Fiscal Adjustment and Expenditure Management *

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"Physicians say of consumption, that in the early stages of this disease it is easy to cure but difficult to diagnose; whereas later on, if it has not been recognized and treated at the beginning, it becomes easy to diagnose and difficult to cure. The same thing happens in affairs of State."

- Machiavelli

1. Introduction

During recent years, there has been a growing recognition of the roles of expenditures and expenditure management in fiscal adjustment and in the pursuit of prudent fiscal policies over the medium term. There is also recognition that as a prerequisite to the pursuit of sustainable fiscal policies, the quality of expenditure needs to be improved. In turn, the improvement of the quality involves higher outlays in some sectors such as education and health, while reducing wherever possible, unproductive expenditures, including a reduction in the wage bill, a reduction in the range of activities undertaken by governments, a substantial reorganization of the structure of implicit and explicit subsidies, streamlining the focus of some social outlays and rationalizing defense expenditures without any erosion in the fundamental capacity of the governments. The structural changes are within the ambit of expenditure policies as distinct from the mechanics of expenditure management.

Expenditure management, in its broad perspective includes three major elements – resource allocation, resource utilization, and resource utilization accounting, which are translated, in day to day parlance into budgeting, budget implementation, and accounting.[1] Expenditure policy is a by-product, both in intent and outcome, of the working of these three inter-related phases. Expenditure policies aim at dealing both with the above mentioned structural issues, as well as with the immediate concerns that are addressed as a part of the overall annual budgetary policy.

The structural aspects of public expenditures at the level of central government are being reviewed by the recently appointed Expenditure Reforms Commission. Its recommendations when accepted and implemented by the Government will have a profound effect on the future structure and quality of public expenditures and on the future tasks to be performed by the expenditure management machinery. The issue then is, if prudent fiscal management is the goal of the government, how is it to be served by the expenditure management machinery. This paper is concerned with this central question.

As Adam Smith noted, more than two centuries ago, States depend, unlike the markets, on authority to perform effectively. In terms of expenditure management, the issues require an examination of where this authority is located and how this authority is exercised and whether there are adequate instruments that facilitate the formulation and implementation of prudent fiscal policies. In short, this calls for an examination of expenditure management (a) as an idea and as a fact; (b) as an intent and as a result, and (c) as a system with its own objectives and associated instruments and systems. Such an examination cannot, however, be considered in isolation of the fiscal health of the country. If it is deteriorating, how could it be stopped, and if it is improving, how can the process be accelerated and whether, in undertaking either action, the machinery is geared to the management of crisis or does it continue to function in a routine way, are aspects that merit detailed discussion. In performing these tasks, there are several existential challenges that need explicit recognition.

[1] For a detailed discussion of these aspects, see Premchand (1999) and (2000).

2. Scope and Approach

This paper deals with the above aspects in the Indian context, and is largely concerned with the experience of the central government. Following the recent approaches that lay more emphasis on ascertaining what is actually on the ground so that the direction of future improvements could be determined,[2] this paper is concerned with a discussion at the outset. of the experience of the central government in the management of expenditures during the last five decades and in the light of that perspective, discusses the factors contributing to changes. This is followed by a detailed assessment of the issues currently experienced and a determination of the ways in which they may be addressed.

3. Trends and Structure of Public Expenditure in India

Expenditure reform has become an integral part of fiscal reform only in the second generation of economic reform. Though expenditure reduction was resorted to, as the adoption of the stabilization package in 1991 required it, the attempts was sporadic and arbitrary in nature (see Annexure I). In the major part of the nineties, the contents of "Major Economic Reform" as given in the Economic Survey consisted mainly of tax reform and fiscal reform was synonymous with tax reform. The recent seriousness of the issue is evident from at least three initiatives taken by the government. One, the "Fiscal Responsibility and the Budget Management Bill" was tabled in the Parliament in December 2000 (see Annexure II); two, setting up of the "Expenditure Reforms Commission" which has submitted its five reports covering twelve departments/ministries (see Annexure III) and three, in pursuant of the objective of better expenditure management, the last Union Budget also proposed several measures not only to curb the growth of expenditure but improve its quality as well. (see Annexure I).

After 10 years of budget making exercise in the post reform era, the Union Budget for 2000-2001 could meet the fiscal deficit target of 5.1 percent of gross domestic product (GDP)[3]. It is largely attributable to the usual familiar trick of curtailing capital expenditure. This repeated act in the face of a fall in revenue receipts has led to a situation where nearly 70 percent of borrowed funds is financing 'unproductive revenue expenditure' as mentioned in the last budget speech[4]. The mobilization of resources to meet the 'gap' in government finances and its manner of disposition have got serious long term implications for the growth of the economy and fiscal sustainability.

The trends and the structure of expenditure both for the center and the states as evolved over the past three decades are briefly surveyed in the following sections.

a. Expenditure Assignment in India

The seventh schedule of the Constitution specifies the tax and expenditure powers of the central and the state governments. Table 1 indicates the structure of expenditure of both the center and the state governments for the major constituents of expenditure both in terms of shares in GDP and composition in respective total expenditure.

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[2] International Financial Institutions, particularly the World Bank, have now moved from a prescriptive approach to a joint identification of the issues. See World Bank (2000).

[3] The Hon'ble Finance Minister has reportedly said that due to shortfall in revenue collection, there may be a slippage in the fiscal deficit target as a percentage of GDP.

[4] The share of non-plan expenditure, mainly consisting of interest payments (30 percent), defense (16.5 percent) subsidies (8 percent) and general services (8 percent) is three-fourth of total expenditure as per 2001-02 budget estimate.

Table 1: Structure of Expenditure Assignment : 1997-98

	As percentage of GDP			As percentage of Total Expenditure		
	Center	States	Total	Center	States	Total
Interest Payment	4.31	2.00	5.16	31.61	14.51	20.91
Defense	2.33	0.0	2.33	14.08	0.00	9.44
Administrative Expenses	0.83	1.43	2.24	6.09	10.41	9.07
Social Services	1.11	4.22	5.16	8.17	30.70	20.92
Economic Services	2.04	3.68	5.47	14.95	26.71	22.17
Loans and advances	0.67	0.33	1.02	4.88	2.43	4.15
Others#	1.20	2.10	3.30	8.80	15.24	13.35
Total Expenditure	**13.64**	**13.67**	**24.68**	**100.00**	**100.00**	**100.00**

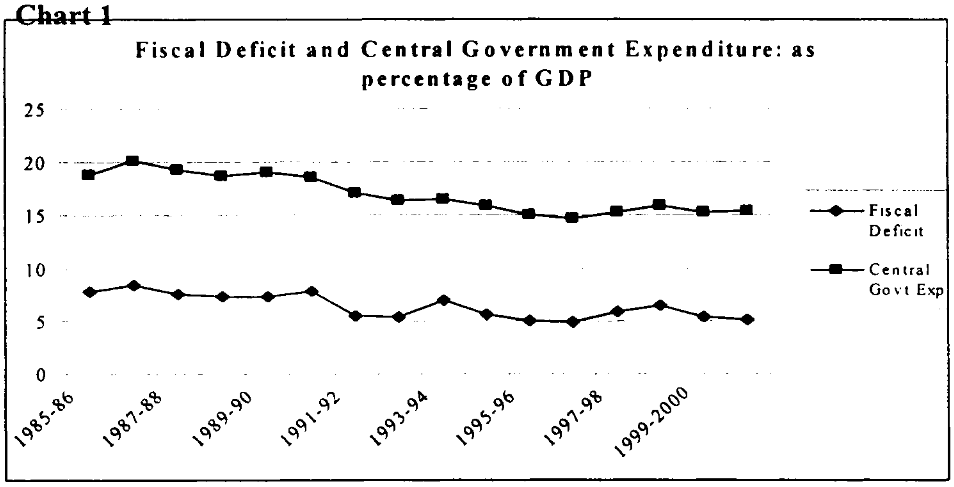
Note: # Others for center include grants. The total may not be the sum of center and the states due to the inter-governmental adjustments.
Source: Indian Public Finance Statistics (various issues) and NAS (2000).

Nearly one-third of total Central government expenditure is exhausted by interest payment compared to only one-seventh of the states. Expenditure on defense is incurred exclusively by the center. States have a dominant share in other three categories, administrative, social and community services, and economic services. The dominance of the states is more pronounced for the social and community services, while the center spends a little more than 1 percent of GDP, the states spend nearly four times as much. In terms of total expenditure, the center and the states spent nearly the same, 13.7 percent, percentage of GDP during 1997-98.

b. Fiscal deficit and central government expenditure

The close correspondence between the time profiles of fiscal deficit and the central government expenditure, both expressed as percentages of GDP as shown in Chart 1, indicates that the reduction in fiscal deficit has mainly been achieved through expenditure compression and therefore, the success of achieving the fiscal deficit target depended heavily on expenditure control.

Chart 1



Source: Reserve Bank of India (2000) and NAS (2000).

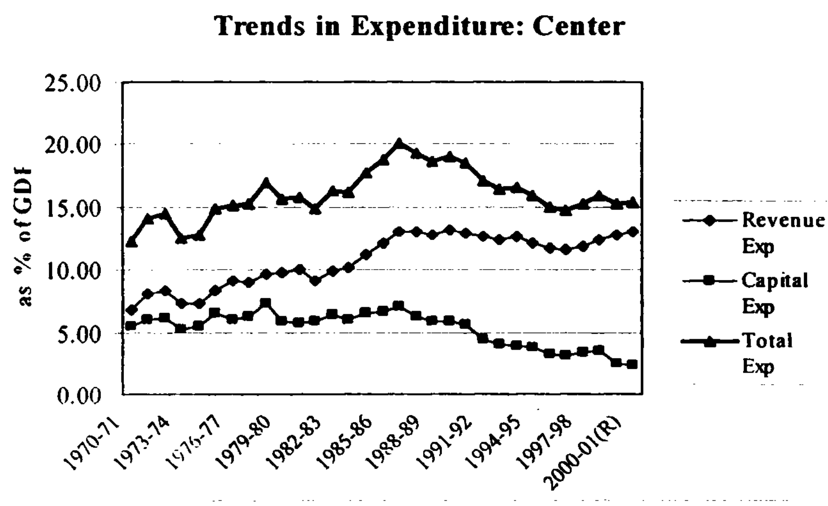
After a successful attempt to reduce the fiscal deficit by March end, 1993, the Budget for 1993-94 allowed for higher outlays in the social sectors, such as poverty alleviation programs with the objective of speedy recovery of industrial output and restoring expenditure in the social sectors. The decline in fiscal deficit by 2.7 percentage points from 7.8 percent in 1990-91 to 5.1 percent in 2000-01 (revised estimate) has been less than the decline in expenditure by 3.1 percent during the same period because of a rise in the revenue receipts and non-debt capital receipts by 0.4 percentage point. This is important, because reduction in the level of fiscal deficit in line with the Fiscal Responsibility and Budget Management Bill (2000) over the next 5 to 6 years would entail a massive effort to reduce the proportion of committed, non-discretionary expenditure as well as expenditure restructuring to maintain outlays on social sectors apart from some rise in revenue receipts. For 1996-97, the reduction in fiscal deficit was achieved through an increase revenues coupled with the reduction in expenditure, in particular, by containing non-interest non-plan expenditure. This was achieved despite a higher allocation towards the provision of basic minimum services provided as central assistance for the states and the UTs.

