SPECIAL ISSUE

PolicyWatch

Covering developments on policy responses, policy implementation and policy distortions on a quarterly basis. Comments are welcome.

BUDGET EDITION 2015

Judicious Implementation of Budget Proposals

Need of the Hour

The day February 28, 2015 turned out to be a day of enormous expectations for India. The Finance Minister of India Arun Jaitley presenting his first full budget, was riding on a mandate of absolute majority after three decades, and was expected to hit the ground running. The budget attempts to achieve a fine balance a midst concerns of the common man as well as the business community.

The three main themes of the budget were: funding the unfunded, from *Jan Dhan* (financial inclusion) to *Jan Suraksha* (social security), and infrastructure development. All these impact the quality of life of every citizen directly or indirectly, and are also critical for social and economic development.

Some of the select key features of the Budget 2015-16 are:

Low Inflation

A monetary policy framework agreement has been executed between the Reserve Bank of India (RBI) and the Indian Government, to manage inflation. Consequently, the RBI has been mandated to achieve a low and stable inflation rate of below 6 percent. This would help the *aam aadmi* (common man) in managing his income and planning his expenditure cautiously.

Financing MSMEs and Agriculture

The Budget has proposed various initiatives for increasing the access to finance to Micro Small and Medium Enterprises (MSMEs) and agriculture sector. With respect to the agriculture sector, the Government has set a target of ₹8.5 lakh crores credit to be given to the farmers in 2015-16.

Regulatory Reforms

The Finance Minister has also announced a proposal to enact a sector neutral regulatory reforms law and initiation of a dialogue on the structure of a Public Procurement Law. Besides, creation of a sector neutral financial redress agency has also been proposed. If implemented properly, the proposals are expected to increase competition, enhance quality, and rationalise pricing of critical goods and services accessed by the public, hence benefitting the common man.

Ease of Doing Business

For easing doing business, the Government has proposed establishment of an Expert Committee to examine the possibility of preparing a draft legislation where the need for multiple prior permissions could be replaced with pre-existing regulatory mechanism.

Speedy Dispute Resolution

The Indian Government has proposed increasing investment in infrastructure by ₹70,000 crore. However, infrastructure projects have been experiencing time overruns on account of commercial disputes. For quick resolution of commercial disputes, the Government has proposed setting up of dedicated court benches to resolve commercial disputes and enactment of specific legislation to resolve disputes in public contracts.

Furthermore, archaic administrative machinery, red tape, vested interests, complex rules, limited capacity and financial and resource constraints will act as barriers to implementation of budget proposals.

To address these, stakeholders and civil society organisations need to play an active role by generating demand amongst the citizens by spreading awareness on need for reforms, pushing relevant state and central government departments to develop policy proposals and work with middle and lower-level government officers and implementing agencies for thier capacity building. In addition, periodic monitoring of progress are necessary, and one should not shy away from holding the Government accountable for the promises it makes.

HIGHLIGHTS

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"The reformer has enemies in all those who profit by the old order and only lukewarm defenders in all those who would profit by the new." **Machiavelli** in *The Prince*

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A Roadmap for Ease of Doing Business in India

Wake up Call

India's low ranking in the latest 'Ease of Doing Business' Report released by the World Bank (WB) was a much needed wake up call for the nation to take stock of the situation and mend its ways. The country was ranked 142 out of 189 economies in 2015, which was a drop of two places from its rank in the previous year. The country is presently facing the arduous task of enhancing its business climate and the Prime Minister, reaffirming the positive intent of the Government has set an ambitious target for India to rise to the top 50 economies in the following two years.

Businesses in India face major hurdles right from initiating a business, operating it and even till the exit. This makes doing business in India quite expensive and burdensome. The multitude of processes often with cumbersome procedures and requirements, ambiguous nature of available information and lack of accountability hampers the investment climate and further dissuades the investor. The Government is sending the right signals to the business community and thus the expectations from this financial budget were also quite high.

Budget Proposals

Finance Minister Arun Jaitley has recognised the extensive amount of time and resources spent by the investors to obtain multiple permissions. To simplify these procedures, the Government has recently launched an e-biz portal, which integrates multiple processes of different Ministries, under one platform.

