Budget Recommendations by Policy Consensus Centre for the Union Budget of 2025-26

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I. Recommendations on Employment and Gig Economy

- The Government of India might also consider amending the Unorganised Worker Social Security Act 2008 to include the definition of gig economy under this Act so that the benefits of the Act can be availed by gig workers in India. This would further provide a collective bargaining power for gig economy workers for securing social benefits such as accidental and health insurance etc.

- Alternatively, a model central legislation should be developed specifically for the gig economy and gig workers. This model legislation will act as an underlying framework for all states to develop their own legislation in consultation with industries as per the concentration of the kind of gig works in the state and track implementation and adherence to these legislations. However, States must consider a soft touch approach while implementing these legislations and must not over-regulate industries in the process.

- Data collection on gig economy is currently dependent on self-reporting by workers. Policymakers should work together with e-commerce platforms and service providers to develop a framework that can help capture data on gig workers. Recording and reporting of gig workers should be mandated for the employers. Moreover, the e-Shram portal run by the Government of India does not have a separate column to list gig economy workers. Creating a separate section for the gig economy workers will enable Government in tracking and collecting data on gig workers. Industries employing gig workers must also educate and encourage such workers to register on the e-Shram portal.

- A new social security product for gig workers can be created through National Pension System (NPS). The new fund under NPS can allow for contributions from employers and voluntary contribution from gig workers. The employers' contributions can be computed on a pro rata basis. This fund will only be an extension of existing funds under NPS and can therefore be easily implemented.

- Government of India should work with State Governments and local administrations to fill up administrative roles lying vacant for a longer duration of time. Technology should be utilised to create a single window to advertise vacancies at central, state, district and local administrative level. Policymakers must develop a mechanism to fill up such vacancies in a time bound manner.

II. Recommendations for Creating a Comprehensive Framework for Disaster Risk Financing

- India needs to develop a national disaster risk financing plan outlining state and district wise vulnerabilities to natural disaster, exposure to the risk of a particular disaster in terms of human capital, livestock and infrastructure, and protection gap in the event of the said disaster. This in turn will help create a risk layered disaster risk financing strategy and help tailor different financial instruments in terms of frequency and severity of disaster. Insurance premiums for frequently occurring and severe catastrophes will be higher and expensive and need to be fulfilled by budget or contingent financing mechanism such as disaster relief fund.

- Data is critical for risk management and risk financing. Hence, India must consider developing a robust scientifically backed mechanism for data collection and analysis to assess the extent of loss in case of a natural disaster. This would entail regular reporting of data from states and districts on human capital, livestock and infrastructure in a particular region. Quality data gathering can be done through collaborating with international and multilateral organisations, amalgamating indigenous technology with overseas transfer of technology and learning from regional best practices with similar geography and topography. Granular data collection would further help in tailoring better climate insurance models as per the need of the region. Furthermore, the climate finance taxonomy for India, announced in the Union Budget of 2024, must be rolled out at the earliest.

- Policymakers in India must consider developing a shock responsive social protection plan tailoring it to the need of vulnerable regions across India. A shock responsive social protection plan should be integrated and linked with social protection policies such as the Pradhan Mantri Jan Dhan Yojana or the Pradhan Mantri Jeevan Jyoti Bima Yojana which can provide an infrastructure for the delivery of disaster responses immediately after a natural calamity and help vulnerable households recover and rehabilitate faster. A shock responsive social protection plan will ensure that a "first loss" cover is provided in event of a loss from disaster, while further cash flow is provided by insurance policies.

- Insuring critical infrastructures and public sector assets are extremely important and it can minimise financial burden on public exchequer and

reduce the time lag for reconstruction. The NHPC's Teesta Power Plant Project in Sikkim that suffered severe damages in October 2023 and in August 2024 due to Glacial Lake Outburst Floods (GLOFs) causing a combined financial loss of close to INR 15000 crores, is an example of grave disaster loss to critical public infrastructure. This will further heighten fiscal discipline and corporate governance among public sector units as insurance companies usually charge higher premiums for undisciplined government assets.

- In the past few years, parametric insurance has emerged as a successful risk financing mechanism against climatic disasters across several geographies. In India too, Nagaland has been actively piloting with parametric insurance for the last three years. It is recommended that the Government of India work with State Governments to undertake further pilots across vulnerable and disaster-prone regions in the country. Similarly, regional insurance pools for specific kind of disasters too could be considered.