There was a slippage in reaching the targeted fiscal deficit during 1997-98 mainly because of a shortfall in revenue collection and disinvestments receipts. Expenditure also exceeded the budget estimates but it was less than the additional expenditure of Rs. 4432 crore incurred on account of loans to states and UTs against small saving collection.

c. Broad trends in expenditure: Center and the States

The total expenditure of the center reached its peak in 1986-87 and was marginally over 20 percent of GDP, while revenue expenditure and capital expenditure were 13.03 percent and 7.03 percent respectively. Since then, the total expenditure has gradually come down by more than 4 percentage points, the share of revenue expenditure remaining the same. In fact, during 1996-97, total expenditure fell below 14 percent, which rose again along with the rise in revenue expenditure. The brunt of expenditure reduction seems to have been born entirely by capital expenditure, which has plummeted to 2.39 percent as per the revised estimate of 2000-01.

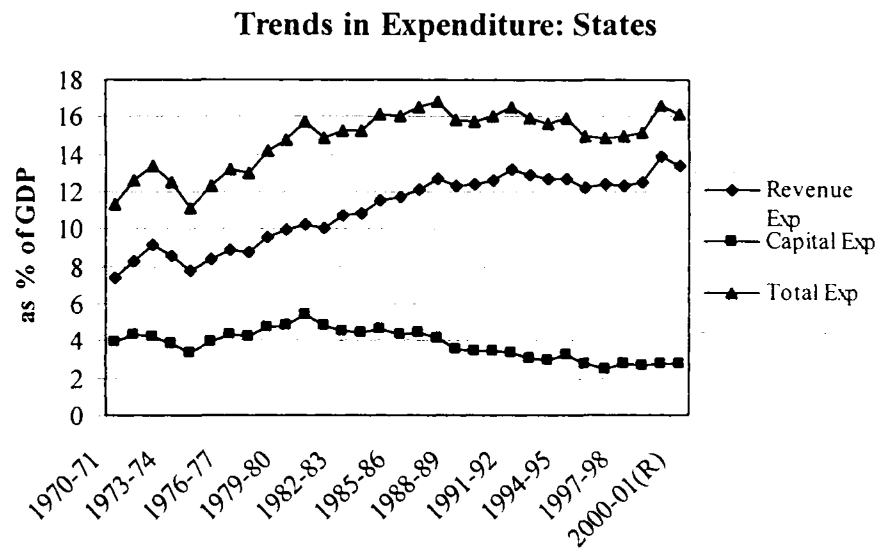
Chart 2



Source: Union Budget, various issues, NAS (2000).

For the states, we observe almost a similar picture. The total expenditures of the states rose steadily during the seventies and the eighties till 1987-88 and was stable afterwards at around 16 percent, though it fell temporarily during 1995-96 to 1998-99. The gap between the revenue expenditure and the capital expenditure has been widening since 1980-81 with the two moving in the opposite direction. During 1980-81 to 2000-01 (revised estimate), the share of revenue expenditure edged up by 3 percentage points whereas the capital expenditure declined by more than 2.5 percentage point.

Chart 3



Source: Reserve Bank of India (2000), NAS (2000).

In absence of any stabilization policy at the state level, the aggregate expenditure in terms of GDP declined only to rise again in the recent years. Though there is a cap on the borrowing of the states, the extent of borrowing is linked to the plan size, which continued to rise. In the absence of any such policy initiative at the state level and the heterogeneity among the states explain why the total expenditure of the states does not exhibit any robust tendency to decline with the share of revenue expenditure gradually rising.[5]

Table 2 below depicts the profile of five-year averages of major heads of central government expenditure for six periods starting from 1970-71. The shares of both revenue and the capital expenditure rose till the late eighties and the total central government expenditure was 19 percent, up from 13 percent during 1970-71 to 1974-75. After the initiation of the stabilization package in 1991-92, the fall in capital expenditure has been sharper. Defense and subsidies also show similar trends. It is only interest payments, which has been steadily rising. High fiscal deficits during the eighties, leading to the accumulation of debt stock with the government veering towards market to borrow at a relatively higher rate of interest has led to an increasing proportion of resources being pre-empted by interest payment. The government perforce borrows more in the face of higher growth of expenditure driven by interest payment. This pushes the government towards a debt trap. The high share of explicit subsidies in GDP as prevailed in the late eighties has been brought down gradually, reflective of the government's attempt to target subsidies effectively in favor of the poor sections of the society. This provision of subsidies

[5] The cap on borrowing imposed by the centre on the states may not allow them to borrow more than what is permissible, restraining thereby the growth of expenditure but borrowing is linked to higher plan allocation.

explicit in the budget is actually a small fraction of the total volume of subsidies provided implicitly through the budget.[6]

Out of capital expenditure, the share of capital outlay reached its peak in the late eighties whereas the share of loans and advances attained its peak during the late seventies. During the nineties, the shares have fallen with capital outlay plummeting to around one percent of GDP. Capital outlay for defense is higher in the nineties compared to the seventies and the eighties.

Table 2 : Major Heads of Central Government Expenditure

As percentage of GDP

	1970-71 to 1974-75	1975-76 to 1979-80	1980-81 to 1984-85	1985-86 to 1989-90	1990-91 to 1994-95	1995-96 to 1998-99
Revenue	**7.56**	**9.17**	**10.07**	**12.81**	**12.52**	**11.93**
Of which Defense	2.48	2.51	2.37	2.45	1.73	1.64
Interest	1.35	1.68	2.08	3.16	4.13	4.34
Subsidies	0.38	1.14	1.34	1.82	1.67	1.26
Capital	**5.64**	**6.38**	**6.10**	**6.34**	**4.36**	**3.32**
Loans & Advances	3.69	4.15	3.66	3.72	2.62	2.21
Capital Outlay	1.95	2.23	2.44	2.63	1.74	1.10
Of which Defense	*0.33*	*0.24*	*0.28*	*0.68*	*0.75*	*0.62*
Total Expenditure	**13.20**	**15.55**	**16.17**	**19.16**	**16.88**	**15.25**

Source: Reserve Bank of India (2000), NAS (2000).

There is little evidence of fiscal adjustment at the state level, as revenue expenditure during early nineties has not declined significantly during the late nineties and it rose by 2 percentage points from the early eighties. The share of loans and advances is only 0.87 percent of GDP compared to that of 1.54 of capital outlay during 1995-96 to 1998-99 compared to 1.49 and 2.05 for loans and advances and capital outlay respectively during the early eighties.

Table 3 : Major Heads of State Governments' Expenditure

As percentage of GDP

	1970-71 to 1974-75	1975-76 to 1979-80	1980-81 to 1984-85	1985-86 to 1989-90	1990-91 to 1994-95	1995-96 to 1998-99
Revenue Expenditure	**8.22**	**9.07**	**10.67**	**12.24**	**12.83**	**12.73**
Interest payments	0.84	0.82	0.90	1.32	1.75	1.81
Administrative Services	0.91	0.97	1.10	1.21	1.21	1.19
Pension & Miscellaneous Services	0.27	0.22	0.33	0.51	0.80	0.89
Capital Expen (net)	**3.93**	**4.41**	**4.76**	**3.95**	**3.21**	**3.07**
Loans & Advances	1.10	1.53	1.49	1.16	0.93	0.87
Capital Outlay	1.37	1.92	2.05	1.82	1.55	1.54
Total Expenditure	**12.16**	**13.47**	**15.44**	**16.19**	**16.02**	**15.81**

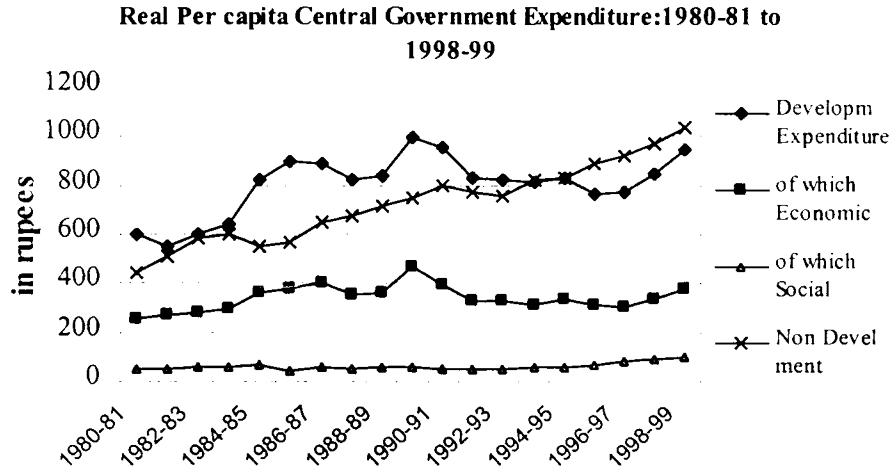
Source: Reserve Bank of India (2000) and NAS (2000).

