IAS PARLIAMENT

A Shankar IAS Academy Initiative

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BUDGET 2017-2018

SHANKAR IAS ACADEMY™
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1. “Rail Budget in New Avatar”

This year, 93 years old practice of presenting a separate rail budget was not followed. The rail budget was merged with the general budget.

**History of Railway Budget**

- In 1920, an East Indian Railway Committee was constituted under the chairmanship of Sir William Acworth. Based upon the recommendation of Acworth committee the finances of Railways were separated in 1924 by a “Seperation convention”.
- In the Post-Independence era, Railways was carrying 75% of Public transport and 90% of freight. Hence the need for continuing with a separate budget looked justified.
- Today in contrast, this share has been reduced to 15% and 30% respectively. The present Government recognized this change and hence a conscience decision was taken to look at the issue as a whole.
- The present budget mandates Railways to focus on 4 major areas like.
  - Passenger safety
  - Capital and development works
  - Cleanliness
  - Finance and Accounting Reforms

**Passenger Safety**

- The present budget recognised the compelling need for addressing the safety concerns afresh and announced the setting up of Rashtriya Rail Sanraksha Kosh (RRSK) with a corpus of 1 lakh crore over a period of 5 years.
- Government will lay down clear cut guidelines and timeline for implementing various safety works to be funded from the kosh. There is a plan to completely change the ICF coaches to LHB coaches for better safety.
- The Budget has also outlines complete elimination of unmaned level crossing by 2020. The safety initiative is also likely to witness measures for improving fire retardancy in materials used for coach interiors like foam.

**Capital and development works**

- The merger of Rail budget also extinguished the dividend liability of the Indian Railways, resulting in extra availability of Rs.10,000 crores approx. This shall be a recurring benefit year after year.
- The budget targeted commissioning of 3500 km of railway line when compared to 2800 km line in 2016-17. These is a major thurst in electrification also.
Another area is station Redevelopment 500 stations are to be made disabled friendly. It is proposed to feed 7000 stations by solar power in medium term.

A new strategy has been firmed up in signing joint ventures with state governments. Railways shall be setting up joint ventures with 9 state Government and 70 projects are identified for construction and development.

Cleanliness

SMS based clean my coach service has gained popularity. The budget also proposed “coach mitra” facility, a single window facility to register all coach related requirements.

The budget proposes to fit all coaches with bio toilets by 2019. To continue such efforts further, the Budget outlines the pilot plants for environment friendly disposal of toilet waste and conversion of biodegradable waste into energy are being set up.

Finance and accounting Reforms

The accounting basis is transformed to the accrual basis of accounting. This accounting reform will enable railways to calculate more accurately, the value of each service they provide.

To promote digital habit in passengers, service charge one tickets booked through IRCTC has been withdrawn. This is a welcome move.

The shares of three railway PSUs - IRFC, IRCON and ICRTC are proposed to be listed in the stock exchange.

2. Assessing the changes in structure and processes

The recent budget has made some shifts as follows. It has merged the Railway Budget with the General Budget, discontinued the plan and Non-plan classification in Union Government’s expenditure Budget and advanced the date of the Budget presentation by a month.

Merging of Budgets

The decision based on the advice of the NITI Aayog put an end to the 92 year old tradition of a separate Rail Budget. It has been argued that this merger will allow the Railways to boost economic growth.

Rather than this cosmetic change, it is important to implement the Rakesh Mohan Committee Recommendations for restructuring of Railways.

The social costs borne by the Railways are now transferred to the respective state and central Governments. So it will now perform the role of commercial organisation in a profitable manner.

Ending plan and non plan expenditures

The bifurcation of expenditures budget as plan and Non-plan had given rise to a misleading notion that plan expenditure was developmental and non-plan was non developmental.

This has led to the excessive focus on plan expenditure, with a corresponding neglect of items such as maintenance that was classified as Non-plan and neglect of non plan expenditure caused on acute shortage of regular cadre staff across sectors in most states.
It is hoped that by clubbing plan and Non-plan expenditure, resource allocation would be easier; this will also help link outlays to outcomes in a better way.

While the plan and non-plan distinction has been dropped, an excessive focus on ‘capital’ and ‘revenue’ classification of expenditure could be problematic for important social sectors like education and health, where large proportions of government spending are reported as Revenue expenditure.

An important intent of the erstwhile 5 year plan process was to correct regional imbalances by sanctioning packages. The focus should not be lost. The union ministries should continue to make interventions for reducing regional disparity by identifying backward regions and channelising additional public resources to those.

Advancing the Budget

By advancing the Budget 2017-18 by a month, the attempt to push all spending ministries towards releasing funds to states and other implementing authorities right from the beginning of new financial year.

