Updated Value Addition Material 2020

ECONOMIC DEVELOPMENT

GOVERNMENT BUDGETING
# GOVERNMENT BUDGETING

## Contents

1. Budgeting: Meaning and Importance ................................................................. 2
2. The Union of India’s Budget ............................................................................. 3
   2.1. Components of the Government Budget .................................................. 5
   2.2. Stages in Enactment ................................................................................. 7
   2.2.1. Presentation of Budget ......................................................................... 7
   2.2.2. General Discussion on Budget .............................................................. 8
   2.2.3. Scrutiny by Departmental Committees ............................................... 8
   2.2.4. Demand for Grants ............................................................................. 8
   2.2.5. Appropriation Bill .............................................................................. 10
   2.2.6. Finance Bill ....................................................................................... 10
3. Weaknesses in the Budgetary Process ............................................................... 10
   3.1. Weaknesses in Resource Allocation and Use ............................................ 10
   3.2. Weaknesses in the Indian Budgetary System and Implementation .......... 11
4. Budgetary Reforms ......................................................................................... 11
   4.1. Medium Term Budget Frameworks ......................................................... 11
   4.2. Prudent Economic Assumptions ............................................................ 12
   4.3. Top-Down Budgeting Techniques ......................................................... 12
   4.4. Relaxing Central Input Controls ............................................................ 12
   4.5. An Increased Focus on Results ............................................................. 12
   4.6. Budget Transparency ............................................................................ 13
5. Recent Changes in Union Budgeting ............................................................... 13
   5.1. Rationalization of Centrally Sponsored Schemes (CSS) and expenditure Thereon ..... 13
   5.2. Scrapping of Plan and Non-Plan Classification ....................................... 14
   5.3. Merging of Railway and General Budget ............................................. 14
   5.4. Budget Advancement ........................................................................... 15
6. Evolution of Budgeting ................................................................................... 16
   6.1. The Line Item Budget .......................................................................... 16
   6.2. Performance Budgeting ....................................................................... 17
   6.3. Outcome budgeting ............................................................................. 17
   6.4. Gender Budgeting ............................................................................... 19
   6.5. Participatory Budgeting ....................................................................... 20
   6.6. Zero-based Budgeting ....................................................................... 22
   6.7. E-Budgeting ....................................................................................... 22
7. Key Highlights from the Union Budget 2020-21 .......................................... 23
8. Previous Years UPSC Mains Questions ......................................................... 24
9. Vision IAS GS Mains Test Series Questions ............................................... 25

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1. Budgeting: Meaning and Importance

Budget is a statement of estimated receipts and expenditures of the government in respect of every financial year. Budgeting is the process of estimating the availability of resources and then allocating them to various activities of an organization according to a pre-determined priority. It is an attempt to balance scarce means with public needs and ends.

Budgets are beyond money; they also represent choices, policies and philosophies. It is about allocating resources to competing priorities and issues of fairness or social justice come into it. They indicate the direction in which a country is headed and the path it has chosen to achieve its objectives.

Apart from its financial roles, the other functions performed by or through budgets are:

- Budgets act as instruments of control. They act as a benchmark to evaluate the progress of various departments. If a department is off-target, w.r.t. its budgetary proposals, it can be informed and corrective actions could be taken.
- Budgetary process involves all the departments of the government. Conflicts among various departments have to be resolved. So, budgetary planning and implementation helps in bringing various departments together and hence achieve co-ordination among them.
- Budgets can also be used as tools of punitive action by reducing the allocation of under-performing departments. So, they are also helpful in maintaining efficiency in working of various departments.
- Budgets can also be helpful in bringing about and institutionalising a change that an administrator wants. For example, if the government wants to improve the productivity of its employees, it can introduce incentives like performance related bonus through budgets.
- Budget also provides a platform for redistribution of resources. This redistribution might be from rich to poor or between regions, between generations, between workers and non-workers.
- It serves the purpose of public accountability of funds.

In sum, it is a planned approach towards increasing government activities that calls for mobilisation of large resources. The criticality of budgets to governance can be well understood by the changes in budgetary process in response to changing public opinion about the functions of government over the years.

Business and government budgeting are more different than alike. The differences between the two is tabulated below:

<table>
<thead>
<tr>
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2. The Union of India’s Budget

Article 112 of the Indian constitution refers to budget as the ‘annual financial statement.’ The union budget has two purposes:

1. To finance the activities of the union government.
2. To achieve macroeconomic objectives such as employment, sustained economic growth, and price level stability, which forms a part of fiscal policy.

Considering limited resources at its disposal to fulfill multivariate responsibilities, financial planning, and the democratic maxim of ‘no taxation without representation’, the government has to bring financial statement annually before the Parliament. The Government is not free to tax, borrow and spend money the way it likes. Every item of expenditure has to be well thought out and the total outlay worked out for a specific period. Also, there must be the sanction of the people behind all these financial proposals, expressed clearly through their chosen representatives.

It is in this context that the Budget of the Government of India is presented before both the Houses of Parliament every year. The Budget contains the financial statements of the government embodying the estimated receipts and expenditure for one financial year, which at present commences on the 1st of April every year. In other words, it is a proposal of how much money is to be spent on what and how much of it will be contributed by whom or raised from where during the coming year.

The Budget gives estimates for the ensuing year and offers an opportunity to the government to review and explain its financial and economic policy and programmes besides enabling the Parliament to discuss and criticize it. Its importance is not limited to finances only as it also reflects government’s vision and signals the policies to come in future.

The essential features of the financial procedure followed in India are laid down in the Constitution, which ensures the supremacy of the Lok Sabha, at the Union, and that of Legislative Assembly at state level, in the financial matters. The Constitution provides that no tax shall be levied or collected except by authority of Parliament (Article 265) and that the President shall, in respect of every financial year, cause to be laid before both Houses, the Annual Financial Statement (Article 112).

Article 112 (in case of central government) and Article 202 (in case of state government) of the constitution requires the annual financial statement to be laid before the respective legislatures.

Since 1921, the union government has had two budgets – Railway budget and General budget. This separation has been done away with in 2017-2018 budget and the two have been merged into a single document, presented by the Union Finance Minister.

Any budget has the following three types of information:

- Actual figures of receipts and expenditure of the previous year
- Budget and revised figure for the current year
- Budget estimate for the upcoming year

For example, this year the finance minister presented the budget for the year 2020-21. Then previous year is 2019-20 and current year is 2020-21 at the end of which budget is presented and the coming year is 2021-22.
The receipts and disbursements are shown under the three parts, in which Government Accounts are kept viz. (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. The estimated receipts and expenditures are essentially made into and out of these three funds.

(i) Consolidated fund - It is a fund to which all receipts are credited and all payments are debited, that is,

- All revenues received by the Government of India.
- All loans raised by the Government by the issue of treasury bills, loans or ways and means of advances.
- All money received by the government in repayment of loans forms the Consolidated Fund of India.

All the legally authorized payments on behalf of the Government of India are made out of this fund. For example - repayment of debt, giving loans to the state governments etc. No money out of this fund can be appropriated (issued or drawn) except in accordance with a parliamentary law. Money can be withdrawn only under appropriation made by law. Due to constitutional provisions, the expenditures are embodied in the Budget as:

- The sums required to meet the items of expenditure described by the Constitution as those charged on the Consolidated Fund of India.
- The sums required to meet other expenditures proposed to be made from the Consolidated Fund of India.

Expenditures contained in the first category can be discussed in both the Houses but are not submitted to vote of either House. In other words, they constitute the non-votable part of the Budget. The expenditures charged on the Consolidated Fund of India include:

- The emoluments and allowances of the President
- The salaries and allowances of the Chairman, Deputy Chairman of the Rajya Sabha and the Speaker and the Deputy Speaker of the Lok Sabha
- The salary and other allowances payable to the judges of the Supreme Court
- Pensions of the judges of high courts.
- Salary, allowances and pension of the Comptroller and Auditor General of India.
- Salaries, allowances and pension of the chairman and members of the Union Public Service Commission.
- Administrative expenses of the Supreme Court, the office of the Comptroller and Auditor General of India and the Union Public Service Commission including the salaries, allowances and pensions of the persons serving in these offices.
- The debt charges for which the Government of India is liable, including interest, sinking fund charges and redemption charges and other expenditure relating to the raising of loans and the service and redemption of debt.
- Any sum required to satisfy any judgement, decree or award of any court or arbitral tribunal.
- Any other expenditure declared by the Constitution or by Parliament by law to be so charged

The expenditure falling in the second category is presented in the form of Demands for Grants to the Lok Sabha and is voted upon by this House. The Lok Sabha has the right to assent or to refuse any such demand or reduce the demand specified therein. No such demand shall be made except on the recommendation of the President. Since these demands are meant to fulfill the programmes and policies of the government, if any demand as a whole is voted down, it tantamounts to a defeat of the government.
(ii) **Public accounts of India** - All other public money (other than those which are credited to the Consolidated Fund of India) received by or on behalf of the Government of India shall be credited to the Public Account of India.

- This includes Moneys held by Government in Trust as in the case of Provident Funds, Small Savings collections, income of Government set apart for expenditure on specific objects like road development, primary education, Reserve/Special Funds etc.
- This account is operated by **executive action**, that is, the payments from this account can be made without parliamentary appropriation.
- Public Account funds do not belong to Government and have to be finally paid back to the persons and authorities that deposited them. Parliamentary authorization for such payments is, therefore, not required, except where amounts are withdrawn from the Consolidated Fund with the approval of Parliament and kept in the Public Account for expenditure on specific objects, in which case, the actual expenditure on the specific object is again submitted for vote of Parliament for withdrawal from the Public Account for incurring expenditure on the specific object.

(iii) **Contingency fund of India** – Article 267 of The Constitution authorizes the **Parliament to establish** a ‘Contingency Fund of India’, into which amounts determined by law are paid from time to time. Accordingly, the Parliament enacted the Contingency Fund of India Act in 1950.

- This fund is placed at the disposal of the President, so that he can make advances out of it to meet unforeseen expenditure pending its authorization by the Parliament. The fund is held by the finance secretary on behalf of the president.
- Like the public account of India, it is also operated by executive action.
- Parliamentary approval for such unforeseen expenditure is obtained, post-facto, and an equivalent amount is drawn from the Consolidated Fund to recoup the Contingency Fund. The corpus of the Contingency Fund as authorized by Parliament presently stands at 500 crore and may be enhanced by the Parliament. Finance Ministry operates this fund on the behalf of the President.

Under the Constitution, Annual Financial Statement distinguishes expenditure on revenue account from other expenditure. Government Budget, therefore, comprises Revenue Budget and Capital Budget. The estimates of receipts and expenditure included in the Annual Financial Statement are for the expenditure net of refunds and recoveries, as will be reflected in the accounts.

