



MEMORANDUM TO THE HON'BLE FINANCE MINISTER OF INDIA SUGGESTIONS FOR THE BUDGET 2021-22

1. Background and Context

1.1 The Covid-19 pandemic has had significant adverse impact on Indian growth trajectory, exposing several fault lines in the country's economic and social development model.

1.2 While the government has taken multiple steps to re-ignite growth, through its 'Atmanirbhar Bharat' package, the Budget 2021-22 provides a perfect opportunity to lay a strong foundation to enable sustainable and inclusive progress of the nation.

1.3 To this end, Consumer Unity & Trust Society (CUTS International) calls for following actions under the forthcoming budget:

- 1) Adopt and implement the National Competition Policy of India to correct and prevent competition distortionary policies.
- 2) Institutionalise Regulatory Impact Assessment with decent income generation as a key objective in policy design and review.
- 3) Empower and capacitate the third tier of governance to partner with private sector for innovations in the design of social services.
- 4) Facilitate the creation of high quality and reliable digital infrastructure for efficient and inclusive delivery and consumption of social services, and prevent exclusion.
- 5) Ensure convergence between trade and sector specific policies through and industrial strategy, incentivise performance and implementation and disincentivise non-performance
- 6) Invest in health infrastructure in North East India
- 7) Incentivising pharmaceutical units in India and developing it as a supplier of Active Pharmaceutical Ingredient (API) to the BBIN neighbours

8) Revitalising the MSME sector keeping in mind the need for developing regional value chains among the BBIN Countries

9) Invest to make the existing Supply Chains Resilient

1.4 These suggestions are described in detail below.

2. Adopt and implement the National Competition Policy of India to correct and prevent competition distortionary policies, and provide adequate incentives to public and private sector to operate and compete.

2.1 For long, the policy architecture (including laws, regulations, executive actions) in our country has remained skewed. While some regulations unduly benefit public sector by providing them access to public finances (unlike private sector), others prevent them from attracting merit or benefit from professionalism. Entry barriers and disproportionate regulation often prevents market to benefit from effective competition among private sector.

2.2. For instance, limited incentives to operate and compete has led to scarcity, inefficiencies, and expensive nature of in public health, education, and social security services. This was evident during pandemic as limitations of health and social security sector prevented citizens from overcoming related challenges. The subsequent thrust on digital modes, if not accompanied by reliable universal access, may result in furthering inequalities and digital divide. In sectors like banking, excessive obsession with ownership has resulted in limited focus on improving performance, governance, and accountability.

2.3 Consequently, there is a need to identify and remove policies that make artificial and unreasonable distinction between public and private sector, impose unreasonable entry barriers, and provide for disproportionate regulation.

2.4 At the same time, there is need to enhance public expenditure in key areas like health, education, and social security. The Fifteenth Finance Commission has recently recommended raising the combined public health spend to 2.5 percent of GDP. This would require re-routing inefficient public expenditure and raising financial resources through innovative means.

2.5 Adoption and implementation of the National Competition Policy of India¹ (NCP) can provide an institutional framework to identify competition distortionary provisions across policies, test their relevance, and correct those

¹ Draft of which is available since November 2011 on the Ministry of Corporate Affairs website at http://www.mca.gov.in/Ministry/pdf/Revised_Draft_National_Competition_Policy_2011_17nov2011.pdf

which are not needed. It can also prevent introduction of competition distortionary policies in the future. An NCP can also enable monitoring implementation of policies and prevent unfair treatment to entities.

2.6 The resultant freedom available to public and private sector can help them realise their potential in creation of adequate income generating opportunities, particularly in social sectors. An NCP can not only reinvigorate public and private sector, but can also enable crucial private and public investment in the process. This can boost consumption and kick start the virtuous cycle of growth and development.

Action point: Adopt and implement the National Competition Policy 2011 with appropriate review and modification

3. Institutionalise Regulatory Impact Assessment with decent income generation as a key objective in policy design and review

3.1 There is a need to create adequate income generating opportunities at the grassroots. Unavailability of decent income has restricted expenditure to basic necessities, and inability to manage emergency situations. This has evident during the pandemic wherein lack of adequate savings led to reverse migration.

3.2 Given the criticality of problem, there is a need to ensure that all actions of the government are targeted towards decent job creation. Institutionalisation of a Regulatory Impact Assessment (RIA) framework can ensure this. An RIA helps in design and review of policies and practices, to achieve specific objectives. It necessarily requires comparison between different options, and aids in adoption of such measures which are most likely to achieve its objectives, in a manner that costs to stakeholders are significantly outweighed by the benefits.

3.3 RIA can also help fix accountability across levels in the government and promote good performance. It also requires testing policies on the thresholds of legality, necessity, and proportionality to ensure adoption of optimal policies.² A periodic review can help ascertain if its actions are on the right track and design course correction.