One of the disadvantage of moving the budget to February 1 is the lack of availability of comprehensive revenue and expenditure data.

Other difficulties like whether the houses of Parliament and the standing committee will get adequate time to deliberate on the budget is another question.

3. SWOT Analysis of the Indian Economy

The Economic Survey 2016-17 tabled in the Parliament presents an assessment of the performance of the Indian economy over time with a focus on recent developments. It analyses problems, challenges, possible solutions and prospects with arguments supported by extensive research and empirical evidence.

**Strengths**

- External debt is within safe limits and no slippage is expected from the fiscal discipline and consolidation pattern followed by both central and State Governments yielded results.
- FDI reform measures have ensured that India has been receiving one of the largest inflows of FDI.
- The large gap existing between the inflation rates measured through WPI and CPI have merged and the relative prices in the economy have considerably stabilised.
- Successful demonetisation of high value currencies is likely to yield long term benefits of reducing corruption, increasing household financial savings and widening the tax net.
- GST and its implementation will result in a single nation wide market, better tax compliance; higher investment and growth.
- A very extensive network and infrastructure is created in the country by JAM - Jandhan, Aadhar Cards and mobile phones particularly to reach the target groups and remote areas directly and effectively.
**Weakness**

- A major weakness of the economy in the context of its potential is broad social ideology, mindset and opinions about redistribution and income and wealth, capacity building for service delivery and market regulations and curious confusion about property rights and role of private sector.

- GST implementation to begin with is likely to suffer from sub-optimal design and to complicated a structure for efficiency gains.

- Out of several essential public services, delivery of health and education does not provide any good replicable model across states. Efficient delivery of these services remains a major weakness.

- Private investment is low and exports are no longer growing at higher rates. Both these are significant sources of growth but have slacked substantially of lak in India.

- The corporate sector and commercial banks are caught simultaneously with their respective stressed balance sheets. The increase in NPA is also on worrying clause.

- Non tax revenues of the central government have not achieved the target because receipts from the spectrum, disinvestments and dividends to the government have fallen short of expectation.

- Investment and savings rates have been declining in the country over recent years. Income and consumption inequalities are increasing in India.

**Opportunities**

- Reform the bankruptcy laws for exits of corporations to release locked up resources. The Government has already reformulated an Insolvency and Bankruptcy code 2016 and now, its efficient implementation holds the key.

- Strengthen legal basic for Aadhar cards and allows inter operability to encourage digital payments for efficient functioning of Government schemes to achieve inclusion and equity.

- Focus on competitive and cooperative Federalism presents a great potential to attract skills, investment and technology.

- Higher growth prospects in advance countries like US and Germany can lead to revival of exports from developing countries including India.

- In the context of promoting labour intensive exports, after Brexit, India has the opportunity of renegotiating free trade agreements with UK and Europe and gain substantially for export and employment growth.

- The demographic dividend in the particular states would reach the peak around 2020 and this offers a specific perspective on the urgency to pursue relevant economic reforms to maximise such a gain.

- There is an opportunity to create a Public sector Asset Rehabilitation agency to address the twin balance street problem by taking up large and difficult cases and taking tough decisions.
**Threats**

- International rating agencies have not been consistent in upgrading their ratings of different countries when their macroeconomic performance over time is compared. India unfortunately, seems to be on the receiving side with almost unrevised ratings and it can deter investments.

- Competitive populism in the federal diplomacy can change fiscal discipline and governance standards.

- Challenges arising out of pay revisions and UDAY bonds are significant concerns for states to maintain their fiscal discipline targets.

- International political order and environment are fast changing towards isolation and protectionism.

- As a consequence of developments in US economy, Global interest rates and inflation rates in advanced countries are on the way to strengthen. This can have adverse impact on India’s capital inflow and outflow and hence on its investment climate.

- The world’s exports to GDP ratio has been declining for the last 6 years under such a gloomy environment raising the share of India’s exports in the world export is very challenging.

**4. A Take-off for Infrastructure Sector**

The Budget 2017-18 is heavily focussed on the infrastructure sector with the aim of efficiency, productivity and quality of life. To achieve this 18.45% of total budget is allocated for the infrastructure sector.

As per the Gazette notification of Department of Economic affairs, ministry of Finance dated October 8 2013, the infrastructure sector is a set of Transport, Energy, Water and Sanitation, Communication and Social and Commercial Infrastructure.

**Transport**

Out of total Budget 2017-18, 61% is allocated for this sector. This ambitions and magnitude of investment will spur a huge amount of economic activity across the country and create more job opportunities.

A specific programmes for development of multimodal logistics parks, together with multimodal facilities will be drawn up and implemented.

