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# FY 24
# Pre-Budget Expectations

## A small step towards a giant leap for 2047

24 January 2023

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# Budget 2023-24: India focusing on 2047

Carrying forward its economic progress, **2022 saw India overtake the UK to become the world's fifth-largest economy,** with a sustained growth of 6-7% on a long-term basis. Indeed, India has been the world's third largest economy in PPP since 2009.

The last budget succeeded in maintaining the thrust on enhancing Capex in infrastructure and assisted industrial growth with targeted PLI schemes. To accelerate Digital India, 5G auctions were held, and network deployment is in progress. India has adopted a leadership stance in climate and sustainability, announcing NetZero2070 at COP27.

The current challenges posed by global headwinds have reduced the growth target to 7%, adversely affected exports, increased import bills with escalating commodity prices, including crude, and caused concerns on the inflation front. Expenditures on some subsidy heads, especially food, have been consistently high.

Budget FY24 will focus on **overall economic growth and equitable distribution of income and opportunities, job creation, improvement in health and education, and sustainability considerations.** At the same time, India faces the challenge of sustaining growth in a world where as many as one-third of countries are expected to face a recession this year. We can expect a new Industrial Policy to be announced.

While generating new jobs and reducing poverty is a priority ahead of the elections, the government's task in maintaining fiscal prudence has been assisted by remarkable growth in tax revenues in both direct and indirect sectors. This likely allows fiscal prudence to be maintained, key metrics that investors and credit agencies watch.

This document considers some important **key overarching themes for Budget 23-24** as India continues to take leaps and strides at the national and global levels:

- Roadmap to India graduating to developed country status
- Ensuring long-term stability across policy, regulatory functions, and taxation
- Keeping the deficit under control
- Job creation and Skilling
- Furthering the push on priority spends
- Use of technology as the way forward for welfare delivery


We believe the above themes are overarching and spread across majority sectors and industries. Hence, while it is important to focus on these themes at the higher level, it is also important to highlight the key priority areas we believe should form the core of the budget across sectors.

## 1.1 Priority areas across sectors

As India aims to continue its growth journey, the budget provides an opportunity to:

- Drive growth that aids job creation and equitable distribution of national incomes
- Enhance the reach and quality of social services to provide opportunity and quality of life to all
- Enhance social protection and improve welfare delivery
- Integrate sustainability across sectors
- Use power of technology across sectors
- Step on the accelerator to speed up Infrastructure creation

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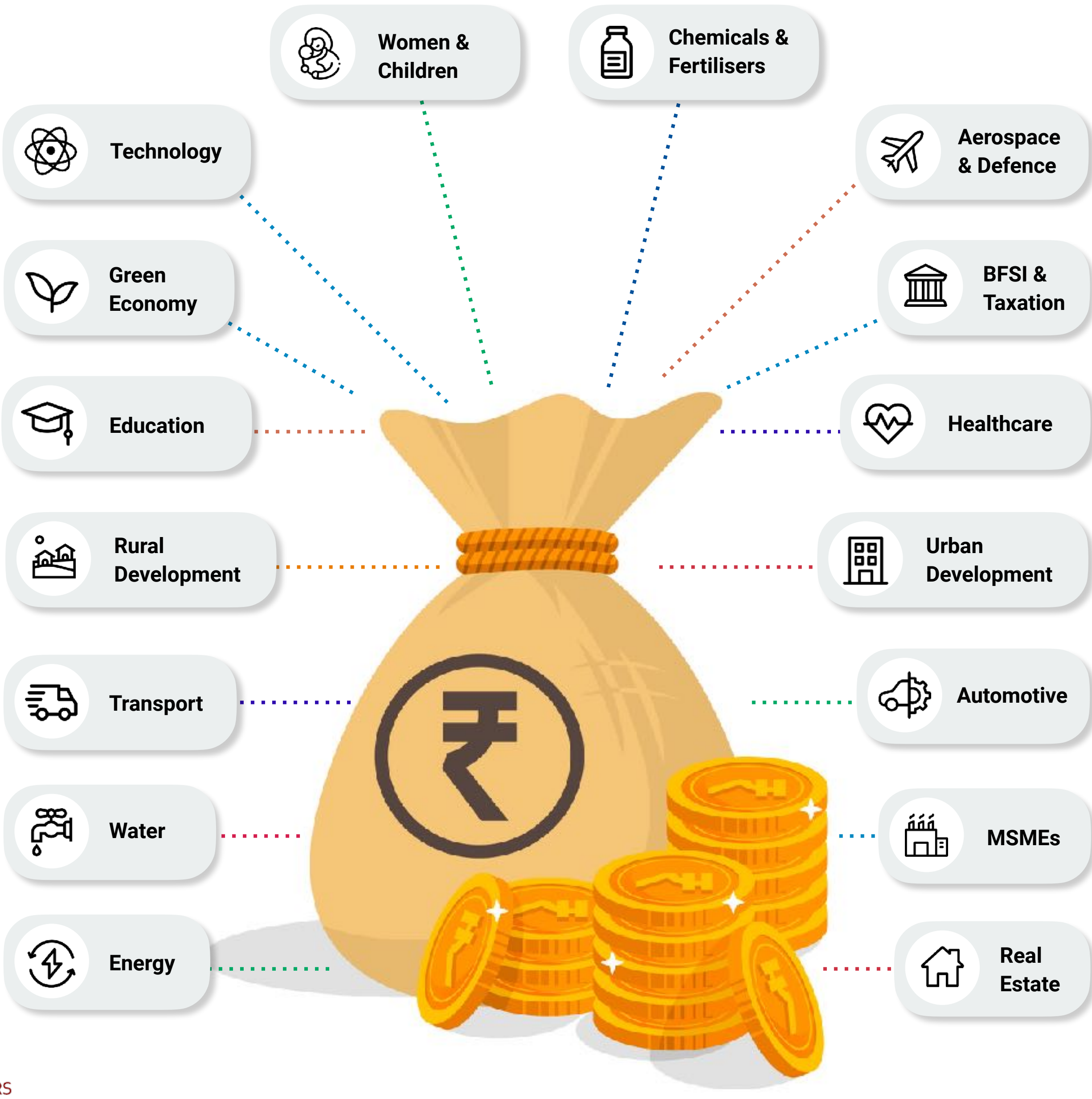
# Primus' FY 24 Budget Expectations

We are expecting impacts in the following areas:



## Rural Development & Benefits Management

- Increased budgetary allocation for MGNREGA
- Increased access to social security benefits for vulnerable groups
- Investments in primary healthcare centres, primary schools and the training of healthcare professionals
- Large scale investments in infrastructure and technology to enhance agricultural productivity
- Extension of schemes aimed at farmers and rural employment, tough growth headwinds impact the poor most
- Increasing the financial assistance under PM KISAN scheme

### EXPERT VOICES

Budget expectations on Welfare Management:

"The use of technology in welfare delivery in India can significantly improve the reach and effectiveness of government programs. Digital Solutions like Family Based Welfare Management System can facilitate financial inclusion, reduce documentation burden, and provide data-backed policy formulation for targeted welfare delivery to marginalized groups. This can lead to inclusive governance and ensure schemes are reaching the last-mile citizens."

**SHRI RAJEEV CHAWLA**
Strategic Advisor & Chief Knowledge Officer, Ministry of Agriculture & Farmers Welfare, Govt. of India

## Urban Development

A new National Program on Capacity Development for urban infrastructure for further reforms, effective fund utilisation, attracting external funding and revenue generation

Development of economic clusters in urban areas through augmentation of infrastructure and urban renewal

Innovative financial Instruments to mitigate the difficulty for smaller municipal bodies to approach the bond market

Scaling up Smart Cities through further strengthening of data driven governance, GIS tools and other technologies

Developing effective O&M ecosystem in WASH, attracting private sector participation in transportation, treatment of solid and liquid waste, and automation of processes

## Healthcare

Increasing spends on healthcare to a clear allocation of 3% of GDP in real terms

Infrastructure development in Tier II/III cities through PLI, PPP and VGF

Tax holidays for new facilities

GST reduction on life saving drugs, health insurance and hospital services

Expanding quality tertiary care across districts, or across all identified backward districts.