Another way to look at the trends of government expenditure is to relate it to per capita in real terms. The share of economic services in development expenditure being significant (around 47 percent), the fluctuations in the development expenditure broadly correspond to that of

[6] Srivastava, D, K. and Sen, Tapas (1997) Government Subsidies in India, National Institute of Public Finance and Policy.

economic services particularly in the context of slow but steady rise of social services. In the aftermath of stabilization in the early nineties, the real per capita expenditure fell by more than Rs 200 from Rs 1000 to Rs 800. What is alarming is the steady rise of non-development expenditure real per capita, driven mainly by the interest payment and overtaking the development expenditure in 1995-96.

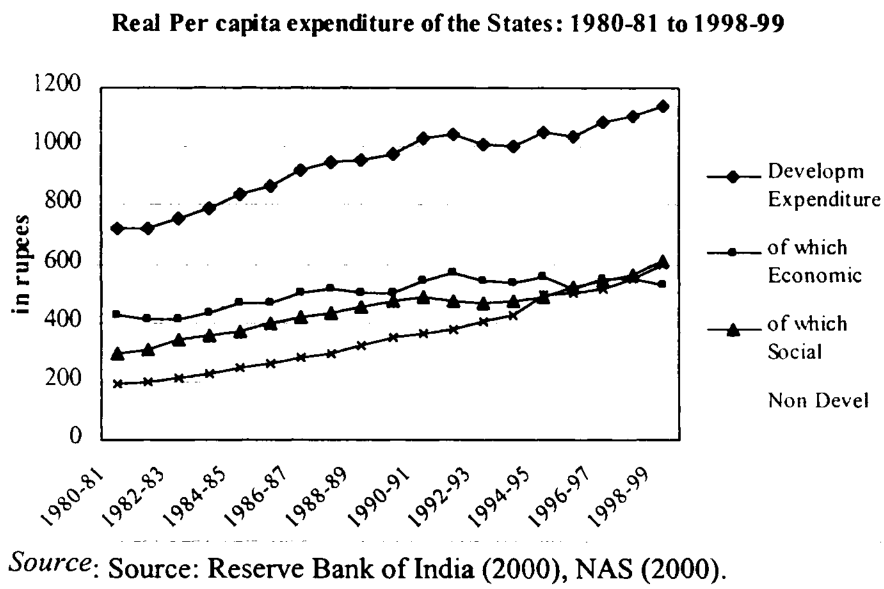
Chart 4



Source: Reserve Bank of India (2000), NAS (2000).

In Chart 5, the trends of the same components of expenditures as in chart 4 are shown. All the components rise steadily with little fluctuations. The real per capita expenditure on social services overtook the economic services in the late nineties. Though the non-development expenditure shows a similar pattern, rising steadily, the share of development expenditure continues to exceed the non-development expenditure almost by the same magnitude as was the case in early eighties.

Chart 5



Source: Source: Reserve Bank of India (2000), NAS (2000).

d. **Economic Classification of Government Expenditure**

We now turn to an analysis of the expenditure of the center as per the economic classification. After examining the various functional heads of the expenditure, which show the department wise allocation, obfuscate the economic implications of the total expenditure.

Table 4 : Expenditure of the Central Government: Economic classification

As percentage of GDP

	Consumption expenditure	Gross Capital formation	Transfer payments to the Rest of the economy (ROE)		Financial Investment & loans to ROE	Total Expenditure
			Current	Capital		
1970-71 to 74-75	**3.84**	**1.27**	**3.18**	**0.56**	4.19	**13.04**
1975-76 to 79-80	**3.81**	**1.24**	**4.54**	**0.78**	**4.62**	**14.99**
1980-81 to 84-85	**3.69**	**1.51**	**5.14**	**1.00**	**4.84**	**16.17**
1985-86	4.00	1.63	6.55	1.36	5.41	18.95
1986-87	**4.68**	**1.88**	6.77	1.41	**5.68**	**20.42**
1987-88	4.66	1.68	7.14	**1.54**	4.77	19.78
1988-89	4.43	1.67	7.41	1.36	4.35	19.22
1989-90	4.26	1.67	7.77	1.40	4.39	19.49
1990-91	3.93	1.51	**7.94**	1.25	3.83	18.46
1991-92	3.74	1.42	7.86	1.29	2.94	17.26
1992-93	3.59	1.59	7.83	1.22	2.62	16.85
1993-94	3.70	1.49	7.77	1.37	2.64	16.97
1994-95	3.45	1.42	7.56	1.38	2.72	16.54
1995-96	3.54	1.41	7.22	1.29	2.21	15.67
1996-97	3.25	1.32	7.40	1.20	2.35	15.51
1997-98	3.50	1.25	7.36	1.15	1.58	14.84
1998-99	3.40	1.17	7.81	1.06	1.53	14.96

Source: Economic Survey (2000-01) and NAS (2000).

The total expenditure as per economic classification divided into four economic categories, consumption, capital formation, current and capital transfer payments, loans and investments. Consumption expenditure, capital formation, loans and financial investments reached their peaks during 1986-87. Since then, the shares of all three in GDP have been declining gradually. The decline has been sharper for loans and financial investments, from 4.19 percent to 1.53 percent during 1970-71 to 1998-99 (see Table 4). One component, which has risen steadily over the last three decades is the current component of the transfer payments, from 3.18 during 1970-71 to 7.81 during 1998-99 owing to the burgeoning interest payment. The capital component of the transfer payments has nearly remained stagnant at a little more than one percent of GDP. The total expenditure follows a trend akin to the consumption expenditure and capital formation.

An analysis of the composition of the expenditure reveals a similar picture. (see Table 5) The structure of the expenditure has moved in favor of the current transfers as well as capital transfers at the expense of all the rest, consumption, capital formation and loans and financial investments.

Table 5 : Composition of the Central Government Expenditure

	Final outlays Consumption Expenditure	Gross Capital Formation	Transfer payments to the RO Economy Current	Transfer payments to the RO Economy Capital	Financial Investment & loans to ROE
1970-71	29.94	9.31	22.22	3.47	35.07
1975-76	28.66	10.01	25.07	4.45	31.82
1980-81	23.00	8.48	30.73	5.79	32.01
1985-86	21.11	8.58	34.54	7.20	28.57
1990-91	21.30	8.19	43.00	6.78	20.73
1995-96	22.61	9.01	46.05	8.24	14.09
1998-99	22.72	7.83	52.17	7.08	10.20

Source: Economic Survey 2000-01.

Table 6 : Growth Rates of Consumption expenditures : Center, States and Local bodies

	1987-88 to 1992-93	1993-94 to 1998-99
Compensation of employees		
Center	12.85	20.52
States	17.25	18.08
Local bodies	16.74	19.17
Total	**15.85**	**18.88**
Net Purchase of goods and services		
Center	7.59	15.70
States	14.10	8.33
Local bodies	14.25	16.83
Total	**9.98**	**13.83**
Total consumption of expenditures		
Center	10.11	17.82
States	16.57	16.32
Local bodies	16.18	18.69
Total	13.82	17.19

Source: National Accounts Statistics (2000).

Table 6 shows how the two most important components of consumption expenditures, compensation of employees (wages and salaries bill) and net purchases of goods and services, have grown over the 12 years period for all the three tiers of the Government. Compensation of employees experienced higher growth rates during the second phase (1993-94 to 1998-99), which is the highest for the Central government followed by the local tier. The total wage and salary bill rose at a rate, which was as high as 18.88 percent per annum compared to 15.85 percent during the first phase. The implementation of the Fifth Pay Commission Recommendations for the center had long term impact on the finances of the center. The periodic revision of the pay structure and convergence of the pay scale with least consideration for the states' ability to bear such burden put both the states and the center in a tight spot. This is despite an attrition of about 4 lakh establishment strength during the Ninth Plan period.

The last budget speech (Union Budget 2001-02) has alerted about the fast rise in pensions liability. It is not the amount of pension *per se,* which is alarming but the rate at which it is growing. The annual increase in total pension liability works out to be around 24 percent per annum. In the army, expenditure on pension exceed the pay and allowances of the serving officers. This is the fastest growing among the item in the state budget.[7] For the other component, net purchases of goods and services, we obtain a mixed trend for the three tiers of the government. For the Center, the rate of growth got more than doubled from 7.6 percent per annum from the first phase to 15.7 percent during the second phase, whereas the local tier of government experienced a smaller increase in the growth rate by nearly two percentage points. For the States, the growth rate fell significantly from 14.1 percent to 8.3 percent. The rise in the overall growth rate of the consumption expenditure was highest for the center followed by the local governments. For the states, the growth rate remained virtually stagnant.

4. Central experience in perspective

During the first five decades after the transfer of power to the crown, the vexatious issue in the control of public expenditure related to the management of defense outlays. As the Royal Commission noted, at the turn of the nineteenth century "when questions of national defense have gained the public ear, financial considerations lose weight not only in India but elsewhere also". Another issue related to the gradual delegation of financial powers from the Secretary of State to the viceroy, and from the Central government to the provincial governments. This evolutionary process continued until independence.[8]

After independence, and over the next five decades, several changes, reflecting the economic situation, were introduced in the government. For convenience, the issues encountered in each decade, and the systemic response of the government are summarized in Table 7. The developments described suggest that there was a process of dynamic rationality. Organization experts hold the view that under this process adjustments are more often than not periodic rather than being continuous, revealing a response to the changing needs and generally to make sure that the policy objectives are reasonably supported by the administrative and systemic infrastructure.

The assiduous efforts enumerated in the Table also reveal that there was an attention to the (a) planning of government expenditures (b) provision of performance orientation (c) securing economies in expenditures including through rationalization of administrative structures and (d) to ensuring a kind of inclusive and participatory decision making. The advent of the medium term development plans facilitated the identification of national goals, and the specific objectives to be achieved during a five year period; to ensure that only viable projects and programs were included in the development plan, a rigorous system of investment appraisal was put in place. Moreover a system of project reporting and management information system was also included. In recognition of the fact that emphasis on financial aspects alone would not be sufficient, a kind of performance orientation, even if on a supplementary basis was designed and implemented. [9]Similarly there was also recognition that as expenditures grew, the room for waste and uneconomical expenditures would also grow.[10] To address this problem, several approaches

[7] The growth rate recorded were 19.6 percent in 1990-95 and 26.6 percent in 1995-99 (The Report of the Eleventh Finance Commission, 2000).