### 2.1. Components of the Government Budget

The Constitution of the country demands that the budget shall distinguish expenditure on revenue account from other expenditure. Therefore, the Budget comprises of the Revenue Budget and the Capital Budget.
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<tr>
<td><strong>Revenue Account</strong> consists of the revenue receipts of Government and the expenditure met from these revenues.</td>
<td><strong>Capital Account</strong> is an account of the assets as well as liabilities of the central government, which takes into consideration changes in capital. It consists of the capital receipts and capital expenditure of the government.</td>
</tr>
<tr>
<td><strong>Revenue receipts</strong> - These are the receipts which need not to be paid back to the payee by the government, that is, it is non-redeemable. It cannot be reclaimed by the government. Therefore they are one way transaction. It does not create liability for the government. They are divided into tax revenues and non-tax revenues.</td>
<td><strong>Capital receipts</strong> - All those receipts of the government which create liability or reduce financial assets are termed as capital receipts. It can be classified into two categories -</td>
</tr>
<tr>
<td>Tax revenues – It is the revenue generated by levy and collection of taxes by the central government. It comprises of direct taxes and indirect taxes.</td>
<td><strong>Debt capital receipts</strong> – It mainly includes borrowings and other liabilities.</td>
</tr>
<tr>
<td>Direct taxes – These are the taxes which falls directly on individuals and firms like income tax (tax on personal income of an individual), corporate tax (tax on a firm), securities transaction tax, commodities transaction tax etc.</td>
<td><strong>Borrowings or public debt</strong> – Money raised on the security of consolidated fund of India and repayable out of it. It includes:</td>
</tr>
<tr>
<td>Other direct taxes such as wealth tax (abolished in 2015-16 budget), gift tax and estate duty (now abolished) have never been of much significance in terms of revenue yield and therefore these are known as paper taxes.</td>
<td>Borrowing within the country, that is, loans raised from the public (market borrowings), borrowings from RBI and other financial institutions through sale of treasury bills.</td>
</tr>
<tr>
<td>Indirect taxes – These are the taxes which may be levied on one person but ultimately paid by others. For example – excise duty is levied on producer but ultimately is paid by consumer along with the price.</td>
<td>Borrowing outside the country, that is loans received from foreign governments and international organisations.</td>
</tr>
<tr>
<td>It includes Goods and Services tax, comprising of the Central, Integrated and State components.</td>
<td><strong>Other liabilities</strong> – These are money not directly borrowed from people but is available for the government’s expenditure purpose which government is liable to pay back. It includes money kept in public account of India which includes small savings (Post-Office Savings Accounts, National Savings Certificates, etc.), provident funds.</td>
</tr>
<tr>
<td><strong>Non-Tax revenues</strong> – It mainly consists of</td>
<td><strong>Non-debt capital receipts</strong> – It includes recoveries of loans granted by the central government and net receipts obtained from the sale of shares in Public Sector Undertakings (PSUs) (This is referred to as PSU disinvestment).</td>
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2.2. Stages in Enactment

The procedure adopted in the Parliament while dealing with financial matters, specifically the Budget, involves many stages (refer to the infographic):

2.2.1. Presentation of Budget

From fiscal year 2017-2018, the consolidated budget would be presented whereby the hitherto existing Railway Budget would be merged in the General Budget. This consolidated budget would be presented by the Union Finance Minister. The rationale behind this move would be discussed later in this document.

The Budget is presented with a ‘Budget Speech’, which is in two parts: Part A contains ‘a general economic survey’ of the country and Part B ‘the taxation proposals’ for the ensuing financial year.
The Rules of Procedure and Conduct of Business in the Lok Sabha for Financial Legislation are as follows:

- The Annual Financial Statement or the Statement of the Estimated Receipts and Expenditure of the Government of India in respect of each financial year (also called ‘the Budget’) is presented to the House on such day as the President may direct.
- The Budget is presented to the House in such form as the Finance Minister may, after considering the suggestions, if any, of the Estimates Committee, settle.
- There shall be no discussion of the Budget on the day on which it is presented to the House.

2.2.2. General Discussion on Budget

- Subsequently, on a day appointed by the Speaker, the House is at liberty to discuss the Budget as a whole or any question of principle involved therein, but no cut motion is moved nor is the Budget submitted to the vote of the House.
- It takes place in both the Houses of Parliament and lasts usually for three to four days.
- The Finance Minister has a general right of reply at the end of the discussion.
- The Speaker may, if he thinks fit, prescribe a time limit for speeches.

2.2.3. Scrutiny by Departmental Committees

After the general discussion on the budget is over, the Houses are adjourned for about three to four weeks. During this gap period, the 24 departmental standing committees of Parliament examine and discuss in detail the demands for grants of the concerned ministries and prepare reports on them. These reports are submitted to both the Houses of Parliament for consideration. The standing committee system established in 1993 (and expanded in 2004) makes parliamentary financial control over ministries much more detailed, close, in-depth and comprehensive.

2.2.4. Demand for Grants

Demand for grants is a statement of estimated expenditure to be made out of consolidated fund of India. Article 113 of the Constitution mandates that the estimates of expenditure from the Consolidated Fund of India included in the Annual Financial Statement and required to be voted by the Lok Sabha are submitted in the form of Demands for Grants. The Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement.

- Generally, separate demands are made for the grants proposed for each Ministry.
- Each demand contains first a statement of the total grant proposed and then a statement of the detailed estimate under each grant divided into items. A demand becomes a grant after it has been duly voted.
- Two points should be noted in this context.
  - One, the voting of demands for grants is the exclusive privilege of the Lok Sabha, that is, the Rajya Sabha has no power of voting the demands.
  - Second, the voting is confined to the votable part of the budget—the expenditure charged on the Consolidated Fund of India is not submitted to the vote (it can only be discussed).
- Demands are required to be made in the form of a motion but in practice, they are assumed to have been moved and are proposed by the Chair to save the time of the House.
- During this stage, the members of Parliament can discuss the details of the budget. They can also move motions to reduce any demand for grant. Such motions are called as ‘cut motion’

A motion may be moved to reduce the amount of a demand in any of the following ways:

- 'that the amount of the demand be reduced to Re.1/-' representing disapproval of the policy underlying the demand. Such a motion shall be known as 'Disapproval of Policy Cut'.

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A member giving notice of such a motion has to indicate in precise terms the particulars of the policy which he proposes to discuss. The discussion is confined to the specific point or points mentioned in the notice and it is open to members to advocate an alternative policy;

- 'that the amount of the demand be reduced by a specified amount' representing the economy that can be affected. Such specified amount may be either a lump sum reduction in the demand or omission or reduction of an item in the demand. The motion shall be known as 'Economy Cut’. The notice has to indicate briefly and precisely the particular matter on which discussion is sought to be raised and speeches shall be confined to the discussion as to how economy can be affected;

- 'that the amount of the demand be reduced by Rs.100/-' in order to ventilate a specific grievance which is within the sphere of the responsibility of the Government of India. Such a motion shall be known as 'Token Cut' and the discussion thereon is confined to the particular grievance specified in the motion.

For the sake of convenience, usually the main motion for demand and the Cut Motion relating to it are put and discussed together in the House. Cut Motion thus is a device to initiate the discussion on demand for grants and to uphold the principle of responsible government by probing the activities of the government. After discussion, first the cut motions are disposed off and thereafter, the demands for grants are put to vote of the House. Cut Motions are generally moved by members from the opposition, and if carried, amount to a vote of censure against the government.

In total, 26 days are allotted for the voting of demands. On the last day the Speaker puts all the remaining demands to vote and disposes them whether they have been discussed by the members or not. This is known as ‘guillotine’.

**Other grants** - In addition to the budget that contains the ordinary estimates of income and expenditure for one financial year, various other grants are made by the Parliament under extraordinary or special circumstances:

- **Vote on Account**- Only after enactment of Appropriation Act after it is assented to by the President, the payments can be made from the Consolidated Fund of India. Before 2017-18, this used to go on till the end of April. But the government needed money to carry on its normal activities after 31 March (the end of the financial year). To overcome this functional difficulty, the Constitution has authorized the Lok Sabha to make any grant in advance in respect to the estimated expenditure for a part of the financial year, pending the completion of the voting of the demands for grants and the enactment of the appropriation bill. This provision is known as the ‘vote on account’.

- **Supplementary grants, Votes of Credit etc.**
  o Supplementary, additional, excess and exceptional grants and votes of credit are regulated by the same procedure as is applicable in the case of demands for grants.
  o Supplementary grant is granted when the amount authorized by the Parliament through the appropriation act for a particular service for the current financial year is found to be insufficient for that year.
  o Additional Grant is granted when a need has arisen during the current financial year for additional expenditure upon some new service not contemplated in the budget for that year.
  o Excess Grant is granted when money has been spent on any service during a financial year in excess of the amount granted for that service in the budget for that year. It is voted by the Lok Sabha after the financial year.
  o Vote of Credit is granted for meeting an unexpected demand upon the resources of India, when on account of the magnitude or the indefinite character of the service, the demand cannot be stated with the details ordinarily given in a budget. Hence, it is like a blank cheque given to the Executive by the Lok Sabha.
**2.2.5. Appropriation Bill**

Under the Constitution, no money can be withdrawn from the Consolidated Fund of India without enactment of law by the Parliament. In pursuance of this, a Bill incorporating all the demands for Grants voted by the Lok Sabha, along with the expenditure charged on the Consolidated Fund, is introduced in the Lok Sabha. This Bill is known as the Appropriation Bill. The Bill, as the name suggests, intends to give legal authority to the government to appropriate the expenditure from and out of the Consolidated Fund.

Procedure regarding Appropriation Bill

- The procedure in regard to the passage of an Appropriation Bill is the same as for any other Bill, generally with only those modifications that the Speaker may consider necessary.
- The debate on an Appropriation Bill, however, is restricted to those matters, which have not already been raised while the relevant demands for grants were under consideration.
- No amendments can be proposed.

After the Bill is passed by the Lok Sabha, the Speaker certifies it as a Money Bill and transmits it to the Rajya Sabha. The latter House has no power to amend or reject the Bill, but has to give its concurrence, and if Rajya Sabha doesn’t take any action on it within 14 days even then it is considered as passed by the Rajya Sabha. The bill, thereafter, is presented to the President for his assent.

**2.2.6. Finance Bill**

At the time of presentation of the Annual Financial Statement before Parliament, a Finance Bill is also presented in fulfillment of the requirement of Article 110 (1)(a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. A Finance Bill is a Money Bill as defined in Article 110 of the Constitution. It is accompanied by a Memorandum explaining the provisions included in it.

**3. Weaknesses in the Budgetary Process**

**3.1. Weaknesses in Resource Allocation and Use**

Many of the weaknesses in budgeting reflect the failure to address linkages between the various functions of budgeting. The following factors contribute to budget systems and processes that create a disabling environment for performance in the public sector, both by commission and by omission:

- Almost exclusive focus on inputs, with performance judged largely in terms of spending no more, or less, than appropriated in the budget;
- Input focus takes a short-term approach to budget decision making; failure to adequately take account of longer-term costs (potential and real), and biases in the choice of policy instruments (e.g., between capital and current spending and between spending, doing, and regulation) because of the short-term horizon;
- A bottom-up approach to budgeting that means that even if the ultimate stance of fiscal policy was appropriate (and increasingly after 1973 it was not) game playing by both line and central agencies led to high transaction costs to squeeze the bottom-up bids into the appropriate fiscal policy box;
• A tendency to budget in real terms, leading either to pressure on aggregate spending where inflation is significant (which was often validated through supplementary appropriations) or arbitrary cuts during budget execution with adverse consequences at the agency level;
• Cabinet decision making focused on distributing the gains from fiscal drag across new spending proposals;
• Cabinet and/or central agencies extensively involved in micro-decision making on all aspects of funding for ongoing policy;
• Weak decision making and last-minute cuts cause unpredictability of funding for existing government policy; this is highlighted to the centre by central budget agencies on the alert to identify and rake back “fortuitous savings;”
• Strong incentives to spend everything in the budget early in the year and as quickly as possible, since the current year’s spending is the starting point for the annual budget haggle and the fear of across-the-board cuts during execution;
• Existing policy itself (as opposed to its funding) subject to very little scrutiny from one year to the next. (This and previous point epitomize the worst dimension of incremental budgeting);
• Poor linkages between policy and resources at the centre, between the center and line agencies, and within line agencies because of incremental budgeting;
• A lack of clarity as to purpose and task and therefore poor information on the performance of policies, programmes and services, and their cost because of poor linkages;
• The linking together (in association with the point above) within government departments of policy advising, regulation, service delivery and funding and an aversion to user charging.
Overall, few incentives to improve the performance of resources provided.
• Weak parliamentary control over finances, as the accountability is number driven. Therefore, the ruling party, having the majority in Lok Sabha, has its say in budget making.
• The goals in the budget are very difficult to quantify and measure. As a result, the accountability of the executive to the legislature remains weak.