Expanding the Pradhan Mantri Jan Arogya Yojana to cover outpatient care and essential medicines

Uniform adoption of Ayushman Bharat Digital Mission to be accelerated for nationwide rollout with more ABHA id and Patient Health Records (PHR) creation for long-term success

Providing appropriate RoDTEP (Remission of Duties & Taxes on Export Products) rates to pharma products exported by the industry to encourage drug exports

Increasing the Health Insurance cover under the Ayushman Bharat program and including Middle Income Group in it

### EXPERT VOICES

Budget expectations on the Health Sector

“The government should prioritize implementing a universal health insurance program similar to the Ayushman Bharat scheme in order to provide coverage for the approximately 30% of the population known as the "missing middle class." According to a 2021 Niti Aayog report, there is a population of around 40 crore individuals who currently lack any financial protection for healthcare. This population does not have access to government schemes and cannot afford insurance premiums from private companies. Implementing a universal health insurance program would improve access to healthcare for this segment of the population and significantly reduce out-of-pocket expenses, which currently stand at 54%.

In addition to implementing a universal health insurance program, the government should also consider rationalizing GST slabs and reducing or eliminating taxes on health insurance. Health insurance should be considered an essential commodity rather than a luxury. The government should also establish a healthcare regulator to prevent medical abuse and regulate treatment costs. This would help standardize treatment protocols and curb runaway health inflation, which currently stands at approximately 11%.

Finally, the government should focus on creating a Diagnosis-Related Group (DRG) framework for the healthcare sector to classify patients and rationalize costs. This would help improve efficiency and cost-effectiveness of the healthcare system ”

**MR SATISH GIDUGU**

CEO, Medi Assist

# Education

Preparing school, higher and skilling institutions to educate and skill youth in industry relevant roles and functions - both in India and abroad, both for Indian and foreign students

Funding National Apprenticeship Promotion Scheme (NAPS) to improve employability through apprenticeships in industry

Convergence between inter-ministerial efforts to support meritorious high school students lacking means to transition to tertiary education in the programmes of their choice, and provide grassroots roots level launchpads for access to incubation opportunities for school / college leaving entrepreneurs

Performance grading index should guide the budget to enable lagging district/state/ institution to the next level

Improved learning experience for every classroom, teacher, student through a competency curriculum, improved pedagogies & assessment frameworks, and phygital learning infrastructure

Promoting R&D and applied research in higher education which would also improve international rankings

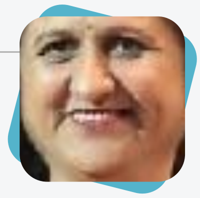
Providing access to quality education by creating academic and hostel facilities for underserved regions & students

Further expansion of elite institutions such as IITs / IIMs across states

Introducing free education for all female students from KG to PG across Government institutions

Announcement of missions and initiative to create appropriate regulatory environment to usher in higher paying jobs for aspirational Indians especially in Media, AVGC, Tourism, Online gaming

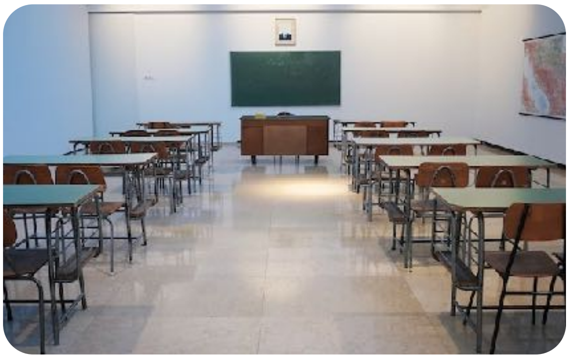
## EXPERT VOICES



Budget expectations on the Education Sector:

"On-Job-Training (OJT), a crucial component of NEP 2020, will assist in making young students' industry-ready by the time they graduate. The Ministries of Skills and Industries must work together to build an incentives framework to make this a success and allow for its widespread uptake by the industry. This will help the Skill India Mission in the long run and benefit not only the skill partners, i.e., industries and R&D institutes, but also the Skills Universities."

**DR. APOORVA PALKAR**
Vice Chancellor,
Maharashtra State Skills University



## Women and Child

Emphasis on protection, health, education and nutrition for children to meet the National Action Plan for Children 2016 recommendation that at least 5% of the Union Budget be spent on programmes aimed at children

Expanding reach of quality Early Childhood Education

Driving the shift from women's development to women-led development

Increased support for reducing gender-based violence through behaviour change activities starting from childhood itself, improved criminal justice system, and easing support to those facing violence through helplines and shelters

Enhancing female labour force participation through:

- promoting education of women in higher income sectors such as STEM through scholarships
- skilling of women
- promoting entrepreneurship through provision of low-cost loans & women-focused incubators
- strengthening SHGs to scale up their businesses
- reducing the care burden on women through facilitative infrastructure such as suitably located Creches and Working Women's Hostels

### EXPERT VOICES

Budget expectations on Women and Child Development:

"The Hon'ble Prime Minister has launched a new vision of India, one of women-led development. I expect the forthcoming budget to continue to push for continued improvements in women's safety, economic empowerment and financial and technical support to women-owned businesses. There will be increasing application of technology solutions for improved reach and monitoring to drive outcomes. In recent years, Government has revamped the delivery of nutrition support to women and children – continued emphasis on Anganwadi infrastructure and nationwide behavior change is expected."

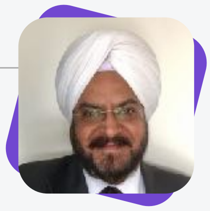
**DR. HEENA VIJAYKUMAR GAVIT**
Member of Parliament,
Nandurbar, Maharashtra

# Energy

- Pumped hydroelectricity storage should be incentivized to cope with intermittency of renewable energy sources
- Incentives for adoption of battery energy storage systems for lighting loads for residential areas
- Massive push for solarization of India's energy pool, especially to combat non-revenue power losses (theft fraud etc)
- Integration of measures in the e-waste policy towards industrial mining to ensure maximum recovery of batteries, since India has few lithium sources to power the EV ecosystem
- New policy initiatives for coal gasification such as capital support for cost of plant, machinery, VGF, easy access to loans and tax rebates
- Major allocations to push the expansion of Natural Gas grid to attain the 15% natural gas target as part of energy mix by 2030
- A revamped and restructured PM Kusum scheme with targeted benefits
- Dedicated steps towards a cess for BEE star labels less than 4 stars and incentive mechanism for devises with 5 stars
- An increased focus on R&D and an emphasis on developing a circular economy

## EXPERT VOICES

Budget expectations on Energy Sector:



"In the energy space, we expect a sustained push towards green hydrogen production and structured policy initiatives for the green hydrogen mission. Green steel manufacturing should be galvanised through targeted incentives per ton of green steel. In addition, the government may push pumped hydro storage schemes to build large-scale energy storage to complement the aggressive growth in RE."