Further, he has also proposed setting up of an expert committee to study the possibility of drafting a legislation, which would replace the need for multiple prior permissions through a pre-existing regulatory mechanism.

One of the key challenges faced by businesses is in dispute resolution, which is both lengthy as well as expensive. The 'Doing Business' ranking further substantiates this finding, as is evident from the low rank of 186 for 'enforcing contracts' parameter. Acknowledging this shortcoming, the Finance Minister has proposed to introduce a Public Contracts (Resolution of Disputes) Bill, which would help streamline the institutional arrangements for resolution of these disputes. In line with the recommendations of the 253rd Law Commission Report, the budget has proposed setting up of exclusive commercial divisions in various courts of India, which would possibly provide more efficient and timely resolutions.

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Some of the other major problem areas for running a business in India are in the areas of acquiring construction permits (184); registering a business (158); paying taxes (156); getting electricity connections (137); and resolving insolvency (137) among others. These procedures are often excessively costly, complicated and time-consuming. The other measures announced included online central excise and service tax registration to be processed in two working days, tax accesses permitted to use digitally signed invoices and maintain electronic records. The budget also provided for gradual reduction in the corporate tax rate from 30 percent to 25 percent, over a period of four years along with the phasing out of industry specific exemptions. Another measure was the removal of the distinction between different types of foreign investments, especially Foreign Direct Investments (FDI) and Foreign Institutional Investments (FII), falling under portfolio investments. The applicability of General Anti-Avoidance Rule (GAAR), which has had a negative impact on investor sentiment, has been deferred for two years and even when implemented; it would apply prospectively to investments on or after April 01, 2017.

Another critical issue of insolvency was addressed through the budget, which proposed the development of a new and comprehensive Bankruptcy Code in 2015-16 of global standards with the required judicial capacity. The Finance Minister acknowledged that SICA (Sick Industrial Companies Act) and BIFR (Bureau for Industrial and Financial Reconstruction) have not been effective thus, further burdening the systems.

Way Forward

Though these are welcome measures and would positively impact the investor sentiment both in India and abroad, many in the corporate world are awaiting action on the ground. Often, the ideas on paper seem to provide the much-awaited solutions, nevertheless the greater challenge is faced in terms of implementation. Even though many of these measures are designed keeping in mind the most critical aspects of doing business in India, a coherent strategy is required. The need of the hour is a careful and thorough analysis of the issues and designing a series of well thought-out reforms, which would take into account the complete picture rather than a bit-by-bit approach.

– *This feature has been abridged from news items published in* Business Today *on March 02, 2015 &* Mint *on March 01, 2015*

Will the Increased Autonomy to States Lead to Proactive Approach by States?

Significance of the Budget

The Budget 2015-16 was quite important in at least two important aspects. Firstly, the budget was presented as the first year of the 14th Finance Commission award period. Secondly, it was presented in the backdrop of the increasing chant of cooperative federalism. The acceptance of recommendations of the 14th Finance Commission translated the Government's idea into action. The steep jump in states' share of taxes from 32 percent to 42 percent of tax revenue (divisible pool) is an evidence of that fact. This is further complimented by an increase in the funds for local bodies and grants for revenue deficit states, which the Finance Commission has recommended.

In absolute numbers, the devolution to the states would be of the order of 5.24 lakh crore in 2015-16 as against the devolution of 3.38 lakh crore as per the revised estimates of 2014-15. Another 3.04 lakh crore would be transferred by way of grants and planned transfers. Thus, total transfer to the states would be about 62 percent of the total tax receipts of the country.

This means from FY 2015-16 the resources available at the disposal of states' would be substantially higher. In other words, it results in increased financial autonomy being provided to the states, so that they could graduate in to designing and implementing development programmes based on local conditions.

To facilitate this, the Government has also delinked eight centrally sponsored schemes from the central funding and passed them over to the states. In addition, the Finance Minister in his budget has also urged the coal bearing states to invest into community assets and welfare of the people, as these states would be getting several lakhs of crore rupees as opposed to the previous system, which entailed only royalty benefits.

The proposed Good and Services Tax (GST) law by the Finance Minister might help some of the less productive states raise revenue as the tax would be a destination-based levy. This is expected to further boost financial autonomy of consuming states.

