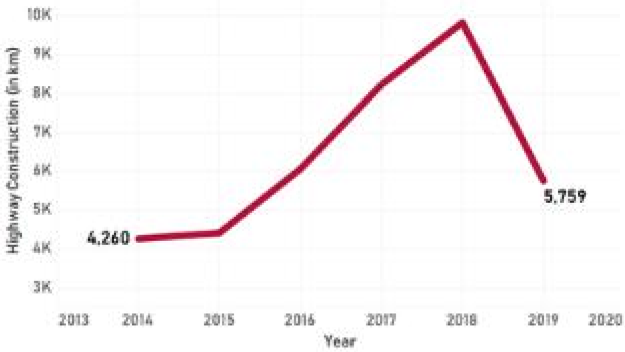
b) International Associations - In June 2018, the **Asian Infrastructure Investment Bank (AIIB)** has announced US$ 200 million investment into the National Investment & Infrastructure Fund (NIIF). **Indo Japan association** is growing to be very important especially in the infrastructure sector like the Bullet Train project and various other projects.

c) Urban Indian real Estate – **Housing industry** looks really promising. India should be looking to make 43000 houses everyday till 2022 to achieve the vision of 'Housing for all'. This has the potential for catapulting India to 3rd largest construction market globally. The sector is expected to contribute 15 per cent to the Indian economy by 2030. With every sixth urban person globally being an Indian, the real estate and construction sector holds significant opportunity for both global and domestic companies engaged across the value chain.

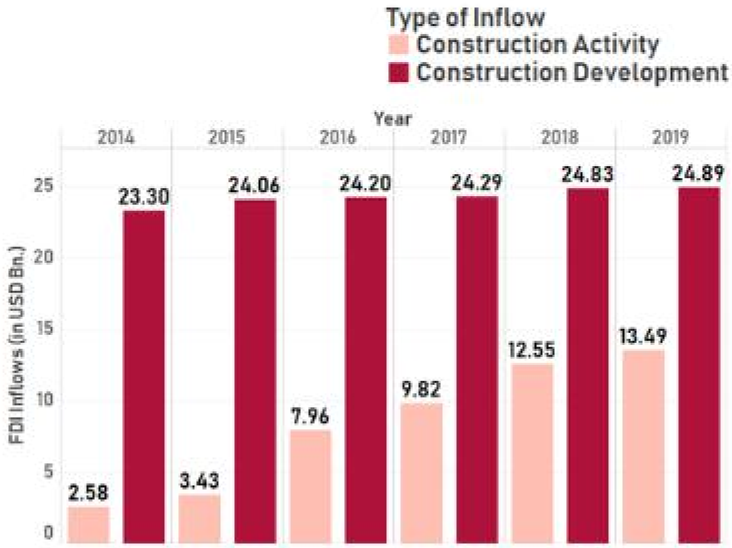
UNION BUDGET 2019-20
SECTOR: INFRASTRUCTURE



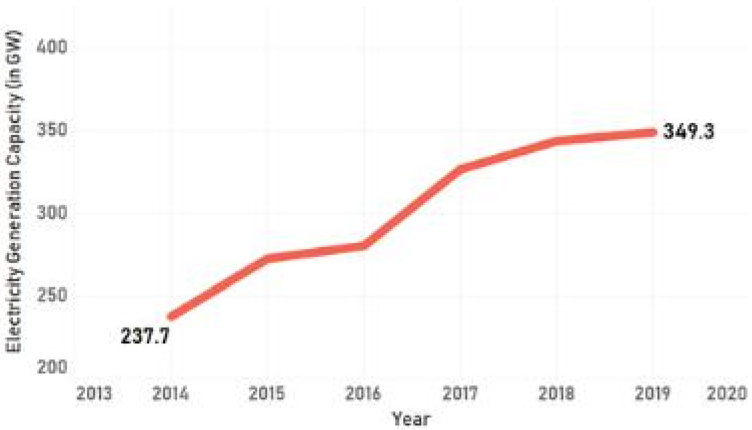
INDEX OF CORE INDUSTRIES IN INDIA



HIGHWAY CONSTRUCTION IN INDIA OVER THE YEARS



FDI INFLOWS TO INDIA IN INFRASTRUCTURE



INSTALLED ELECTRICITY GENERATION CAPACITY IN INDIA

$ 27.7 BN

gross revenue of Indian Railways in FY18

20%

increase in National Highway Construction during 2017-18

40 MN

people expected to be employed in Logistics sector by 2020 in India

UNION BUDGET 2019-20

FINANCIAL SECTOR

BY ABHISHEK SANCHETI

The financial sector encompasses a broad range of businesses that manage money, including credit unions, banks, insurance companies, stock brokerages, investment funds and many more. The financial sector mobilizes savings and allocates credit across space and time. Needless to say, it is one of the most important sectors of the Indian economy as it helps the economy to grow and develop by providing a proper financial base.