**MR. DAVINDER SANDHU**
Managing Director, Primus Partners

## Green Economy

- Zero emission planning integrated into urban planning with Green Climate Funds for states linked to State Climate Action Plans
- A National Climate Change Mission focusing on building institutional and individual capacities, assisting states in designing climate sensitive projects, and funding climate focused projects
- Setting up National Center of Excellence under MoEF&CC to promote R&D
- Re-skilling and upskilling of youth for green jobs through National Skill Development Mission and Mission Karmayogi
- Creating new structures for making SDG financing a reality
- Strengthening schemes like Ujjwala with a focus on states/ districts with a large population of tribal and vulnerable groups

## Water

- Development of ward level rainwater harvesting projects by women led local communities
- Technology led innovations on water purification, grey water recycling, IoT, well rejuvenation etc.
- Private sector investment in Safe Water Enterprises beyond setting up of Water ATMs, with low cost / low value micro-finance
- Creating an International Water Alliance with multi-stakeholder participation for sustainable access to quality water

# BFSI and Taxation

Rise in access to credit and simplification of taxation with focus on the NBFC, MSME and FinTech industry

Tax breaks for Fintech through depreciation on fixed assets and government partnerships with banks and loan providers, especially on First Loan Default Guarantee (FLDG)

For NBFCs, taxation of interest income on receipt rather than accrual basis, parity in income tax treatment on NPA provisions, liquidity support systems through organizations such as NABARD or SIDBI.

Expected that Government may consider to identify virtual digital assets as regulated assets

The basic exemption limit of INR 2.5 lakhs is anticipated to be doubled under both old and new tax regimes which will have an effect on higher income individuals as well. Government may now simplify the tax system by merging both regimes.

Given the increasing cost of education and of hostel accommodation, it would be sensible to re-evaluate and increase these exemption limits

Bold Initiative for making Stock Market attractive for Institutional and individual investments.

Broad commentary on regulating crypto and differential tax for this asset class

Making fund investments in India more attractive, especially through IFSC.

Implementation of suggestions of the Damodaran committee report, making blended finance a reality

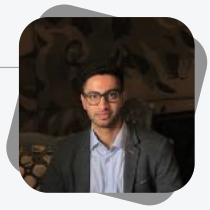
Extending deadline for certain tax exemptions for Infrastructure financing

Removing criminal liability provision in certain cases and improving cost and ease of doing business

Mechanism to unblock capital stuck in large EPC/Procurements in long arbitration/conciliation process

Strengthening balance sheets of PSU banks for eventual disinvestments

## EXPERT VOICES



Budget expectations on BFSI and Taxation:

"The budget for FY 24 will focus on strengthening the credit – digital and non-digital lending, and the compliance framework. Credit availability for priority sector lending has focused on larger NBFCs historically, this is poised to move towards focusing on accommodating smaller NBFCs and push to make credit available for the underbanked sector of the economy. The industry is hoping that the government will standardize taxation and recovery policies. The high taxation for NBFCs might also see a decrease to bring them at par with banks. Digital lending, suffering from a short transitioning period, should see streamlining of license & approval process. The current compliance structure currently should see more clarity and push ease of doing business for small business owners who are adopting digital means to access payments and financial services."

**MR. ABHISHEK RAVI**
Partner, Ravi Rajan & Co.

# Chemicals and Fertilisers

Large fertilizer subsidy for food security

A PLI scheme for strategic chemicals and petrochemicals sector with allocations of around INR 5000 Cr

Fiscal incentives to encourage downstream units and initiatives to boost investments including creation of petroleum, chemicals and petrochemicals investment regions (PCPIRs)

Incentives for investments in new and innovative fertilizers

## EXPERT VOICES

### Budget expectations on Chemicals and Fertilisers Sector:

"The chemicals and fertiliser sector is witnessing significant technological innovations in various segments. Particularly, the fertiliser sector is poised for introduction of new and innovative Fertilisers, including nano and other customised Fertilisers. The industry is hopeful that the Government may extend the coverage of the flagship PLI Scheme to the Fertiliser and Chemical sector. This will usher in significant volume of additional investment, import substitution and employment generation."

**MR. CHHABILENDRA ROUL**
Former Secretary, Department of Fertilisers, Government of India

## MSMEs

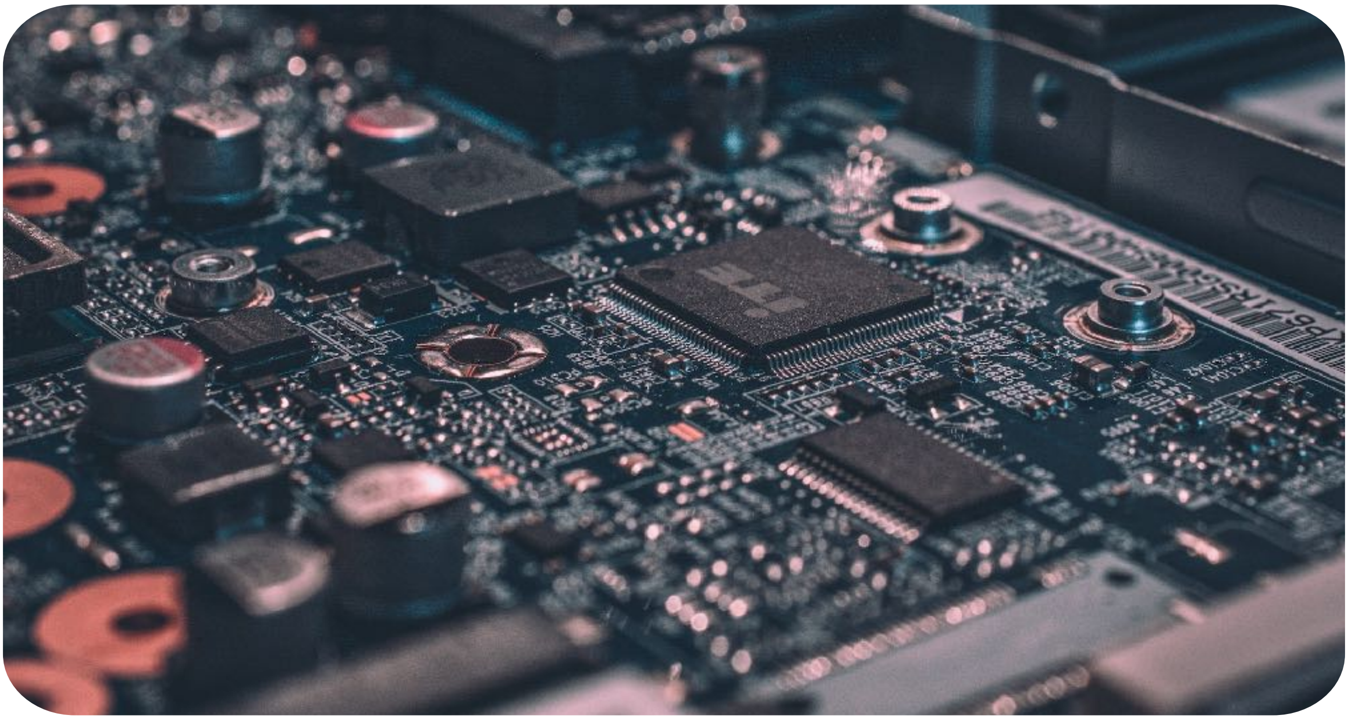
- PLI Scheme should be extended for the MSME sector to scale up manufacturing capabilities and enhance participation in the global supply chain
- Further extension of Emergency Credit Line Guarantee Scheme (ECLGS) to ease access to capital
- Revamped Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE), offering additional credit of INR 2 lakh crores for MSME and expanding employment opportunities, should be operationalized
- Further thrust on skilling
- Extended use of CGS to get banks to support specific sectors and MSMEs
- Provide free social security coverage and benefits to all unorganised workers

## Real Estate

- Credit Linked Subsidy (CLSS) component of the Pradhan Mantri Awas Yojana (Urban) Mission, should be restarted to meet housing shortages
- Limit of interest deduction on housing loans should be increased from INR 2 Lakhs to 5 Lakhs.
- New Initiative to encourage sustainability measures in Real Estate
- Single window approval system for ease of getting approvals to be prioritised

