

Government Rural spend

A mixed bag

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INDIA | INDONOMICS | UPDATE

We hear of rural slowdown being led by tepid government spending, along with other reasons. To gauge the realistic picture, we analysed the government spend (payouts) and beneficiaries of the two large rural-oriented schemes – PM Kisan yojana and MGNREGA. We conclude: MGNREGA is faring decent, while there is a substantial shortfall under PM Kisan yojana. Combining these two policies, payouts are meaningfully lower. This shortfall will likely persist and be utilized to limit the quantum of fiscal slippage.

Anjali Verma, Research Analyst
(+ 9122 6246 4115) anverma@phillipcapital.in

Aditi Mohol, Research Associate
(+ 9122 6667 9943) amohol@phillipcapital.in

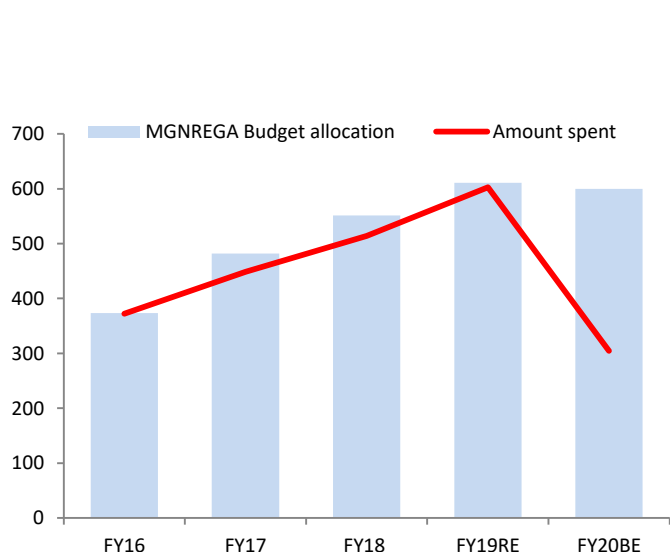
MGNREGA was implemented in order to ensure 100 days of employment per year to rural households. We examined the progress it has made in the current FYTD (till 15th October 2019), and found that:

- Budgetary expenditure was fairly decent at 50% of budgetary allocation.
- Average wage rate for FY20 is up by 3% yoy, at Rs 208.
- Bulk of the work is being allocated for construction of houses and rural infrastructure.
- Average days of employment is decent at 36 days, considering it has largely hovered in the range of 40-50 for the full year, over the years.
- However, the work completion rate is dismal and has declined over the years.

The government’s PM-Kisan yojana (scheme) wherein income support of Rs 6000/year (in three equal installments) is being provided to small and marginal farmers who have combined land holding/ownership of up to 2 hectares. For FY20, the budgeted allocation is at Rs 750bn. We observe the following:

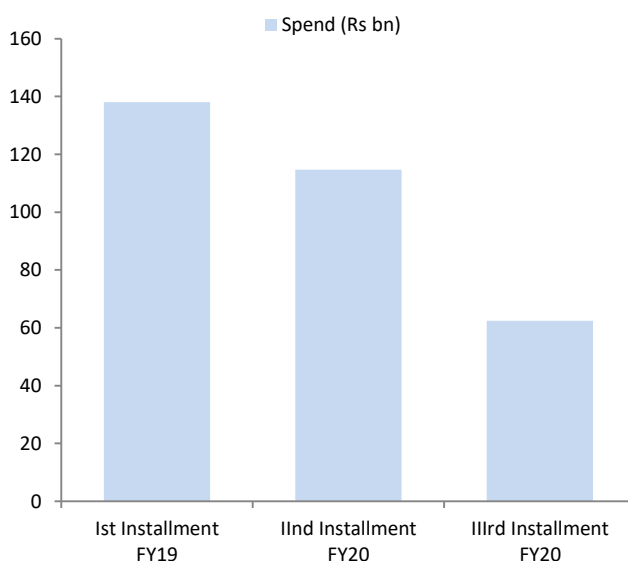
- Government has paid two installments (there is a likelihood that second installment distribution is still in progress and not complete).
- On the basis of available data, total spend on two installments stand at Rs 177bn (24% of the budgeted amount). Payouts in each of the installments for FY20 are lower than Rs 138bn transferred under the single installment in FY19.
- Number of beneficiaries have declined after each installment, currently, its’ at 42% of the total beneficiaries registered with government (currently).