SECTOR ANALYSIS

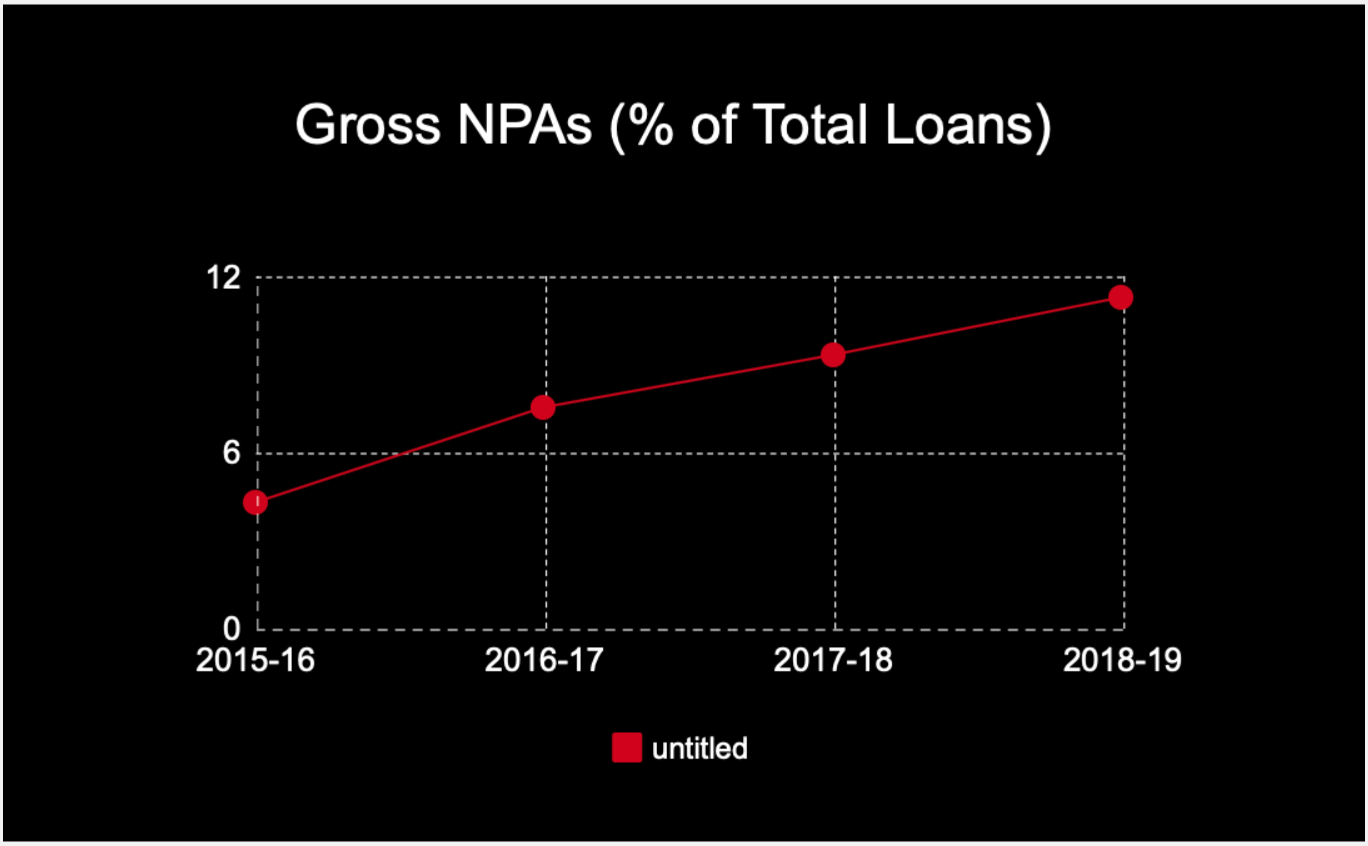
THE PROBLEM AT HAND

The main problem plaguing the financial sector currently is the gargantuan rise of non-performing assets and stressed loans in the economy. These non-performing assets have led to a reduction in the loanable funds of the banks which in turn has increased the need for the recapitalization of the banks by the government.

As we can see, gross NPA's have been steadily rising throughout the period of the NDA government. At the end of the financial year 2018-19, gross NPA's stood at 11.2% of the total loans and advances in the economy. It is argued by many that the root cause of the NPA problem is the irresponsible and rash advances made in the UPA- 2 government. Unfortunately, we still cannot see any substantive measure taken by the present government to solve the burning issue. The INR 2

"This process includes window dressing of the balance sheet of the banks but does not provide any structured changes in the banking system."

lakh crore recapitalization of Indian banks, plan cleared by the government on October 2017, is being done through Recapitalization bonds or R-Bonds, in which these stressed loans are shifted from the balance sheet of the banks. Hence, this process includes window dressing of the balance sheet of the banks but does not provide any structured changes in the banking system. Hence, it does leave the banks to pump more loans, but it



only aggravates the NPA problem further as no stressed loan is actually resolved.

The solution to this was seen in the Insolvency and the Bankruptcy Code, 2016 enforced to speed up the bankruptcy process of the top 50 bankrupt companies, which constitute more than 50% of the total NPA's. However, the progress on this has been very slow as only a few companies have actually completed their bankruptcy process through this medium till now.

However, NPA's are not the only thing the financial sector consists of. There have been commendable initiatives taken by the Government for the Financial Sector.

THE GOVERNMENT'S RESPONSE

Public Debt Management Agency

has been set up to bring external borrowings and domestic debt under one roof.

Financial Redressal Agency

The government introduced a Financial Redressal Agency to address the grievances of the consumer.

Resolution of Financial Firms

The government enforced a Code on Resolution of Financial Firms.

DATA MANAGEMENT

Realizing the importance of data, the government brought forth a Financial Data Management Centre.

NEW DERIVATE PRODUCTS

The government also introduced New Derivative Products in the markets.

INDRADHANUSH SCHEME

was launched, which 25,000 Crore is set aside for recapitalization of banks.

PRADHAN MANTRI MUDRA YOJNA

was introduced, which provides loans to non-corporate and non-farm MSMEs without any collateral and at low-interest rates.

REGULATED PERMITTED BONDS

The government reduced the regulator permitted bonds from AA to A to increase liquidity in the market and ensure further debt capacity of the economy.

WHAT WE EXPECT

SANKALP PATRA - BJP'S 2019 MANIFESTO

Contrary to our expectations, the BJP Manifesto does not talk a lot about the Financial Sector and the reforms it aims to bring in General. However, we can still expect the following in this year's budget for the Financial Sector:

1) An International Financial Services Centre Authority in order to establish India as a major hub of Financial Services.

2) Some sort of relief to investors in Long Term Capital Gains Tax. Possibly, the entire tax is revoked.

3) Some sort of relief to businesses in Minimum Alternate Tax (MAT). Possibly, the MAT is reduced to 18%.

WHAT WE WANT

POLICY RECOMMENDATIONS

In spite of so many initiatives, there is still a lot to do and improve upon in the financial sector. Due to its sheer size, there are still a lot of areas which need to be focused upon in order to ensure overall growth and development of the entire economy.

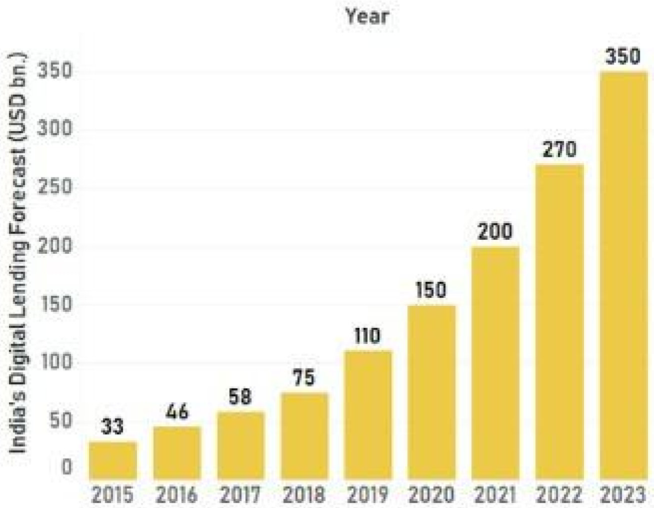
1) As we have already seen, the government has not done a lot to resolve the NPA issue from its base. That is, to ensure that the loans given by the public, infrastructure and development banks are good enough so as to ensure that they do not default. Most of the private banks take collaterals from debtors before issuing loans to them. However, some public and development banks give collateral free loans (unsecured loans) in order to ensure growth and development of the economy. Most of the time, these collateral free loans fail to repay. As these loans do not have any asset backing, the banks are not able to sell any asset in order to realize their loan amount. Hence, the entire loan amount is lost. Therefore, something has to be done in order to ensure that some sort of equity can be achieved between growth and development and banks giving out secured loans. One way in order to achieve this is to set up a governing body which oversees these unsecured loans. All debtors, who take unsecured loans from the banks, are required to send a yearly report on how they have spent their money. The body can ensure and oversee that the loan taken is spent judiciously and the debtor is in the capacity to repay the loan. If the money is spent on any assets, or the debtors acquire any assets in the future, those assets are kept as a mortgage with banks.