# Technology

- Expanding PLI scheme to newer aspects related to the Technology industry
- Start-ups and innovations in platform economy
- Schemes to promote AI, machine learning, blockchain, NLP etc
- Promoting Digital Public Goods (DPGs)
- Technology-based family-led benefit delivery system for saturating reach
- R&D idea incubator friendly policies
- Facilitating Web3 companies and skilling professionals



## Automotive

Support for both (1) new technology adoptions like electric and hydrogen that will redefine the ecosystem as well as (2) growth in legacy platforms till the time comprehensive adoption is not completed

One of the most important direct misses last year was non-rationalization of GST on the automotive industry (staying as high as 28% GST + cess) which was adding to the already existing costs. Budget should focus on a more lenient outlook towards the industry which is staring at a massive fundamental transition phase

More capital subsidies and lower taxes for EV cars, incentives for R&D localization as well as supply side support from a parts and components perspective, and more importantly subsidies for charging infrastructure

## Transport

Committed induction of modern rolling stock in the Indian Railways to be continued and an adequate budget to be committed for giving confidence to industry players

Dedicated examination of the airport infrastructure policy to incorporate the construction of smaller domestic airports and reduce congestion

Domestic shipping to be encouraged through Make in India vessels. Transport of bulk materials between east and west coasts to be encouraged to decongest stressed rail and road infrastructure

Launch of 2nd phase of PM Gram Sadak Yojna to boast the transport in rural areas thus supporting efficient movement for agriculture produce and MSMEs

## Aerospace and Defence

Focus on manufacturing indigenously, investments towards building capacity and capability, intent towards integrating latest technologies and the passion to be the best globally – are all aspects which are today ingrained into the ecosystem.

Two major focus areas that require further impetus are capabilities especially in niche technologies and capacities:

**Capabilities:**
by increasing allocations and incentives towards research and development activities (both in legacy as well as futuristic technologies) especially in materials, engines and electronics - while paving way for further integration of the private industry into the R&D ecosystem.

**Capacities:**
Committed long term orders for high value platforms to the industry so that investments are made and ultimately also enhance defence exports which could be further incentivized.


# Getting India to a Developed Country Status

**What this requires is further comprehensive policy making, supported by increased public participation at all levels to ensure sustainable and effective growth.**

During his recent United Nations General Assembly speech, External Affairs Minister S. Jaishankar told the world about **India's ambition to become a developed country by 2047**, a century after the country's independence. This opens up for discussion, what is a developed country and what is the path to get there.

Even from an economic point of view, this covers a wide spectrum of factors, including GDP, Per Capita Income, Human Development Index, etc. According to the World Bank, 80 countries and territories are classified as "high-income economies" or what are commonly referred to as developed countries. As of the 2022 fiscal year, high-income economies are those that had a GNI per capita of $12,696 or more in 2020. India's GNI, as per 2021 is $ 2,150 which means India would need to multiply this number by 6 times by 2047.

Other countries have made the **move from developing status to developed**. For instance, in 1990, China and India were roughly equals in terms of GDP per capita; however, in 2021, after 30 years, China crossed to the developed country status by passing the $12,000 criteria as of then.

India definitely has an **immense potential for economic development**, especially given the demographic dividend. India is now world's most populous country, overtaking China, according to UN figures. Moreover, China's median age is 37.1 while India is 27.6 years old. If India's substantial youth can be gainfully employed, especially in the emerging sectors, it will certainly contribute the biggest economic dividend to India's rise.

However, while the population provides a potential to achieve the economic growth; the flip side it that **the rising population is also the largest challenge**. Lifting millions of Indians out of poverty is an inundating task, but essential, both in economic and social terms.

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**Developed nations are also supposed to be socially developed** – this can only be done through poverty alleviation & ensuring basic indicators like medical care, health and literacy rise along with economic growth. The disparities in per capita income often show up in the overall quality of life in different countries. A way to map this is to look at the scores of India and other countries on the **Human Development Index** (HDI), a composite index where the final value is reached by looking at three factors: the health and longevity of citizens, the quality of education they receive, and their standard of life, where India has made significant improvements over the years.

Given India's growth prospects and the zeal with which this target is being approached, it has **a realistic chance of meeting these goals over 25 years**. This requires a good measure of self-reflection, objectivity and strategizing.

**This would mean:**

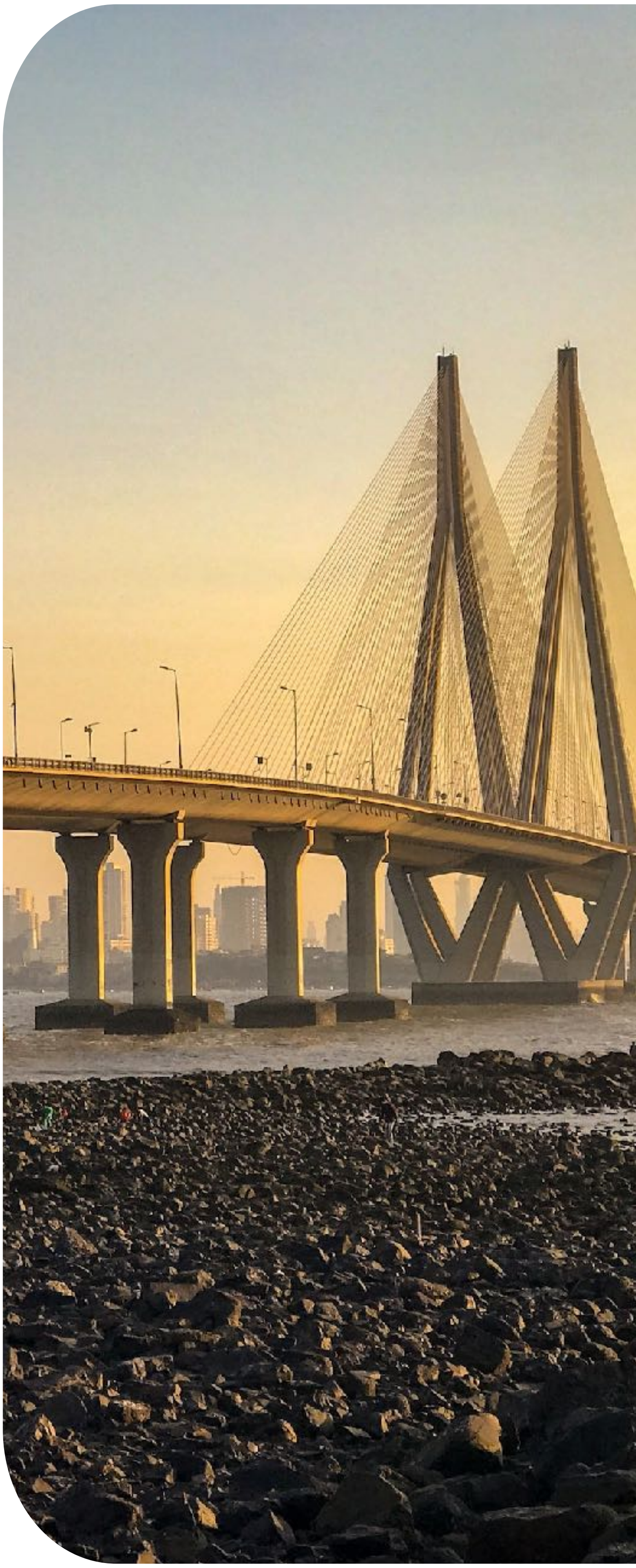
- The country has to consistently grow at a rate of 8 - 8.5 per cent
- Reduced dependency on imported energy and reliance on foreign capital
- Increase in low-income jobs and easing of supply-chain bottlenecks
- Addressing the issue of India's uneducated youngs - India is home to the largest number of illiterate people in the world with over 25% of the population still uneducated.
- Increased industry academia linkages, making Indian graduates employable
- Provide an affordable and much more pervasive healthcare system
- India needs to implement massive reforms. To benefit from the demographic dividend & increase income levels and lessen the strain of the population on agriculture, it is necessary to establish jobs in the secondary (industrial) and tertiary (service) sectors.
- Furthering the implementation of smart technology for Government service delivery standards, particularly in the areas of health and education, require significant improvement, which requires the expenditure in terms of percentage of GDP to be raised across these sectors.
- Using new age technology like Artificial intelligence, Analytics to reducing tax evasion, will raise tax collections for the government, allowing for more spending on the social sector.