3.2. Weaknesses in the Indian Budgetary System and Implementation
• Unrealistic budget estimates
• Delay in implementation of projects
• Skewed expenditure pattern with a major portion getting spent in the last quarter of the financial year, especially in the last month.
• Inadequate adherence to the multi-year perspective and missing ‘line of sight’ between plan and budget
• No correlation between expenditure and actual implementation
• Ad hoc project announcements
• Emphasis on compliance with procedures rather than on outcomes.

4. Budgetary Reforms
Attempts are continuously being made to overcome as many of the shortcomings as possible. A good example is the trend in OECD countries. The common elements of the budgetary reforms in OECD member countries are:

4.1. Medium Term Budget Frameworks
Medium-term budget frameworks form the basis for achieving fiscal consolidation. They need to clearly state the government’s medium term fiscal objectives in terms of high-level targets such as the level of aggregate revenue, expenditure, deficit/surplus, and debt. They then need to operationalize these high-level targets by establishing hard budget constraints for individual ministries and programmes over a number of years.
4.2. Prudent Economic Assumptions

Deviations from the forecast of the key economic assumption underlying the budget are the government’s key fiscal risk. There is no single factor more responsible for “derailing” fiscal consolidation programmes than the use of incorrect economic assumptions. Great care must be taken in making them and all key economic assumptions should be disclosed explicitly. The establishment of an independent body to recommend the economic assumptions to be used in the budget may be considered as well. All this serves to place safeguards against the use of unrealistic, or “optimistic,” economic assumptions.

4.3. Top-Down Budgeting Techniques

Budgeting has traditionally operated on a bottom-up principle. This means that all agencies and all ministries send requests for funding to the finance ministry. These requests greatly exceed what they realistically believe they will get. Budgeting then consists of the Finance Ministry negotiating with these ministries and agencies until some common point is found. This bottom-up system has several disadvantages to it.

First, it is very time consuming and it is essentially a game; all participants know that the initial requests are not realistic. Second, this process has an inherent bias for increasing expenditures; all new programmes, or expansion of existing programs, are financed by new requests; there was no system for reallocation within spending ministries and there were no pre-set spending limits. Third, it was difficult to reflect political priorities in this system as it was a bottom-up exercise with the budget “emerging” at the end of this process. This manner of budgeting is now being abandoned and replaced with a new top-down approach to budget formulation. This has been of great assistance in achieving fiscal consolidation.

The starting point for the new system is for the government to make a binding political decision as to the total level of expenditures and to divide them among individual spending ministries. This decision is made possible by the medium-term expenditure frameworks which contain baseline expenditure information, i.e. what the budget would look like if no new policy decisions were made. The political decision is whether to increase expenditures for a high-priority area, for example education, and to reduce expenditures, for example defence programs. Only the largest and most significant programmes reach this level of political reallocation. The key point is that each ministry has a pre-set limit on how much it can spend.

4.4. Relaxing Central Input Controls

This is based on the simple premise that the heads of individual agencies are in the best position to choose the most efficient mix of inputs to carry out the agency’s activities. The end-result is that an agency can produce the same services at less cost, or more services at the same cost. This greatly facilitates fiscal consolidation strategies by mitigating their effects on services.

Relaxing central input controls operates at three levels. First, the consolidation of various budget lines into a single appropriation for all operating costs (salaries, travel, supplies, etc.). Second, the decentralization of the personnel management function. Third, the decentralization of other common service provisions, notably accommodations (buildings). This can be seen as the public sector’s version of “deregulation.”

4.5. An Increased Focus on Results

An increased focus on results is a direct quid pro quo for relaxing input controls as described above. Accountability in the public sector has traditionally been based on compliance with rules and procedures. It didn’t matter what you did as long as you observed the rules. Now, when the public sector is deregulated, a new results-based system is needed to hold managers accountable. This is a fundamental change: holding managers accountable for what they do, not how they do it.
4.6. Budget Transparency

The budget is the principal policy document of government, where the government’s policy objectives are reconciled and implemented in concrete terms. Budget transparency – openness about policy intentions, formulation and implementation – is therefore at the core of good governance agenda. The extent to which budget achieves any or all of its purposes is dependent on its transparency. If we take a look at fiscal transparency in concrete terms, we can say that it has three essential elements:

- The first is the release of budget data. The systematic and timely release of all relevant fiscal information provided for analysis and conclusions by decision makers is what we typically associate with budget transparency. It is an absolute pre-requisite, but it is not enough.
- The second element is an effective role for the legislature. It must be able to scrutinize the budget reports and independently review them. It must be able to debate and influence budget policy and be in a position to effectively hold the government to account. This is both in terms of the constitutional role of the legislature and the level of resources that the legislature has at its disposal.
- The third element is an effective role for civil society, through the media and nongovernmental organisations. Citizens, directly or through these vehicles, must be in a position to influence budget policy and must be in a position to hold the government to account. In many ways, it is a similar role to that of the legislature albeit only indirectly.

4.7. Modern Financial Management Practices

The modernisation of financial management within governments made great advances during the past ten years. The sheer scale of government means that such improvements had a material effect on fiscal outcomes. These include the introduction of accruals, capital charges, carry-overs of unused appropriations, and interest-bearing accounts.

The Fiscal Responsibility and Budget Management Act (FRBMA) 2003 has been enacted by the Parliament to institutionalize fiscal discipline at both the centre and state level by setting targets including reduction of fiscal deficits and elimination of revenue deficit. It is a legal step to ensure fiscal discipline and fiscal consolidation in India.

(Kindly refer the document of Fiscal Policy for more details on FRBMA.)

5. Recent Changes in Union Budgeting

5.1. Rationalization of Centrally Sponsored Schemes (CSS) and expenditure Thereon

Budget 2016-17 introduced a new classification system for the Centre’s spending, based on the categorization of CSS, pruning the existing 66 CSSs to 28, and then further divided them into three categories—six ‘core of the core’ schemes, 20 core schemes, and two optional schemes. The classification is discussed as under:

1. **Core of the Core**: Those schemes which are for social protection and social inclusion should form the core of core and be the first charge on available funds for the National Development Agenda. Under the new classification, six schemes are classified as Core of the Core, including MGNREGA and all the umbrella schemes for the upliftment of minorities, Scheduled Castes, and Scheduled Tribes.

   As per the new system, the Core of the Core schemes are of highest priority, and thereby will retain their expenditure allocation framework. For example, MGNREGA had 75 per cent of the material expenditure from the Centre and 25 per cent from the states.
2. **Core**: Focus of CSSs should be on schemes that comprise the National Development Agenda where the Centre and States will work together in the spirit of Team India. The Core schemes, 20 in number, include schemes as far-ranging as the Krishi Unnati Yojana, the Smart Cities programme, and the modernisation of the police force. These are second in priority and will have a 60:40 formula of expenditure.

3. **Optional Schemes**: It includes all those schemes, presently two in number, which a particular state feels necessary considering its level of socio-economic development. These will have a 50:50 formula, with the states having the flexibility to decide whether to invest in these or not.

This system was put in place on the recommendations of a sub-committee of Chief Ministers formed by Niti Aayog for the rationalisation of the CSS.

**5.2. Scrapping of Plan and Non-Plan Classification**

The previously exiting Plan and non-plan classification of expenditure has been done away with from FY 2017-2018 and their place has been now taken by capital and revenue spending classifications. In 2011, an experts’ committee headed by C. Rangarajan had proposed that this distinction should be abolished.

Under the previous classification, all expenditures which were done in the name of planning were called plan expenditures while all other expenditures were placed under non-plan expenditures. Further, generally (not always), the plan expenditure produced some tangible assets related to economic development. This was the reason that plan expenditures were also called “development expenditures”.

**Rationale behind this move**

1. This move is in line with the scrapping of Planning Commission and thereby development based on hitherto existing planning.
2. This classification has led to an increasing tendency to start new schemes/projects neglecting maintenance of existing capacity and service levels.
3. It has also led to the misperception that non-plan expenditure is inherently wasteful, adversely affecting resource allocation to social sectors like education and health where salary comprises an important element.
4. It prevented any meaningful ‘outcome based budgeting’ because only plan expenditure is considered for looking at outcomes while practice should be to look at total expenditure.
5. Growing complexity in nature of government and expenditure on varied heads ensure that segregating a head under plan or non-plan items is not done on rational grounds and hence the distinction is not logical.
6. The distinction meant that infrastructure like schools come under planned expenditure while expenditure on teachers come under non-planned expenditure likewise hospitals under planned and salaries etc. of doctors under non-planned. This mismatch leads to mismanagement and ineffective resource utilization.

**5.3. Merging of Railway and General Budget**

The 92 years old practice of presenting separate budgets- Railway Budget and General Budget has been abolished. It was recommended by Bibek Debroy Committee on restructuring and reforming railways. This move is being lauded for it will be beneficial for the economy at large and there will be positive influence in the development in railways.

**Rationale for introducing separate budgets in 1921**

The separation was introduced in 1921 based on the recommendation of Acworth Committee report. The reason was that a larger part of the country’s GDP depended on railway revenue, therefore, railway demanded separate budgetary focus. Independent India also continued this practice and over the period of time it became accepted practice with following advantages:
1. **Accountability**: Separate budget used to give sufficient media attention to the budgetary proposals, thereby enforcing accountability of the government.

2. **Public transport**: Railways has been the public transportation system, therefore it was desirable that railways should be given special attention by separate budget.

3. **Autonomy**: It was expected that separate budgetary process would ensure requisite autonomy to the railways to function as independent commercial entity.

However, over a period of time, the railway budget became a tool for populism and led to populist waste and inefficiency. Hence, there was a strong demand for corporatization of the Railways. Not having a separate budget for it prepares the ground for such a change.

### Rationale for Merger

1. During the British rule Railways took up to 85% of the yearly budget while now it has gone down to about 15% only.

2. Now that the Railway Budget will be introduced along with the Union Budget, there will be less wastage of time when a new policy is to be initiated and implemented.

3. Separate Railway Budget became a tool for corruption, inefficiency, and populist measures. As a result, the successive Railway Minister used to find it hard to increase fairs in line with the increasing operational costs. This was the primary reason for cross subsidization (where the passenger traffic is subsidized by the freight traffic).