States to Exercise Competitive Federalism

Whereas more funds are likely to make states happier, it would be far from true to assume that the ball is entirely in the court of the states to exercise competitive federalism at present. This is because there are varied economic patterns in different states in India. These patterns have

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substantial influence on their competiveness. According to the Institute of Competiveness in New Delhi the economies of states in India are ranked across categories, such as factor driven economies, evolving economies, investment driven transition economies and innovation driven economies.

Role of States in Growth and Development

Therefore, all states projected to advance uniformly in the process of growth and development would be a fallacy. Many states still need support of the Central Government and it is not clear how much additional funds they might need before they are in a position to compete. Speaking to a television channel recently, the Uttrakhand Chief Minister Harish Rawat indicated this fact quite clearly. Assam too shared this view in the recently held National Institute for Transforming India (NITI) *Aayog* meeting.

Bihar has already decided to lodge a protest fearing that it would lose due to the decision to withdraw funds for existing centrally-sponsored schemes as well as the Backward Region Grant Fund (BRGF) from the following financial year.

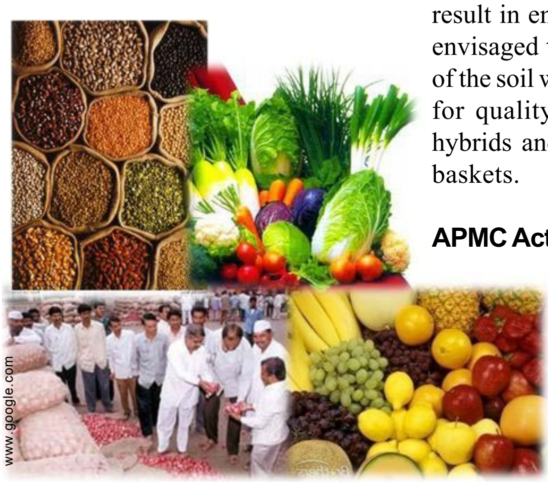
Furthermore, West Bengal too has expressed its concern on implementing railway projects through joint ventures between the centre and state, as being a debt ridden state it is not sure if it could afford to fund a joint venture.

It is worth noting here that the states like Bihar and West Bengal have expressed apprehension despite increased allocation and special assistance.

Therefore, even though the budget provided for increased financial autonomy to states, it might not yet be enough for all states to return the favour by becoming desirably competitive in the immediate run.

– *This feature has been abridged from http://indiabudget.nic.in/ub2015-16/bs/bs.pdf & http://indiabudget.nic.in/ub2015-16/eb/intro.pdf, March 13, 2015*

Need for Revamping the Agriculture Sector



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Agriculture & Economic Growth

The contribution of the Indian agriculture sector towards the Gross Domestic Product (GDP) is approximately about 15 percent. While the agriculture sector is slowly losing its importance in the Indian economic growth, still almost 50 percent of the population is dependent on it for livelihood. The sector is blemished by poor market access, limited storage facilities and dependency on rainfall and traditional methods of production. Importance for revamping the sector has been realised by the Government and provisions have been made in the Union Budget, announcing to take cognizance of the agriculture sector.

For agriculture, the Union Budget 2015 categorically provides an increased budget in three areas – firstly, ₹500crore for Rural Infrastructure Development Bank, secondly, ₹5300crore for Micro-Irrigation Programmes and lastly, ₹8.5 lakh crore for farmers' credit. The budget reflects the intention of the Government to support organic farming, micro irrigation and watershed management. The budget also mentions investment in areas, such as usage of water and credit. Soil and seeds have also been made the focus of improvement as they directly result in enhanced productivity. It is envisaged that the improved fertility of the soil would increase the demand for quality seeds of high yielding hybrids and varieties of major food baskets.

APMC Act and Market Regulation

To improve market access, the Budget lays down a proposal to set up national agriculture markets. Currently, the agriculture market is regulated by the Agriculture Produce Marketing Committee (APMC) Act. The Act prescribes that all transactions pertaining to agricultural products must be done in the particular market space, known as the '*mandi*'. Further, the Act endorses direct marketing, where private players can register with the Government and can directly buy agricultural produce from and contract farming.