2) Former Governor of the Reserve Bank of India, Dr. Raghuram Rajan has warned that:
"The next wave of NPA's could be in the loans to medium and small enterprises."
Hence, with the increase in the number of Non-Banking Financial Corporations (NBFC's), and schemes like the MUDRA yojna, the advances to the MSME sectorhave grown exponentially. Hence, some sort of regulatory body (similar to the one suggested above but targeted towards MSMEs only) is needed to ensure that NPA's from the MSME sector does not blow out of proportion.

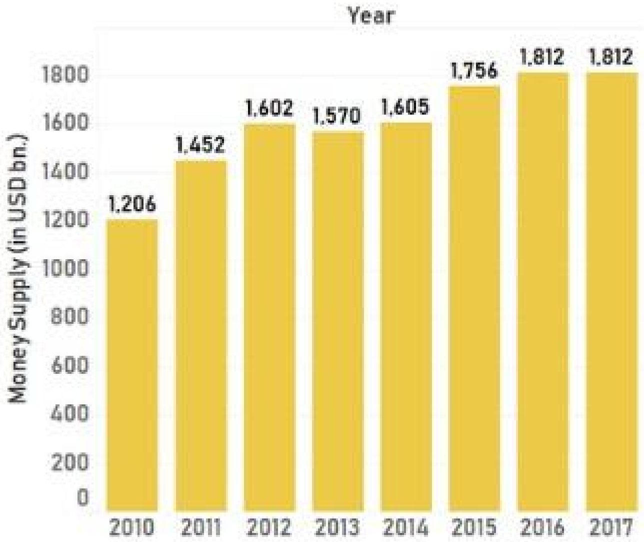
3) Furthermore, there has been a huge increase in the number of online digital paymentportals, payments banks and online transactions. Although, there have been rules, there has not been a dedicated law or a body, governing these, especially the data generated by them and how it is used and stored. Hence, a dedicated body or law overlooking digital payments is also imperative.

UNION BUDGET 2019-20

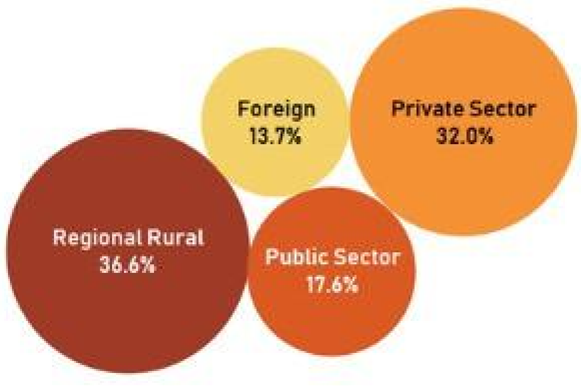
SECTOR: BANKING



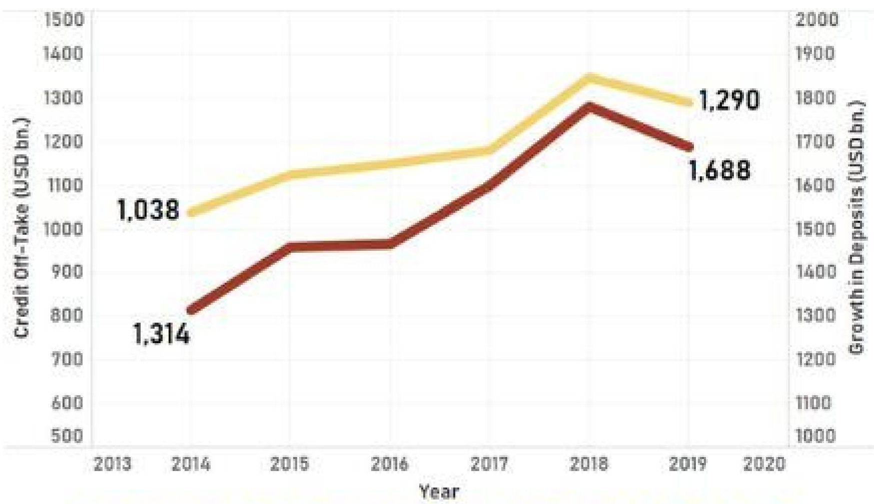
INDIA'S DIGITAL LENDING FORECAST



GROWTH OF MONEY SUPPLY OVER THE YEARS



BANKING SECTOR COMPOSITION



GROWTH IN CREDIT OFF-TAKE AND DEPOSITS

$ 4.2 BN.

Amount raised by Fintech Startups in 2017-18

11.2 %

Gross NPAs out of total loan & advances in the economy

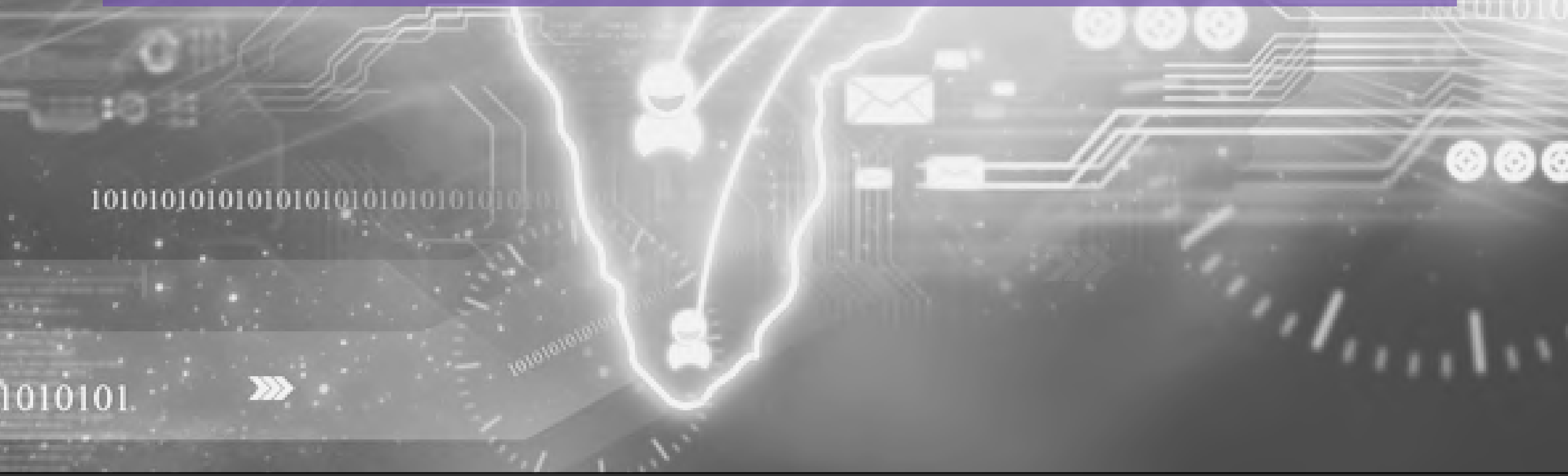
₹ 6577 CR.