4. The Railways would not need to pay Rs 10,000 crore annual dividend to the union government. This annual dividend can now be used for development of Indian Railways.

5. Synergetic transportation policies would henceforth be possible because the Finance Ministry would be responsible for allocation of resources to all kinds of transportation system.

### Apprehensions against this move

1. The resource allocation to Railways would henceforth be dependent on Finance Ministry. Therefore, there may be rise or fall in resource allocation to Railways depending on the size of the budget. This may hamper the independent development of Railways.

2. Merger may result in reduced accountability, as the media attention given to separate budget would no longer be there. This would make easy for the government to sweep the losses in railways under the carpet.

3. Some experts feel that merger would throw railways open to privatization and crony capitalism.

There have been mismanagement of the highest order in Indian railways and if there are chances of seeing it improve, merging it with the Union budget is just the solution that could help. The falling revenue and more projects for new trains and stoppages have been a difficult project for the railway ministry which took the right step by merging the two budgets.

### 5.4. Budget Advancement

The Budget was present 27 days before the earlier practice of presenting the budget on last day of February. The objective behind this move is to have the Budget constitutionally approved by Parliament and assented to by the President, and all allocations at different tiers disseminated to budget-holders, before the financial year begins on April 1.

### Rationale of this move

1. The Finance Bill, incorporating the budget proposals, could be passed well before the starting of fiscal year. Therefore, the government departments, agencies would know their allocation right from April 1, the onset of financial year.

2. It would also help the private sector to anticipate government procurement trends and evolve their business plans.
3. In the earlier scheme of things, the Lok Sabha passed Vote on Account for April-June quarter, under which departments are provided with a sixth of their total allocation for the year. Advancing the budget enables the government to do away with this practice.

4. The investment in infrastructural projects largely takes place in later part of the year, because budget gets passed only by June, but by then monsoon sets in making it difficult to start infrastructural project. As a result, the effective investment period is quite short, thereby ending in ‘March Rush’. This causes inefficiency in resource utilization and delays in project implementation.

**Apprehensions against this move**

1. One big disadvantage of advancing the Budget was lack of comprehensive revenue and expenditure data. Previously, work on the Budget began in earnest by December. By the time it was finalized in mid-February, data on revenue collections and expenditure trends was available for the first nine months of the financial year, i.e. April-December, based on which, projections for the full year would be made.

2. Advancing the Budget dates is fraught with practical difficulties. Effective Budget planning also depends on the monsoon forecasts for the coming year, making advancing the whole exercise even more difficult.

Despite the apprehensions, all the above discussed budget reforms are a welcome move, but these reforms have to go further, as has been suggested by C. Rangarajan Committee in 2011.

**6. Evolution of Budgeting**

When governments had to prove to their tax-payers that they could be trusted with their money, the budget emphasized controlling costs, accounting for finances, and improving efficiency. Later, during the depression, people wanted the government to proactively solve problems for which the private sector was largely blamed, the effectiveness of public programs came into greater budgetary focus. In recent years, both of these missions have been reflected in the budgets.

**6.1. The Line Item Budget**

- In the early nineteenth century, government budgeting in most countries was characterized by weak accounting procedures, adhocism, little central control and poor monitoring and evaluation.

- In the late nineteenth century, line-item budgeting was introduced in some countries. The line item budget is defined as “the budget in which the individual financial statement items are grouped by cost centers or departments. It shows the comparison between the financial data for the past accounting or budgeting periods and estimated figures for the current or a future period”

- In a line-item system, expenditures for the budgeted period are listed according to objects of expenditure, or “line-items.” These line items include detailed ceilings on the amount a unit would spend on salaries, travelling allowances, office expenses, etc. The focus is on ensuring that the agencies or units do not exceed the ceilings prescribed which is monitored by a central authority or the Ministry of Finance

**Advantages**

- The line item budget approach is easy to understand and implement.

- It also facilitates centralized control and fixing of authority and responsibility of the spending units.

**Disadvantages**

- Its major disadvantage is that it does not provide enough information to the top levels about the activities and achievements of individual units.
The weaknesses of the line item budgeting were sought to be remedied by introducing certain reforms. Performance budgeting was the first such reform.

### 6.2. Performance Budgeting

Unlike the traditional line item budget, a performance budget reflects the goal/objectives of the organization and spells out performance targets. These targets are sought to be achieved through a strategy. Unit costs are associated with the strategy and allocations are accordingly made for achievement of the objectives. A Performance Budget gives an indication of how the funds spent are expected to generate outputs. However, performance budgeting has a limitation - it is not easy to arrive at standard unit costs especially in social programmes, which require a multi-pronged approach.

### 6.3. Outcome Budgeting

It is a budgeting scheme that gives project-wise outlays for all central ministries, departments and organisations listed against corresponding outcomes (measurable physical targets) to be achieved during the year. It measures the development outcomes of all government programmes.

Outcome based performance budgeting symbolizes a shift from traditional budgeting in the sense that it goes beyond budgeting by inputs (how much can we spend) towards budgeting by measurable outcomes (what can we achieve with what we spend). It is expected to sharpen the budgetary projections by listing the projected outcomes under various schemes.

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**Outcome Budgeting**

Outcome Budget is basically a report card that keeps a track of the progress of various schemes that are announced in the Union Budget and the expenditure incurred in the process. It is considered to be a measurement tool that helps the government in implementing the budget schemes more effectively, keeping the expenditure in check. It also analyses the performance of various ministries and departments in regard to the budget functioning. A sample of outcome budget can be seen in the picture.

**Output - Outcome Framework for Schemes 2017-18 Demand No. 5: Ministry of AYUSH**

<table>
<thead>
<tr>
<th>S No</th>
<th>Name of the Scheme/Sub-Scheme</th>
<th>Financial Outlay 2017-18</th>
<th>Output/Deliverables against the Outlay 2017-18</th>
<th>Projected Medium Term Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Centrally Sponsored Schemes</td>
<td></td>
<td></td>
<td>Increase the availability of cost effective AYUSH services with universal access by co-location. Ensure the availability of free essential AYUSH drugs in AYUSH hospitals and dispensaries.</td>
</tr>
<tr>
<td>1</td>
<td>National AYUSH Mission</td>
<td>440.00</td>
<td>Augmentation of AYUSH Services delivery at 1250 State AYUSH units</td>
<td>Augmentation of AYUSH Services delivery at 1250 State AYUSH units</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Increase co-location of AYUSH in 250 additional units</td>
<td>Increase co-location of AYUSH in 250 additional units</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Augmentation of AYUSH Service delivery at 450 units for Supply of all Essential drugs</td>
<td>Augmentation of AYUSH Service delivery at 450 units for Supply of all Essential drugs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Augmentation of AYUSH Services delivery at 750 AYUSH units for up-gradation of AYUSH Hospitals &amp; Dispensaries</td>
<td>Augmentation of AYUSH Services delivery at 750 AYUSH units for up-gradation of AYUSH Hospitals &amp; Dispensaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Increase in 225 additional AYUSH units by upgrading AYUSH Hospitals &amp; Dispensaries</td>
<td>Increase in 225 additional AYUSH units by upgrading AYUSH Hospitals &amp; Dispensaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Augmentation of AYUSH Services delivery at 35 AYUSH units of up to 50 bed integrated AYUSH Hospitals</td>
<td>Augmentation of AYUSH Services delivery at 35 AYUSH units of up to 50 bed integrated AYUSH Hospitals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Increase in 26 additional AYUSH units for setting up of up to 50 bed integrated AYUSH Hospitals</td>
<td>Increase in 26 additional AYUSH units for setting up of up to 50 bed integrated AYUSH Hospitals</td>
</tr>
<tr>
<td>B</td>
<td>Central Sector Scheme</td>
<td></td>
<td></td>
<td>Addition of 3 specialty OPDs for better healthcare; Increase in 84 seats of PG (MD/MS) per year</td>
</tr>
<tr>
<td>2</td>
<td>All India Institute of Ayurveda (AIA), New Delhi</td>
<td>2400</td>
<td>Add five more specialty OPDs</td>
<td>Increase the availability of AYUSH services with universal access by co-location. Ensure the availability of free essential AYUSH drugs in AYUSH hospitals and dispensaries.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Admission of 2nd Batch of PG (MD/MS) for 84 seats</td>
<td>Increase the availability of AYUSH services with universal access by co-location. Ensure the availability of free essential AYUSH drugs in AYUSH hospitals and dispensaries.</td>
</tr>
<tr>
<td>3</td>
<td>Research Councils - Integration of AYUSH with National Programme for Prevention and Control of Cancer, Diabetes, Cardiovascular diseases and Stroke (NPCIOS) Programme by three Councils – CCRAS, CCRH andCCRUM</td>
<td>4100</td>
<td>Area of Coverage: 6 Districts (3×2=6) in 6 States (5×2=10)</td>
<td>Area of Coverage: 6 Districts (3×2=6) in 6 States (5×2=10)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Participating sites: (Distt. Hosp./CHCs/CHNCs/PHCs) 90 (5×18=135)</td>
<td>Participating sites: (Distt. Hosp./CHCs/CHNCs/PHCs) 90 (5×18=135)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Diseases covered: 5 (Cancer, Diabetes, Hypertension, Dyslipidemia &amp; Hemiplegia)</td>
<td>Increase the availability of AYUSH resources &amp; doctors in treatment of NCDs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Population covered/Beneficiaries of Health services: Approx. 97 Lakhs (25×648)</td>
<td>Increase the availability of AYUSH resources &amp; doctors in treatment of NCDs</td>
</tr>
</tbody>
</table>
The outcomes are expected results not only in terms of monetary units or physical infrastructure but also in terms of qualitative targets and achievements. The first step is defining the desired outcomes (mostly long term) for the concerned ministry, department or function. This is followed by the process of identifying the interventions required for achieving target outcomes. Finally, the expenditure required for implementing the identified interventions is estimated, which forms a line item in the budget for that particular year.

Background
Since 1968, Government departments had been preparing performance budgets trying to link financial aspects to physical results. However, this remained a supplementary device without any perceptible impact on resource allocation. Later, a revised version of Outcome Budget was introduced in India in 2005-06, for the first time, as the focus needed to be shifted from outcomes towards outlays. However, limited progress has been made in this area since then. India today follows a performance budgeting framework which tracks outcomes at the level of individual programmes. It misses the link to overall development indicators for that sector.

Significance of Outcome Budgeting

- **Accountability of the Executives**: The information on services to be provided to the people and the linking of funds to the results is a powerful innovation that defines accountability of the executive. It arms citizens with data to hold governments accountable, and in turn empowers the governments to better orient the bureaucracy towards results.
- **Outcome based information**: The performance-oriented budgets provide information on the use of public resources, as against the conventional budgeting practice of highlighting only allocations under different programmes. An outcomes-based approach shifts the perspective to the short and long-term outcomes of governance.

Challenges to Outcome Budgeting

The outcome budget is yet to emerge as a robust fiscal instrument to influence the decisions over public finances and provide a framework to judge the performance of the government.