While the APMCs were envisaged to cut down the role of middlemen and instil private investments, the same has not been achieved. Some experts have even criticised the Act for being anti-competitive in nature. Some states have even gone to the extent of abolishing the APMC like Bihar, West Bengal and Odisha. However, the impact of the abolishment has only resulted into more chaos.

The budget has proposed installation of national agriculture markets, a much required move. It is envisaged that the national agriculture markets, so as to enhance market access, would pave a way for domestic trade and smoothen the inter-state movement of agriculture produce. Further, it would have a positive impact on the development of the agriculture market trade, price stability and price realisation for the farmers. The budget proposed service tax exemption on pre-cold storage infrastructure in order to generate value addition for fruits and vegetables value chain.

As agriculture markets are regulated by the APMCs (as most of the states have imbibed the Act), national agriculture markets will have a significant impact on them. Currently, the *mandis* come under the monopoly of the APMC Board. Further, as agriculture falls, under the ambit of the State Government as per the Constitution, and national agriculture markets is a suggestion from the central government; thus the states and the central government will have to work in consonance to effectively implement the proposed reform. As the role and scope of the APMC might be significantly modified with the introduction of national agriculture markets, it is important to clearly chalk out how the national agriculture markets would be introduced.

Unaddressed Issues

In the APMC sector, the Budget seems to have missed some critical factors that affect the agriculture value chain. For instance, the Budget remains silent on the food processing sector and crop insurance. Similarly, sectors, such as agro exports and cold chain and warehouse have not been specifically underscored. India is one of the largest producers of fruits and vegetables and ranks tenth in exports. If this sector is efficiently tapped with investments, it could result in significant revenues.

The Indian agriculture sector needs to be revamped in a sustainable manner so as to ensure that the investments reap benefits.

– *This feature has been abridged from http://businesstoday.intoday.in/story/union-budget-2015-what-it-offers-for-agriculture-sector/1/216410.html & http://zeenews.india.com/exclusive/budget-2015-the-need-for-an-overhaul-in-indian-agriculture-sector_1541831.html*

GST: A Step towards Making India a Single and Frictionless Market

Goods and Services Tax

The much-awaited tax reform in Goods and Service Tax (GST), has seen positive reiteration of intent by the Finance Minister in his first full budget speech of 2015. The Minister unequivocally stated that the Government is making progress in bringing out the GST, and that there is no slippage from the target date of April 01, 2016. However, given the amount of work remaining to amend the Constitution and enact the new law looks ambitious.

Although, the Centre has taken the first step by tabling the Constitutional Amendment Bill (the Bill) for introduction of GST in the Lok Sabha in December 2014 which is pending before the Parliament. However, the Bill is to be passed with two-third majority in the Parliament, and ratified by more than half of the states by their assemblies. Following ratification of the Bill, the GST Council has to be created, laws and procedures are to be drafted and approved, administrative structures to be in place and issues, such as tax base, GST rates and exemptions ironed out between the centre and states. Consequently, given the opacity of timelines and rules and procedures, it would be a herculean task to rollout GST by April 2016.

The situation worsens when other than the reiteration of GST rollout by April 2016, no concrete plans or roadmap for its implementation were announced by the Finance Minister, Put simply, a credible implementation strategy for implementation of GST is not yet visible.

What does GST Entail?

GST is basically an opportunity of migrating to a world-class indirect tax regime, one that is fully automated, allows proper assessment of business impacts and determination of tax liabilities, and is flexible to accommodate changes in the tax base, rates, rules and procedures.

With the introduction of GST in India, a plethora of central as well as state taxes would be subsumed into the GST. The broad idea of introducing a GST in India is to set up a well-designed destination-based value added tax on all goods and services so as to eliminate distortions. Under this structure, all different stages of the supply chain could be said to be a mere tax pass-through, and the tax essentially 'sticks' to the final consumer within the taxing jurisdiction. Each business (and not final consumers) in the supply chain, takes part in the process of controlling and collecting the tax, remitting the proportionate tax corresponding to

the value-add realised on transactions, or the difference between the GST paid out to the suppliers and the GST charged on the supply to customers.

