



Budget 2016/17: An analysis from the lens of sustainable development

Union Budget 2016/17 made a clear shift in emphasis from manufacturing-based economic growth to rural development with a focus on farmers and the vulnerable. Before getting into sector specific analyses, two general points are worth highlighting. First, the focus on the poor naturally brings in the issue of subsidies. The Budget has announced a package of subsidized LPG connections to BPL families. While this is essential, the deficiencies in the targeting and delivery of subsidies are well known. It is important that objective criteria are identified for rationalizing subsidies. Initiatives such as the Socio-economic Caste Census (SECC), 2011 of the Ministry of Rural Development that captures multiple dimensions of deprivations can be used for arriving at entitlements that rural households will receive under various programmes. Second, a number of basic services and environment-related subjects, including soil conservation, water and waste management, social and farm forestry were devolved to local bodies by the 73rd and 74th Constitutional Amendment Act of 1992. Thus, the budget allocation of Rs 2.87 lakh crore as Grant in Aid to Gram Panchayats and Municipalities as per the recommendations of the 14th Finance Commission is a welcome step. However, there is an urgent need to develop cutting edge capacity in local bodies, including addressing issues of critical size and clustering of local bodies for optimal planning and delivery of services.

Below is a more resource/sector specific analysis of Budget 2016/17

Oil and Gas

The Union Budget for 2016-17 did not address some of the key concerns regarding the oil and gas sector even as it announced a new scheme to encourage the adoption of LPG for cooking in rural India among below poverty line (BPL) households. With a focus on reducing indoor air pollution, the Finance Minister announced that 1.5 crore households will benefit from the Rs. 2000 crore allocation in 2016-17 to increase uptake of LPG cylinders. However, TERI studies show that considerable impediments remain in transitions from biomass to LPG, including the inefficiency of the supply chain and the unavailability of banking facilities that impacts the direct transfer of the subsidy and the adoption of LPG in rural India. This programme will therefore have to be complemented with a redressal of such issues in order to ensure success. Further, a recent TERI study found that 91% of rural households in India that have an LPG connection continue to use biomass alongside. Therefore, the problem of indoor air pollution will not be fully addressed by this LPG scheme alone.

Further, the Minister announced that to promote India's "self-sufficiency" in hydrocarbons, the government will put in place a premium on prices on natural gas extracted from High Temperature, High Pressure fields. However, this policy decision has been announced in the past by the Ministry of Petroleum and Natural Gas, but the quantum of the premium has not yet been announced. Additionally, there was no announcement made on

either the next round of NELP auctions, or whether NELP would be replaced by a unified licensing framework. The 10th round of NELP has been due since 2014. We need a policy that clearly incentivizes exploration for oil and gas. The Minister did reiterate an earlier announcement of market linked prices for marginal fields, which is a positive move.

Coal

The Union Budget 2016-17 spelled out very few reforms intended for the coal sector directly. The Budget stated that coal production has seen a huge jump. The Coal Mines (Special Provisions) Act, 2015 had revised clauses that allowed for private mining of coal and it was expected that the government would set a timeline to establish guidelines and processes related to this. Private coal mining is expected to add 500 MT of coal to the overall production and help the government meet its target of 1.5 BT by 2020. What was also missed was removing import duty on coking coal imports which might have helped the domestic steel industry.

The Clean Energy Cess has been renamed to Clean Environmental Cess and has been doubled up to INR 400/tn from the present INR 200/tn. Renaming the cess could lead to its utilization for a variety of purposes and not just for renewable energy projects. However, the impact of this cess on the cost of power production needs to be assessed in greater detail, considering that discoms are unlikely to be able to pass on the potential higher cost of power to the consumers.

Renewables

As a part of the tax proposals, Government announced Accelerated Depreciation provided under the IT Act to be limited to a maximum of 40% from April 1, 2017, which currently is 80 % in the first year. This might impact the profitability of renewable energy projects which are dependent on Accelerated Depreciation as a tax saving instrument. It was announced that new manufacturing companies incorporated on or after 1.3.2016 are to be given an option to be taxed at 25% + surcharge and cess provided they do not claim profit linked or investment linked deductions and do not avail of investment allowance and accelerated depreciation. This will bolster the growth of PV manufacturing companies in the country, thus promoting the growth of indigenous solar manufacturers.

Water

An amount of Rs. 6000 Crore has been projected for sustainable groundwater resource management. This however, needs to be supported through regulatory legislation to ensure sustainable extraction and water pricing. Andhra Pradesh (undivided), Goa, Lakshadweep, Kerala, Puducherry, West Bengal, Himachal Pradesh, Bihar, Chandigarh, Jammu-Kashmir, Karnataka, Assam and Dadra-Nagar Haveli have enacted the legislation on the lines of the Model Bill," (as of year 2014). However, Punjab and Haryana, which are among the major users of groundwater, have not enacted the bill yet. The stage of groundwater development for Punjab is 145% and for Haryana is 109% (as per CGWB). Along with legislative backup, a strong participatory approach of management of resource is also required which should involve all the stakeholders. Further, this allocation has been announced under the theme of agriculture, but groundwater resource management should be extended to over-exploited urban area as well.

Government has continued its support to the Swacch Bharat Mission and has allocated Rs. 9000 crore to the Rural areas. It also announced an incentive for Open Defecation Free Villages in the form of priority allocation from Centre's Fund. The emphasis so far has been on the construction of individual toilets. This may not be a comprehensive strategy, particularly, in remote areas or poorer households and in urban informal settlements. Community facilities have been successful in some cases and need to be mainstreamed wherever the potential can be developed in collaboration with local government institutions.