MGNREGA spend (Rs bn)



Source: MGNREGA, PhillipCapital India Research

PM-Kisan spend (Rs bn)



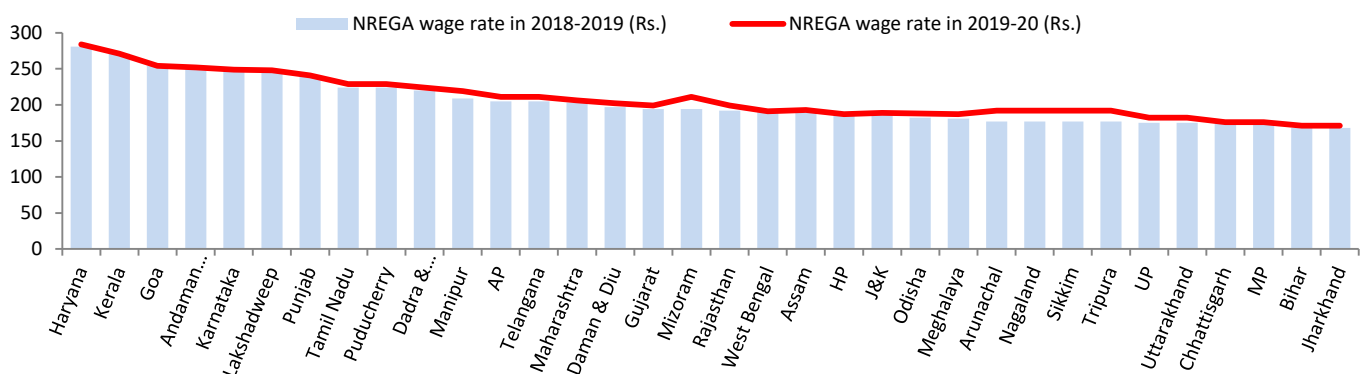
Source: PM-Kisan, PhillipCapital India Research

MGNREGA

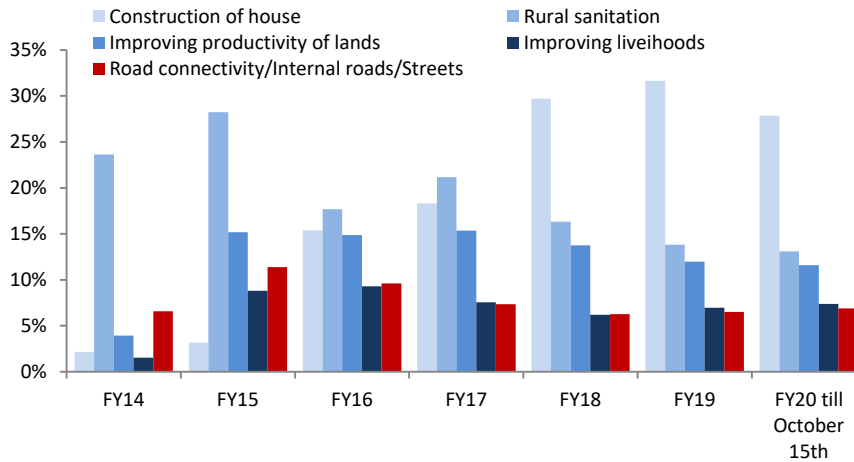
Key highlights from our MGNREGA data analysis:

- **Budgetary spend decent:** Out of the Rs 600bn allocated for FY20BE, FYTD spend is Rs 304bn with 83% of it being spent on wages and the rest on material and administration expenses. Considering the year is half way through, the expenditure can be considered as fairly decent at 50% of budgetary allocation.
- **Wage hike muted:** Average wages rose by 3% in FY20 (at Rs 208), compared to (Rs 203) in FY19. Majority of the states experienced marginal wage hikes while six states/UTs recorded nil wage hikes. Mizoram recorded the highest hike of Rs 17.
- **Housing and rural infra – key job areas:** Construction of houses continues to hold priority in FY20, with 28% of total work being undertaken in this category. Rural sanitation held the second-largest share as construction of toilets remains the focus area. Other major works being undertaken were for improving productivity of land, livelihood and road connectivity (rural infrastructure).
- **Employment days around the long-term trend:** Average days of employment provided per household was fairly decent for FY20 (YTD) at 36, considering 51 for the full year FY19. MGNREGA was implemented in order to ensure 100 days of employment per year to rural households, but only few states have achieved above 50 average days of employment per household, mainly concentrated in the northeast, with Mizoram recording the highest average days for FY20 (YTD) at 56.
- **Work completion rate poor:** MGNREGA work completion rate stood at a dismal 9% for FY20 (YTD), with 91% of allocated work not yet completed. The rate was poor for FY19 as well at 50%. The combined completion rate since inception stands at 83%.
- **Employment provided to 7% of rural population:** More than 800mn people constitute rural India. Of that, up to 57mn people were employed for MGNREGA in FY20 (YTD). As per RBI, 216mn people in rural India are below the poverty line. Rajasthan, West Bengal, Andhra Pradesh and Tamil Nadu have been employing the most number of people over the years.
- **Expenditure marred by past dues:** In terms of cumulative expenditure FYTD, 21% is being incurred in order to meet previous years' liabilities. Its break-up stands at – materials (71%), wages (27%), and administrative expenses (2%). West Bengal, Rajasthan and Karnataka had the most liability of previous years. In terms of FYTD expenses, Andhra Pradesh incurred the most on unskilled wages, while Tamil Nadu on material, and Rajasthan on administrative expenses.