Accordingly, the implementation of GST will avoid double taxation that most goods go through across the state and pave the way for a common Indian market. It will ease the movement of goods and services across the country, and considerably expand business and commercial activity, improve the tax structure and fuel economic growth.

How does the Budget Facilitate GST?

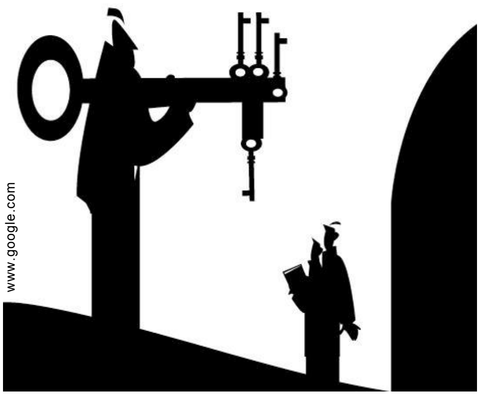
The budget lays down the ground for GST. Increase in service tax rate, subsuming education cess with excise duty and pruning items on the exempted list of items are among the important steps in the progression towards GST. Though a significant increase in service tax rate from 12.36 percent to 14 percent (16 percent of *Swachh Bharat* i. e. 'Clean India' cess at 2 percent) might pinch the common man in the immediate term, it prepares him for higher incidence of tax on services, under the proposed GST regime. Besides, raising the tax rates, the Government has also opted for a clean-up of exemptions, not just in service tax but in excise duty as well.

Challenges ahead

It is important to note that the GST rollout has already missed several deadlines because of lack of consensus between the centre and states. Inclusion of lucrative products, such as alcohol and petroleum, mechanism for compensation loss and a decision on the revenue-neutral rate are some issues that still need resolution for GST to be rolled out successfully. Therefore, the passage of the Constitutional Amendment Bill in the current budget session of the Parliament would be a true test to determine if the Government would be able to walk the talk on the GST deadline, especially considering the daunting task in hand.

– *This feature has been abridged from http://epaperbeta.timesofindia.com/Article.aspx?eid=31818&articlexml=IN-FOCUS-Tax-Regime-Gets-Closer-to-GST-01032015011011*

Reforms for Boosting Regulation of Indian Financial System



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India's financial sector is diversified and is expanding rapidly. The regulation and supervision of the financial system in India is carried out by different regulatory authorities.

Finance Minister, in his budget speech proposed a number of institutional reforms that would help in enhancing transparency and credibility of the Indian Financial system. Thus, it would be helpful in improving the flow of equity and long term debt from individual Indian investors into the formal financial system. This in turn would also enhance efficiency of the intermediation between savings and investment and the growth potential of the economy.

The budget 2015 comprises several proposals with respect to reforms in the financial sector. These include several proposals which have been recommended by Expert Committees in the past. Some of the key proposals that were also recommended are examined below:

Merging FMC with SEBI

Forward Markets Commission (FMC) is currently the regulatory body for commodity futures, while Securities and Exchange Board of India (SEBI) is the regulatory body for other securities. The product-based market regulation had long resulted in regulatory overlaps and the under-reach. Conflicts have also occurred between SEBI and FMC on regulation of commodity-based exchange traded funds. In order to prevent repetition of such instances in future, the Government seems to be rightly moving towards principles based regulation, by merging FMC with SEBI. However, the merger must not merely mean FMC becoming a department of SEBI, with an amendment in the definition of securities in the SEBI Act, through addition to commodity futures. The Government must therefore comprehensively relook at the concept of securities, under the SEBI Act and move towards a principle-oriented definition about jurisdiction of SEBI and other financial sector regulators in the country.

Public Debt Management Agency

The Government has announced establishment of a Public Debt Management Agency (PDMA) for bringing both external and domestic borrowings, under one roof, to be set up in the current year. Enabling legislation for amendment of Government Securities Act is included in the Finance Bill 2015. This is a move in the right direction and is expected to save Reserve Bank of India (RBI) from the conflict of interest of managing government debt and also being regulator of the debt market. However, it needs to be ensured that PDMA is at an arm-length from the Government and the Regulator, and is manned with independent experts in debt management. Accountability should go hand in hand with independence and it should be responsible for the actions it takes and targets it sets, in consultation with the Government.