Budget Allocation to the sector in 2018-19

UNION BUDGET 2019-20

DIGITAL SECTOR

BY ARYAMAN ROONGTA



“India has the world’s highest data usage per smartphone, an average of 9.8GB per month, which will double to 18GB by 2024, fueled by rich video content.” said a new report by Swedish telecom equipment maker Ericsson.

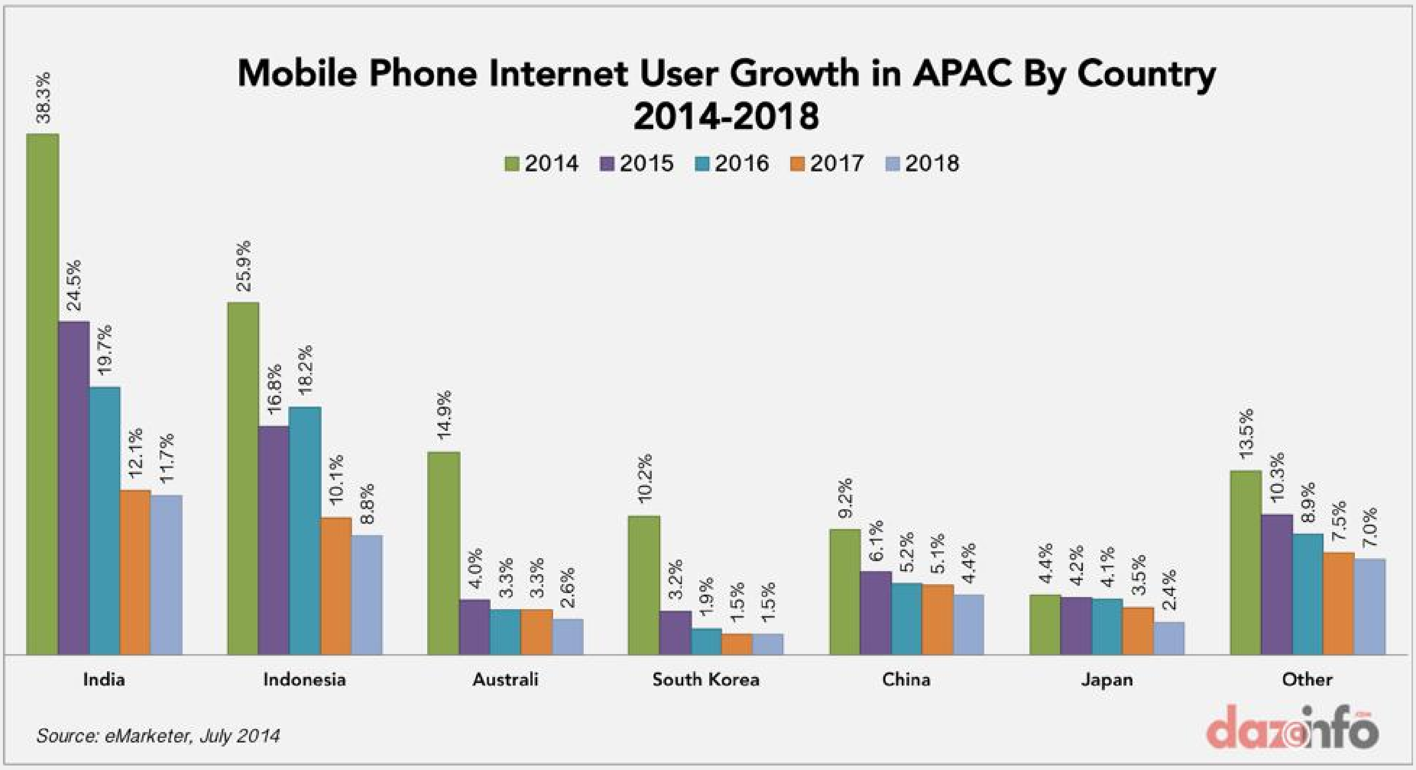
With more than half a billion internet subscribers, India is one of the largest and fastest-growing markets for digital consumers, but adoption is uneven among businesses. As digital capabilities improve and connectivity becomes omnipresent, technology is poised to quickly and radically change nearly every sector of India’s economy. That is likely to both create significant economic value and change the nature of work for tens of millions of Indians. Over the last few years, India has taken a significant lead in the use of digital technologies. For instance, the government’s ‘Digital India’ initiative ensured transparency and accountability in the system. However, as business leaders, government officials, and individual citizens all will need to play distinct roles while also working together in order to scale higher.

SECTOR ANALYSIS

MODI 1.0 - THE STORY SO FAR

With JIO making mobile data and calling so cheap the number of mobile and internet subscribers have grown manifold over the past 5 years. This has been made faster by a catalyst in the form of cheaper smartphones and high speed internet penetration in the entire country. Reliance Jio's strategy of bundling virtually free smartphones with mobile-service subscriptions has spurred innovation and competitive pricing. Data costs have plummeted by more than 95 percent since 2013 and fixed-line download speeds quadrupled between 2014 and 2017.

India is already home to one of the world's largest and fastest-growing bases of digital consumers and is digitizing faster than many mature and emerging economies.



THE GOVERNMENT'S RESPONSE

The government too has taken steps to encourage a digital environment in the nation and to reach the objective of $1 Trillion digital economy.

AADHAAR

has enrolled 1.2 billion peoplesince it was introduced in 2009, making it the single largest digital ID program in the world, hastening the spread of other digital services.

GOODS AND SERVICES TAX

The GST Network, established in 2013, brings all transactions of about 10.3 million indirect tax-paying businesses onto one digital platform, creating a powerful incentive for businesses to digitize their operations.

DIGITAL VILLAGE

Under the scheme, villages are provided Wi-Fi connectivity, with healthcare and education provided digitally. Similarly, CSCs in Digital Villages have also become hub of financial inclusion.

Despite these advances, India has plenty of room to grow. Only about 40 percent of the populace has an internet subscription. While many people have digital bank accounts, 90 percentof all retail transactions in India, by volume, are still made with cash. E-commerce revenue is growing by more than 25 to 30 percent per year, yet only 5 percentof trade in India is done online, compared with 15 percent in China in 2015. Looking ahead, India's digital consumers are poised for robust growth.