[8] There was an explicit recognition of the dangers of Centralization. Even before the turn of the Century, a British civil servant quoted with approval that "under a centralized government there is a danger of generalizing a local mistake. Localized a mistake can be corrected with comparative ease. It becomes dangerous in proportion to the area of its diffusion." For a discussion of these aspects, see Premchand (1963). Chapter I.

[9] To be accurate, Performance budgeting in India was introduced in 1968. The so called 'first wave' of public management reforms did not start for India in the late 70s. For a discussion of the first wave and the second wave of reforms see the literature produced by the OECD, Paris.

[10] The Taxation Enquiry Commission (1953-54) observed that "during a phase of intensive development effort, when targets in terms of expenditures also assume a certain degree of significance, there is likely to

including the establishment of an evaluation organized, cooperating non-officials to carry out high level enquiries into the benefits of expenditure and introduction of modern management techniques were uncertain. Further improvements were also made in making the spending or administrative departments were conscious of the financial implications through a process of gradual devolution of financial powers to them and through strengthening of the internal financial management machinery.

Table 7: Expenditure Management in India: Issues and Systemic Responses: An Illustration of Dynamic Rationality Approach

Period	Issues	Systemic Response
Late 40s	Growth in civil expenditure; shortage of resources	Appointment of an independent committee to look into the details of each department and make recommendations for reduction.
Early 50s	Need for organized and higher levels of public investment	Establishment of the Planning Commission and the advent of Five Year Plans
Late 50s	Concern that there was a good deal of waste in government expenditure particularly in the development sector	Establishment of a committee on Plan Projects and Program Evaluation organization to review Plan projects and programs.
	Concern over the growth of civilian employment	Establishment of a Staff Inspection Unit in the Ministry of Finance to review the staff position in organizations.
	Concern that financial management capability of spending agencies was weak	Introduction of attached Financial Advisers scheme and delegation of enhanced financial powers to spending agencies. This scheme was further refined in the subsequent years.
	Need for cost accounting in public enterprises and for the determination of administered prices.	Establishment of a Cost Accounting Unit in the Ministry of Finance. The charter of the Unit was considerably expanded over the years.
	Need for coordination activities of public sector undertakings.	Establishment of a coordination cell in the Ministry of Finance, which later blossomed into a full-fledged bureau.
	Shortage of foreign exchange resources.	Introduction of a two-track system of expenditure control – one for rupee resources and another for foreign exchange, the latter administered by the Department of Economic affairs.
Early 60s	Need for coordinated management of foreign aid and related matters	Department of Economic affairs of the Ministry of Finance became the focal point for negotiations and management of foreign aid.
	Concern that budget classification was not user friendly and did not reflect the needs of spending agencies or match the classification	Introduction of Functional and Economic Classification on a supplementary basis.

be, even within the development sector of expenditure some loss in effectiveness and possible room for economy and avoidance of waste". P 34, Vol I.

	of the Planning Commission.	
	Need to secure economies in expenditure so as to pursue developments with enhanced defense capability.	Implementation of the All India Congress Committee (AICC) economy committee, recommendations about freezing posts and other measures. These measures have been periodically repeated since then, particularly in the 90s with minor modifications.
Late 60s	Recognition that budgets focused more on inputs than on outputs or performance.	On the Recommendation of the Administrative Reforms Commission, Performance budgeting was introduced on a supplementary basis.
70s	Working of the attached financial advisers scheme revealed several problems	A new scheme of integrated financial advisers was introduced
	Combined working of accounting and auditing was found to be counter productive	At the center, accounts were separated from audit and departmentalization of payments took place. As an integral part of this effort it was expected that departments would also have effective audit, management accounting and information systems tailored to the needs of each spending agency.
	Budget classification continued to be problematic	A Comprehensive classification derived from the program approach and that facilitated a link up with the development plan and the national income accounts was introduced.
	Need for detailed assessment of projects and programs prior to inclusion in the budget.	Establishment of a project appraisal division in the Planning Commission.
	Need for regular monitoring and major projects	Introduction of project information system in the Planning commission.
	Concern that the conventional financial control system and were suited to the major alleviation poverty alleviation program.	Beginning was made to associate non-governmental organizations in the delivery of services and enhanced decentralization was introduced.
80s	Recognition that public investment review needed to be revamped	Establishment of the public investment board: over the years investment limits reflecting the thresholds of review by the board were revised to reflect inflation.
	Continued need to check the growth in government expenditures	Introduction of zero based budgeting to review programs; selective ad-hoc economy measures continued
	Need for centralized payment of pensions	A central office for the payments of pensions was set up.
	Need for computerization of selected aspects of budget and accounting system.	Progressive efforts were made in the application of information technology.

90s	Growing fiscal crisis needed drastic measures to curtail the growth of expenditures.	Posts vacant for more than a year were abolished. Some organizations were wound up, and capital outlays were reduced.
	Need for improved debt management	A ceiling on borrowing from the RBI was specified. A cell was set up in the Reserve Bank to facilitate the management of public debt.
	New measures in the context of economic liberalization	Foreign exchange and dual control tracks were abolished; guarantees monitoring was installed
2000s	Continued need to reduce expenditures	An Expenditure Reforms Commission was set up. Zero-based budgeting was given additional impetus.
	Concern that there was no medium term strategy to reduce deficits and to commit the government for the pursuit of prudent fiscal policies	A Fiscal Responsibility Bill was introduced in the Parliament. When enacted it would mandate the specification of the economic assumptions underlying the annual budget and the strategy for the containment of the deficits.

If all the above noted improvements are in place, and if they are effectively working, then the issues in expenditure management would be few and far between and in any event, would not be of major significance. Although there was some dynamism in addressing the problem, curiously, there are now more major problems that need to be addressed. In one way, it would appear that there is greater disillusionment with the system of public expenditure management and apprehensions about the capability of the system to address the current and future issues. This sense of disillusionment, which is pervasive has its origin in the failure in carrying out the reform process, on the one hand and the changing tasks inherent in the changing portfolios of government expenditure. In addition there are other compelling factors that indicate the need for major changes in the content and strategy of expenditure management.

5. Factors Contributing to Change

In general, both in industrial countries and the developing countries the public perception is that there is considerable waste in government expenditures and that there are several fraudulent transactions that benefit the rent seeking class among the political and civil services. More significantly, this view and the consequent lack of trust in governments has been growing overtime and in line with the growth of public expenditures.[11] Several factors including facts and some popularly held beliefs that tend to exaggerate the actual experience have contributed to this view. It is quite possible that to start with the expectations of the public are high and that in the circumstances a degree of disappointment is built into the system. The perspective of the participants in the process tends to be naturally different. They hold the view that the public distrust is largely attributable to the enormous appetite of the fourth estate for the scandals and the sleaze and that in the process the good work done by the government is often ignored. Be that as it may, the fact remains that this perception[12] has contributed to a significant erosion in the trust

[11] For a detailed discussion of these aspects in relation to industrial countries. See Nye et al, BoK, Dunn and Lipset. Lipset provides a historical as well as an international perspective. Bok provides an incisive case study of the United States while Dunn deals extensively with the political implication.

[12] It may be useful to recall Flaubert's admonition "there is no truth; there are only perceptions", or Splenger's remark "there is no truth; there are different degrees of lies".

and confidence that the public has on governments, their capacities and more specifically the effectiveness of their fiscal machinery.

The perceptions of the public are also influenced by their view on policy making in governments. In their view, policy making is captured by a loose alliance of vested interests and that the needs of the public get only a token recognition. Budgets as implemented are often different from those announced and that there are several implementation lags and shortfalls. In several cases, because of the emergence of the unforeseen factors the announced budget strategy yields place to the adoption of tactical approaches that in several cases may work contrary to the purposes. Programs which are to receive lower allocations may end up with their allocations protected, while the more important ones may be severely under-funded. These aspects exemplify the systemic shortcomings adding additional grist to the mill of cynicism and growing distrust.

The view is also held that the expenditure management machinery is too process oriented focusing more on the procedural and legal aspects and less on the actual delivery of services to the community. The laws and the rules which have been growing in number and complexity, tend to create more problems and obstacles and to the overall administrative costs.

Moreover it is argued that notwithstanding the formulation of the medium term development plans the actual operations are determined by the annual allocations released as distinct from those provided in the budget estimates and to that extent, the approaches suggest a great deal of reliance on short termism. It is pointed out that fiscal problems do not lend themselves to quick resolutions within the focus of an annual budget and that a more consistent and coherent framework is needed within a medium term orientation. The need for medium term approach is recognized and has been explicitly provided as a major feature of the recently proposed Fiscal Responsible draft legislation,

These and numerous other additional factors suggest that the dynamic changes referred to Table – 7. are not adequate and that more need to be done. While it could be argued counterfactually that in the absence of changes that have been made over the years. The situation could have been a lot worse, that alone does not offer any comfort to those engaged in the formulation and implementation of the fiscal policies.

6. A Framework for assessment

Perception and the apprehensions need to be supported by a more empirical examination if conclusions are to be viable and valid. Successful implementation of fiscal policy requires that the governmental machinery should be both responsive in terms of meeting the changing demands and must be effective in the provision of services that are integral parts of those demands. Measuring and evaluating the performance of the fiscal machinery is a difficult task. Putnam [13] suggests that the criteria selected should be comprehensive (reflecting the broad range of fiscal activities), internally consistent (in view of the multiple dimensions of expenditure management), reliable (consistent performance over a period) and should in general reflect the concerns of the stakeholders and the stockholders. Keeping these tenets in view, some international financial institutions have formulated elaborate questionnaires, and in some cases, tool kits and manuals of operations. These efforts are primarily aimed at gathering information about the features of the expenditure management system but are not effective in capturing the dynamics of the working of the system or in enabling of a systematic evaluation of a system. To that extent, separate efforts relevant to a country and sharing the above features, are indicated.