Sector-neutral Financial Redress Agency

In line with the recommendations of the Financial Sector Legislative Reforms Commission, the Finance Minister has proposed to create a task force to establish sector-neutral financial redressal agency that would address grievance against all financial service providers. This agency is expected to address grievance of consumers in insurance, banking as well as securities market. The Government will also have to think through the interplay and interaction of such agency with existing financial sector regulators, the expertise such agency will have, and the outreach and resources required to redress the grievances of consumers across the length and breadth of the country.

Reforming the Monetary Policy Framework

The Government has proposed to set up a Monetary Policy Committee (MPC) to advise RBI with respect to the monetary policy framework, in the country. In addition, the Government has entered into an agreement with the RBI pursuant to which the latter is, under an obligation to maintain inflation within the band of 2-6 percent. The MPC is expected to advices RBI on changes required in policy rates for achieving the inflation target. Internationally, the MPC design is successful only when it brings in independent expert perspective in fixing policy rates and designing of monetary policy. The Government must ensure a balance of interest in constitution of MPC to ensure its success.

While the financial sector reforms proposed, under the budget are in right direction, the Government would need to walk the talk and implement the reforms within a specific time-frame. In addition, the Government must consider capacity and expertise constraints in implementation of reforms and making them successful in letter and spirit.

– *This article has been written by Amol Kulkarni, Senior Policy Analyst of CUTS Centre for Insvestment and Economic Regulation (CCIER)*

Bankruptcy Reforms for Meeting Global Standards

Need for a Bankruptcy Law

Arun Jaitely in his budget speech said, "Bankruptcy law reform that brings about legal certainty and speed has been identified as a key priority for improving the ease of doing business…" He added, "We will bring a comprehensive bankruptcy code in the fiscal 2015-16 that would meet global standards and provide necessary judicial capacity". Few can disagree with the intention but it is the framing of the law(s) and implementation that would be tested.

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The need for a bankruptcy law that aims to reorganise a stressed business speedily without protracted litigation and which erodes the viability of an enterprise, has been a long outstanding demand of bankers. In fact, the slow economic recovery in India is partly due to the inability of banks to quickly turn around a unit by selling it to a more efficient management. Over the years, corporate houses have maneuvered around the Indian legal environment to delay and avoid a bank from taking control of assets even after default.

The loopholes of the Sick Industrial Companies Act (SICA) and the Board for Industrial and Financial Reconstruction (BIFR); the inadequacy of Debt Recovery Tribunals (DRTs) and the Securitisation and Reconstruction of Financial Assets & Enforcement of Security Interest Act (SARFAESI), etc. have resulted in the gross non-performing assets (NPAs) to burgeon from 2.4 percent of the gross advances in March 2011 to 4.5 percent in September 2014. The problem is exacerbated in view of the fact that the Indian Banking system needs ₹5.30 lac crore in capital to meet the Basel III regulatory norms.

The proposed uniform bankruptcy code would replace the SICA as well as the BIFR. Also the decision to have commercial courts acting, under judicial courts might fast track debt recovery. The proposal for a public contract (resolution for disputes) law would enable to speed up disputes arising out of public contracts in the infrastructure sector. The decision to encourage use cards instead of cash would help banks to focus on services and to reduce manpower handling cash. The move to bring non-banking financial companies (NBFCs) at par with financial institutiions would help banks clean up their balance sheets.

It appears that a law similar to the US' Chapter 11 will provide an avenue for companies in financial distress to seek court protection to continue operations even as they sell assets to pay their debts. There are calls already that there should be an exhaustive consultation process before drafting a law that ought to address unambiguously the tendency of both the companies and the lenders to maximise their interests.

Challenges ahead

Further, the challenge would be to examine the judicial system as it remains the key to success of not only the uniform bankruptcy code but also the associated proposals, such as the public contract (resolution for disputes) law, etc. Presently, the system is burdened with piles of cases mainly on account of lack of ability to understand business laws, inadequate human resources, etc. It is estimated that 1.5 lac cases involving ₹2.6 crore had been filed by banks, as a whole before the DRTs up to March 2014 against, which recovery has been a mere ₹42,700 crore or 16.4 percent of the total amount involved.