- **Incompatible administrative structure**: Much of the development interventions in India are routed through the state governments. But key line departments in most states are yet to adopt planning and service delivery processes which are oriented around outcomes.
- **Lack of debate**: Outcome budgets are separately placed by the departments later in the Budget session. They do not receive the needed debate and scrutiny and thus remain unseen in the public arena.
- **Lack of Knowledge**: There also exists limited knowledge and understanding on the linkage between specific Government interventions and the outcomes they are likely to impact. This makes the whole exercise of OB futile in the long run.
- **Underdeveloped Components**: The building blocks of the outcome budget — measurement of performance indicators, specification of standards, costing of programmes, and a monitoring and evaluation system — are still evolving in India.
- **Lack of clarity about the link between two kinds of budgeting**: Performance information contained in the individual outcome budgets should play an active role in programme formulation and resource allocation. However, due to the separate presentation of the two types of budgets there is no clarity on the same.

Way Forward

- India needs effective programmes to eradicate poverty and to meet the needs of primary health and education. Resources committed without precise outcomes, and without accountability might get deflected and wasted.
- The outcome budget in India provides an opportunity, which needs to be strengthened and taken forward. The important factors in this context are the ability to prepare measures...
under different government programmes to evaluate results, and utilise this performance information in shaping the Budget decisions, both in programme formulation and resource allocation

6.4. Gender Budgeting

Gender budgeting is a strategy for ensuring gender sensitive resource allocation and a tool for engendering macro-economic policy, not a separate budget for women.

Requirement of Gender Budgeting

- To ensure men’s and women’s needs and priorities are considered equally.
- To encourage the incorporation of gender analysis in preparation, implementation, audit and evaluation of government budgets at all the levels and evaluating the impact of the budget on the gender equality objective.
- To enhance the linkages between economic and social policy outcomes.

The Framework adopted for gender analysis of expenditures is often broken down in three categories:

- **Gender-specific allocations** are allocations specifically targeting women and girls or men and boys. For example, school bursaries for girls or domestic violence counselling for men. Many governments have allocated special funds for women’s programmes and it is important to analyse their impact on women’s lives and ensure that such programmes give value for money.

- **Mainstream allocations** need to be examined for their gendered impacts. Most expenditures fall in this category and the real challenge of gender analysis of budgets is to examine whether such allocations address the needs of women and men, girls and boys of different social and economic backgrounds equitably.

- **Equal opportunity employment allocations** are allocations intended to promote gender equality in the public service. For example, day-care facilities for employees’ children, paid parental leave, or special training for women middle-level managers.

Evolution of Gender Budgeting in India

In 2001, the Finance Minister of India made a special reference to gender budgeting in his Budget speech. In 2003, the Cabinet Secretary Government of India, recommended the suggestion that Ministries/Departments should have a chapter on Gender issues in their Annual Reports. Since 2005-06, the Expenditure Division of the Ministry of Finance has been issuing a note on Gender Budgeting as a part of the Budget Circular every year. In 2007, the scheme on Gender Budgeting with a view to building capacity and encouraging research was introduced. Its purpose was that a gender perspective was retained at all levels of the planning.

Current Status of Gender Budgeting in India

- **Union Government- Gender Budgeting Cell** (GBCs) have been constituted to serve as focal points for coordinating gender budgeting initiatives within their Ministries and across Departments. So far 56 Ministries/Department have confirmed setting up of a cell/nominating a nodal person.

- **State Governments**- Many State Governments like Rajasthan, Gujarat, Madhya Pradesh, Karnataka, Orissa, Kerala, Assam, Bihar, Chhattisgarh, Tripura, Nagaland, Uttar Pradesh and Uttarakhand have adopted Gender Budgeting.

- **Capacity Building**- The Ministry of Women and Child Development (MWCD) has been engaged in conducting a number of trainings, workshops, one to one interactions/discussions and development of resource material.

- **Resource Material Development**- MWCD, in collaboration with UN Women, has also developed a Manual and Handbook for Gender Budgeting for Gender Budget Cells for Central Ministries and Departments.
In the recent Budget 2020-21, the finance minister while re-iterating the slogan of, ‘Naari tu Narayani’, called for need for their socio-economic growth on all levels. A shift from women centric policy making to a women led policy making, a committee has been proposed with Government and private stakeholder for moving forward on Gender Budgeting.

**Challenges in Gender Budgeting**

Various challenges remain in implementing gender budgeting and accepting the analysis generated by these processes:

- **Collection of sex-disaggregated data**: There is some sex-disaggregated data available but there is a need to generate more information in order to shed more light on the differences between women and men, girls and boys, particularly in access to resources, opportunities and security without which it is not possible to integrate a gender perspective in the budget process.
- **Limited evidence connecting analysis with policy & budget changes** as most of the gender budgeting initiatives worldwide are at the stage of analysis.
- **Limitation of parliamentary intervention**: Legislatures, in partnership with gender experts and civil society groups, have sometimes played an important advocacy role in various countries but the role of legislatures in the budget process is often confined to budgetary approval and oversight and not involved in formulation and execution.
- **Political will to institutionalise gender budgeting**: Gender budgeting requires political will, adequate resources and capacity to support a process of transforming the traditional budget-making and policy processes by removing long-standing, in-built biases which disadvantage women and girls.

However, more efforts are required in this regard to achieve the objectives of gender budgeting:

- Create a **ranking for state level gender budgeting** to incentivise the states in taking further steps to improve the efficacy of these measures.
- The **capacity building and technical support** should be provided to state level Gender Budgeting Cells.
- **Gender audits** of centrally sponsored schemes and flagship programs should be undertaken to measure impacts. This also necessitates increased efforts for the collection of gender disaggregated data at national, state and district levels.
- **Segregation of the provisions for women in the composite programmes under education, health and rural development sectors** which target girls/women as the principal beneficiaries so that restrictions could be placed on reappropriation for other purposes.
- **Deviation between budgetary allocation and actual spending** needs to be addressed through proper monitoring of outcome.

Given the significant gender gap in the country, there is a strong need to prioritise policies to reduce bias against women. Further, intersectional policy research should be undertaken to aid evidence-based gender policy formulation for it to curb gender inequalities and contribute to overall development.

**6.5. Participatory Budgeting**

According to the International Budget Project, participatory budgeting is the process by which **citizens deliberate and negotiate over the distribution of public resources** for the final budget. It contrasts with standard public budget-making, in which bureaucrats or elected politicians decide the allocation of public resources.

It addresses two distinct but interconnected needs: **improving state performance and enhancing the quality of democracy**. Participatory budgeting programs also serve as “citizenship schools,” as engagement empowers citizens to better understand their rights and duties as citizens as well as the responsibilities of government.
Participatory budgeting is highly adaptable. But following factors need to be kept in mind for better adoption of the idea of participatory budgeting programs:

- a civil society willing and able to contribute to ongoing policy debates
- a generally supportive political environment that insulates participatory budgeting from legislators’ attacks and
- financial resources to fund the projects selected by citizens.

Significance of participatory budgeting for India:

- The process of participatory budgeting empowers citizens and enables inclusive policy formulation and budgetary allocation as marginalized section of the society will also have a say in the process.
- It can lead to greater accountability and transparency as citizens leave the process with more knowledge and experience in governing and holding officials accountable.
- It has the capacity to address the basic needs of people like access to water for households, electricity, education, health more adequately.
- It gives citizens the opportunity to learn about government practices and to come together to deliberate, discuss, and substantively affect budget allocations.
- As highlighted by World Bank, it has the potential to limit government inefficiency and curb clientelism, patronage, and corruption.

Challenges in mainstreaming of participatory budgeting in India:
- **Lack of education and awareness** among the people especially about various concepts of budget and key terminology is hampering their effective participation.
- **Infrastructural difficulties** like digital divide may seclude some regions and sections of the society from taking participation.
- **Lower tax base and lower source of revenue** may become a problem as demand of general public may not be fulfilled making the budgeting more or less discretionary process of government.
- **Lack of Capacity:** Many public institutions lack resources and capacity to engage citizens.
- **Fear of Failure:** The participatory nature itself makes it vulnerable to criticism due to diversity of opinions and unnecessary delays in budgetary process.

However, in this context, India can look into Brazilian experience of participatory budgeting and look forward to implementing the process and deal with the challenges by providing a robust participatory platform. It has enhanced the quality of democracy in Brazil, improving governance and empowering citizens.

These challenges underscore the necessity of tapping into existing civic networks to organize and mobilize. As a result, NGOs like DISHA Foundation should be encouraged more as they are working on budget analysis with perspective of marginalized section of people. Further, awareness creation and knowledge about budget needs to reach hinterland regions as well.

### 6.6. Zero-based Budgeting

The concept of zero-based budgeting (ZBB) was introduced in the 1970s. As the name suggests, every budgeting cycle starts from scratch. Unlike the earlier systems where only incremental changes were made in the allocation, under zero-based budgeting every activity is evaluated each time a budget is made and only if it is established that the activity is necessary, are funds allocated to it. The basic purpose of ZBB is phasing out of programmes/activities, which do not have relevance anymore. However, because of the efforts involved in preparing a zero-based budget and institutional resistance related to personnel issues, no government ever implemented a full zero-based budget, but in modified forms the basic principles of ZBB are often used.

### 6.7. E-Budgeting

E-budgeting may be defined as electronic or enterprise-wide budgeting. It presents a strategic advantage with help of the capability of internet to let various establishments execute an enterprise wide budgeting system, which can be reached from any location.

**Advantages**
- Extremely efficient as it brings efficiency with supervision and control and elimination of cumbersome accounting tasks
- convenient and adaptable as the technology is being used for anywhere and anytime budgeting.
- enables planning to keep pace with e-business
• ability to collaborate with managers, administrators, ministers in the same platform
• worldwide communication and collaboration
• easy assessment through automatization of calculations and other processes

E-budgeting is rapidly becoming the norm all over the world due to its ability to allocate resources efficiently and assisting governments in competing successfully in an ever changing economic environment

7. Key Highlights from the Union Budget 2020-21

The Union Budget 2020-21 with the central tenet of “Ease of Living” for all citizens, is woven around three prominent themes:

• **Aspirational India**: All sections of the society to have better standards of living, with access to health, education, and better jobs.
• **Economic Development for all**: This would entail economic reforms, yielding more space for the private sector to ensure higher productivity and greater efficiency.
• **A Caring Society**: based on Antyodaya, which is both humane and compassionate.

These three broad themes are held together by a corruption free, policy-driven good governance and a clean and sound financial sector.

I. Aspirational India -

1. **Agriculture, Irrigation, and Rural Development**: 16-action points which cover almost all aspects of the agriculture and allied activities sector and address supply bottlenecks. This includes focus on Blue Economy, Jaivik Kheti Portal, Zero-Budget Natural Farming, Deen Dayal Antyodaya Yojana, along with
   a. **Kisan Rail, Krishi Udaan** for a seamless national cold supply chain for perishables,
   b. **OneProduct One-District** for better marketing and export in the Horticulture sector,
   c. **PM-KUSUM** for 20 lakh farmers for setting up standalone solar pumps, another 15 lakhs for grid-connected pump sets,
   d. **Village storage Scheme** to be run by the SHGs to provide farmers a good holding capacity and to reduce logistics cost.

2. **Wellness, Water and Sanitation**: More than 20,000 empanelled hospitals under PM Jan Arogya Yojana, FIT India movement launched to fight NCDs, “TB Harega Desh Jeetega” campaign launched to end TB by 2025, viability gap funding proposed for setting up hospitals in the PPP mode, Expansion of Jan Aushadhi Kendra Scheme to all districts by 2024, ODF Plus to sustain ODF behaviour, liquid and grey water management along with waste management.