WHAT WE EXPECT

SANKALP PATRA - BJP'S 2019 MANIFESTO

1) After reaping rich dividends from its ‘**Digital Village**’ initiative in the Lok Sabha polls, the Narendra Modi government, in its second term, is set to scale up the project. The focus is expected to be on expanding the reach of social schemes such as Ayushman Bharat and Pradhan Mantri Shram Yogi Maan-dhan (PM-SYM) besides ensuring financial services, basic healthcare and skill development in rural India. The PM-SYM is a scheme to provide old age pension and social security for unorganised sector workers.

2) In order to make the schemes more **inclusive and accessible**, all Gram Panchayats are to be connected with high speed fibre network by 2022 according to the manifesto.

3) Under the **Make in India** initiative the government plans to impart financial literacy and skill training for the same in order to help MSMEs to set up more units in rural areas and thus reduce the rural urban digital divide. Apart from MSMEs, skills to help improve Agriculture, Education, Health, and access to government facilities will also be imparted with the help of Common service centres.

4) **Agriculture and Technology** – A mobile app is set to come up for promoting the availability of agri-implements on rental/custom hiring basis. Apart from this, on the lines of Aadhaar project, a complete digitization of land records on a mission mode will be done.

5) **Direct Tax compliance simplification** - All returns to be processed in twenty-four hours and refunds to be issued simultaneously. Within the next two years, almost all verification and assessment of returns selected for scrutiny will be done electronically through anonymized back office, manned by tax experts and officials, without any personal interface between taxpayers and tax officers.

WHAT WE WANT

POLICY RECOMMENDATIONS

1) A large number of startups and companies, which do not have too much physical presence and infrastructure requirements but only digital space inside the country, are coming up nowadays. The taxation on the profits earned by such companies becomes difficult. Although there is already a legislation to this effect since 2016, it is not in line with the global standards which might lead to conflicts in the future since this sector is only going to grow in the decades to come. Hence a targeted and elaborate **taxation policy** is something that the government should seriously delve on.

2) Although digital village initiative has taken steps in this direction, there is still a long way to go in order to make **digital inclusion** much easier not just for the privileged but each and every company and individual – however small they might be. Ease in getting micro credit along with collaborations with private sector banks should be pursued for the agriculture sector, digital payments in rural areas apart from expanding the market for rural products through the use of technology should be made possible and subsidies for setting up and/or adapting digital infrastructure should be provided. Digital literacy in urban and rural areas should be the foremost priority in order to become a major economic player.

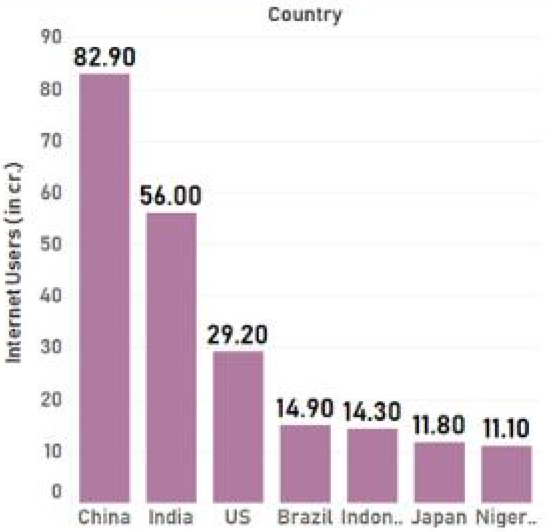
3) It will be refreshing to see the Finance Minister ease regulations and **simplify digital transactions** to boost entrepreneurship in the digital space. We also wish that this Budget reinforces the mandate for digital companies, merchant vendors and customers to fast-track paperless and cashless transactions.
Further, to align everyone with the digital movement, we wish to see the government give more clarity on e-KYC. The new KYC decision must ease the process for customers; thus making it easier for them to adapt to newer technologies.

4) In order to promote digitization, the government should work with more private players to get most of its **services online**. Simple things like applying for a gas subsidy, registering a property purchase, or accessing any other government service should be made completely digital. It should also start giving and compelling more citizens and small businesses online and thus make technology the core of its operations.

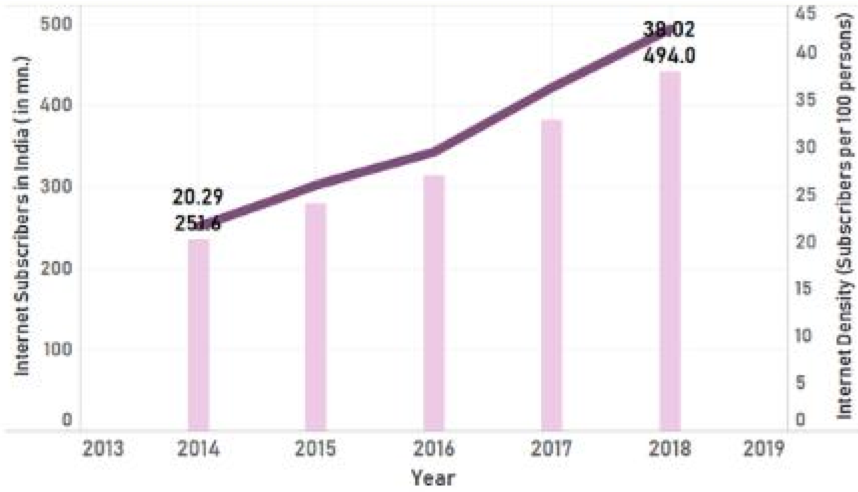
5) Last but not the least, the government must focus on **privacy and security of data**. The next decade is going to be a digital one. Whether it's AI, technology, online services, sales, social media, etc. It's going to be a digital revolution. With so much of digital aspect coming into our lives, the amount of data that the internet and other players, involved in this process, are going to hold is not even funny. Taking the Indian example of AADHAAR, there has been a lot of hue and cry about its security and questions have been raised due to many breaches (although they haven't been on a large scale). In order to achieve better financial inclusion and faster movement to the digital space for both the companies and individual, it is imperative that the government invests a lot in data security. A proper legislation to the effect along with proper implementation should be pursued.

