PAHLE INDIA FOUNDATION

FACILITATING POLICY CHANGE

Recommendations for Union Budget 2020-21

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I. Financial Sector

1. For corporate bonds to perform, market-maker cost should be made tax deductible.
2. Implement SEBI panel's recommendation of allowing Indian firms for direct listing in foreign markets without need to list in India.
3. Remove withholding tax for foreign investors in bonds.
4. Credit rating agencies should not be allowed to undertake valuation.
5. A comprehensive payment model for credit rating agencies needs to be developed.
6. Uniform digital policy for financial sector should be developed.
7. State Finance Corporations (SFCs), urban local bodies (ULBs), and municipal corporations, should be incentivised to become proactive credit providers and funding agencies.
8. The government should liberalise American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) regime to allow issuance of depository receipts on all permissible securities.
9. India should consider developing its own Indian Depository Receipts (IDRs).

II. Gold

10. Reduce import duty on gold to 5 per cent or less.
11. Release the intended Gold Policy.
12. Establish a single regulator for gold.
13. Abolish Commodity Transaction Tax (CTT) on gold derivatives.
14. Sovereign Gold Bond (SGB) to be made available to Non-Resident Indians (NRIs) and possibly, even foreign investors.

III. Disinvestment

15. Government to decide if it is investor, owner or sovereign.
16. There must be a window of transition provided by co-opting neutral investors to clean up balance sheet and bring in better governance.
17. Government should establish trusts instead of holding company to facilitate such transition at arm's length dealing.

18. Use Offer for Sale (OFS) more as a tool for disinvestment. Also offer discount of 5-10 per cent to encourage greater retail participation as it will drive up demand.
19. Government and respective line Ministries must be more proactive in appointing independent directors before and after Initial Public Offering (IPO).
20. Government should have a clear plan about which sectors they want to be in, and which sectors they no longer need to be in.
21. Distribute discounted shares to retail investors and offer strategic sales with discount.
22. Public Sector Enterprises (PSEs) need to learn to monetise their assets better. They could set up a Special Purpose Vehicle (SPV) for allied assets such as land.

IV. Ease of Doing Business (EoDB)[1]

23. The government should adopt a sectoral approach to EoDB, so that States can pick up sectors that are most important to them for immediate reforms.
24. Sectoral approach to EoDB must consider both forward and backward linkages across the value chain.
25. The EoDB ranking framework must incorporate parameters that are under the jurisdiction of the States, like excise, stamp duty, land, and reforms carried out in these areas.
26. The EoDB ranking framework should also take into account if state governments have been proactive in repealing archaic laws.
27. The Excise Department permissions and approval systems in state governments are mostly offline. These must be brought online as a priority, in line with e-governance and Digital India.
28. EoDB must ensure that there is a certain level of standardisation of procedures and approvals across States for sectors that come under state jurisdiction.
29. State governments should be asked to create a similar EoDB ranking framework as DPIIT for their respective urban local bodies (ULBs) and municipal corporations.

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[1] Refer to PIF Report 'An Integrated Value Chain Approach to Ease of Doing Business – A Case Study of Sugar, Alco-Bev, and Tourism'
http://pahleindia.org/pdf/publication/Sectoral_Approach_to_Ease_of_Doing_Business.pdf

V. Micro, Small and Medium Enterprises (MSMEs)

30. Government to grant subsidies to MSMEs for listing.
31. Ease corporate governance norms for MSMEs to also enable listing.
32. Create a separate Bankruptcy Code for MSMEs.
33. Definition of MSMEs to be more nuanced – even if based on turnover as proposed, it should take into account MSMEs dealing in high-value sectors, such as gems and jewellery.
34. MSME definition should also have a separate definition for Own Account Enterprises (OAEs).
35. A separate sub-target for OAEs, under the existing target for MSMEs, must be created under priority sector lending (PSL).
36. Non-Banking Financial Companies (NBFCs) and Micro-Finance Institutions (MFIs) must be used more effectively for disbursement of MUDRA loans.

VI. Defence

37. Establish a separate regulator for defence acquisitions.
38. Defence budget should be presented separately, with detailed outcomes.
39. Streamline defence planning with budget estimation.

VII. Retail

40. Consider creating a new category called "Retail" under the Concurrent List of Schedule VII.
41. Indian retail sector highly fragmented, leading to huge regulatory arbitrage. India needs a national comprehensive retail policy.
42. Instead of making local sourcing requirements mandatory for foreign retailers, make exports mandatory.