Agriculture and Rural Development

Irrigation

Increasing financial allocation and strengthening the Pradhan Mantri Krishi Sinchai Yojana(PMKSY) to bring 28.5 lakh hectares under irrigation alongside fast tracking delayed irrigation projects is welcome; however the challenge of effective implementation remains.

In order to achieve desired outcomes in the irrigation sector institutional capacities must be enhanced especially in relation to developing appropriate managerial and technical skills for facilitating effective irrigation management. Building capabilities for the formulation of district plans for effective irrigation through adequate coordination amongst various district level departments and convergence between various programs is vital.

Further, appropriate/adequate incentives, credit and/or subsidies will have to be provided for adoption of micro-irrigation and aligning cropping patterns with water availability. An amount of Rs. 20,000 Crore has been allocated as an initial corpus for a long term irrigation fund in NABARD. This is a promising step, but it must be properly directed to promote innovative and water efficient irrigation such as drip irrigation and fertigation.

Improving water use efficiency must prioritize soil and water conservation measures through a watershed framework. There is a danger that the current approach to development, by focusing on the 'low hanging fruit' of lands which can be easily brought under irrigation may actually result in rain fed areas, which are areas of high and endemic poverty, being left out of poverty process.

Soil health

Expanding the coverage of the Soil Health Card Scheme is a positive announcement. However, institutional challenges must be addressed to improve its reach to farmers. Farmer access to soil testing facilities is vital as is creating awareness amongst farmers about this programme. To enhance the numbers of testing facilities, up-gradation of infrastructure will be needed as well as skilled human

resources for operations efficiency. Till such time as the capacity is built, simple inexpensive means of providing information on soil quality are needed, such as soil quality maps at village level.

Efficiency and performance of extension systems

Improving the efficiency and performance Krishi Vigyan Kendras was highlighted. This is just the starting point. There is a need for greater reform in the broader extension system for enabling farmer friendly, effective advisory services in face of new realities – natural resource degradation, natural calamities, plateauing productivity, rising input costs. Mobile technologies have to be a major instrument of delivery. Developing decentralized capacities for mainstreaming practices for sustainable agriculture, preservation of natural resources and building climate resilience is crucial.

Paramparagat Krishi Vikas Yojna

Support for organic agriculture in rainfed areas and the North East region focusing on strengthening value chains and domestic markets is timely and much needed. Caution must be exercised with respect to balancing focus on provision of external inputs (compost etc) with other key institutional mechanisms – developing policy coherence and appropriate farmer incentives, capacity building of stakeholders and farmers, provision of adequate advisory services, interdisciplinary and participatory research, strengthening alternatives to third party certification, awareness raising and others.

Fertilizer reform

The proposal to introduce Direct Benefit Transfer on pilot basis for fertilizers in some districts is welcome. The challenge is to manage the last mile delivery – facilitating creation of bank accounts and farmer access to the banking system so that he can access the subsidy.

Price and procurement

Expansion of the coverage of MSP to other states through decentralized procurement is opportune. Procurement of pulses is especially a key initiative since it will incentivize farmers to shift from water intensive rice-wheat cultivation to pulses which can also improve soil fertility. It also serves as an opportunity to improve the nutritional status of the poor through incorporation of protein in their diets. The focus must be on effective implementation of the procurement system, avoiding the wastages, leakages and inefficiencies of the existing procurement and Public Distribution System.

Environment

The Union Budget 2016-17, addresses the key issues of indoor air pollution in rural households by emphasizing on improved access of subsidized LPG to BPL rural families - an allocation of Rs 2000 crore has been made. Given the practical difficulties of putting in place the supply chain quickly, it would have been prudent to also focus on other options, including improved cookstoves using locally available biomass. Similarly, while the speech aims at 100% electrification of all villages by May 2018,

the reality in many remote areas is that provision of connectivity is in no way a guarantee of regular and reasonable quality power supply. Hybrid solutions which enable the use of solar energy would have been a more reliable and sustainable option besides helping meet the target of solar power.

On the transport sector, the Minister has suggested necessary modifications in the Motor Vehicle Act, to improve public transport through entrepreneurship. A 1 per cent infrastructure cess on all cars and an additional 2.5 per cent tax on diesel cars of all capacities were announced. There will be an additional 1 per cent tax on luxury cars and 4 per cent on SUVs. The two measures combined together can substantially improve public transportation sources in urban areas of properly planned. Projects under 'AMRUT' must include multimodal mass transportation systems as an essential part of the urban renewal strategy.

A related point is on the price differential between petrol and diesel, which has led to the 'dieselation of the economy'. As the use of diesel leads to far greater particulate pollution than the use of petrol, there is a need to discourage diesel use in the economy (not only for transportation but also for power generation). Over the years, the price differential has narrowed due to marginally higher tax increases on diesel compared to those on petrol, however, the differential is still over Rs. 15 per litre. The Union Budget 2016-17 failed to lay out a clear path towards further narrowing of this differential in order to address the pollution crisis.

The fund allocated to the Swacch Bharat Mission should provide the much needed impetus to better solid waste management which is one of the major agenda items of the mission. It was announced that the usage of city waste as compost in the agricultural land will be approved under the Swacch Bharat Mission. Lack of market for compost has been a deterrent to the decomposition of bio-degradable waste in urban areas. This is a positive step to address that challenge. However, it should be noted that a mechanism to ensure the quality of compost reaching the agriculture land must be in place. More often than not, hazardous waste is not segregated from bio-degradable waste and may end up reaching the agricultural land along with the compost. Consumption of food grown on such land can have far reaching health implications. The standards for compost quality must be adhered to and the capacity for testing and certification of city compost must be developed in parallel.