- Access to finance from both large and microfinance institutions, is a common challenge in a post disaster scenario. Particularly, microfinance institutions (MFIs) funding micro enterprises and low net worth individuals, often find themselves crippled due to low liquidity, thus making it difficult for them to restructure or provide fresh loans to their customers. An insurance scheme for such MFIs would ensure liquidity in a post disaster scenario and help them fresh loans and/or restructure existing loans to help rebuild lives and businesses of vulnerable communities. Further, policymakers should consider integrating micro-insurance with state sponsored savings scheme to help vulnerable communities and micro businesses for reconstruction.

- Government must encourage the private sector to invest towards creating climate resilient infrastructure and investing in climate risk reduction measures. Development financial institutions, mainstream commercial lenders and financial engineers must be encouraged and incentivised to collaborate and develop new and bespoke products catering to the needs of disaster-prone regions and vulnerable communities in India. Developing climate resilient infrastructures and assets through public-private partnerships (PPPs) for public use can be one way to go about it. Additionally, providing tax incentives to the private sector for developing and maintaining disaster relief infrastructures would encourage private entities to actively participate in such public welfare projects. These apart the government must consider using novel strategies to incentivise the private sector in such projects.

- Due to its vast geography, India should consider adopting different financial strategies for disaster reduction, disaster recovery and disaster resilience programmes. A stand-alone strategy may not be the best way forward considering the varied topography and the wide range of natural disasters that has affected these areas in the past. Hence, policymakers may consider adopting a mix of disaster risk financing instruments such as parametric insurance, calamity bonds, PPP partnerships, and blended finance, among others to financially safeguard lives and infrastructure.

- India should consider expanding the deployment of funds collected from the Sovereign Green Bond (SGrB) issued by the Government of India in climate risk mitigation programmes and climate resilience programmes (for e.g. flood control). Currently, the funds collected from the SGrB are largely limited to developing renewable energy, clean transportation and green building infrastructures projects, making its scope of deployment narrow and restricted.

III. Recommendations for Implementation of Market Cap on Volumes of Third-Party Application Providers (TPAPs)

- To effectively address challenges within the UPI ecosystem, it is imperative to promptly introduce a market share cap on Third-Party Application Providers (TPAPs). In March 2021, the NPCI proposed a 30 per cent cap based on transaction volumes, granting TPAPs a two-year period to comply. However, this deadline has again been extended to December 2026.

- Swift implementation of the market share cap is crucial for several reasons. Primarily, it ensures a diversified market with a broad base of participants, preventing the concentration of power among a select few. This reduction in overreliance on dominant TPAPs not only diminishes systemic risks associated with entities that are "too big to fail" but also enhances the resilience of the payment system by making it more robust against potential failures of any single player.

- For successful implementation, strict adherence to existing guidelines is necessary. The NPCI should enforce the market share cap without further delays, upholding the proposed 30 per cent limit and setting a clear, reasonable timeline for compliance, possibly December 2026. Ideally, this cap should be reduced to 25 per cent or lower to ensure that no more than 50 per cent of

transaction volumes are controlled by two players, effectively broadening the market.

- In addition, the NPCI should conduct a comprehensive study of the entire ecosystem to gain a deeper understanding of the space. This study should include an analysis of consumer preferences given that BHIM has not met a traction similar to the other 2 dominant players, it should also identify potential systemic risks to proactively address any vulnerabilities that could impact the stability and security of payment systems especially given that UPI has a become a global case study.

IV. Recommendations on Gems and Jewellery Sector

- Simplify collateral requirements for working capital loans, flexible repayment terms, and minimal paperwork to encourage formal credit facilities among small jewellers.

- Develop specialised financial products such as supply chain financing or low-interest loans to help jewellers manage liquidity issues.

- Introduce a PM Vishwakarma Loan for business expansion for micro and small jewellers Introduce a Silver Metal Loan (SML) scheme, akin to GML for silver jewellery and silverware manufacturers.

- Extend EMI facility and affordable loan options for jewellery customers in line with high-value electronic goods like smartphones and laptops.

- Gems and jewellery sector should connect with Pravasi Bharatiya (Non-Resident Indians) communities and organisations and encourage them to adorn Indian jewellery in their day-to-day life to further promote wearing "Brand India" jewellery outside India.