3.4 With institutionalisation of RIA, the government will get a clear picture of nature and number of jobs and income generating opportunities its policies and practices are likely to generate. It can also adopt adequate worker welfare

² An appeal to reform nation's economic governance framework by adoption of RIA is available at: <https://cuts-international.org/PDF/an-appeal-to-the-prime-minister-and-chief-ministers-of-all-states-and-union-territories-of-india.pdf>

provisions and incentivise industries to treat workers as asset/ human capital and not cost.³

3.5 RIA necessitates a robust stakeholder consultation process and taking into account perspectives of micro, small and medium enterprises, workers, and citizens. Consequently, it can enable tripartism between government, industry, and workers ensure design and implementation of optimal policies on the issue of income generation.⁴

Action point: Enact and implement a Regulatory Productivity Act to institutionalise Regulatory Impact Assessment with a focus on decent income generation

4. Empower and capacitate the third tier of governance to partner with private sector for innovation in design of social services

4.1 The local governance model was originally conceptualised to improve delivery of public services and provide inputs from the grassroots on policy design and implementation. However, due to policy and capacity constraints, the potential of third tier has not been realised as yet.

4.2 Being closest to the intended beneficiaries, local government bodies are best placed to appreciate and understand their unique and diverse requirements and socio-economic conditions. They ought to be knowledge repositories about community customs, practices, and traditional knowledge; unique health and nutrition habits; local language and dialects; socio-economic milieu; climate and weather nuances; livelihood practices and income variations; among others.

4.3 All these could prove extremely useful for innovation and structural flexibility in design of customised social services. For instance, digital tools for imparting education in local language using local anecdotes and customs for learnings can positively impact learning outcomes. Similarly, design of preventive, proactive, and emergency healthcare services on the basis of information about community customs, practices and climatic conditions, could go a long way in improving health related indicators. Customisation of social security and pension schemes based on livelihood practices and income variations across periods could help greater uptake and benefits for the communities. Innovation and customisation in design of social services will enable greater number of beneficiaries coming into the fold of social services.

³ <https://cuts-ccier.org/pdf/a-note-on-models-for-facilitating-worker-welfare-in-india.pdf>

⁴ <https://cuts-ccier.org/jobs-crisis-brought-on-by-covid-19-requires-a-healthy-dose-of-tripartism/>

4.4 While local governance bodies might be closest to relevant information, their capacities would need to be built to appropriately collect and record relevant information, and unlock its value by entering into partnerships with private sector (including start-ups) for data driven analysis, and design of customised social service delivery models, primarily through use of cost-effective digital technology. The local government bodies will also need to be capacitated to put in place appropriate checks and balances to ensure privacy, protect data and prevent its misuse. To this end, the government will need to focus on decentralized governance and service delivery models by building capacity of local self-governments.

4.5 In addition, local governance bodies will need to be empowered to raise and utilize financial resources. Technical assistance and capacity building to prepare them to raise money from markets through mechanisms like municipal bonds will be important. A separate fund with equal contribution by central and state government could be launched in this regard to support urban local bodies. This has become pertinent in light of reverse migration and burden on local governance bodies, which need to be supported to deal with challenges posed by the pandemic.

Action point: Set aside resources to build capacity of local governance institutions and enable them to partner with private sector for innovation in design and delivery of social services

5. Facilitate the creation of high quality and reliable digital infrastructure for efficient and inclusive delivery and consumption of social services, and prevent exclusion.

5.1 In the last few years, while India has made some progress on digitalisation of services. Recently, Prime Minister Modi has also indicated that Digital India has become a way of life, and has lauded governance model as ‘Technology First.’⁵

5.2 However, there is a need to ensure that the public service delivery model is backed by high quality and reliable infrastructure so as to make it inclusive and effective. In the past, several concerns about exclusion errors have been raised and intended beneficiaries have not been able to benefit from government schemes. This was also evident during pandemic when monetary benefits announced by the government did not reach intended bank accounts. Even where the benefits were transferred, intended beneficiaries were unable to withdraw amounts due to lack of reliable infrastructure and absence of last mile

⁵ <https://www.dnaindia.com/india/report-pm-modi-hails-digital-india-as-way-of-life-says-governance-model-is-technology-first-2857318>

connectivity. Citizens should be able to easily access social security schemes and capacity constraints should not hinder them from availing necessary benefits.

5.3 As we move towards digitalisation of social services, there is a need to ensure that lack of connectivity, authentication errors, failure rates, and rejections, etc. are minimised, and no intended beneficiary is denied services for these reasons. Increase in number of beneficiaries using online digital services will enhance the burden on digital infrastructure. Concerns with regard to privacy, safety and security of data being transferred are also likely to escalate.