UNION BUDGET 2019-20

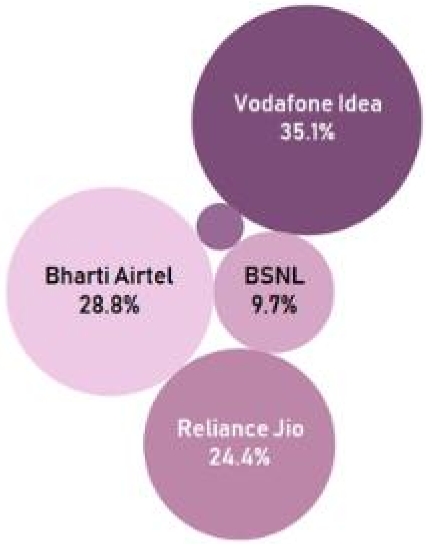
SECTOR: DIGITAL



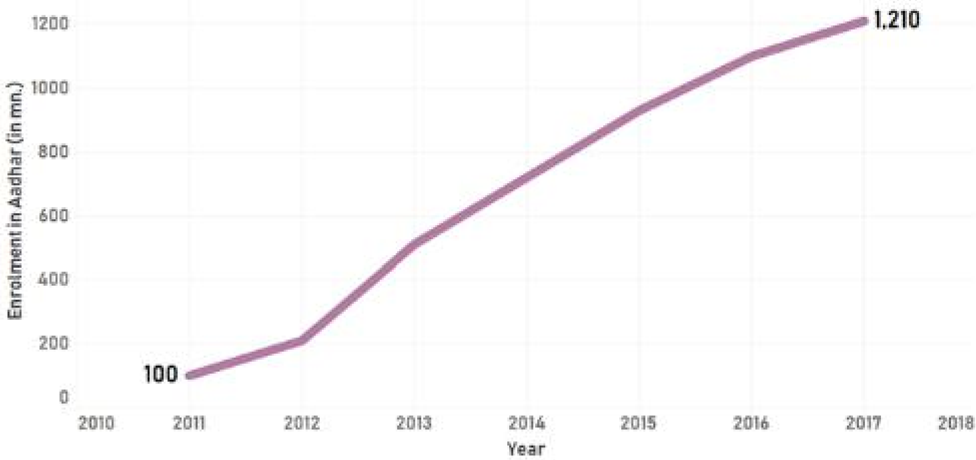
COUNTRIES WITH HIGHEST INTERNET USERS



INTERNET SUBSCRIBERS AND DENSITY OVER THE YEARS IN INDIA



PARTICIPANTS IN TELECOM SECTOR



ENROLLMENT IN AADHAR OVER THE YEARS

1.2 BN.

people have enrolled with Aadhar, largest digital ID Program in the world

$ 6.2 BN.

FDI in telecom sector in 2017-18

9.8 GB

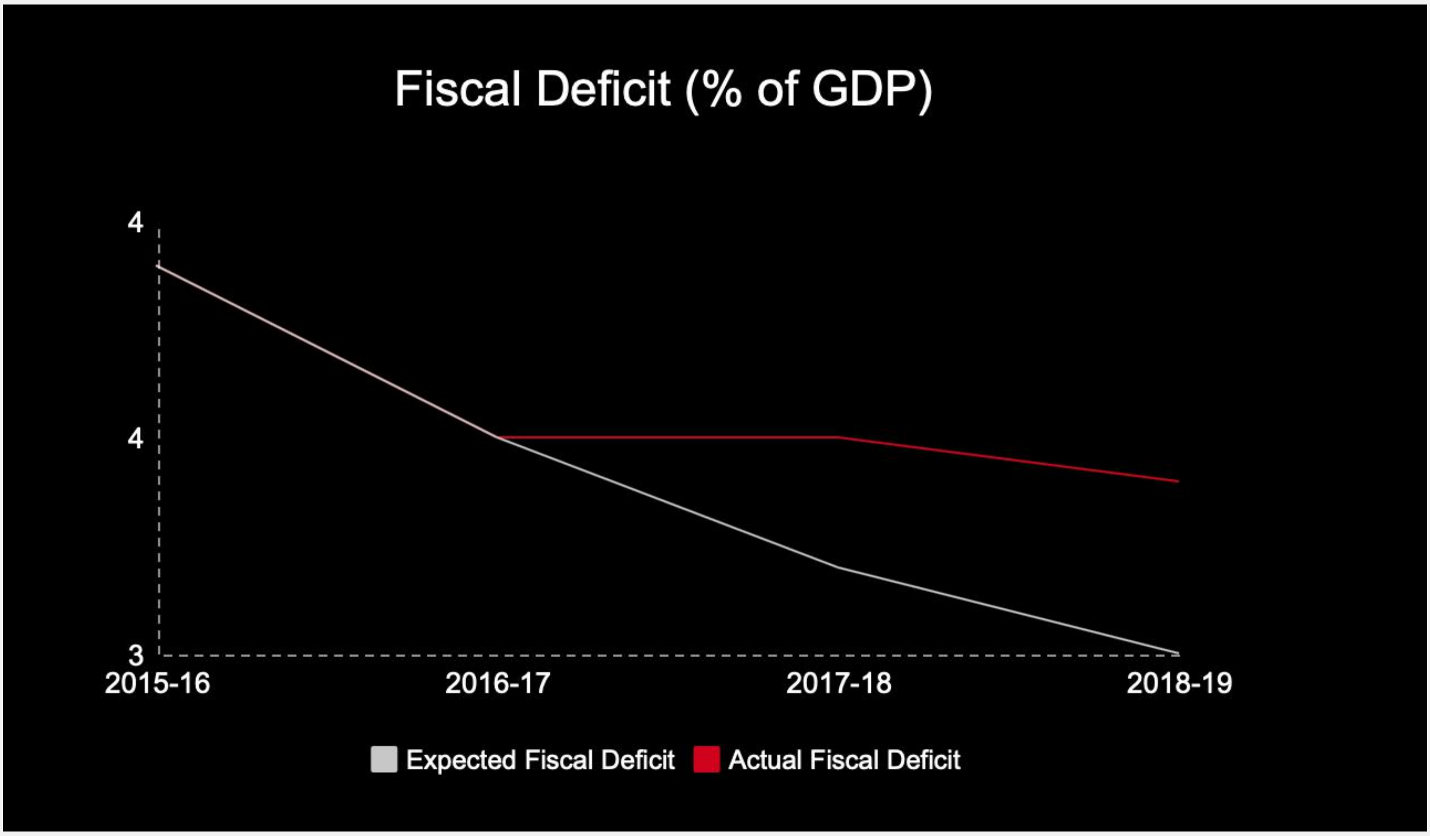
per month is India's average data usage per month, highest globally

UNION BUDGET 2019-20

FISCAL MANAGEMENT

BY ABHISHEK SANCHETI

Fiscal management is of utmost importance in the upcoming budget of the 17th Lok Sabha. It aims at institutionalizing financial discipline, reducing and controlling India's fiscal deficit, improving macroeconomic management and the overall management of public funds by moving towards a balanced budget and strengthening fiscal prudence.



SECTOR ANALYSIS

THE PROBLEM AT HAND

The importance of sound fiscal management and controlling India's fiscal deficit has shot to the limelight in the recent years. The NDA Government, under the leadership of Prime Minister Narendra Modi, raised this issue in the parliament and promised to resolve the situation.