Evaluation of the working of the expenditure management machinery can be undertaken in two ways – intent and outcome and a counterfactual approach. The former deals with the institutional aspects –(policy processes) of policy formulation and the processes for implementing

[13] See Putnam (1993) P 65 onwards. Here the approaches of Putman are adopted to the working of the expenditure management machinery.

them and the results achieved. This approach of before and after has however, two major limitations. First, the intent itself may be a heavily biased one.[14] Second while the assessment of the actual outcome is easy, it suffers from the problem that it assumes that all other things remain equal. In actual fact, the assumption and consequently the policy objectives change over time and during the year and to that extent a straight analysis of the deviations in the outcome may not fully reflect the importance and the impact of intra fiscal year changes. The second approach, counterfactual, seeks to compare the outcome of the alternative of what would have happened in the absence of the expenditure management machinery. Notwithstanding, the intellectual appeal of a logical alternative it is difficult to imagine, let alone formulate an alternative that could function in the absence of an expenditure management system. While it is not difficult to envisage a different system, it will continue to have many of the elements that are now in practice.

Given the above limitations it is proposed for the purposes here, to evaluate the system in terms of its processes for policy formulation and implementation. The tasks of expenditure policies are however several and cover a wide field. In each area, notwithstanding the diversity in fields of operation. Some common tasks are performed by the expenditure management machinery in that policies are formulated, moneys are allocated and spent, laws are passed, services are delivered, and internal operations are managed. Keeping these aspects in views, it is proposed to undertake an evaluation in terms of the following three clusters that reflect the multiple dimensions of expenditure management.

Macroeconomic dimension
How are the policies formulated in regard to the annual allocation of resources? How is the resource constraint recognized, conveyed to numerous decision centers in government and internalized in the day to day performance of the tasks? What are the processes of consultations with stakeholders and stockholders? What are the techniques utilized to estimate the budgetary requirements over the short and the medium terms? What plans are available for risk management? And what are the means available to ensure that the outcome at the end of the fiscal year is, as far as possible, congruent with the intent?

Delivery of services
What are the policies regarding the delivery of services? How secure is the funding? What is the client orientation in the provision of services? To the extent that services are provided by other levels of government or non-governmental organizations, what administrative techniques are utilized to ensure that the service delivery takes place according to the intent? What incentives are in place to ensure that the public avails of expenditure benefits, and,

Exploration of the avenues of economy and efficiency
What consideration is given to the possibility of securing economy in the formulation of programs and projects? What techniques are utilized to gain economies during the course of policy implementation? What are the incentives for the administrative agencies to look for economies? To what extent is public participation likely to promote a more economical utilization of resources.

In specifying these criteria, it is recognized that purists of governmental financial management (who tend to limit the scope of public financial management to the scope of work traditionally performed by the ministries of finance) may object to the inclusion of service delivery in the above framework. In reality, it has to be recognized that the goal of all

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[14] For an extended discussion of the political administrative and technical biases inherent in the formulation of budget estimates, see Premchand (2000).

governments is to provide services in an economical and efficient way and to that extent it cannot be separated from the goals of expenditure management machinery. Further, the acceptance of the 'performance' dimension of budgeting by governments implies that the operational objective is to provide services and to be accountable for the results achieved, The emphasis thus is less on the mechanics of expenditure management but on the assessment of their collective endeavors. The intent here is not to provide specific answers to each of the above issues but to point out the system's shortcomings that emerge when the above framework of evaluation is applied.

7. Emerging issues:

The application of the above criteria to the Indian system reveals several major systemic and operational issues. Keeping in view the space limitations the following discussion is limited to the major issues:

Macroeconomic aspects:

- The economic assumptions relating to the rate of growth, inflation rate, exchange and interest rates that form the basis for the budget estimates are not specified. This problem is however addressed in the Fiscal Responsibility Bill, and once that becomes a part of the enacted legislation government would be obliged to specify these assumptions.
- The coverage of the budget has tended during the last decade to be less than the ambit implied in the policy framework. As a result transactions covered by the oil coordination committee (which has no statutory or legal following) are left out of the budget. Further, there is no systematic assessment of the contingent liabilities. As a result when they arise, they are addressed through the supplementary estimates.
- The resource constraint is recognized in a broad way during the process of annual plan discussions, but is not internalized by the administrative departments in the preparation of the draft estimates, as they are not communicated in terms of individual demands for grants. Consequently, there is little public planning in conformity with the changing resource picture.
- The financial implications of the continuing programs beyond the next fiscal year are not examined; As a result the focus of budget review is limited to new proposals and that too for the next year. The traditional anchor of expenditure control has been and continues to be the staff position or sanctioned strength. Here in the absence of objective criteria the initiative lies with the proposing departments and the role of the central agencies such as the ministry of finance is limited to fringe cuts. This practice has contributed to two aspects that have had and continue to have an enduring impact on the growth of expenditures. First, most programs have become supply driven in that personnel norms to the extent there are any, are internally fixed and often have very little to do either with the demand factors or with the resource position. Second, the administrative separation of plan and non-plan outlays gives the false impression that the maintenance outlays are pruned, while development outlays are augmented. The fungibility of resources personnel and facilities, however permits the departments to continue operations as if business was normal.
- The anti – cyclical measures are often late, and may not have the intended effect. Often outlays aimed at stimulating the economy, are devoted to short-term labor-intensive local works that have no enduring contribution. On the other hand, measures aimed at reducing fiscal austerity have become, over the years, so routine that they have little impact on the real operations of departments. Over the years, there has been so much slack built into the budget estimates that very little difficulty is experienced, in meeting the annual demands for austerity. Further, the measures of austerity such as embargo on foreign tours,

purchase of equipment and similar effects are so peripheral to the Central activity of each department, that their impact is, even at the best of times, minimal.

- There is very little effort devoted to the anticipation of risks or their management. The budget estimates have very little margins, and in the absence of any contingency reserve in the planning of annual budgetary magnitudes, changes in the economic assumptions, and in the economic realities, contribute to frenetic activity to change budget allocations. This in turn, has contributed, to a chronic under-funding of several programs and projects with significant impact on the delivery of services and costs of services. The existing rules and traditional practices provide for the submission of supplementary estimates thrice during the year. In turn, this makes the initial budget a putative one. In addition, this contributes to a budget outcome that is different from the one initially presented. While supplementary budgets provide the much needed flexibility, they have also contributed to pattern of budget making throughout the year.

Box 1

Fiscal markmanship in India

To study the fiscal markmanship in India, two indicators are considered, the deviation of the revised and the actual from the budgetary estimates for the last four years for the center. Revenue receipts, comprising tax (net of states' share) and non-tax revenue have been overestimated for all three years except the last year which is unusual in other respects as well.(According to latest News Paper Report, a revenue shortfall may lead to a slippage of the fiscal deficit). The budget estimate of the fiscal deficit (5.1 percent of GDP) for the financial year 2000-01 could be successfully achieved not only because revised estimate of revenue estimates exceeded its budget estimate by 1.2 percent in sharp contrast with the general tendency for the revenue receipts to be overestimated, but capital expenditure, both plan and non-plan, had to be curbed. This led to a fall in even non-plan revenue expenditure which is a clear break from the trend, to accommodate the shock of fiscal adjustment to achieve the fiscal deficit target. The plan expenditure and the capital account in particular, always fell short of the budgeted estimates indicating that it is the discretionary part of the expenditure which has been sacrificed.

Table : Fiscal Markmanship in India

(percentage change

	1997-98		1998-99		1999-2000		2000-01
	Revised/ budgetary	Actual/ Budgetary	Revised/ budgetary	Actual/ Budgetary	Revised/ budgetary	Actual/ Budgetary	Revised/ budgetary
Revenue Receipts	**-9.55**	**-12.56**	**-2.67**	**-7.71**	**-1.82**	**-0.73**	**1.22**
Non Plan Expenditure	3.12	2.17	8.99	8.48	8.44	7.26	-0.44
Revenue	0.15	-0.46	6.25	6.43	7.66	6.29	0.73
Capital	21.58	18.51	24.39	20.03	17.45	18.38	-12.79
Plan Expenditure	-3.54	-6.01	-5.04	-7.20	3.11	-1.06	-2.11
Revenue	-3.82	-6.34	-5.29	-7.41	3.16	0.31	1.48
Capital	-3.11	-5.51	-4.67	-6.88	3.03	-3.17	-7.37
Total Expenditure	**1.32**	**-0.05**	**5.22**	4.27	**6.99**	**5.00**	**-0.88**
Total revenue	-0.66	-1.67	3.85	3.55	6.77	5.12	0.87
Total Capital	8.77	6.05	10.21	6.90	8.12	4.44	-9.41
Fiscal Deficit	**31.92**	**35.88**	13.97	**24.53**	**36.20**	**30.97**	**0.63**

Note: Fiscal deficit figures are in rupees crore.
Source: Union Budget, relevant issues·

- The absence of properly organized cash management has contributed to tactical measures toward the end of the year, which, while ensuring conformity to the borrowing limits, have also given rise to hidden liabilities.

Provision of Services:

- An examination of the expenditure portfolio reveals that bulk of budgetary outlays, excluding defense, debt services, salaries and pensions, is devoted to transfers to other levels of government and to autonomous organisations. To that extent, there is an inevitable separation between funding and the actual provision of services, the former being the responsibility of the central government, and the latter, widely diffused among a welter of government agencies. To that extent, congruence in the actual course of implementation, between funding and provision of services, has been rendered difficult.
- Most programs, as noted above, are supply driven and are personnel oriented. In such situations, under-funding leads to serve adjustments in the provision of services.
- The emphasis is primarily on the financial aspects, rather than on the delivery mechanisms. At the stage of planning, there is very little effort to the consideration of alternative mechanisms for delivery, and the pace of spending is considered equivalent to development. From this point of view, a major part of service delivery or development takes place during the last quarter of the fiscal year.[15]
- The implementation of major projects funded by the central budget leaves a good deal to be desired. Notwithstanding, extensive emphasis on investment appraisal and detailed procedures for the screening of projects, the process of implementation shows that persistent under-funding and their spread of funds over numerous projects, leads to inordinate delays in the completion of projects. When completed, the overall cost is several times more than the initial estimates, and the return, when realized, is far from adequate to serve the debt incurred to finance the project. Thus, in practice, the application of the golden principle, has been rendered difficult.
- The experience in regard to entitlement programs and other poverty alleviation measures shows major problems in the two formal elements of these programs. First the program administration costs are substantially high, and second, the benefit payments often do not reach the intended beneficiaries. In some cases, the benefits may not be utilized because of social and class barriers. In most cases, the program designs take into account the client needs only as a token gesture. The systemic underpinning at the local government level for the administration of benefits is far from being considered as adequate. Case studies reveal that many of the local governments wait until allotments are physically available before or they plan their usage.[11] In several cases, central assistance is released too late in the fiscal year, contributing in turn to further delays at the lower levels.
- Administration of benefit programs requires a major degree of flexibility, at the District level of bureaucracy or the cutting edge. Besides, there are far too many layers of administrative decision making which also leads to several levels of rent seekers and to bottlenecks in the delivery of services.