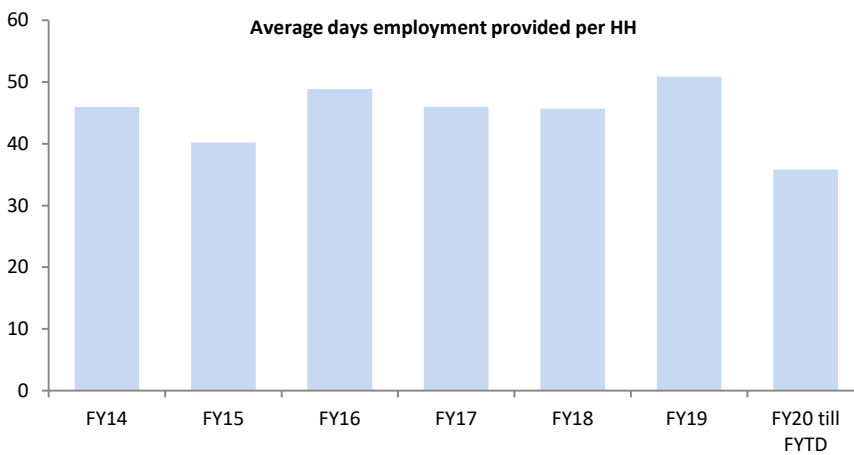
Wage rates (Rs per day)



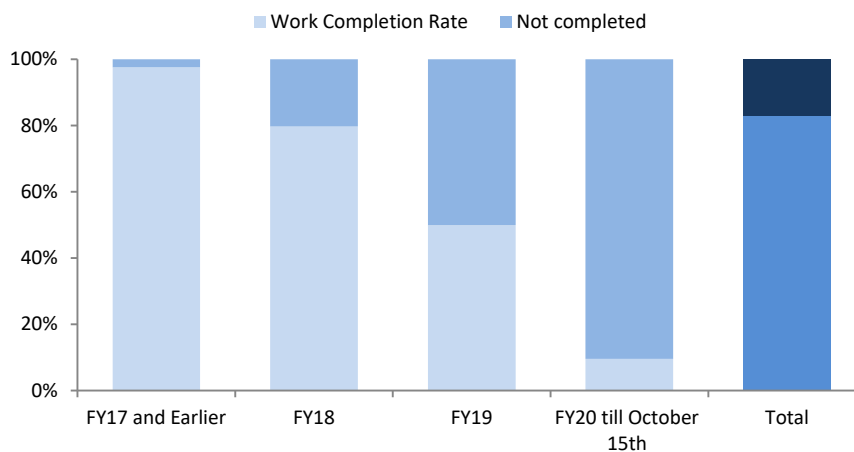
Source: MGNREGA, PhillipCapital India Research

Work category-wise (%)


Source: MGNREGA, PhillipCapital India Research

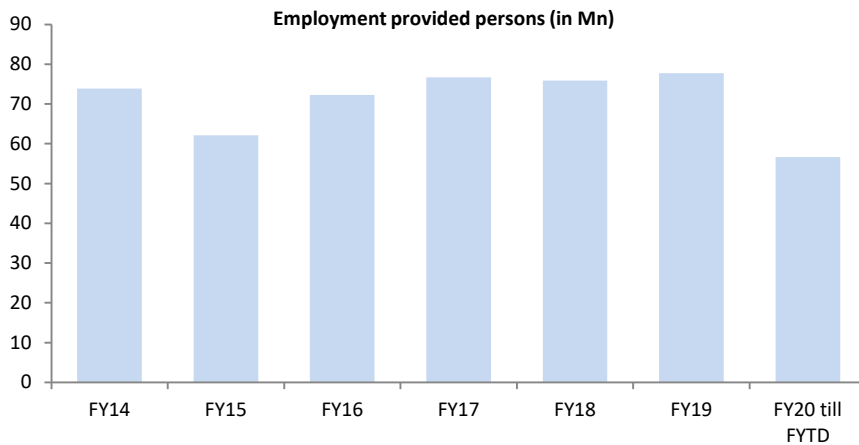
Average days employment provided per household per year


Source: MGNREGA, PhillipCapital India Research

Work completion rate (%)