They alleged that the previous UPA Governments spent and wasted exorbitant amounts of money irresponsibly which had led to a high surge in India's fiscal deficit.

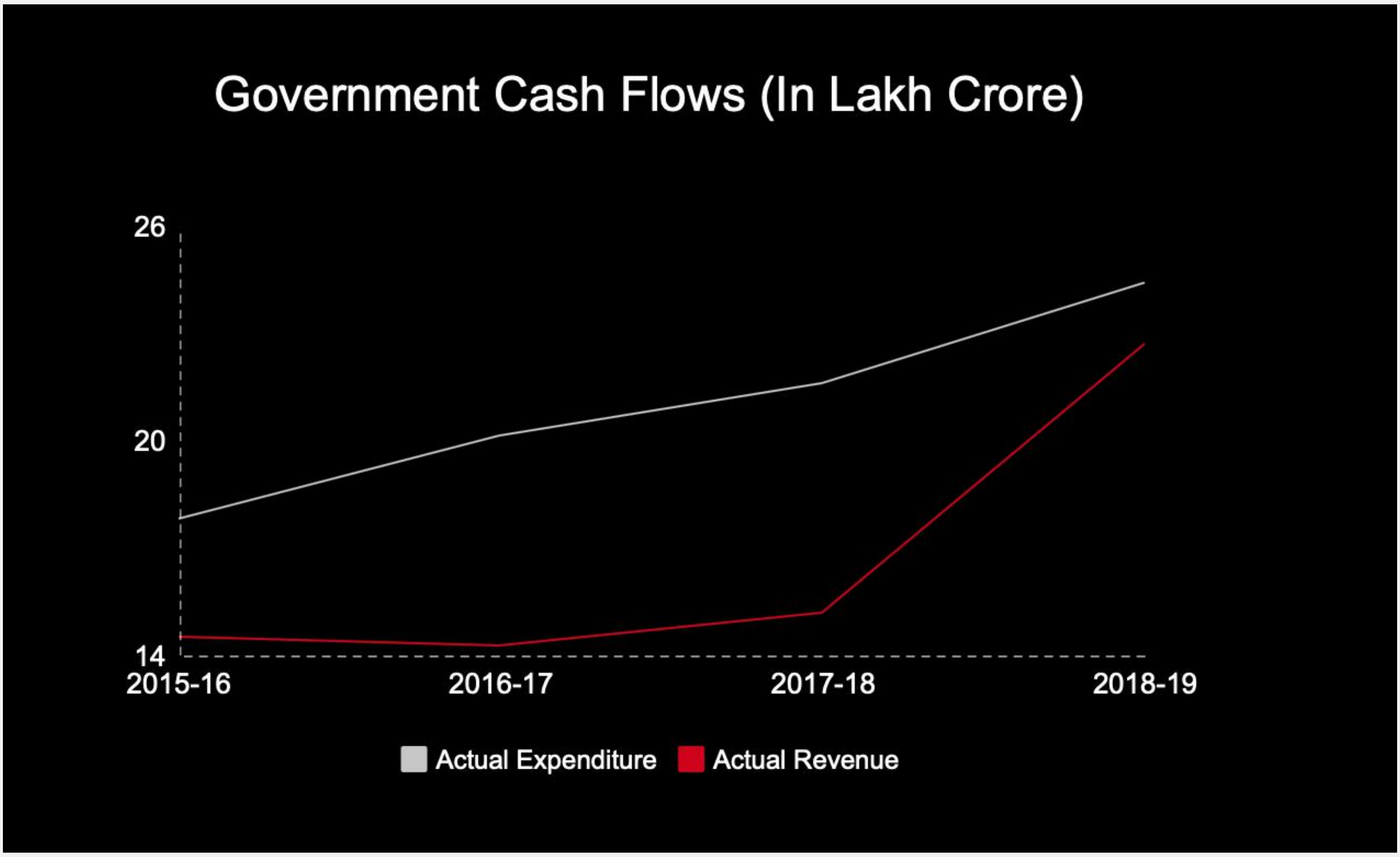
However, as we see from the above graph, the government, like its predecessors, failed to deliver on its promise of controlling and reducing India's fiscal deficit.

As seen below, the government's expenditure has always been more than its revenue, with the expenditure being as much as INR 5 lakh 90 thousand crores more than the revenue for the year 2016-17. It can perhaps be inferred that this government, like the previous governments, wanted to spend a lot of money on various populist projects in order to ensure that they stay in power.

Hence, to finance this continuous budget shortfall, the government had mainly two options. The first, and the more common solution, was to look towards deficit financing which raises both the money supply in the economy and the inflation rate.

Secondly, to consider raising money through the sale of bonds and securities, either in the domestic market or in the international market, which increases government debt, fiscal deficit and the interest to be paid on this debt.

Hence, since both these options led to the expansion of the fiscal deficit, it is safe to say that irresponsible budgeting and reckless spending on populist, unproductive schemes can be seen as the culprit behind the government's missed fiscal targets. The question arises, what has the government actually done till now to keep the economy on the path towards Fiscal Prudence?



THE GOVERNMENT'S RESPONSE

The government's only initiative to solve this burning issue has been the Fiscal Responsibility and Budget Management (FRBM) Act, 2003. Enacted in 2003, this Act laid down the rules and regulations for the governments to follow to ensure India's fiscal prudence and proper debt management. It aimed to achieve the target of 3% Fiscal Deficit by the financial year 2008-09.

However, the progress has been slow. After repeatedly missing deadlines and rules set out by this Act, the government aimed to amend this Act and subsequently declared this in the Budget session of 2015-16. But no progress was made on the amendment as it took the government a whole year to form the committee which would give recommendations on the Act and would amend it. Hence, the declaration of the formation of the amendment committee was made in the Budget session of 2016-17.

> *"It aimed to achieve the target of 3% Fiscal Deficit by the financial year 2008-09. However, the progress has been slow."*

The committee further took an entire year for giving its recommendations which were announced in the Budget session of 2017-18. Finally, after 3 years, in the next Budget session of 2018-19, the government moved to propose a bill to amend the FRBM Act, 2003. It also aimed to implement one of the points of the amended FRBM Act and wished to reduce its Debt to GDP Ratio to 40% of the GDP.

WHAT WE EXPECT

SANKALP PATRA - BJP'S 2019 MANIFESTO

It is indeed surprising to note that the government's manifesto remains silent on the subject of the path ahead for India's macroeconomic and fiscal stability.

However, we still expect the Government to take some steps to resolve this issue, keeping in mind the importance of a strong, sound and stable fiscal prudence.