3. **Education and Skills**: About 150 higher educational institutions will start apprenticeship embedded courses, enabling sourcing of ECBs and FDIs for education, special bridge courses to improve skill sets of those seeking employment abroad.

II. Economic Development for all -

1. **Industry, Commerce, and Investment**:
   a. Focus on encouraging manufacturing of mobile phones, electronic equipment, and semiconductor packaging,
   b. **National Technical Textiles Mission** to be implemented from 2020-21 to 2023-24,
c. **Investment Clearance Cell** to be set up to provide “end to end” facilitation,
d. Extension of invoice financing to **MSMEs** through **TReDs**.

2. **Infrastructure**: **National Logistics Policy** and single window e-logistics market, 6500 projects under **National Infrastructure Pipeline** including housing, safe drinking water, and healthcare, smart cities developed in PPP mode, expanding **National Gas Grid**, corporatizing at least one major port.

III. Caring Society -
2. **Culture and Tourism**: Indian Institute of Heritage and Conservation proposed, selected archaeological sites to be developed as iconic sites, development of Maritime and Numismatics and Trade museums.
3. **Environment and Climate Change**: Enactment of Coalition for Disaster Resilient Infrastructure and plans for pollution redressal.

This budget has been presented in the backdrop of two cross-cutting developments namely, proliferation of technologies like Machine Learning, Robotics, AI, Bioinformatics, etc., and India’s demographic dividend. It is a step forward towards meeting the aspirations of New India, however one of the most critical parts will be the implementation of the measures to support growth along with proper fiscal consolidation.

8. Previous Years UPSC Mains Questions
1. One of the intended objectives of Union Budget 2017-18 is to ‘transform, energize and clean India’. Analyse the measures proposed in the Budget 2017-18 to achieve the objective.
2. Women empowerment in India needs gender budgeting. What are the requirements and status of gender budgeting in the Indian context?
3. In what way could replacement of price subsidy with Direct Benefit Transfer (DBT) change the scenario of subsidies in India? Discuss.
4. What are the reasons for introduction of Fiscal responsibility and Budget Management (FRBM) act, 2003? Discuss critically its salient features and their effectiveness.
5. What is meaning of the term ‘tax-expenditure’? Taking housing sector as an example, discuss how it influences budgetary policies of the government.
6. Discussion the rationale for introducing Good and services tax in India. Bring out critically the reasons for delay in roll out for its regime.

7. Comment on the important changes introduced in respect of the Long-term Capital Gains Tax (LCGT) and Dividend Distribution Tax (DDT) in the Union Budget for 2018-2019.

9. Vision IAS GS Mains Test Series Questions

1. **Explain, in brief, the various components of budget receipts and expenditure.**

**Approach:**
- Introduce with the definition of budget and its constitutional provisions in India.
- Elaborate the different components of budget receipts as well as budget expenditure.
- Write brief conclusion.

**Answer:**

A government budget is an annual financial statement showing item wise estimates of expected revenue and anticipated expenditure during a fiscal year. There is a constitutional requirement in India U/A 112 to present before the Parliament an ‘Annual Financial Statement’, which constitutes the main budget document of the government.

Various components of a government Budget is shown below:

**Components of Budget Receipts**

1. **Revenue Receipts:** Revenue receipts are those receipts that neither create asset nor reduce any liability on the government. They are divided into tax and non-tax revenues.
   - **Tax revenues** includes receipts in the form of direct taxes such as personal income tax, corporation tax, wealth tax, gift tax etc. and indirect taxes such as GST, custom duties (taxes imposed on goods imported into and exported out of India).
   - **Non-tax revenue** of the central government mainly consists of interest receipts on account of loans by the central government, dividends and profits on investments made by the government, fees and other receipts for services
rendered by the government. Cash grants-in-aid from foreign countries and international organisations are also included.

2. **Capital Receipts**: All those receipts of the government which create liability or reduce financial assets are termed as capital receipts. These include recovery of loans, disinvestment, borrowings etc. These receipts can be debt creating or non-debt creating.

**Components of Budget Expenditure**

1. **Revenue Expenditure**: It is expenditure incurred for purposes other than the creation of physical or financial assets of the central government. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to state governments and other parties (even though some of the grants may be meant for creation of assets).

2. **Capital Expenditure**: There are expenditures of the government which result in creation of physical or financial assets or reduction in financial liabilities. This includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the central government to state and union territory governments, PSUs and other parties.

In 2017-18, the Union government has done away with the division of expenditure in Indian budget into plan and non-plan. Also, Rail Budget was merged with the Union Budget from budget year 2017-18.

2. "Good economics and bad politics cannot coexist in a sound budgetary process" Discuss.

**Approach:**

The question needs to cover the following issues:

- The importance of a sound budgetary process in a developing country like India
- First define briefly what you mean by ‘Good Economics’ and ‘bad politics’
  - Does demand politics play a role in the government budgeting process?
- Conclusion, on a positive note, with suggestions for reforms

**Answer:**

The government budgeting process, in most countries of the world, is influenced by the exigencies of popular politics. However, the extent to which political exigencies and economic decision-making are interlinked differ from one country to another. In a country like ours, where the Indian State is envisaged as a developmentalist State, politics and economics are intricately intertwined. Our demand politics is oriented towards short term goals, competitive processes for determining policies, public interest and the provision of private goods. It is constrained and directed by the imperatives of electoral victory and pluralist and class bargaining. This is essentially ‘bad politics’.

A sound budgetary process, on the other hand, requires resources allocation, efficiency, achieving macroeconomic objectives like employment, sustained economic growth, and price level stability, capital formation, controlling deficits, curtailing wasteful expenditure, efficient management of BoP etc. This is essentially ‘Good Economics’.

A necessary condition to achieve these economic goals is the state’s ability to free itself through leadership or repression from the constraints of societal demand. It requires sacrificing short run for long run benefits, while demand politics do the reverse. The
preference of political leaders and bureaucrats largely determine budgetary decisions and policy choice in our country. They favour, repress, license, or co-opt economic classes, organized interests, and elites. Thus we can say, in Indian scenario, that ‘good economics’ and ‘bad politics’ are not compatible in a sound budgetary process. For instance, ‘good economics’ says that fuel subsidies should be removed as they are harmful for financial health of nation. But due to ‘bad politics’ these subsidies are still continuing to some extent.

However seeing ‘bad politics’ as populist measures – they need not be always incompatible with the ‘good economics’. Adopting budgetary reforms like adopting medium-term budget frameworks, prudent economic assumptions, top-down budgeting techniques, relaxing central input controls, focussing on results, budget transparency and modern financial management practices, along with performance budgeting, outcome budgeting and zero budgeting can bring an end to the contradiction between bad politics and good economics.

3. “Unspent provisions in a grant or appropriation indicate either poor budgeting or shortfall in performance or both”. Elaborate this statement in the context of budgeting in India. Also suggest few remedies to overcome it.

**Approach:**

The lack of efficiency in programme management at the departmental level in an annual budget cycle should be stressed.

**Answer:**

Despite having an elaborate and time consuming system of making budgetary estimates, large amounts of unspent money is surrendered every year at the lapse of the financial year. Large-scale unspent provisions are indicative of lack of efficiency in programme management at the departmental level in an annual budget cycle and undermine efficient use of public money which is one of the major objectives of any budgeting system. Excessive provision under various sub-heads during the budget preparation stage due to lack of a realistic assessment of departmental requirements is the major reason for this. It also shows that proper forecasting methods are not used to estimate expenditure on account of various items.

Following steps can be taken to solve this problem.

- Ministry of Finance advised the Ministries/Departments to gear up the ‘existing mechanism of review, monitoring and control’ as to make a careful formulation of plan/schemes having regard to ‘ground realities and achievable targets’ and also to make ‘realistic assessment of funds.’
- The assumptions made while formulating estimates must be realistic. At the end of each year the reasons for the gap between the ‘estimates’ and ‘actuals’ must be ascertained and efforts made to minimize them. These assumptions should also be subject to audit.
- The method of formulation of the annual budget by getting details from different organizations/ units/ agencies and fitting them into a predetermined aggregate amount leads to unrealistic budget estimates. This method should be given up along with the method of budgeting on the basis of ‘analysis of trends’. This should be replaced by a ‘top-down’ method by indicating aggregate limits to expenditure to each organization/agency.
- Internal capacity for making realistic estimates needs to be developed.
4. **What is an Interim Budget? Why did all the state governments present interim budgets in 2014?**

**Approach:**

Straight forward question. Define interim budget and then mention due to impending elections, as central government presented interim budget, therefore state governments also had to.

**Answer:**

An interim budget is the budget presented by the government when it is in the last year of its tenure. It differs from the normal budget as it does not have any major provisions in it which can jeopardise the functioning of the next government by putting excessive financial burden on the government. The successive government lays down its own budget which reflects its manifesto and goals. The interim budget helps span the transition time between the two governments so that administration can continue to function.

The state governments are financially dependent on the center for most of their financial needs and hence whenever the central government presents an interim budget, the states also have to present an interim budget as they cannot prepare their full budget without the union government’s support.

For instance the 80th amendment has introduced the Alternative Scheme of Devolution as per which a certain percentage of the income from the central taxes and duties should go to the states. Unless the states know this amount how can they plan their expenditure?

5. **What is gender budgeting? Give an account of the issues due to which gender budgeting has not been a fruitful exercise in India. Also, suggest measures required to address these issues.**

**Approach:**

- Explaining the concept of gender budgeting, give the rationale behind its introduction.
- Then bring out the issues that continue to pose concerns for gender budgeting in India.
- Bring out the measures required to address these concerns.

**Answer:**

Gender Budgeting means gender based assessment of budgets incorporating a gender perspective at all levels of the budgetary process and restructuring revenues and expenditures in order to promote gender equality. It entails dissection of the Government budget to establish its gender differentiated impacts and to ensure that gender commitments are translated into budgetary commitments.

Women constitute 48 percent of India’s population but they lag behind men on many social indicators like health, education, economic opportunities etc. India adopted gender budgeting in 2004-05, however this exercise has not been fruitful.

**Issues due to which gender budgeting has not been a fruitful exercise in India:**

- **Insufficient resources:** The overall quantum of the gender budget is still less than 1% of the GDP (0.63% in 2019-20). Further, there is lack of utilization of existing funds also, such as 89% of the Nirbhaya Fund (a fund allocated for women’s safety) have remained unutilized by the states.
• **Concentrated in a few sectors:** Over the last decade, four ministries – Rural Development, Education, Health and Women & Child Development have received between 85-90% of the Gender Budget expenditure. This limits adoption of a more holistic approach.

• **Lack of impact assessment:** Though it is mandatory to release the Gender Budget Statement (GBS), there are no accountability mechanisms mandating impact assessment of allocations for women beneficiaries. Further, lack of data hampers policy making as well as impedes impact study for analysis of outcomes.

• **Inconsistent state-specific approach:** About 16 states in India currently undertake gender budgeting, however, the quality of statements produced, and allocation undertaken vary significantly among states, owing to inadequate training of government officials.

Various steps have been taken in this regard like **Gender Budgeting Cells** in the Union government to serve as focal points for coordination with Ministries and departments, training, workshops for capacity buildings etc.