To promote equitable and sustainable development, the urban planning process needs a relook.

Despite the fact that primary source of livelihood for rural people is agriculture & allied activities and this sector engages 60% of the labour force, its contribution to the economy is on the decline. This paradox needs to be addressed to improve the lives of people who work in this essential sector.

The government has increased the budget allocation for R&D, especially in sectors such as defence. Additionally, programs like Make in India, Atmanirbhar Bharat, Start-up India, etc. are being implemented to provide a push for & make business easier, especially for small firms. A further push is required for financial incentives & industry linkages in R&D across all sectors.

Additionally, skilling will have to be a focal point for the government to ensure that the youth are prepared to take up the jobs the emerging markets will create. Skilling must incorporate the latest technology to ensure the jobs stay relevant and that there is market growth.



**The main tools for making India a developed country by 2047 will be policies and their effective execution.**

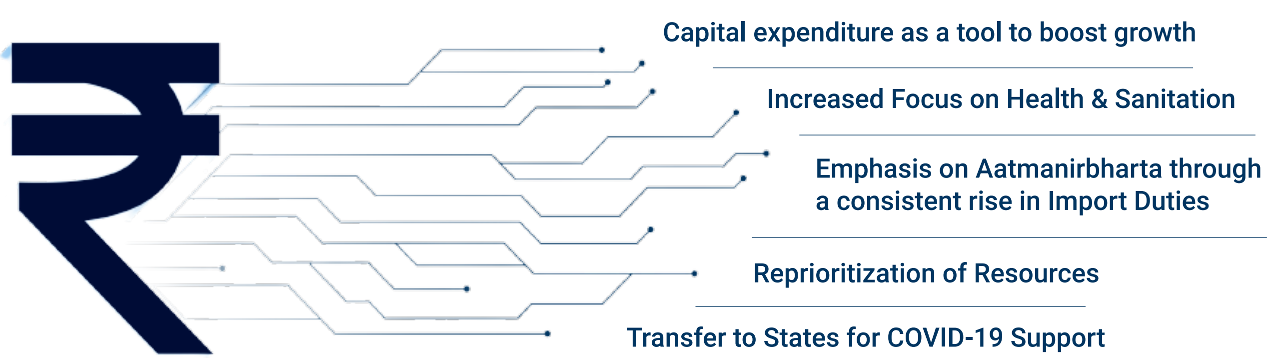

# Recalibrated Priorities

**With recalibrated priorities post COVID, the budget should focus more on health and sanitation schemes, while continuing the emphasis on indigenous production and aligned incentives, along with reprioritizing spare funds towards agriculture related infrastructure.**

Budget FY24 comes at a time when the country has entered Amrit Kaal and set the goal of a **Viksit Bharat (developed economy) by 2047**. The Union Budget, in addition to being an honest account of the government's finances, also lays down the economic roadmap of the government for the next year and signals a change in its strategy, if any. The COVID impact has led to a recalibration of priority areas for the government. The past three years have focused on boosting economic growth through increased spending on infrastructure, domestic manufacturing and health and sanitation standards.

## 4.1 Recent Trends

The following are recent trends that have impacted and are likely to have a bearing on the FY 24 budget:

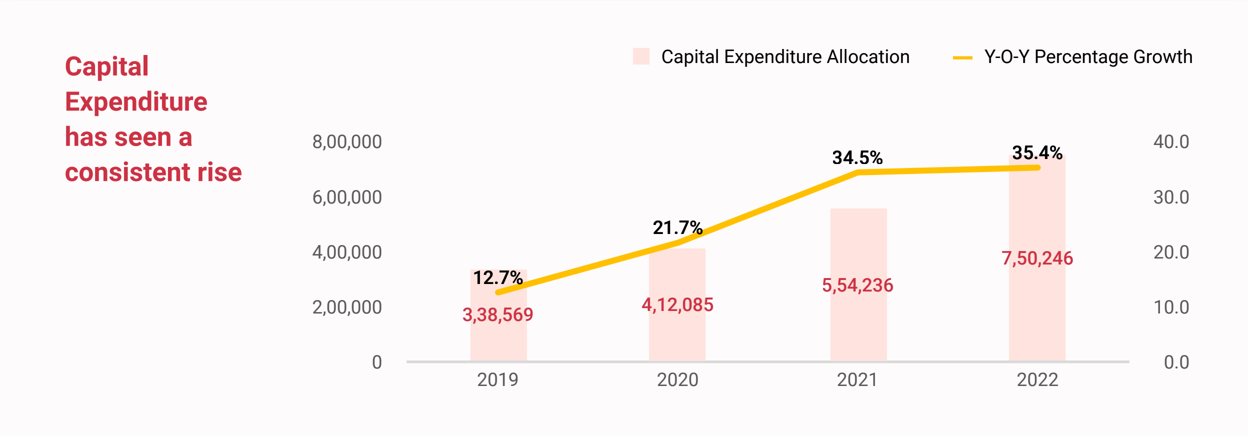


## Trend #1 Capital expenditure as a tool to boost growth

The government has relied on **massive investment in capital expenditure as the primary tool to boost growth**, reflected by a consistent rise in the Union budget over the past 3-4 years. The government has prioritized building infrastructure in roads and railways due to their higher multiplier effect and job creation ability, hoping infrastructure-led growth would attract private investment into the industry.

Currently, **more than 60% of the capital expenditure is geared towards Roads, railways and defence**. While keeping the focus on capital expenditure in the upcoming budget, the government should also aim for more capital expenditure in sectors such as health and urban infrastructure for a **more holistic development** of the economy.

Fig: Capex growth over the years (Budget Estimate)




## Trend #2 Increased Focus on Health and Sanitation

To improve overall health outcomes, the government has developed a **robust public health strategy** focusing on strengthening weak links in the domestic health system, from sanitation to hospital infrastructure - reflected in the increased allocations for the **Ministry of Health and Family Welfare** and the **Jal Jeevan Mission** over the past few years. Despite massive investment over the past few years, Rural infrastructure, like access to clean water and sanitation services, remains the area with the most investment potential.