VIII. Housing[2]

43. Incentivise State Governments to undertake stamp duty reforms.
44. The Credit-linked Subsidy Scheme for Affordable Housing should be enhanced to include down payment and stamp duty component separately.
45. Tenure of personal loans must be increased to enable people to borrow for down payment.
46. For affordable housing, zero down payment must be considered.
47. Floor Space Index (FSI) must be liberalised to allow for more vertical growth.
48. Government, government organisations, PSEs, and defence must monetise their land banks.
49. Government to issue tax-free infra bonds, long-term bonds, green bonds, and municipal bonds, under 80(c), the money of which can be used to finish stalled projects.
50. Foreign pension funds, domestic insurance and pension funds, and Real Estate Investment Trusts (REITs) and Investment Infrastructure Trusts (InvITs), should be incentivised to invest in affordable housing.

IX. Sugar[3]

51. State-wise Fair and Remunerative Price (FRP) to be used as a yardstick instead of State Adjusted Price (SAP).
52. Mills should be allowed to pay anything over FRP based on their economic affordability.
53. Decision to share revenue from sugar and its by-products should rest entirely with the miller and not be mandated.
54. Policymakers and industry should develop a more scientific methodology for demand estimation of sugar, for example, considering variables such as lifestyle choices and demand for honey and sweeteners as sugar substitutes.
55. Government should introduce a Trade Policy for sugar.

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[2] Refer to PIF Discussion Papers 'Affordable Housing' (PIF/2017/EEUS/DP/07) and 'Affordable Housing: The Next Steps' (PIF/2017/EEUS/DP/09).
http://pahleindia.org/Publication.php?fb=report and refer to PIF's Resurgent India 'Pradhan Mantri Awas Yojana – Urban: Housing for All by 2022'.
http://pahleindia.org/pdf/Pahle_India_Pradhanmantri.pdf

[3] Refer to PIF Report 'An Integrated Value Chain Approach to Ease of Doing Business – A Case Study of Sugar, Alco-Bev, and Tourism'
http://pahleindia.org/pdf/publication/Sectoral_Approach_to_Ease_of_Doing_Business.pdf

56. Identify countries with whom India can sign Preferential Trade Agreements (PTAs) as a way of creating new markets for sugar export.

X. Tourism[4]

57. No clarity of status for 'tourism' under Schedule VII of Constitution.
58. Create a central nodal agency for food and hospitality to provide single contact for licensing and industrial directives, like the approved 'Hospitality Development and Promotion Board'[5].
59. Food and hospitality sector requires a Vision/Policy document that dovetails into the overall Tourism Policy.
60. Create specific products for tourism loans and classify them under PSL.
61. Encourage the use of funds from green bonds towards developing sustainable tourism.
62. Follow through on implementation of Incredible India 2.0, because it will create employment and bring in foreign exchange.
63. Archaeological Survey of India (ASI) must work with the Ministry of Tourism to make monuments and tourist attractions more tourist-friendly, like in other countries.

XI. Energy

64. Establish an integrated energy spot exchange.
65. Standardise taxes and policies for energy sector across all states.
66. All states must move towards an open access market.
67. Encourage greater private sector participation in energy, and break government monopolies.
68. Government needs a clear implementation strategy for the Ethanol Blending Programme (EBP) that focuses on increasing storage and blending capacities of Oil Manufacturing Companies (OMCs).

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[4] Refer to PIF Report 'An Integrated Value Chain Approach to Ease of Doing Business – A Case Study of Sugar, Alco-Bev, and Tourism'
http://pahleindia.org/pdf/publication/Sectoral_Approach_to_Ease_of_Doing_Business.pdf

[5] Refer to http://tourism.gov.in/sites/default/files/Other/HDPB.pdf

XII. Labour Reforms[6]

69. Meal cards and food cards offered to employees should be considered as a means of providing welfare to employee and family, and not as a tax break.
70. Meal cards should be made part of Labour Welfare Code.
71. Employers (especially MSMEs) should have the option of providing meal cards instead of compulsory canteen services.
72. The government and all PSEs must offer meal cards instead of canteens and tiffin rooms to employees, as a means of managing expenditure.
73. Inflation adjust current tax allowance of INR 50 per meal (to, say INR 150-200) and benchmark it to CPI-IW Food Group inflation.
74. The tax allowance must be revised frequently – at least every three years.
75. Government should consider use of food cards in social welfare schemes like PDS.
76. As meal cards are meant for welfare of employees, the responsibility of fixing suitable allowances could be brought under Ministry of Health and Family Welfare.