Pursuit of efficiency and economy: Notwithstanding the significant conceptual difference between these two, in practice, they are used synonymously. Efficiency refers to the process of gaining more outputs for a given quantity of inputs. Economy refers to using fewer inputs to gain a specified level of outputs. To a very large extent, the scope for

[15] This may not be true in case of some State governments as what is shown as expenditure is not expenditure on services but are accounting transfers to personal ledger or budget accounts which then permit the authorities to spend the amounts over an extended period.

achieving either of these features is dependent on two factors: (i) the consideration given to these aspects in the initial design of the program, and (ii) at a later stage, the economies derived and efficiency secured through the exploitation of competitive pressures in the procurement of materials and equipment, and in the utilization of management techniques to reduce inventories, overlapping services, and administrative overheads. Experience shows, that the existing system of expenditure management has many features that make the pursuit of economy and efficiency extremely difficult. These include the following:-

- The implementation of programs is not preceded by the specification of cost, time and quantity schedules against which the delivery of actual services may be measured.

- The relationship between the resources provided in the budget and the services to be provided is, at best, nebulous. Resources provided may not, to start with, be adequate for the purpose, and what is provided may not be funded, and what is funded may be provided too late in the course of the fiscal year.

- To the extent, that these features are deemed to have been taken into the original design, experience shows that there is often a good deal of slack, providing a good deal of cushion to the manager against austerity regimes that may be imposed later.

- Agencies are not endowed with any incentives to secure economies or efficiency. Success is not rewarded and failure is not penalized; and

- Even the application of zero-based budgeting did not have much impact, as it was applied to new proposals, and to the vast mass of the continuing programs.

8. Addressing the issues

The preceding discussion illustrates the need for more and continuing efforts at a more comprehensive review of the existing institutions, organizations, and the systems and operational techniques deployed by them to ascertain the factors contributing to their under achievement, and to design, develop, and implement measures aimed at their improvement. The issue is not 'whether' there is need for improvement. Rather, it is when and how? But in undertaking this effort, some preliminary considerations have to be kept in view. First, it is useful to reiterate that expenditure management is to be examined in terms of the economic context, and how it could better serve the objectives of fiscal policies, and not in an isolated way. The process of expenditure management plays a critical role in policy planning to the allocation and utilization of resources. Second, the two paradoxes that characterize expenditure management require explicit recognition. The growth in outlays is generally accompanied by growing discontentment about the range and quality of service provided. The discontentment does not however, lead to reduced demand for government services. On the other hand, and paradoxically, there may be an increased demand for services. Similarly, improvement in the delivery of services may need empowerment of the public and its participation in the design and oversight of program. Paradoxically however, the bulk of the users may not have the requisite political power to make the changes. Third, the design of the expenditure management framework should pay adequate attention to the changing portfolio of expenditures. To the extent that a growing share of expenditures is in the form of transfers to local governments and autonomous organizations. Complementary efforts also need to be made to improve their operational effectiveness; Fourth, the changing nature of technology in every sphere of governmental activity and its implications for the deployment of capital and labour, and for the expectations of the public have to be taken into account. In several areas, the growing use of technology has contributed to a steady increase in operational costs. For example, in defense, there has been a gradual increase in the use of technology. Since the Second World War, the use of radio technology, radar machinery, jet engines, missile technology, rockets and satellites have all added to the cost.[16] Similarly, in the area of medicine, the use of highly capital intensive machinery has contributed to higher costs and greater public expectations. In some other areas, e.g. information and communication technology, costs have been, over the years, declining. The personnel costs have been growing, reflecting the Baumol diagnosis, the increase in the number of persons employed and their generous pay packages. These aspects have to be taken into account in any framework of expenditure management.

9. Toward an Improved Framework:

Identification of problem areas needs to be followed by the formulation of framework, as distinct from a blueprint, for improvement. A framework seeks to provide the essential directions while a blueprint seeks to furnish a complete architectural design. The framework, as recognized earlier, seeks to promote macro economic stability over the medium term, in conformity with the envisaged Fiscal Responsibility legislation, and permits the identification of priority areas on which more spending may be needed, and seeks to provide an economical and efficient range of services either directly or through collaboration with the corporate sector or nongovernmental organization.[17] The basic features of the proposed framework are – medium term fiscal and expenditure planning; explicit recognition of the resource constraint; a resource–use budget framework, agreements on the public services to be provided and incentives to the administrative agencies and to the community to facilitate a better utilization of the facilities. It also places due emphasis on risk management and the participation of the public. More specifically, the following elements illustrate the improvements over the existing framework.

(i) Policy planning and allocation of resources: The scope of both these aspects has to extend beyond the normal fiscal year. While the five year plans provide the overall framework, it is necessary to undertake medium term fiscal framework on a rolling basis. This framework, distinct from the five year plan, seeks to provide a detailed three year rolling outlook for the resources to be raised, by each category, and the allocations needed by each program and project, for existing policies, and the proposed changes and expansions. This framework is drawn from explicit assumptions about the rate of growth, rate of inflation, as well as exchange and interest rates. Medium term expenditure planning is an integral part of this framework and illustrates, the financial implications for existing policies, as well as the leeway for additional outlays. Formulated on a rolling basis, it illustrates the implications of the existing expenditure pattern, the scope for changes, and other aspects. Expenditures, for this purpose, would be comprehensive and would include contingent liabilities as well as notional reserves for meeting unforeseen changes. It has the capability to illustrate the dynamics of the working of the programs and projects and their impact on supply and demand driven expenditures. It will also illustrate the impact of changing pattern of demand and their impact on the allocation of resources.

(ii) Annual budgets: On the basis of above forecasts, the central agencies would formulate an advance plan before the start of the budget activity, indicating the ceilings for each cluster of

[16] Historian Ferguson says that Fighters now cost two hundred times as much as they did during the Second World War and aircraft carriers are twenty times as expensive. See Ferguson (2001). P 32.

[17] Part of the discussion here is based on the more detailed account provided in Premchand (1999), (2000) and (2001)

activities. These ceilings, once approved by the cabinet, would form the basis for the preparation of annual estimates by the departments and agencies. In indicating the ceilings, which will be considered as a hard constraint, the risk areas, the areas where economics are possible and the changes in priorities would be indicated to the agencies. The formulation of ceilings is not a unilateral exercise but is the result of regular interaction between the needs of the spending agencies (as emerging from the rolling expenditure framework) allocable resources (drawn from the medium term fiscal framework) and the prudent limits on domestic and foreign borrowing.

The role of the cabinet, in this process, is far more than is found in the conventional executive type of budget system. An era of coalition politics requires the pursuit of more inclusive, and participatory, while being responsible, political practices, The annual rite of formulation of ceilings, which will also transform the budgetary process into a more revolutionary one will also provide for margins to cover the risks associated with the changes in the underlying economic assumptions.

(iii) Resource-use budgetary framework : The administrative departments would be required to formulate budget estimates within the specified ceilings. While this feature is normal for any type of budgeting, the changes envisaged in this framework relate to the identification of this main objectives proposed to be pursued during the year and the services that would be provided during the fiscal year. It seeks to provide an explicit linkage, as illustrated in Table-8, between the objectives, programs and the results to be obtained.

Table – 8 : Illustration of Resource-use Budget
Department

Objectives	Continuing programs	Proposed outlays FY	Services to be provided
1. →	· → · → · →	→	
2. →			
3. →			

The services to be provided, supplemented by appropriate indicators of accountability contribute to an implicit agreement with the community. This public service agreement becomes the annual charter of the agencies.

(iv) Anchor of Expenditure Control: The conventional methods have laid stress on the limits in the creation of posts, hiring of personnel, consumption of utilities, and the exercises were more influenced by resource limitation than by the objectives of programs and the requirements of projects. The futility of these approaches has been abundantly illustrated over the years, and a discussion of the factors contributing to their failure is beyond the scope of this paper[14]. In the proposed framework expenditure management will have its foundations firmly rooted in four pillars. First, in recognition of the fact that expenditure are unequal, the expenditure control framework will have to be a diversified one. For illustrative purposes, three segments with different characteristics can be envisaged. Defense, where bulk of the focus will be on the procurement of equipment and materials. Emphasis on personnel yields, very few enduring results and as such will have to be shifted to the Achilles heel of defense management –

[14] For a more detailed discussion see Premchand,(2000).

procurement and contracting procedures; Similarly outlays on social sectors, in particular on health and education, tend to have unique features. In health increasingly, more and more amounts will be spent on the acquisition of equipments, medicines and maintenance of hospitals. In each of these areas, costs have to be calculated. In education emphasis has to be appropriately on the personnel as most activities are labor-intensive. Measures at poverty alleviation tend to have a greater share of transfer outlays. Moreover, the design flaws can hardly be compensated through the exercise of routine financial controls at the disbursements stage. As such, expenditure management has to lay more emphasis on the design of the program and the exploration of the alternatives. Second the basis of expenditure allocations should be the cost of operations. Many of the procedures in the health sector as in many other scores can be costed. Such costs suitably adjusted for expected inflation should form the basis for allocations. Within these allocations agencies should have the freedom to determine the staff position and the limits on other consumable materials. Third, the allocations will also be based on the public service agreement. Each agency would be obliged to indicate the services or products (discussed further on) that will be provided during the fiscal year, from out of the envisaged funding. Fourth, the amounts provided in the budget should generally be assured. Money flows should be continuous and predictable. These four principles each one reinforcing the others provide, for a more effective expenditure framework that would also restore some credibility to the system.

(v) Resource utilization: Three measures are envisaged to strengthen the process of resource utilization, so that the objectives indicated in the resource use budget could be fulfilled. These three are (i) introduction of public service agreements (ii) strengthened money management (iii) incentives to the spending agencies.