However, more efforts are required in this regard to achieve the objectives of gender budgeting:

• Create a ranking for state level gender budgeting to incentivise the states in taking further steps to improve the efficacy of these measures.

• The capacity building and technical support should be provided to state level Gender Budgeting Cells.

• Gender audits of centrally sponsored schemes and flagship programs should be undertaken to measure impacts. This also necessitates increased efforts for the collection of gender disaggregated data at national, state and district levels.

• Segregation of the provisions for women in the composite programmes under education, health and rural development sectors which target girls/ women as the principal beneficiaries so that restrictions could be placed on reappropriation for other purposes.

• Deviation between budgetary allocation and actual spending needs to be addressed through proper monitoring of outcome.

Given the significant gender gap in the country, there is a strong need to prioritise policies to reduce bias against women. Further, intersectional policy research should be undertaken to aid evidence-based gender policy formulation for it to curb gender inequalities and contribute to overall development.

6. **Do you think that multi-year budgeting is the need of the hour in India?**

**Approach:**

• Introduce by highlighting limitations of an annual budget.

• Mention the advantages of adopting a multi-year budget.

• Conclude briefly.

**Answer:**

Multi-year budgeting is defined as the development and formal adoption of expenditure and revenue document that spans two or more years.

Currently, annual budgets present the revenue and expenditure projections for twelve months, which are inherently limited as they cannot link long term planning and budgeting. A piecemeal approach to sanctioning funds and schemes leads to loss of considerable time and delays in the realisation of objectives. Also, linking financial outlays to outcomes becomes difficult in an annual budgeting exercise.
The benefits of adopting a multi-year budget are:

- **Efficiency in public resource allocation** - A multiyear budget allows long term interlinking of current year budgets with future expenditure requirements. It would provide a platform whereby perennial fiscal problems could be resolved by matching the government’s expenditure commitments to the resources available.

- **Fiscal sustainability** - Improves financial management by addressing the issue of annual imbalances between revenues and expenditure. Further, by providing estimates for certain forthcoming years, it could help generate fiscal outcomes in different economic conditions.

- **Greater emphasis on program evaluation and monitoring** - A long term financial budget helps to provide a comprehensive analysis of schemes and programmes. It acts as a tool for reinforcing the fiscal discipline in public sectors.

- **Improved long-term planning** - It helps to provide a long term vision along with projected expenditure and revenue to match them. It leaves little scope for short term populist policies which may impose high economic cost in the long run.

However, there are various challenges associated with adopting a multi-year budget such as the difficulty in forecasting revenue and expenditure for multiple years, administrative capacity to monitor and implement, lack of flexibility for unseen expenditures due to certain emergencies etc.

Therefore, it is important to address these challenges before multi-year budgeting is implemented. Also, it can be adopted on a gradual basis starting with a single ministry/department to analyze the changes better.

7. **It is imperative that the present system is re-engineered and a transition towards Outcome Budgeting is made for effective Public Finance Management in India. Discuss.**

**Approach:**

- Explain what you understand by Outcome Budgeting.
- Briefly state its benefits.
- Highlight the challenges associated with transition towards Outcome Budgeting.
- Conclude with a brief way forward.

**Answer:**

**Outcome Budgeting** is a budgeting technique that **links budgetary outlays to specific outputs**. Under Outcome Budgeting, each government ministry and department carries out a comprehensive exercise wherein all major programmes and schemes are mapped against outputs, benefits accruing to people and qualitative targets. These outputs are measured not just in monetary terms but also in terms of the quality delivered.

It was first introduced in India in 2005-06 as a revised version of the Performance Budget, wherein certain ministries of the government were required to produce an outcome budget.

Outcome budgeting is essential for sound public finance management because it **arms citizens with data to hold governments accountable**, and in turn empowers the governments to better orient the bureaucracy towards results. Further, programmes and schemes are linked to a comprehensive set of indicators with targets, thus ensuring that **results are more tangible** and **costs are reduced** by identifying areas where investment can be more effective.

However, in India, there have been several issues with regard to transition towards Outcome Budgeting. These include:
• **Difficulties in measuring outcomes** as compared to outputs and ensuring managerial accountability to link funds to outcomes for public programmes. For instance, for the schemes for cooperation education and cooperative training, no quantifiable deliverables and outcomes have been given. Thus, many Outcome Budgets produced by ministries are in effect are ‘outlay budgets’.

• Scrutiny of the Outcome Budgets for the years 2013-14 to 2016-17 by the CAG revealed **inconsistency in depicting scheme-wise achievements** (outcomes) against targets already set in previous years. Audit noted that the Outcome Budget 2013-14 indicated unquantifiable targets like improvement of roads, bridges, drains, construction of market complexes, flyovers etc. but achievements or outcomes were not included in the Outcome Budget of the following year i.e. 2014-15.

• While formulating the Outcome Budgets, the principles and the intent of outcome budgeting are often overlooked as programmes are implemented without a comprehensive risk management framework.

• The internal audit system in the ministries is weak in terms of professional expertise and inadequate manpower. Thus, there is lack of independent, objective opinion to add value and improve the operation of schemes.

• The regular budget presented in the Parliament is a separate process from the ministry-wise outcome budgets tabled later in the budget session. Thus, there is increased scope of dissonance between the two.

Outcome Budgets should be adequately utilised both in programme formulation and resource allocation. Further, programmes should be taken up only when outcomes can be spelt out and implemented when an effective and timely feedback system is in place. It also requires a two-way relationship between the government and citizens to make it work. The government should formulate outcomes valued by the public while the public needs to assess the results and provide feedback on the utility of the outcome based budgeting.

8. **The “Outcome Budget” reflects the endeavour of the Government to convert "Outlays" into "Outcomes". Explain. Also, discuss why the potential of outcome budgeting remains untapped in the Indian context.**

**Approach:**

- Explain Outcome budgeting in the context of changing outlays to outcomes.
- Highlight its benefits.
- Discuss challenges faced by India while using the practice of outcome budgeting

**Answer:**

Budgeting is an annual government exercise of estimating receipts and expenditures for the coming year. Accordingly, outlays are assigned to various ministries and government schemes on the basis of estimated output or outcome.

Under ‘Outcome-based Budgeting’, outcomes of each programme or scheme designed by the government is estimated. These Outcomes are the end results or impact of initiatives and interventions. Here Output must be differentiated from Outcome, as the former deals with quantitative result while the latter also includes qualitative aspect.

For instance, if outlay of 100 Crore is assigned for construction of hospital, then the ‘output’ would be measured in terms of physical infrastructure, whereas ‘outcome’ will also include the impact of the initiative, like percentage reduction in death rate, maternal mortality rate in that area among other parameters.
Benefits of Outcome based Budgeting

- Outcome Budgeting shifts the perspective from “doing the job” to “doing it well”.
- It leads to efficient service delivery, transparency, and accountability.
- The outcome budget indicates actual performance which helps people scrutinising the government and educates them about policies.

Outcome Budgeting in India:

The Outcome Budget was first introduced in India in 2005-06, with an understanding that “the people of the country are concerned with outcomes, not outlays”. However, limited progress has been made in this front, primarily due to three key reasons:

- Much of the development interventions are routed through the state governments. Only a few states have adopted planning outcome budgeting.
- Limited understanding exists on the linkage between specific Government interventions and their outcomes. Ministries face difficulties in spelling out the outcomes on ex-ante basis.
- The principles and intent of outcome budgeting are often overlooked. There is lack of programme formulation, programme implementation and programme monitoring capabilities in the ministries.

Way Forward

- Appropriate Centre-State institutional framework should be created to standardize set of output indicators and processes for collecting and collating outcome related information.
- Effective feedback system such as social audit is required in implementation of every programme.
- The country needs to evolve ways and means to strengthen its institutions, without undermining them. Following steps have to be undertaken in this regard:
  o strengthening the Public Accounts Committee
  o professionalising the internal audit and vigilance organisation in the ministries
  o building capacities for risk management techniques in the programme divisions
  o making budget division and budget formulation activities independent of the executive to improve the outcome of programmes.
  o as the outcome may not be co-terminus with the period of the budget. There needs to be defined intermediate outcomes as well.

9. Discuss the need for adhering to the road map for fiscal consolidation by fixing the fiscal deficit. Has the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 served the purpose for which it was envisaged?

Approach:

- The question is focused on the recent controversy surrounding the desirability of achieving fiscal deficit without any regard for monetary scenario. Therefore, the answer should start by briefly explaining the context of enacting the FRBM Act and its need.
- In the next part discuss whether the FRBM Act has fulfilled its stated objectives.

Answer:

The FRBM Act was introduced to check the deteriorating fiscal situation prevailing in 1990s. It intends to ensure prudent fiscal management. It specifies the annual reduction targets for fiscal and revenue deficits. The amended Act stipulates the reduction of fiscal deficit to 3% of the GDP by 2017-18. The Act binds the Government
to adhere to the path of fiscal consolidation (although exceptional situations like the 2008 crises allow the government to take exceptional measures).

Achievements of the Act

- Brought centrality to the issues relating to fiscal consolidation as the government has to mandatorily present medium-term and strategy statements annually.
- Sustained high FDs raise the debt-GDP ratio and increase interest payments as proportion of revenue.
- It improved the fiscal performance of both centre and states, which has contributed to their economic stability, as reflected in controlled inflation in the past year.
- Performance on controlling fiscal deficit has been an important factor deciding sovereign debt ratings. Adherence to consolidation has helped us from being downgraded.
- Strict adherence to the path of fiscal consolidation during pre-crisis period created enough fiscal space for pursuing counter cyclical fiscal policy.

However, fixing a blanket target for fiscal deficit has been debatable. It is argued that, if the bank credit to the economy does not adequately grow, economic growth will suffer for want of money. Government expenditure must fill the gap in such situation, the consequence of which is rise in fiscal deficit. The economic slowdown since 2012 can partly be attributed to reduced money supply since. Further, the restrictions placed by the FRBMA have constrained the ability of the state to fill the expenditure gap.

The Finance Minister has recently suggested that fiscal expansion or contraction should be aligned with credit (money supply) contraction or expansion respectively. That is, if credit growth falls, fiscal deficit may needs to rise and vice-versa to ensure adequate money supply to the economy. FRBMA in its current form ignores this possibility and therefore, it is appropriate to get it reviewed.

10. It is important for India to return to the path of fiscal consolidation while also increasing public investment. Explain why achieving both these objectives are important to revive the present economic environment in the country.

Approach:

- Defining fiscal consolidation, discuss its significance for economic stability.
- Discuss the significance of public investment.
- Discuss the underlying challenges in balancing the two and suggest measures for the same.

Answer:

Fiscal consolidation (FC) means reducing fiscal deficit (FD) by reducing public expenditure and/or increasing the revenue. The aim is to discipline the public finances and is enjoined by the FRBM Act, 2003 (which intends to cap the Fiscal deficit to 3% of GDP). Public investment means committing public money to various socio-economic objectives. It is often seen that public investment is curtailed to cater the needs of fiscal consolidation. Both these objectives have been contested, with arguments on both the sides.

Fiscal Consolidation (FC)

A. Significance

- Large FD means government as the major borrower leaving private sector short of credit for investment.
• High FD adds to interest burden on the government, thereby diverting the money from productive sectors. At present, interest payments at the Union level, account for almost 50% of their net tax revenues.
• High FD increases the interest rates in the economy, thereby fuels inflation.