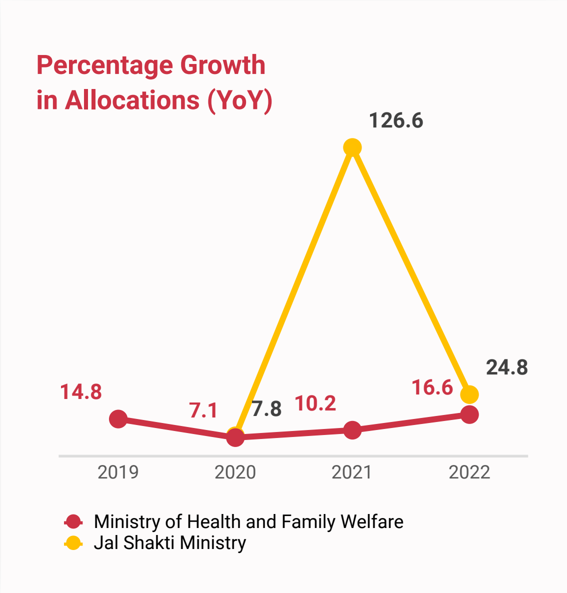



**Fig: The figure shows a modest but consistent increase in allocations for the Ministry of Health & Family Welfare and a significant jump in allocations for the Jal Jeevan Ministry over the past few years on a Year on Year (Y-O-Y) basis.** (Budget Estimates)

## Trend #3 Emphasis on Aatmanirbharta through a consistent rise in Import Duties

The past few years have also witnessed an increased focus from the government on **Aatmanirbharta**, as reflected in the consistent rise in import duties and the introduction of support schemes that **incentivize domestic manufacturing.**

The upcoming budget is also likely to continue the trend of imposing custom duties and focus on widening the production-linked incentive (PLI) schemes to newer areas to encourage **domestic manufacturing of items currently being imported**. PLI schemes worth 1.97 lakh crores across 14 sectors are presently under implementation, with Large Scale Electronics Manufacturing accounting for the most significant component of the PLI scheme, followed by Automobile and Auto components.

| Year | Custom duty hikes on Major Items |
|---|---|
| **2018-19** | Custom Duty on around **45 items** was hiked, including mobile phones, footwear and perfumes. |
| **2021-22** | Custom Duty on around **31 items** was hiked, including Toys, solar inverters, steel screws, and auto parts. |
| **2022-23** | Custom duty was hiked for **various items,** including Umbrellas, headphones, earphones, loudspeakers, and imitation jewellery, among others. |

## Trend #4 **Reprioritization of Resources**

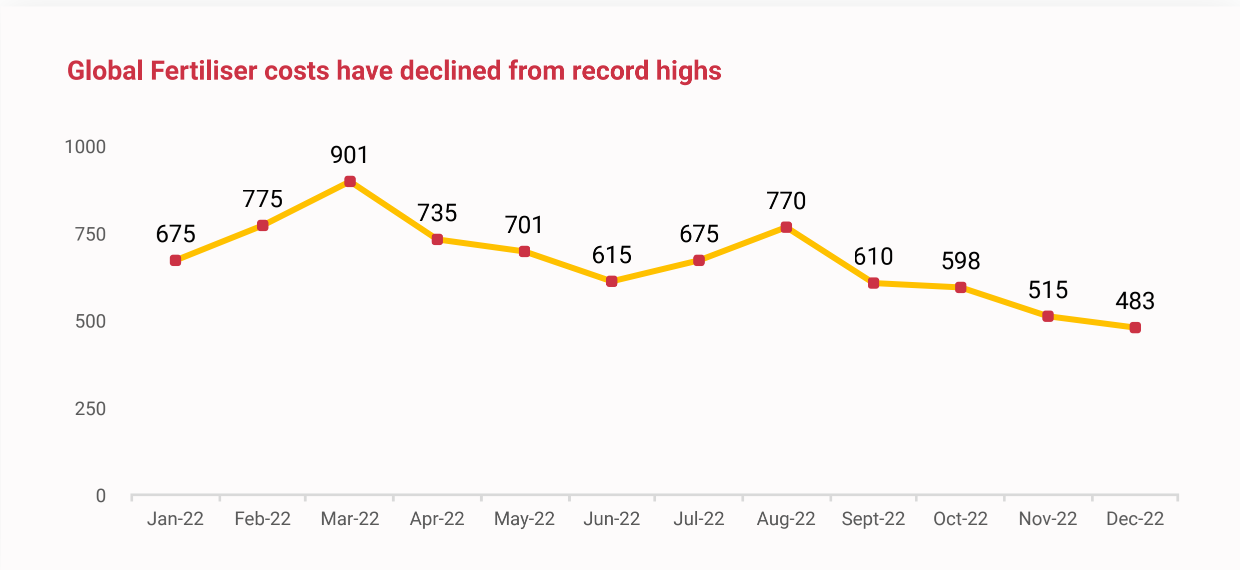
Since the advent of the pandemic, subsidies have also significantly increased. The start of the Russia-Ukraine war has further led to **a steep rise in raw material** costs across the globe, adding to the burgeoning subsidy bill.

### Fertiliser Subsidy

However, with the recent moderation in prices, the following year may likely see **a reduction in the outgo on fertilizer subsidy**. The additional expenditure of around 1-1.5 lakh crore can be better reallocated to more productive uses.

| Budget Estimate 2022-23 | Expected Revised Estimate 2022-23 | Reason for Increase in Subsidy |
|---|---|---|
| INR 1,05,222 Cr | INR 2,50,000 Cr | An increase in global soil nutrient prices triggered by the Russia-Ukraine war will likely lead to an additional expenditure of nearly 1-1.5 lakh crore in fertilizer subsidy over the Budget Estimate for 2022-23. |

**Fig: Global Costs of Fertiliser (2022)**



## Food Subsidy

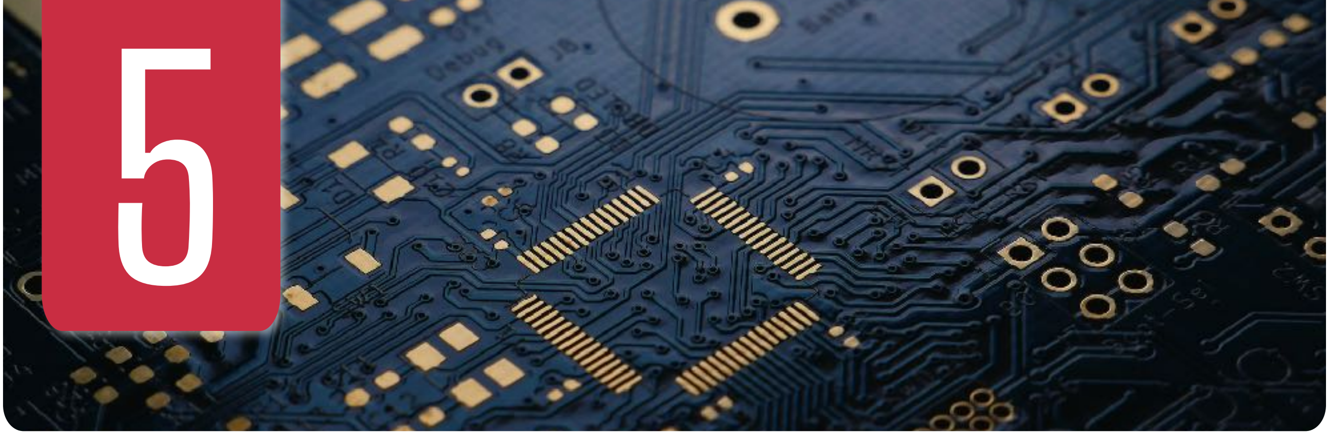
With the economy now fully opened up, not extending the **Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY)** is a fiscally prudent move that is likely to result in savings of around Rs 40-45k crore to the government. Instead, the government has made the subsidized foodgrain provided under the NFSA free of cost for the following year.

The additional saved expenditure can be better channelized for developing and expanding **Agri-warehousing Infrastructure** to reduce wastage and promote food security.

| Budget Estimate 2022-23 | Expected Revised Estimate 2022-23 | Reason for Increase in Subsidy |
|---|---|---|
| INR 2,06,831 Cr | INR 2,50,000 to INR 3,00,000 Cr | • Russia Ukraine War<br>• The Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) introduced in 2020 has cost the government a total of Rs 3.91 Lakh crore. |

## Trend #5 **Transfer to States for COVID-19 Support**

The central government allocated Rs 5,000 crore to states for **COVID-19 vaccination** in the Union budget for FY23. The amount of almost INR 4000cr (saved due to non-procurement of vaccines basis sufficient stock and decline in COVID Cases) can be used to ensure the **readiness of hospital infrastructure** for health management.