XIII. Expenditure[7]

77. Ministries such as Defence and programs such as Development Assistance Program (of the Ministry of External Affairs) should not have their budget heads listed under Central Sector (CS) schemes.

78. Ministry of Textiles, two insurance schemes that are run are Handicrafts Artisans Comprehensive Welfare Scheme and Group Insurance Scheme, with a total of INR 31 crores (2019-20 BE). These can easily be subsumed under either the Aam Aadmi Bima Yojana or the Bima Yojana for Unorganised Workers.

79. Under the Ministry of Textiles is a scheme 'Pradhan Mantri Paridhan Rojgar Protsahan Yojana' (PMPRPY) whose status is unclear, as it is not listed on any website and had a one-time budgeted allocation of INR 200 crores in 2017-18,

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[6] Refer to PIF Report "Ensuring Welfare through Meal Cards in India". http://pahleindia.org/pdf/publication/Meal_Cards_in_India.pdf

[7] Refer to PIF Report "Unlocking Revenue through Central Schemes Consolidation". http://pahleindia.org/pdf/publication/Unlocking_Revenue_through_Central_Schemes_Consolidation.pdf

of which only INR 12 crores was actually spent. This kind of scheme need not exist on its own when there are other schemes similar to it, under which funds can be disbursed.

80. There are several Credit Guarantee Funds with active allocations such as 'Pradhan Mantri Mudra Yojana (PMMY) (through NCGTC)' and 'Stand-up India (through NCGTC)' under the Ministry of Finance as well as the 'Credit Guarantee Fund for Factoring (through NCGTC)' and 'Credit Support Programme' under the Ministry of Micro, Small and Medium Enterprises. These schemes amount to a total of INR 9,775 crores, of which the Credit Support Programme and PMMY have seen additional allocations year on year. These two schemes should also be able to be consolidated into one.

81. The allocations for the 'Cash Incentives for Kerosene Distribution Reforms' under the Ministry of Petroleum & Natural Gas are greater than the allocations for 'Direct Benefit Transfer – Kerosene'. The 2019-20 BE allocations stand at INR 257 crores for the former, which is almost twice the INR 168 crores allocated for the latter. There is no information available on the difference in objective between these two schemes, which indicates that these need to be reviewed.

82. The scheme for 'Compensation to Service Providers for creation and augmentation of telecom infrastructure' under the Ministry of Communications has seen an increase of INR 5,000 crores from an allocation of INR 3,100 crores in 2015-16 (Actuals) to 2019-20 (BE). This is an incredible jump in allocation, which necessitates review of scheme objective and whether the expense has resulted in improvement of telecom services.

83. As per PIB release 155431, we understand that the 'Infrastructure and Technology Development Scheme' under the Ministry of Textiles consists of three schemes namely, 'Scheme for Integrated Textile Parks (SITP)', 'Integrated Processing Development Scheme (IPDS)' and 'Amended Technology Upgradation Fund Scheme (ATUFS)'. Each of these have their own budget allocations, including a separate allocation for the Infrastructure and Technology Development Scheme alone. The separate allocation for ITDS

needs to be reviewed, especially if the Scheme itself consists of three separate sub-schemes.

84. Under the Ministry of Human Resource Development's Department of Higher Education is a CS scheme called 'Planning Administration and Global Engagement' which has a 2019-20 BE allocation INR 66.48 crores. Ostensibly, this goes towards India's contribution to UNESCO which is approximately INR 15-20 crores and the rest goes towards ranking universities/educational institutions (www.nirfindia.org).

85. Under the Department of Higher Education the 'Startup India Initiative in Higher Education Institutions' can easily come under the 'Startup India' allocation. Currently this separate allocation stands at INR 95.47 crores.

86. The 'National Mission on Education through ICT' under the Ministry of HRD, Department of Higher Education has seen an increase in allocation from INR 74.64 crores in 2015-16 to INR 170 crores in 2019-20 BE. Three other schemes that use ICT for education are 'Setting up of virtual classrooms and massive open online course (MOOCs)', 'e-shodh Sindhu' and 'National Digital Library' can all be consolidated under the aegis of the 'National Mission on education through ICT'[8] and expenses for all rationalised accordingly.