5.4 Consequently, there is a need to increase investments in creating safe, secure and reliable digital infrastructure. Government will need to partner with private sector for speeding up coverage and use of world-class technology to avoid glitches in deliver of social services. Transparent public-private partnership could be enacted to ensure delivery of public service programmes.

5.5 Adequate governance mechanisms incorporating principles of transparency, accountability, and grievance redress will need to put in place to ensure prompt corrective actions are taken.

Action point: Invest in high quality digital infrastructure, partner with private sector for ensuring use of world class reliable technology, frame appropriate governance mechanisms to prevent exclusion

6. Ensure convergence between trade and sector specific policies, through an industrial strategy, incentivise performance and implementation and disincentivise non-performance

6.1 Efficient design implementation is the key to ensure success of any policy. In the past, while government has adopted several policies in the social sector to empower and benefit intended beneficiaries, design and implementation challenges have hindered benefits from being realised. More recently as well, government has launched several incentive schemes to attract investment and manufacturing across sectors. However, our track record indicates that such schemes are not designed and implemented properly.

6.2 Inadequate convergence between trade and sector-specific policies has been observed. While the objective is to promote manufacturing, import of inputs or intermediate products is expensive than import of finished goods. Despite the need for innovation, limited investment in research, development, and skill development has been made. While the government launches incentive schemes, stringent conditions like land acquisition, obtaining approvals and licenses have prevent interested parties from benefitting. Uncertainty and frequent changes in

taxation, unreliable and expensive logistics and power costs have prevented industry from competing internationally. Despite the objective of enhancing exports, government has shied away from trade agreements with potential export markets providing an edge to competitors in other countries.⁶

6.3 There is need to adopt an industrial strategy that can facilitate convergence between trade, sector-specific and other policies. A whole of government approach in policy design is necessary but not sufficient condition for success of policies, and issues with implementation of policies also need to be addressed. Concerns like delays in selection of companies and in release of incentives, frequent changes in incentive conditions, and rejection of claims without adequate consideration to beneficiaries does not inspire requisite confidence.⁷

6.4 Bureaucratic reforms linking career advancements of relevant officials to performance and achievement of desired goals should be the key. Merit based promotion and ensuing lateral entry and exit will create adequate competition in the administrative services.

Action point: Adopt industrial strategy to ensure consistent design of policies, incentivise efficient performance and implementation and dis-incentivise non-performance

7. Invest in health infrastructure in North East India

7.1 The entire Northeast is typically dependent on the Assam (Guwahati to be specific) for treatment of cancer and various other cardiovascular diseases. This becomes even more challenging given the poor state of connectivity between Guwahati with other parts of North East India, viz. Mizoram, Nagaland, and Manipur. There is a need to develop decentralised medical facilities in each of the state capitals in North East India, equipped to handle diseases that require advanced medical facilities.

7.2 In addition, the NEI faces a long-standing problem of doctors trained within NE but moving out of the region for a brighter career. There is a need provide better financial incentives to doctors in NEI so that the doctors do not migrate to other states.

8. Incentivising pharmaceutical units in India and developing it as a supplier of Active Pharmaceutical Ingredient (API) to the BBIN neighbours

⁶ <https://cuts-citee.org/convergence-between-trade-and-industrial-policies-in-india-contip/>

⁷ <https://www.livemint.com/opinion/online-views/the-difficulty-of-decoding-business-incentive-schemes-11605711499148.html>

8.1 The COVID-19 pandemic has underlined the need for countries globally to reduce their dependence on Chinese imports. One of the biggest imports from China to the SAARC countries has been API. Fortunately, countries in the BBIN region are discussing ways to reduce their dependencies on Chinese APIs. India, having a vibrant Pharma Sector is poised to cease the situation and emerge as the API hub in the BBIN region.

8.2 In this regard, a dual strategy to be adopted by *first*, encouraging the existing Pharma Companies to invest in R&D for developing APIs that would be a close substitute of Chinese APIs; and *second*, offer incentives to BBIN neighbours for purchasing the APIs from India.

9. Revitalising the MSME sector keeping in mind the need for developing regional value chains among the BBIN Countries

9.1 The Atmanirbhar Bharat and the Make in India scheme to be recalibrated to take advantage of the existing and potential value chains in the BBIN region (<http://bit.ly/389W6fQ>). This needs to be further supported with offering trade concessions and removal of procedural bottlenecks.

10. Invest to make the existing Supply Chains Resilient

10.1 The Covid-19 pandemic has underlined the need for developing resilient supply chains. Given that resilience is not built in a day, a separate body should be established, that would explore the various inter and intra country supply chains and develop an action plan on how to make them resilient such that international trade remains unhindered in the event of any biological or environmental emergencies.

10.2 This body should work in consultation with various governments on the BBIN/ASEAN region to ensure that strategies to be developed are in sync with the requirements and capacities of the neighbouring countries.