# Use of Technology for Welfare Delivery

**Technology-oriented roadmap is the way forward for welfare delivery and for also ensuring end-to-end governance.**

India is one of the fastest developing economies in the world with the International Monetary Fund (IMF) projecting **a growth rate of 11.5%**. Despite being the only country with a probable double digit growth rate, **poverty, stark inequality and inequity** continues to be one of the biggest challenges. A World Bank working paper published in April 2022 stated that the proportion of people in India who were extremely impoverished has more than halved. Government's spending on Welfare Schemes has largely contributed to the reduction of national poverty. The aim of the Government is to further **eradicate extreme poverty (anyone making less than $1.25 per day)** by the year 2030.

Despite making remarkable progress in reducing poverty, it can be safely said that *"wiping every tear from every eye"* is still a faraway reality. That being the case, nearly 75 years after independence, despite efforts, the inequities, inequalities and the lack of basic resources continue to impact a significant part of the population. Varied circumstances cause individuals to be trapped in poverty and the risks and shocks they face differ greatly. The Government cannot be expected to be in a position to identify which risks at such a micro level should be mitigated and in what priority.

**10%**

Final population to be out of extreme poverty in 10 years

**415M**

People rose above multidimensional poverty from 2005 - 2021

**16.4%**

Incidence of Poverty reduced to from 55.1%

The implementation of the welfare schemes is currently plagued with **leakages**, **mis-allocations**, and **exclusions** of the poor.

## Some of the major challenges are:

### Multi-Ministerial Approach

Numerous welfare schemes are implemented by different government agencies and departments. The lack of coordination amongst all leads to duplication of efforts.

### Complex Eligibility Criteria

Each scheme has its own definition of a 'Beneficiary. Many service oriented benefits are provided to a 'Household/ Family. This makes it difficult for people to determine if they are eligible for a particular scheme or benefit.

### Multiple Applications

Each scheme with its respective portal and website for beneficiary registration, application etc. leads to lack of awareness of the available welfare benefits preventing those in need from accessing what they are entitled to.

### Multiple Databases

Nodal Officers of each Department are to be approached for smallest of data requirements with prior approvals. Unavailability of real time, updated data and a single point access to reporting deters impact monitoring and scientific decision making.

**The use of technology in welfare delivery** in India has increased significantly, with the government implementing various initiatives to improve efficiency and access to services. The Aadhar program has streamlined the delivery of welfare allowing for **accurate and efficient identification of beneficiaries**. The Jan Dhan Yojana has increased access to financial services for marginalized communities through **direct transfer of benefits** into the beneficiary account reducing leakages. The "One Rupee Clinic" initiative in Andhra Pradesh using SMS-based technology provides **healthcare services to impoverished communities** at a cost of just one rupee per consultation allowing service delivery to remote and underserved areas and increasing access to healthcare for poorer communities.

The benefits of careful targeting of Government programs by use of technology are many. With people's individual Aadhaar numbers connected to their bank accounts, cross-verification of identities has been made easier. It has allowed for **efficient targeting** within welfare systems and assured the **timely flow of payments** to the appropriate beneficiary. Many States today have adopted and moved towards a **family based, choice welfare system**. Haryana, Madhya Pradesh, Karnataka are a few of the pioneering states with their initiatives such as the Parivar Pehcan Patra, the Samagra Program and the Kutumba ID.

## Enhanced Service Delivery Experience

De-duplication of beneficiary data across schemes to ensure consistency

Enhanced responsiveness to change since a continuously updated dynamic database-maintained platform

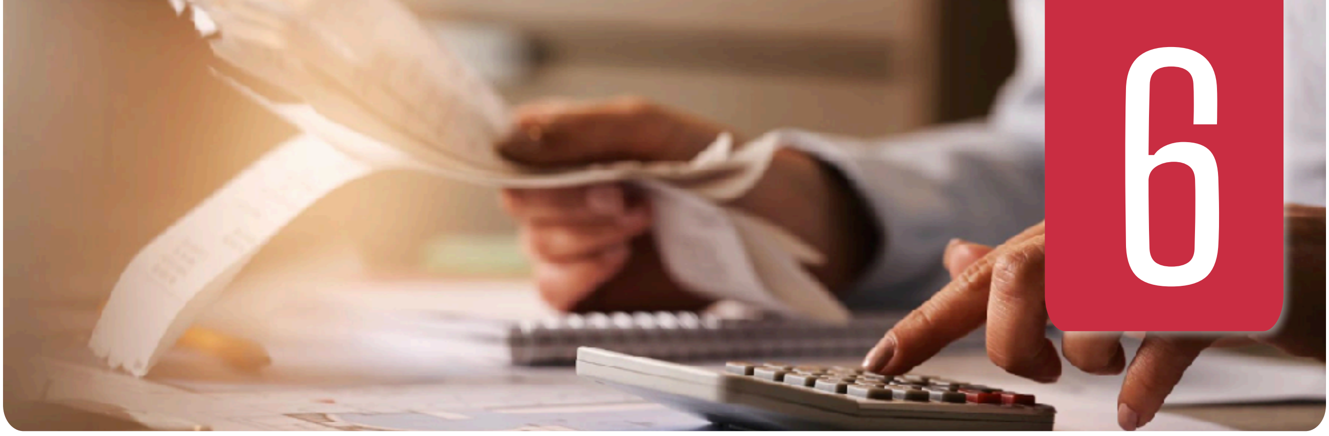
Inclusive governance by providing awareness about applicable schemes to last line families

Enable context based and pro-active delivery of welfare services

Reduced documentation burden for both citizens as well as government

**The respective State initiatives provide a unique identity** - “A Family ID” to all the families living in the state. The initiative helps to create an authentic, verifiable and reliable database of all the families of the State. It provides for suo-moto delivery of benefits and services by checking entitlement, identifying eligible residents and thereafter approve the delivery of service or scheme. It empowers the citizens to choose what is best for the family and to reconstruct the benefits being provided by the State as per their own needs. A **family based integrated & adaptive platform** enables end -to end benefits management encouraging the much-needed shift to an integrated inter-ministerial approach from the multi-ministerial mechanism promoting inter-department coordination, transparency and accountability.

Recent research by the Bank for International Settlements (BIS) has shown that thanks to its digital public infrastructure, **India has accomplished in ten years what it would have taken fifty**. Technology enhances equity, inclusivity, fairness, transparency, and trust. The new budget has a unique opportunity to create and reflect a separate provision for development of digital platforms and delivering an end-to-end e-governance service to digitally.




# Need for Alignment of State Budgets

**States also need to align their budgets vis-a-vis national priorities to being self reliant and hence, need to ensure carefully thought-out allocation for a sustainable growth trajectory.**

The vision of India becoming a developed country by 2047 manifests from the intent and target that India will have achieved a level of development that is comparable to that of developed countries on various indicators including among others, economic growth, human development, and standard of living. Achieving this vision will require significant progress across the spectrum and more specifically in **infrastructure, education, healthcare, and employment**. It will also require addressing the current **bottlenecks like poverty, inequality, and environmental sustainability**. Realizing this vision will require the efforts of and cooperation between both the central and the state governments.

While a country level view of India's economy is good to work on, it is important to also understand in detail the parts that make the whole. Hence, **to better understand the growth of these parts which are the states, we have divided the top 14 states** contributing to the growth of India into 2 groups: **Group A** – top 7 states; **Group B** – the next in line 7 states.

**These 14 states collectively contribute approx. 80% to the Gross Domestic Product** of the country and hence shall play a pivotal role in the way forward for India.

The FRBM Act which plays a significant role in maintaining a fiscal balance states that state governments should ensure their **revenue deficit (GFD-GDP ratio) does not exceed 3% of their GDP.**

Interestingly, for 2021-22, states have budgeted the GFD-GDP ratio at 3.7%, with **most of them breaching the 3.0% threshold.** Majority of the states in group B also crossed the prescribed threshold of 3.0% indicating that majority of the 14 states in both groups are revenue deficit.