Public service agreements refer to the services that are to be provided by each agency. These agreements should indicate the range of services, how they meet the clientele requirements, the cost of their provision, quality of services. Suitable benchmarks against which they will be evaluated and similar objective indicators. These documents would be provided to the public and would provide the basis for an assessment by the client groups. Money management in government is intended on the one hand to promote smoother flow of funds to the agencies (which will also minimize the last month rush of expenditure) and on the other, facilitate a more organized coordination with debt management.

Spending agencies have to be provided with incentives to secure economies in expenditures. Such incentives could take several forms and the most common one is to permit the agencies to retain the savings within the overall policy framework, so that they could be used for specified purposes by the agencies.

(vi) Risk management: The implementation of any budget be it a government or a corporate one involves several risks in that the assumptions on which the budget is based may turn out to be wrong or inaccurate. Estimated receipts may suffer a shortfall while expenditures may overshoot due to natural calamities. The estimation of possible risks and the ways in which they may be addressed should form part of risk management approaches. As an integral part of this effort expenditure plan should provide for a contingency reserve and should identify the major risks likely to be encountered in the implementation of the budget. These plans should take into account the major variations in project outlays and the contingent liabilities that may arise.

(vii) Regional and local governments: As noted previously, substantial amounts of central outlays are in the form of transfers to state and local governments. Most of these transfers have a good deal of ring fencing in that the conditions for their use are specified in great detail. Notwithstanding the elaborate conditionality and the considerable expenditure incurred on administrative oversight (inspections etc.) the general perception is that these funds do not always yield the expected results. The alternative to this is not additional conditionality but the negotiation of public service agreements of the type suggested above. These agreements build a nexus between the service provider and the intended receiver and will go a long way in ensuring that the wishes of the funding agency are fulfilled. As an integral part of this effort the expenditure management processes in the state and local governments should also be strengthened.

(viii) Utilizing expenditure benefits: Role of the Public: It is frequently suggested that since the public is the intended beneficiary of all government expenditures it should be associated with the selection and monitoring of services.[18] Several industrial countries have taken steps during recent years to involve the public particularly at the local government's level. The form and benefit of such association has not been without controversy. Some argue that this could lead to intense politicization of the financial process, [19] while others suggest that this could lead to the emergence of more local lobbies. Despite these problems, it seems useful to make a beginning in associating the client groups so that the design of programs may take into account their views, and provide an impetus for a more extended use of benefits.

10. Relevance of international experiences:

Financial and expenditure management is one of those areas where the differences among various countries are found not so much in concepts but in day to day practices. To that extent, the problems experienced, which vary both in incidence and degree, tend to be uniquely applicable to a country. The problems enumerated in the preceding sections are, despite some commonality with other industrial and developing countries, uniquely those of India. Accordingly, the framework for improvement while, drawn in some cases from the other experiences, has been designed for India alone. The endeavor is not to look for the best practices but for the best fit. That said it should also be noted that the changes proposed have been tried elsewhere and form integral parts of generally accepted expenditure management practices.

[18] See for example Putnam (1993).

[19] Echeverri Guit suggests that in some cases, as in West Bengal, politicisation may actually contribute to more effective implementation of projects (1993).

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Table A1
Major Heads of Expenditure: Center

(Rupees crore)

	Revenue Expenditure	*of which* Defense	Interest	Subsidies	Capital Expenditure	Loans & Advances	Capital Outlay	*of which* Defense	Total Expenditure
1970-71	3130	1052	606	94	2494	1552	942	148	5624
1971-72	3968	1347	670	104	2924	1807	1117	179	6892
1972-73	4538	1439	776	205	3319	2344	975	213	7857
1973-74	4777	1481	882	361	3441	2432	1009	200	8218
1974-75	5677	1920	1001	419	4259	2629	1630	192	9936
1975-76	6978	2251	1228	470	5401	3151	2250	221	12379
1976-77	8270	2347	1488	947	5387	3517	1870	215	13657
1977-78	9108	2386	1646	1287	6398	4155	2243	248	15506
1978-79	10682	2614	1984	1475	8084	5666	2418	254	18766
1979-80	11803	3094	2292	1821	7159	4720	2439	262	18962
1980-81	14410	3278	2604	2028	8358	5285	3073	326	22768
1981-82	15408	3844	3195	1941	9857	5658	4199	485	25265
1982-83	18742	4494	3938	2262	12049	7384	4665	527	30791
1983-84	22251	5189	4795	2902	13283	8053	5230	642	35534
1984-85	27691	6324	5974	4038	15941	9194	6747	737	43632
1985-86	33924	7021	7512	4796	18742	11087	7655	967	52666
1986-87	40860	9179	9246	5451	22056	12797	9259	1298	62916
1987-88	46174	8861	11251	5980	22087	12793	9294	3107	68261
1988-89	54106	9558	14278	7732	25005	14750	10255	3783	79111
1989-90	64210	10194	17757	10474	28698	16890	11808	4222	92908
1990-91	73516	10874	21498	12158	31782	19652	12130	4552	105298
1991-92	82292	11442	26596	12253	29122	17723	11399	4905	111414
1992-93	92702	12109	31075	10824	29916	16297	13619	5473	122618
1993-94	108169	14978	36741	11605	33684	20454	13230	6867	141853
1994-95	122112	16426	44060	11854	38627	23732	14895	6819	160739
1995-96	139861	18841	50045	12666	38415	24316	14099	8015	178276
1996-97	158933	20997	59478	15499	42074	27878	14196	8508	201007
1997-98	180335	26174	65637	18540	51719	34193	17526	9104	232054
1998-99	217419	29861	77882	23593	61947	44037	17910	10036	279366
1999-2000	249109	35873	90249	24706	48975	25519	25183	12631	298084
2000-01(RE)	283535	40661	100667	26949	51987	24470	32919	17926	335522
2001-02(BE)	310566	NA	112300	29801	59657		NA		370223

RE: Revised estimates, BE: Budget Estimates, NA: Not available

Note: Expenditures figures of the Central government given in these tables will not tally with figures published in the respective Budget documents prior to 1991-92. See Appendix IV

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, 2000; Union Budget 2001-02.

Table A2
Major Heads of Expenditure in terms of GDP: Center

	Revenue Expenditure	Defense	*of which* Interest	Subsidies	Capital Expenditure	Loans & Advances	Capital Outlay	*of which* Defense	Total Expenditure
1970-71	6.82	2.29	1.32	0.20	5.44	3.38	2.05	0.32	12.26
1971-72	8.07	2.74	1.36	0.21	5.95	3.68	2.27	0.36	14.02
1972-73	8.37	2.66	1.43	0.38	6.13	4.33	1.80	0.39	14.50
1973-74	7.25	2.25	1.34	0.55	5.22	3.69	1.53	0.30	12.47
1974-75	7.29	2.47	1.29	0.54	5.47	3.38	2.09	0.25	12.77
1975-76	8.34	2.69	1.47	0.56	6.46	3.77	2.69	0.26	14.80
1976-77	9.18	2.60	1.65	1.05	5.98	3.90	2.07	0.24	15.15
1977-78	8.93	2.34	1.61	1.26	6.27	4.07	2.20	0.24	15.20
1978-79	9.66	2.36	1.79	1.33	7.31	5.12	2.19	0.23	16.96
1979-80	9.72	2.55	1.89	1.50	5.90	3.89	2.01	0.22	15.62
1980-81	9.98	2.27	1.80	1.40	5.79	3.66	2.13	0.23	15.77
1981-82	9.09	2.27	1.89	1.15	5.82	3.34	2.48	0.29	14.91
1982-83	9.92	2.38	2.09	1.20	6.38	3.91	2.47	0.28	16.30
1983-84	10.13	2.36	2.18	1.32	6.05	3.67	2.38	0.29	16.17
1984-85	11.22	2.56	2.42	1.64	6.46	3.72	2.73	0.30	17.67
1985-86	12.10	2.51	2.68	1.71	6.69	3.96	2.73	0.35	18.79
1986-87	13.03	2.93	2.95	1.74	7.03	4.08	2.95	0.41	20.06
1987-88	12.99	2.49	3.17	1.68	6.21	3.60	2.61	0.87	19.21
1988-89	12.78	2.26	3.37	1.83	5.90	3.48	2.42	0.89	18.68
1989-90	13.16	2.09	3.64	2.15	5.88	3.46	2.42	0.87	19.05
1990-91	12.93	1.91	3.78	2.14	5.59	3.46	2.13	0.80	18.51
1991-92	12.60	1.75	4.07	1.88	4.46	2.71	1.74	0.75	17.05
1992-93	12.39	1.62	4.15	1.45	4.00	2.18	1.82	0.73	16.38
1993-94	12.59	1.74	4.28	1.35	3.92	2.38	1.54	0.80	16.51
1994-95	12.06	1.62	4.35	1.17	3.81	2.34	1.47	0.67	15.87
1995-96	11.77	1.59	4.21	1.07	3.23	2.05	1.19	0.67	15.01
1996-97	11.62	1.53	4.35	1.13	3.08	2.04	1.04	0.62	14.69
1997-98	11.85	1.72	4.31	1.22	3.40	2.25	1.15	0.60	15.24
1998-99	12.37	1.70	4.43	1.34	3.52	2.50	1.02	0.57	15.89
1999-2000	14.49	1.83	4.61	1.26	2.66	1.30	1.29	0.65	15.23
2000-01RE	14.26	1.87	4.62	1.24	2.74	1.12	1.51	0.82	15.40

RE: Revised estimates,
Note: Expenditures figures of the Central government given in this table are same as Table 1. GDP figures are revised with 1993-94 base. See Appendix IV.
Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, 2000, National Accounts Statistics, Central Statistical Organization, GoI. Union Budget 2001-02.