87. The allocation for 'World Class Institutions' has increased from INR 128.90 crores in 2018-19 RE to INR 400 crores in 2019-20 BE, with nothing to show for utilisation and outcomes. It is recommended that no further allocation be made until utilisation and desired outcomes are verified.

88. Under the Ministry of HRD there are 5 schemes for R&D namely 'Unnat Bharat Abhiyan', 'Ucchatar Avishkar Abhiyan', 'Implementation of IMPRINT', 'SPARC' and 'STARS', with a total allocation of INR 387.40 crores in 2019-20 BE. The highest of which is for SPARC at INR 130 crores. All of these can easily be subsumed under the Ministry of Science and Technology's schemes which

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[8] https://www.aicte-india.org/downloads/National%20Mission%20on%20education.pdf

are largely only for R&D and a total allocation INR 4,493.37 crores in 2019-20 BE. Coincidentally, INR 418 crores was sanctioned to IIT Kharagpur under SPARC in March 2018, for implementation upto March 2020.[9] The total budgeted allocation for SPARC as per Budget documents is INR 160 crores for this period, unless the 2019-20 RE has gone up subsequently.

89. The 'Interest Subsidy and contribution Guarantee Funds' has a year on year allocation of greater than INR 1,800 crores since 2015-16 and consists of two sub-schemes, the 'Credit Guarantee Fund for Education Loans' and 'Central Sector Interest Subsidy'. The provision of an education loan subsidy for the last 5 years has amounted to a total INR 19,310 crores. When compared to the scholarship funds made available under the Ministry of HRD which total INR 9,786 crores, it is apparent that we spend three times as much on subsidising education loans as we spend on awarding students scholarships. Even the year on year allocations differ by over INR 400 crores, with the subsidy receiving INR 1,800 crores or more per year and scholarships receiving approximately INR 1,400 crores per year.

90. For the 'Indian Leather Development Program' under the Ministry of Commerce and Industry the approved total outlay for the last five year plan (12th Five Year Plan) period was INR 990.37 crores. The total actual spend for the same period was INR 1,032.22 crores. The current total allocation for the ILDP over the past 3 years is already at INR 1,364.21 crores, which is much more than was spent in the last five year plan period. The allocation has doubled each year since 2017-18, which necessitates review of both utilisation of funds and circumstances of allocation.

91. The 'Khadi Grant' and the 'Khadi Vikas Yojana' have two separate allocations under the Ministry of MSME which can be consolidated and the expenditure rationalised, especially since the 'Khadi Vikas Yojana' was implemented from 2019-20. As per PIB release 1565309 the 'Market Promotion and Development Assistance', 'Khadi Grant', 'Interest Subsidy Eligibility Certificate', and the

[9]http://vikaspedia.in/education/policies-and-schemes/scheme-for-promotion-of-academic-and-research-collaboration

'Village Industries (VI) Grant' schemes were all supposed to be subsumed under the 'Khadi and Gramodyog Vikas Yojana' with a combined allocation of INR 2,800 crores for the period 2017-18 to 2019-20. Allocations for 'Khadi Vikas Yojana' and 'Gramodyog Vikas Yojana' have only been made in 2019-20 BE. Technically as per the PIB release, there should be no allocation made towards 'Khadi Grant' and MPDA for 2019-20, but this is not the case. An allocation of INR 308.51 crores and INR 103.33 crores respectively have been made. This takes the total allocation for all these schemes from 2017-18 to 2019-20 to INR 3,333.72 crores which is INR 500 crores more than intended.

92. The Prime Minister's Employment Generation Programme (PMEGP) under the Ministry of MSME has had a total allocation of INR 14,191.38 crores from 2015-16 (Actuals) to 2019-20 (BE). The highest allocation over the last five years has been in 2019-20 BE for INR 2,327.10 crores.[10] This scheme should be consolidated with the Pradhan Mantri Mudra Yojana (PMMY) as they are targeted at the same kind of people for similar business ventures. While one (PMEGP) offers part of the project cost upfront, the other (PMMY) offers a non-collateralised loan. Technically, an MSME can avail both increasing the instance of moral hazard further.

[10] https://msme.gov.in/11-prime-ministers-employment-generation-programme-pmegp

Pahle India Foundation
Nirupama Soundararajan (+91 9971100996)
C4/54 First Floor, Safdarjung Development Area,
New Delhi - 110016
(+) 91 11 41551498
facebook.com/pahleIndia @pahleindia
www.pahleindia.org