Way Forward

Additionally, the interim report of the Bankruptcy Law Reform Committee of the Ministry of Finance, headed by former Law Secretary T K Vishwanathan has made recommendations that need to be kept in view as a way forward while framing the law in question. These include the right to unsecured creditors to initiate rescue proceedings; reducing timelines to determine whether to rescue or liquidate a company; appointment of a company administrator directly by secured creditors and takeover of the management/assets of the company; determining the criteria when the company is unable to pay the debt for winding up; priority payments to secured creditors over Government tax dues in winding up; strengthening insolvency proceedings, etc.

The Finance Minister has talked the talk but can the country walk the talk – only time will tell.

– *This feature has been abridged from articles published in* The Hindu Business Line *on March 01, 2015 and March 11, 2015 &* Economic Times *on March 01, 2015 respectively*

Ensuring Healthcare Facilities but Ignoring Reforms in Pharmaceutical Sector

Health Insurance for All

The focus of the 2015 budget seems to ensure that every person in India has health, accident and life insurance. Extension of health covers to boost health insurance would reduce out-of-pocket expenditure. To encourage savings and promote healthcare services, the Union budget has increased the limit of deduction, under section 80D of the income tax Act from ₹15,000 to ₹25,000 on health insurance premium. In case of senior citizens, the limit of deductions has been increased from ₹20,000 to ₹30,000. This is a positive development as it would bring more people into the fold of insurance cover.

In addition to this some social security schemes, such as *Pradhan Mantri Suraksha Bima Yojna* to cover accidental death risk of ₹2 lakh for a premium of ₹12 per year, the *Pradhan Mantri Jeevan Jyoti Bima Yojana* to cover both natural and accidental death risk of ₹2 lakh for a premium of ₹330 per year for the age group between 18-50 and *Atal Pension Yojana* to provide a defined pension, wherein the Government will contribute 50 percent of the beneficiaries premium limited to ₹1,000 each year, for five years, in the new accounts opened before December 31, 2015 will have a positive impact.

Low Public Spending on Healthcare

While there is intent within the Government for an integrated healthcare system to ensure affordable and accessible healthcare for all, it is not reflected in the budget allocation to healthcare for 2015-16, which is marginally higher than the previous year. The budgetary allocation for healthcare in 2015-16 is ₹33,152 crore, a little over ₹30,645 crore for 2014-15. Significantly, in 2014, in order to meet its fiscal deficit target, the Government had abruptly cut the health budget to ₹24,400 crore, which reflected the fiscal challenge faced by the sector.

Promises of Healthcare Infrastructure

The announcement by the Government of setting up of five new All India Institutes of Medical Sciences (AIIMS) in Jammu & Kashmir, Punjab, Tamil Nadu, Himachal Pradesh and Assam and a proposal to set up an AIIMS-like institution in Bihar, and three National Institutes of Pharmaceutical Education and Research in Maharashtra, Rajasthan, and Chhattisgarh would strengthen the tertiary care infrastructure in these States.

The focus on *Swachh Bharat Abhiyan* (Clean India Campaign) during which about fifty lakh toilets, will be built, which would further be increased would indirectly benefit the healthcare sector in its mission of preventive healthcare measures, particularly vector borne diseases.

Opportunity Missed

Furthermore, not creating a health cess similar to the education cess is a big missed opportunity because limited funding is a major issue in the health-care sector and the introduction of health cess could have bridged this deficit. The increase in service tax to 14 percent will have an adverse impact on the patients as services in private hospitals would become more expensive.

Reforms Lacking in Pharmaceutical Sector

The pharma sector was neglected in the budget. There have been little or no initiatives announced to boost the bulk drugs industry, which is facing stiff competition from China. Presently, India is too much dependent on China for the Active Pharmaceutical Ingredients (APIs).

Not much has been done for Research and Development in the pharma sector. Besides, there is hardly any direct funding/support for clinical research and innovation leading to the invention of new drugs. Presently, India is dependent on China for the APIs. Therefore, the Budget should have allowed reduction in minimum alternate tax (MAT) to benefit the research and development in pharma sector.

– *This feature has been abridged from http://businesstoday.intoday.in/story/union-budget-2015-impact-on-healthcare-pharma-sector/1/216313.html*