- The industry and government entities must work together to secure more GI tags for the jewellery sector in India. Existing GI tags for the industry must also be leveraged beer for exports.

V. Recommendations for E-commerce Sector

- The Competition Commission of India (CCI) and regulators must expand their perspective beyond just foreign players and consider practices across the entire retail sector. It's essential to develop a mature understanding of how these practices impact competition and fairness. Achieving parity across the board is critical for fostering a level playing field that empowers all businesses, regardless of their origin. Only then can we ensure that the interests of MSMEs and independent sellers are truly safeguarded in our evolving marketplace.

- An emerging trend in antitrust is the tendency to narrow the market scope, which inadvertently increases the likelihood of large firms being labelled as dominant. This focus on large online marketplaces as dominant players is fundamentally flawed. As retail evolves, especially online retail, we see many joint ventures increasingly concentrated in the hands of a few players, spanning both offline and online sectors. This reality underscores the need for a nuanced understanding of market dynamics considering complexities of both retail formats.

- E-commerce is a channel of sale that can be adopted by any business, including MSMEs on their own. However, whenever ecommerce draft regulations have come out, they are made keeping in mind larger platforms instead of acknowledging that even smaller standalone MSME businesses may have their websites for online sale. These kinds of siloed regulations that create regulatory arbitrage can undermine MSME growth by increasing their regulatory burdens and compliance costs.

VI. Recommendations for Creating a Risk Mitigation Framework for Virtual Digital Assets (VDAs) in India

- Indian policymakers need to create a standardised taxonomy around the crypto markets. It is not sufficient to only define Virtual Digital Assets (VDAs), but also the subcategories of different kinds of VDAs.

- Policymakers should consider developing a regulatory framework based on the category of VDAs, assessment of the quantum of risk posed by an asset and its systemic significance.

- Create a National Regulatory Framework for Virtual Digital Assets, including sections on different types of VDAs and the risks and degree of risks associated with each of them.

- It may also be worth considering setting up a separate regulator for crypto markets, similar to VARA set up in Dubai.

- There is a need to assign a nodal ministry at the very least for drafting regulations for cryptos. Ideally the Ministry of Finance is best poised to accept this task. Under the nodal ministry or regulator, it would be beneficial to set up a Self-Regulatory Organisation for the crypto sector.

- Work with Web3 organisations and the crypto entities to establish an efficient data collection framework and analysis mechanism for forecasting and minimising risk from the crypto ecosystem.

- The RBI should consider making it mandatory, or at the very least, provide incentives for usage of CBDCs for VDA transactions.

- Policymakers must reconsider the current tax regime for VDAs. The regulator should lower the current 1 per cent TDS to around 0.01 per cent (similar to transaction taxes). The purpose of implementing TDS will still be applicable, but it will not make Indian exchanges more expensive to trade on.

- Instead of a 30 per cent capital gains tax, the Government should consider taxing capital gains at the same rate as the investor's current tax bracket for VDA transactions.

- The Government should allow for the offset of capital losses against capital gains within VDA transactions, for both short-term and long-term and should allow for carrying forward of any loss from transfer of VDAs to subsequent financial year/s (for a period of eight years) as per the prevailing law i.e. section 74 of the IT Act 1961.

- The policymaker must publish the names of approved service providers on their website. This is paramount from consumer protection point of view.

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About Policy Consensus Centre (PCC)

The Policy Consensus Centre (PCC), founded by Nirupama Soundararajan and Arindam Goswami, emerges with a distinct mission: to conduct impactful policy research and drive policy transformations. Our focus encompasses pivotal sectors crucial for India's advancement, along with those that have been underexplored. In the intricate landscape of India, divergent opinions often hinder consensus-building for policymakers amidst diverse stakeholders.

PCC stands dedicated to comprehensive, evidence-driven research, promoting inclusivity and rigor. Our objective resides in cultivating accord among stakeholders through independent, data-centric analysis, a catalyst for meaningful policy shifts. In a climate where some research entities avoid unconventional subjects, PCC remains resolute in advocating thorough exploration across all sectors. Our belief underscores the necessity to scrutinize seemingly unconventional domains, an approach vital for identifying accurate risks and formulating sound policies.

PCC champions the synergy of economic rationale and empirical data, pivotal in fostering consensus and enabling effective policymaker engagement. In essence, PCC embodies a pioneering spirit committed to navigating uncharted territories, propelling well-informed policy decisions for India's holistic growth.

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