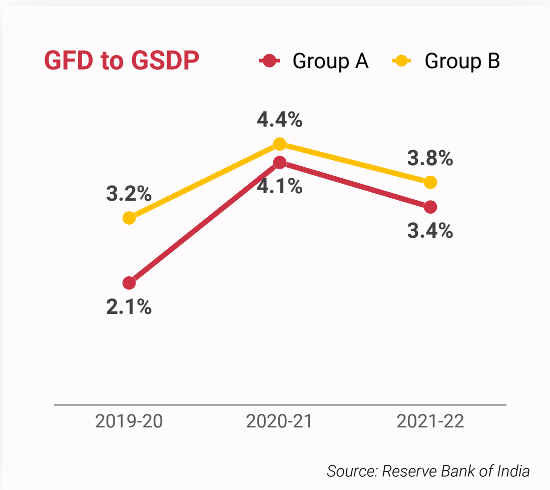
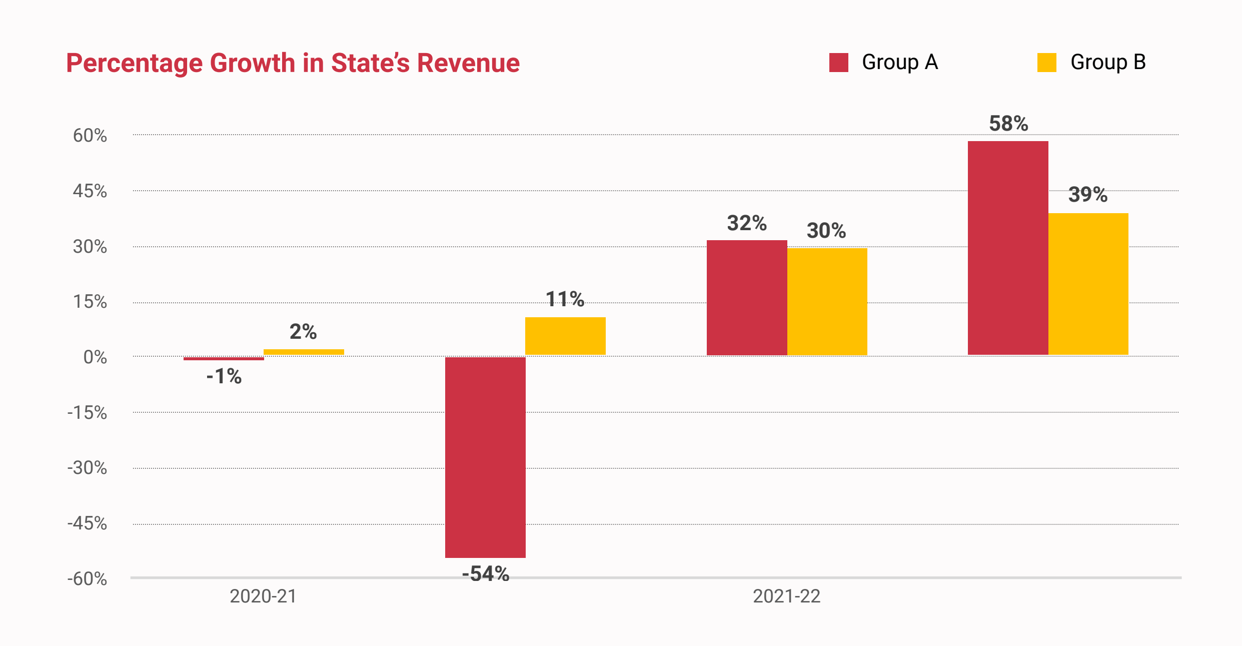



Fig: Comparative GFD to GDP of Group A and Group B states

Fig: Comparative Growth in Revenue of States in Group A vs. States in Group B




**State governments in India have two main sources of revenue:** tax revenue and non-tax revenue. The states use the revenue they generate from these sources to fund the various programs and services such as education, healthcare, infrastructure, and social welfare. It is important for state governments to have a **stable and sufficient source of revenue** to be able to effectively carry out their responsibilities and contribute to the overall development of the state specifically and the country in general.

We analyzed the own Tax and Non-tax revenues of states in both the groups over the last 3 financial years. Due to the pandemic some state governments in India were not able to generate enough revenue to fund the programs and services as they had to provide additional support to citizens as relief measures. However, it was interesting to note that even in such turbulent times, **states in group B were able to not only sustain themselves but were also able to grow their revenues.** In 2020-21, revenue deficit of the group B was significantly higher than group A, while when the tides were settling in 2021-22 the difference was marginal.

Concluding that the top 7 states may be able to support the Indian economy when the winds are supportive, but **it is the upcoming 7 states that are able to hold the ground when the tides turn.**

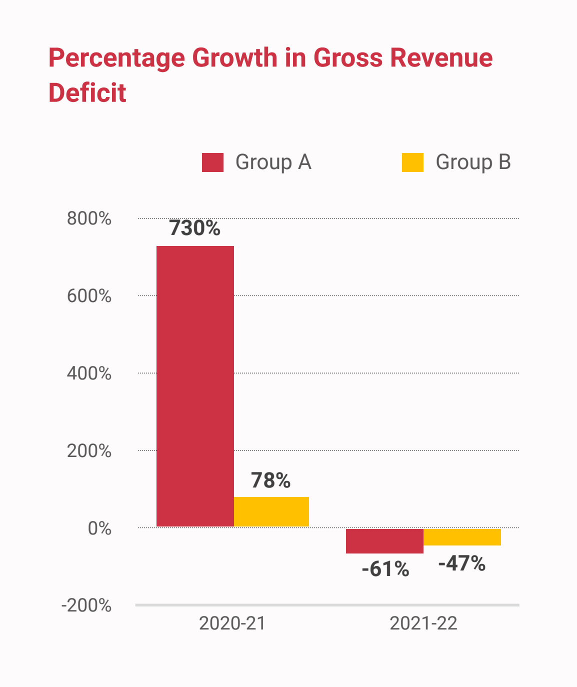



Fig: Comparative Growth in Gross Revenue Deficit of States in Group A vs. States in Group B

**So, we wonder what are the states in group B doing different?** The answer is, they are investing more in sectors that are important for overall development and well-being of all its citizens.

**Group B spends marginally more (~5%) on medical & public health and social security & welfare** when compared with group A. By investing in these areas, states can improve the lives of their citizens and promote economic growth.

Further, **Group B states also believe in investing moderately more in overall economic services** (especially in agriculture and allied activities, energy and rural development) because these are seen as essential for state's development and growth. Economic services bring in more revenue for the state and hence it is important for states to carefully consider the potential return on investment for any spending priorities, and to balance the need for revenue generation with other priorities, such as social welfare and public safety.

For states to be self-sufficient, state governments should consider a variety of **strategies to generate more revenue and maintain a balanced budget**. This can involve measures such as improving the business environment, attracting investment, developing infrastructure and human capital, and strengthening tax collection systems. It is also important for state governments to work closely with the central government and other stakeholders to identify and address any challenges that may be hindering their ability to generate sufficient revenue.

Governments of both the groups work to address issues such as poverty, inequality, and social exclusion, as well as to drive economic growth and create employment opportunities. However, **careful allocation of government spending between different sectors is important** to achieve a sustainable and inclusive development path.


**PASSION**
for providing solutions to help clients achieve their goals

**RESPECT**
for all and alternate viewpoints

**INTEGRITY**
of thoughts and actions

**MASTERY**
of our chosen subject to drive innovative and insightful solutions

**US**
representing the Primus collective, where each individual matters

**STEWARDSHIP**
for building a better tomorrow

# About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. 'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc.), and with varied specialization (engineers, lawyers, tax professionals, management, etc.).

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