Therefore, the importance of FC can’t be overstated. Hence, the credit rating agencies consider FD as an important variable to assess the credit worthiness of an economy.

B. Argument against

During economic slowdown, the government has to incur deficit to boost the economy. When the aggregate demand is already low, adhering to the path of FC is counter-productive. For example, during 2008 crisis we have to abandon the targets under FRBM Act. To look into this issue further, NK Singh Committee has been set up by Finance Ministry.

Public Investment

A. Significance

• Public investment in productive sectors acts as the stimulator, fueling demand and hence growth in the economy. It is particularly important in current scenario of sluggish growth.
• At present, capital expenditures is merely 1.7% of GDP which means lesser future growth. Public investment in infrastructure would boost future growth and consumption in the present.
• It has domino effect as it crowds in the private investment, which, at present, is significantly depressed.
• Private investment is volatile and it being majorly in form of FDI and FII is prone to global risks and hence more volatile.
• Private investment in India has been in capital intensive sectors like services. Hence, to boost employment growth public investment is needed.
• Public investment is necessary to bridge the sectoral and regional inequalities.

B. Challenges

• Increased public investment may crowd out private investment.
• It is difficult to mobilize resources for investment in current slowdown.

Way forward

We have to find balance between these apparently conflicting objectives as under:

• Reprioritize expenditure, with greater focus on the productive capital expenditure and reducing revenue expenditure.
• Rationalize subsidies to increase fiscal space.
• Divest government’s stakes held in specified PSUs and utilize these resources for capital investment.
• In line with Vijay Kelkar Committee’s report on PPP, we should resolve the stuck investment projects and revive the PPPs.
• As suggested by FFC, there should be an independent Fiscal Council to monitor the implementation of fiscal rules by the government.
• The implementation of a well-designed Goods and Services Tax (GST) and other tax reforms would also play the crucial role in enhancing revenues.
• Exploring feasibility of having a ‘fiscal deficit range’ as the target in place of the existing fixed numbers(percentage of GDP) as fiscal deficit target.
11. **Parliamentary scrutiny over public finance is an important aspect of governmental accountability.** In this context, discuss the role, importance and challenges in establishing a Parliamentary Budget Office (PBO) for effective oversight of budgetary process.

**Approach:**
- Briefly discuss the role of parliament in scrutiny over public finance and its effectiveness.
- Mention the role and significance of a Parliamentary Budget Office (PBO) in effective oversight of budgetary process.
- Discuss the challenges to be faced in establishing a PBO.

**Answer:**

In a parliamentary democracy, legislature plays a crucial role in scrutiny of public finance. MPs, through debates, discussions and voting on motions, hold the government accountable for the money that it spends from the public exchequer. Constitutional bodies like CAG and parliamentary committees like the PAC maintain a close oversight on manner of government spending.

However, due to lack of resources such as time, detailed information and expertise on financial/economic matters with individual members, it becomes difficult to hold the government accountable to higher standards. As such, many times it has been felt that spending by the government has been inefficient and ineffective, if not profligate or politically expedient. In this light, a need has been felt for an independent and impartial body that provides technical and objective analysis of Budgets and public finance to the House and its committees.

**Role:**

Specifically, the functions of PBOs can be different in different countries. Generally, the following features are found:
- Independent and objective economic forecasts;
- Baseline estimate survey;
- Analyzing the executive’s Budget proposals and their costs-benefits; and
- Providing medium- to long-term analysis.

Costing is a standard practice for many PBOs. Budgets generally start with an economic forecast. A PBO can present either its own independent forecast or it can validate the government’s, providing an objective analysis on the official forecast. A PBO is very different from research wings or Finance Committees or Public Accounts Committee (PAC). It is comprised of independent and specialized staff such as Budget analysts, economists, public finance experts.

Also, it must be non-partisan, independent and mandated to serve all parliamentarians including treasury bench and opposition.

**Significance:**

PBOs provide legislators with high-quality analysis that is independent of the executive. They specialize in objective and policy neutral analysis on the full budget cycle, the broad fiscal challenges facing the government, budgetary trade-offs and the financial implications of legislative proposals. Such research can raise the quality of debate and scrutiny in Parliament as well as enhance fiscal discipline. Most importantly, it strengthens the role of Parliament in financial oversight.
Challenges:

The key challenges faced by any country that establishes a PBO are threefold—Guaranteeing independence and viability of the office in the long-run, ability to carry out truly independent analysis and demonstrating impact. However, political will and public support would help overcome these challenges.

Going forward, it will be important to understand that a PBO can only provide independent research; it cannot prevent executives from taking bad fiscal decisions.

12. The need to overhaul the current budget making process can be gauged from the fact that it neither undertakes broad-based consultations, nor is adequately transparent nor effective in estimating and allocating the demands of various stakeholders. Examine.

Approach:

- Explain the issues with the current budget making process. Try to substantiate your arguments with relevant facts.
- Give relevant solutions so as to make the current budgeting process more transparent and accountable at the same time.

Answer:

Recently, India scored 48 out of 100 in the Open Budget Survey of 2017 reflecting low levels of transparency in the annual budget process. Similarly, Transparency International India (TII) reported that India’s budgeting process is less transparent than her neighbours like Bangladesh.

Before budget formulation, the finance ministry does take into account views of experts and different stakeholders. There are regular meetings with expert bodies as well representatives of various organisations such as farmers, industry, academia, etc. However, the views of the common people often go unheard of and the general citizenry is only a recipient of what has been prepared by the ministry or demanded by various vested interests. Recognizing this facet of budgetary process, the Prime Minister asked for a need to change this structure of engagement to make the Budget-making exercise more “social friendly” by taking the views of the common people.

Another aspect is the demands by the ministries and final allocation by the finance ministry. In view of scarcity of resources and competing demands, every ministry tries to inflate its estimates so as to get more resources. Finance ministry also recognizes this tactic and thus, in the ensuing negotiations, many a times, legitimate demands may be sidelined or allocation may not be done according to actual requirements. Hence, the process of estimation and allocation also suffers from drawbacks.

Other issues with the current budget making process in India are:

- **Lack of transparency:** Currently, the process of budget preparation by the government is carried out behind closed doors. Even, the mid year reviews have not been compiled with much discipline. For e.g. no mid year review was published in 2016.
- **State budgets:** The state budget in India remains highly incomprehensible, making it difficult for the citizenry to participate in shaping public policy.
- **Top down approach:** None of the stages involve the third tier of governance i.e. the local governments of Panchayats and Municipalities.
- **Duration:** While the budget process is an excessively lengthy exercise, the time spent discussing the budget has reduced from an average of 123 hours in the 1950’s to 41 hours in the last decade.
• **Gender budgeting**: Although India has adopted the practice of Gender Responsive Budgeting (2005), it has been merely in financial terms with inadequate focus on gender related data collection and outcomes-achieved.

• **Non participative**: There is a lack of participation and consultations with the common public & other stakeholders during enactment of the budget process.

• **Frequent practice of Guillotine**: The budgetary practice of “Guillotine” is often misused to avoid discussions on matters of public importance.

• **Role of Opposition parties**: Generally, the motions are passed in accordance with the majority government. The amendments by the opposition parties are usually neglected.

• **Role of Rajya Sabha**: The Rajya Sabha has no active role in the passing of budget. Its advices are seldom accepted by the Lower House as well.

• **Lack of Cooperative federalism**: State governments are not taken into consideration while framing the Union Budget policies.

Thus, budget making process can be made more participatory and transparent by inculcating the following points:

• **Use of technology**: Technology can be leveraged to shorten the duration of budget process as well as to enhance citizen participation & transparency in the budgeting process.

• **Bottom up approach**: Incorporation of District and State plans in central budgetary allocation.

• **True outcome based budgeting**: Outcome based budgeting needs to include the citizen’s feedback on effectiveness of schemes. The details of the budget in the formulation phase should be put in public domain for public scrutiny.

• **Public access to thematic reports**: Reports tracking revenue and expenditure can provide regular information to policy makers, media, and the public.

• **Setting minimum working hours**: As during the budget session, frequent adjournment of lower house prevents discussion on important demand for grants.

• **Simplified language**: Budget document may be simplified and made available in all the official languages.

• **Cooperative federalism**: Rajya Sabha should be given more powers than merely discussing the budget and their recommendations should be given more importance.

13. **What do you understand by the term 'Environmental Accounting'? Discussing the rationale behind introducing environ accounting, highlight its status in India.**

**Approach:**

- Explain the term Environmental Accounting.
- Highlight the rationale behind Environmental Accounting.
- Discuss its status in India.

**Answer:**

Environmental accounting refers to the practice of incorporating principles of environmental management and conservation into reporting practices. It attempts to make the best possible quantitative assessment of the costs and benefits to an enterprise for activities specifically directed to environmental preservation.

It allows an organization to see the impact of ecologically sustainable practices at every stage right from their supply chain to facility expansion. An actionable example of environmental accounting is the Kyoto Protocol that quantifies carbon emissions.
Rationale and Significance:

- It differs from traditional accounting practices which are usually unidimensional in their approach and only measure the tangible impacts an organization makes through accounting methods of profit and loss.

- Measures the effects of the natural environment on a company in monetary terms, unlike ecological accounting which measures the influence on the environment in physical measurements.

- It ascertains the costs to clean up or remediate contaminated sites, environmental fines, penalties and taxes, purchase of pollution prevention technologies and waste management costs.

- It is crucial in preventing serious environmental displacements and consequences translating into environmental related hazards.

- Helps in fulfilling an organization’s accountability to stakeholders, such as consumers, business partners, investors and employees, when utilizing environmental resources.

- Encourages consumers and helps them purchase ‘green products’, thus both consumers and corporate benefit.

Indian Scenario

- Legal Framework for Environmental Accounting in India emanates from Article 51A of the Indian Constitution, which impose a fundamental duty on every citizen to protect and improve the natural environment.

- Further, various laws and legislations like the Environment Protection Act require industrial units to disclose environment related information. For instance, Maruti Udyog Limited shares data on non–methane hydrocarbons in Paint Shop and Engine Testing shop with monitoring agencies.

- EIA has now been made mandatory under the Environmental (Protection) Act, 1986 for certain categories of developmental activities.

- India is working towards SDG# 13 and SDG # 15 that relate directly to preserving and supporting ecosystems and mitigating climate change.

Although the concept of environmental accounting suffers from certain problems like no standard accounting methods, poor valuation techniques, long term process and lack of reliable industry data, nonetheless it has emerged as a crucial tool to arrive at a fair assessment of “development” and bring environmental transparency.
Heartiest Congratulations to all successful candidates

7 IN TOP 10 SELECTIONS IN CSE 2019
FROM VARIOUS PROGRAMS OF VISION IAS

2 AIR
JATIN KISHORE

3 AIR
PRATIBHA VERMA

6 AIR
VISHAKHA YADAV

7 AIR
GANESH KUMAR BASKAR

YOU CAN BE NEXT

9 IN TOP 10 SELECTION IN CSE 2018

1 AIR
KANISHAK KATARIA

2 AIR
AKSHAT JAIN

3 AIR
JUNAID AHMAD

4 AIR
SHREYANS KUMAT

5 AIR
SRUSHTI JAYANT DESHMUKH

7 AIR
KARNATI VARUNREDDY