For the budget session 2019-20, we expect the government to:

1. **Aim at reducing India's Fiscal Deficit to 3.2% of the GDP by the financial year end 2019-20 and;**

2. **Target a Fiscal Deficit of 3% of the GDP by the financial year end 2020-21.**

WHAT WE WANT

POLICY RECOMMENDATIONS

As we have already seen, there have been cases where the government has missed the Fiscal Deficit targets it had set for itself in the previous years. Hence, an ideal situation would be :

1. **That the government stays true to the targets it sets for itself and ensures that it is able to achieve it. This can be done by the following ways:**

Moving towards a Balanced Budget

The shift towards a balanced budget would ensure that its expenditure is equal to the revenue it is generating. Eliminating the gap between the government expenditure and revenue would reduce the need for deficit financing, which would in turn hinder money supply and inflation from rising in the economy. Moreover, it would also reduce the need for raising money through selling debt, which would automatically prevent fiscal deficit, internal debt and interest from rising in the economy.

Ensuring actual and proposed expenditure and revenue are equal

Many a time, it has been noticed that the actual expenditure is greater than the proposed expenditure in the budget and actual revenue is less than the proposed revenue. This leads to an increase in the gap between ex poste revenue and expenditure of the govenment which subsequently leads to the government resorting to deficit financing or raising money through debt. Hence, the government should ensure that the actual and proposed expenditure and revenue are equal or as near to equal as possible.

2. Implementation of the FRBM Act, 2018 in word and spirit. It should be ensured that the provisions of the amended FRBM Act are implemented and followed by the government. This would mean that the government should:

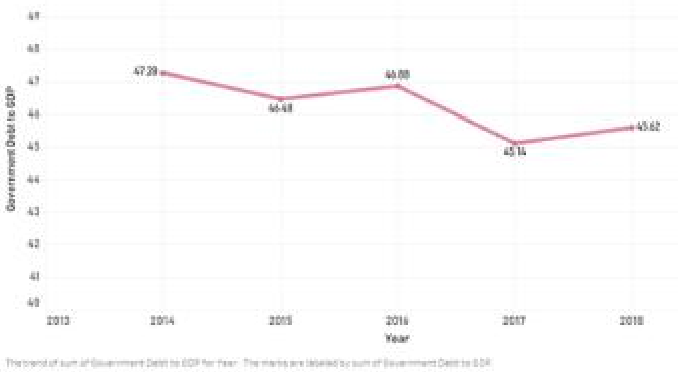
a) Reduce India's fiscal deficit to 3% of the GDP by the financial year end 2020-21.

b) Reduce India's central debt to GDP ratio to 40% and state debt to GDP ratio to 20%.

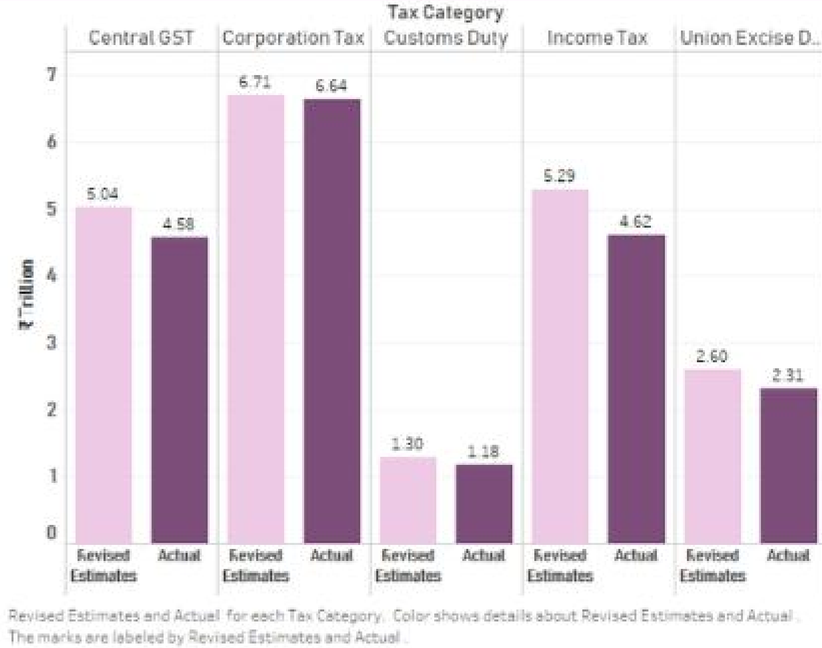
c) Ensure reduction in Fiscal Deficit by at least 0.25% of the GDP whenever the economy grows by more than 4%.

d) Ensure that the fiscal deficit does not rise by more than 0.5% of the GDP in a financial year.

UNION BUDGET 2019-20
Sector:
FISCAL MANAGEMENT



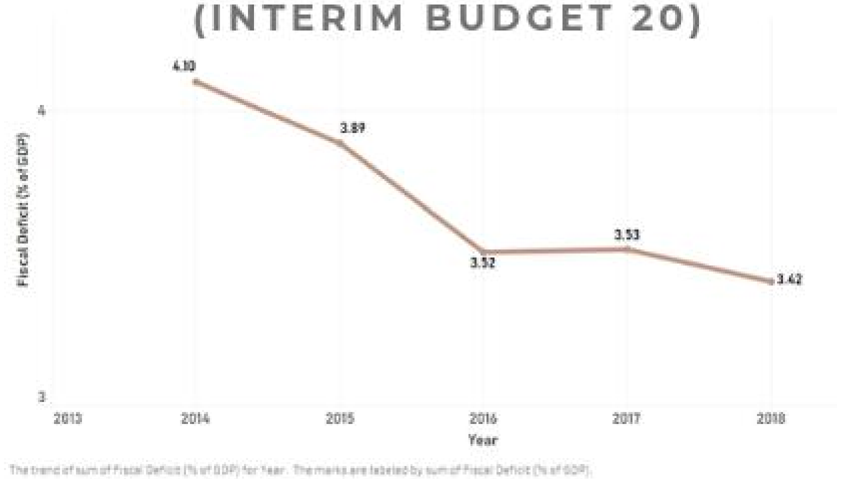
GOVERNMENT DEBT TO GDP



ACTUAL TAX COLLECTION (FY 18-19) AGAINST BUDGET ESTIMATE (INTERIM BUDGET 20)

Sources and sum of % of Total Receipts. Color shows details about Sources. Size shows sum of % of Total Receipts. The marks are labeled by Sources and sum of % of Total Receipts.

SOURCES OF BUDGETARY RECEIPTS 2017-18



FISCAL DEFICIT (% OF GDP)

₹ 85000 CR.

Amount of Disinvestment for FY 19, meeting budgetary target for the first time

₹ 1.13 TN.

GST Collections jump 10% to touch an all time high in April '19

6.1 %

Unemployment reaches a four-decade-high in 2019 as per figures released by MoSPI

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