- The Pradhan Mantri Gram Sadak Yojana (PMGSY) is being implemented as never before and is accelerating on excellent momentum. The pace of construction has accelerated to almost double and reached 133 km/day in 2016-17 from 73 km / day during 2011-2014 is commendable.

- It is to mention that National Highways Development Project (NHDP), shifted its focus to improve connectivity rather than to increase network capacity.

- The efforts to improve the road sector are hampered by delayed clearances, multiple overlapping authorities and jurisdictions, frequently changing rules of engagement with private sector, unyielding land laws and skill shortages. This must be addressed.

- A substantial investment will be required to ensure that the Air Navigation Services (ANS) can continue to deliver on an exceptional record of aviation safety.
The Budget 2017-18 targets that the selected airports in Tier 2 cities will be taken up for operation and maintenance in the PPP mode. Also, the Airport authority of India will beamed to enable effective monetisation of land assets.

Exports and imports for India, bulk of which takes place through the seaports, have demonstrated unprecedented growth during last decade. India will have to make huge investment on creating Indian tonnage which is consistent with its present share in the world tonnage.

The Environment friendly mode of transport, In land water ways (IWT) is showing a decline in allocation. This is mainly due to the reason that the volume - Cargo moved through inland water transport remains very low and confined to particular regions only. This must be addressed as IWT has the potential to reduce congestion on roads and reduce CO₂ emissions.

**Communication**

The current spectrum auctions have removed spectrum scarcity in the country and will give a major fillip to mobile broadband and digital India for the benefits of people living in rural and remote India.

A scheme which is a national importance is called Bharat Net, a highly scalable network infrastructure accessible on a non-discriminatory basis, would the world’s longest rural broadband connectivity project using optical fibre.

In this Bharat Net project, optical Fibre cable (OFC) has been laid in 1,55,000 kms. In addition DigiGaon initiative will be launched to provide tele medicine, education through digital technology.

**Energy**

The Government is on the way to achieve 100% village electrification by 1st May 2018. An increased allocation is made under Deendayal Upadhaya Gram Jyoti Yojana.

In solar energy it is now proposed to take up the second phase of solar park development for additional 20,000 Mw capacity.

To strengthen energy sector, the Government has decided to set up strategic crude oil reserve. In the first phase 3 such reserves are set up and in the second phase it is proposed to set up in Chandikhole in Odisha and Bikaner in Rajasthan.

Swachh Bharat Mission (Gramin) has made tremendous progress in promoting safe sanitation and ending open defecation. Open Defecation Free villages (ODF) are now being given priority for piped water supply.

To further boost this mission, it is proposed to provide safe drinking water to over 28,000 arsenic and fluoride affected habitations in the next 4 years.

5. Neo - Developmental Model

**Marching towards Greater Glory**

The Agriculture Sector, farmers’ welfare and upliftment of rural areas and creation of jobs here always given prime importance. This Budget 2017-18, draws out a crystal clear road map, which will help to look at broad canvas of the Farm Sector and the need for removal of
various natural and man-made impediments in rural development.

- The budget proposals rightly targeted to integrate farmers who grow fruits and vegetables with agro processing units for better price realisation and reduction of post harvest losses.

- NABARD will set up funds like micro irrigation fund, dairy processing infrastructure fund for the better penetration of credit facilities.

- The coverage of the National Agricultural market (eNAM) is proposed to be expanded from the current 250 to 585 APMCs, with on assistance upto 75 lakhs for establishment of cleaning, grading and packaging facilities. This move will likely to benefit farmers by promoting value addition of their produce.

- The states are to be urged to de-notify persistabes from APMC to free farmers from the clutches of the middleman and allow them to sell their produce independently.

- In the PMFBY, the coverage target has been increased from 30 to 40% in 2017-18 and to 50% in 2018-19. This makes the farmers to feel more secure at the time of sowing itself.

- The soil health card scheme, would be strengthened further with setting up of mini labs for soil testing in all Krishi Vigyan Kendras across India.

- The recently enacted GST is also likely to have major implications for India’s agriculture as food sectors are currently subjected to a wide array of direct and indirect taxes levied by central and State Governments.

- There is an highest ever allocation for MGNREGA and there is an increase in the target for the assets creation also. The Farm pond targets under this scheme once completed, it will contribute greatly to drought proofing of Gram Panchayats.

- It is also significant to note that the participation of women in MGNREGA has increased to 55% from less than 48% in the past. The initiative to geo tag all MGNREGA assets and putting them in public domain will further establish greater transparency.

- A number of “Mahila Shakti Kendras” are to be set up at village level. It will provide one stop convergent support services for empowering rural women with opportunities for skill development, employment, digital literacy, health and Nutrition.