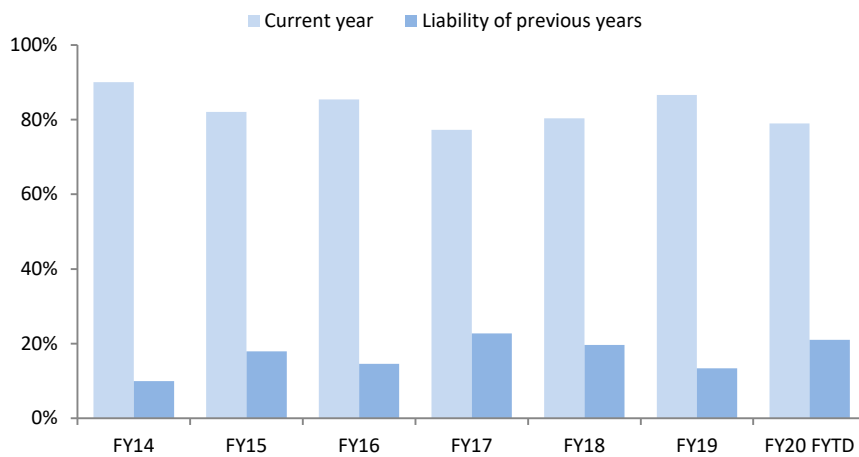
Source: MGNREGA, PhillipCapital India Research

Number of people employed (Mn)



Source: MGNREGA, PhillipCapital India Research

Cumulative expenditure (% of total)

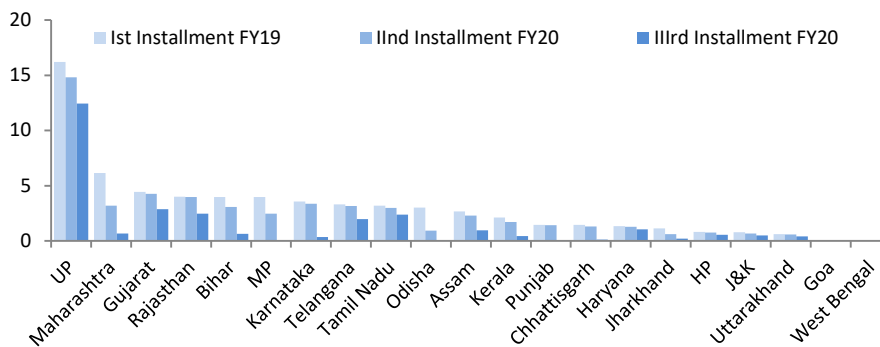


Source: MGNREGA, PhillipCapital India Research

PM Kisan Yojana

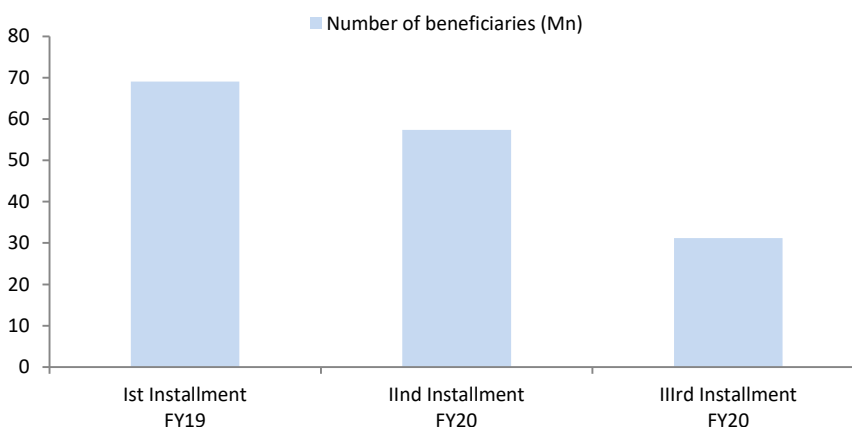
- PM-kisan spend declining:** The total outgo for first two installments for FY20 is at Rs 177bn, far less than the total budgetary allocation of FY20 at Rs 750bn. In FY19 (prior to elections), single installment amount was at Rs 138bn. While we believe there is a likelihood that second installment is still under progress and not complete yet, we expect fair amount of shortfall to persist for FY20. We notice that payment trend is downwards (Rs 138bn, Rs 115bn, Rs 62bn) in each installment of this scheme.
- PM-Kisan beneficiaries declining:** The government set a target of covering 125mn farmers under this scheme. So far, 75mn beneficiaries have been registered. The number of beneficiaries receiving benefits has declined after every installment, with 93% targeted in the first installment, falling to 77% in the second installment, and 42% in the third installment. Jharkhand had the least beneficiaries in the first installment, Odisha for the 2nd tranche, and Punjab for the 3rd tranche. West Bengal has nil beneficiaries allocated in this scheme.

Statewise installment (No. of beneficiaries, Mn)



Source: PM-kisan, PhillipCapital India Research

Number of beneficiaries (Mn)



Source: PM-kisan, PhillipCapital India Research

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