Table A3
Major Heads of Developmental and Non-developmental Expenditure: Center

(Rupees crore)

	Development Expenditure	*of which* Economic	Social	Non Development Expenditure	Total Expenditure
1980-81	13327	5644	1004	9867	23194
1981-82	13791	6737	1244	12644	26435
1982-83	16333	7653	1509	15897	32230
1983-84	19407	9043	1689	18364	37771
1984-85	27375	12021	2146	18525	45900
1985-86	32909	14014	1496	20899	53808
1986-87	35498	16275	2161	26060	64778
1987-88	36573	15722	2369	30261	70461
1988-89	41536	18022	2769	35519	81529
1989-90	54204	25602	3061	41020	95224
1990-91	58645	24588	3274	49349	107994
1991-92	59313	23681	3569	55170	114483
1992-93	65479	26248	4009	60584	126063
1993-94	72464	27571	4830	73586	146050
1994-95	82803	33897	5873	82402	165205
1995-96	84427	35029	7655	98632	183059
1996-97	94197	37253	9672	112217	206414
1997-98	110994	44246	11845	127820	238814
1998-99	137257	54375	14656	150298	287555
1999-2000	133039	62543	17418	180219	313258
2000-01RE	134637	64977	17693	213580	348217

RE: Revised Estimates

Note: The expenditure figures given in the table differ from the data given in the budget of the Central government on account of inclusion of the receipts of the commercial departments in the revenue account. With respect to classification of budgetary figures into developmental and non-developmental heads, data from 1974-75 onwards cover expenditure on food subsidy under the head 'agriculture and allied services' under development expenditure; in earlier years data on the expenditure on these items were included under the head 'other expenditure' as part of non-development expenditure. See Appendix IV.

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, 2000.

Table A4

Total Expenditure of the Central Government: Economic Classification

(Rupees Crore)

	Final Outlays			Transfer payments to the Rest of the Economy			Financial	Total Expenditure
	Consumption Expenditure	Gross Capital Formation	Total Outlays	Current Transfers	Capital Transfers	Total Transfers Payment	Investment and Loans to Rest of the economy	
1970-71	1669.4	519.3	2188.7	1239.1	193.3	1432.4	1955.5	5576.6
1971-72	2054.5	597.4	2651.9	1722.7	283.8	2006.5	2051.3	6709.7
1972-73	2262.1	677.1	2939.2	1851.5	428.6	2280.1	2630	7849.3
1973-74	2312.5	782.3	3094.8	2059.5	356.3	2415.8	2620.2	8130.8
1974-75	2866.8	1227.4	4094.2	2449.8	375	2824.8	2865.9	9784.9
1975-76	3449.2	1204.3	4653.5	3017.7	535.7	3553.4	3829.6	12036.5
1976-77	3605.9	1111.8	4717.7	3944.7	501.9	4446.6	3985.8	13150.1
1977-78	3678.2	1107.2	4785.4	4677.9	754.6	5432.5	4767.7	14985.6
1978-79	3975.2	1300.5	5276.6	5682.6	1062.7	6745.3	5695.9	17717.8
1979-80	4502.4	1527.6	6030	6063.8	1219.6	7283.4	5190.9	18504.3
1980-81	5174	1907.5	7081.5	6911.6	1302.2	8213.8	7199.5	22494.8
1981-82	6096.3	2551.9	8648.2	7728.2	1524.8	9253	7499.8	25401.0
1982-83	7056.9	2884.3	9941.2	9589.8	1787.9	11377.7	9174.8	30493.7
1983-84	8130	3355.7	11485.7	11436.3	2337.1	13773.4	10728.6	35987.7
1984-85	9428.2	4123.3	13551.5	14938.1	2957.7	17895.8	12431.6	43878.9
1985-86	11210.4	4557.7	15768.1	18347.4	3825.1	22172.5	15171.8	53112.4
1986-87	14664.7	5905	20569.7	21242.8	4407.8	25650.6	17802.8	64023.1
1987-88	16551.2	5960.9	22512.1	25380.2	5474.1	30854.3	16938.2	70304.6
1988-89	18763.6	7056.2	25819.8	31398.7	5749.5	37148.2	18434.3	81402.3
1989-90	20783.7	8136.6	28920.3	37877	6835.2	44712.2	21416.9	95049.4
1990-91	22359.2	8601.9	30961.1	45134	7117.4	52251.4	21760.4	104972.9
1991-92	24465.9	9259.1	33725	51377.8	8449.1	59826.9	19178.8	112730.7
1992-93	26864.6	11874.6	38739.2	58518.2	9091.7	67609.9	19577.8	125926.9
1993-94	31814.5	12765.1	44579.6	66749.5	11810.8	78560.3	22648.1	145788
1994-95	34877.9	14328.4	49206.3	76367.9	13973.8	90341.7	27450.4	166998.4
1995-96	41881.1	16684.6	58565.7	85303.5	15262.5	100566	26101.1	185232.8
1996-97	44238	17946.4	62184.4	100806.7	16294	117100.7	31974.5	211259.6
1997-98	53090.4	18955.2	72045.6	111577.2	17359.5	128936.7	23883.7	224866
1998-99	59920	20646.7	80566.7	137611	18670.8	156281.8	26906.5	263755
1999-00(RE)	71084.8	26541.1	97625.9	163290.2	21147.4	184437.6	31413.7	313477.2
2000-01(BE)	83476.5	31987.2	115463.7	187752.1	20970	208722.1	29842.1	354027.9

a From 1993-94 onwards, Delhi is not included.

b From 1997-98 onwards loans to states/UT are exclusive of loans against States/UT share in the small saving collection. See Appendix IV

Source: Economic Survey, Government of India, 2000-2001.

Table A5

Expenditure of the Central Government in terms of GDP: Economic Classification

	Final Outlays			Transfer payments to the RO Economy			Financial Investment & loans to Rest of the Economy	Total Expenditure
	Consumption Expenditure	Gross Capital formation	Total	Current	Capital	Total		
1970-71	3.64	1.13	4.77	2.70	0.42	3.12	4.26	12.15
1971-72	4.18	1.22	5.40	3.51	0.58	4.08	4.17	13.65
1972-73	4.17	1.25	5.42	3.42	0.79	4.21	4.85	14.49
1973-74	3.51	1.19	4.70	3.12	0.54	3.67	3.98	12.34
1974-75	3.68	1.58	5.26	3.15	0.48	3.63	3.68	12.57
1975-76	4.12	1.44	5.56	3.61	0.64	4.25	4.58	14.39
1976-77	4.00	1.23	5.23	4.38	0.56	4.93	4.42	14.59
1977-78	3.60	1.09	4.69	4.58	0.74	5.32	4.67	14.69
1978-79	3.59	1.18	4.77	5.14	0.96	6.10	5.15	16.02
1979-80	3.71	1.26	4.97	5.00	1.00	6.00	4.28	15.25
1980-81	3.58	1.32	4.90	4.79	0.90	5.69	4.99	15.58
1981-82	3.60	1.51	5.10	4.56	0.90	5.46	4.42	14.99
1982-83	3.74	1.53	5.26	5.08	0.95	6.02	4.86	16.15
1983-84	3.70	1.53	5.23	5.21	1.06	6.27	4.88	16.38
1984-85	3.82	1.67	5.49	6.05	1.20	7.25	5.04	17.77
1985-86	4.00	1.63	5.63	6.55	1.36	7.91	5.41	18.95
1986-87	4.68	1.88	6.56	6.77	1.41	8.18	5.68	20.42
1987-88	4.66	1.68	6.33	7.14	1.54	8.68	4.77	19.78
1988-89	4.43	1.67	6.10	7.41	1.36	8.77	4.35	19.22
1989-90	4.26	1.67	5.93	7.77	1.40	9.17	4.39	19.49
1990-91	3.93	1.51	5.44	7.94	1.25	9.19	3.83	18.46
1991-92	3.74	1.42	5.16	7.86	1.29	9.16	2.94	17.26
1992-93	3.59	1.59	5.18	7.82	1.21	9.03	2.62	16.83
1993-94	3.70	1.49	5.19	7.77	1.37	9.14	2.64	16.97
1994-95	3.44	1.41	4.86	7.54	1.38	8.92	2.71	16.49
1995-96	3.53	1.40	4.93	7.18	1.28	8.47	2.20	15.59
1996-97	3.23	1.31	4.54	7.37	1.19	8.56	2.34	15.44
1997-98	3.49	1.25	4.73	7.33	1.14	8.47	1.57	14.77
1998-99	3.41	1.17	4.58	7.83	1.06	8.89	1.53	15.00
1999-00RE	3.63	1.36	4.99	8.34	1.08	9.42	1.61	16.02
2000-01BE	3.83	1.47	5.30	8.62	0.96	9.58	1.37	16.25

a From 1993-94 onwards, Delhi is not included.

b From 1997-98 onwards loans to states/UT are exclusive of loans against States/UT share in the small saving collection.

Source: Economic Survey 2000-2001, National Accounts Statistics, Central Statistical Organization, GoI.

Table A6

Gross Capital Formation from Budgetary Resources of the Central Government

(Rupees crore)

	Gross Capital Formation by the Center				Gross Financial Assistance for Capital form				
	Fixed Assets	Works Stores	Increase in stocks of foodgrains, fertilizers	Total	State Government	Non Departmental Commercial Undertaking[a]	Others[b]	Total	Total Expenditure
1970-71	485	8.3	26	519.3	740.2	530.7	98.3	1369.2	1888.5
1971-72	566.1	55.4	-24.1	597.4	884.7	545.1	133.4	1563.2	2160.6
1972-73	664.8	59.1	-46.8	677.1	1062.3	731.4	156.7	1950.4	2627.5
1973-74	711.4	8.8	62.1	782.3	1190.8	583.1	108.4	1882.3	2664.6
1974-75	822.6	33.3	371.5	1227.4	1188.1	1108	153.8	2449.9	3677.3
1975-76	949.6	17.6	237.1	1204.3	1433.3	1838.2	187.4	3458.9	4663.2
1976-77	1089.7	-30.4	52.5	1111.8	1523.9	2183.3	172	3879.2	4991
1977-78	1118.5	-11.3		1107.2	2221.2	2156.3	202.8	4580.3	5687.5
1978-79	1241.7	58.8		1300.5	3302.4	2105	204.6	5612	6912.5
1979-80	1443.3	84.3		1527.6	3243.6	2234.9	222.7	5701.2	7228.8
1980-81	1751.2	156.3		1907.5	3665.8	3166.2	272.6	7104.6	9012.1
1981-82	2411.4	140.5		2551.9	3927.9	3880.5	438.8	8247.2	10799.1
1982-83	2813.8	70.5		2884.3	4931.2	4074.2	514.3	9519.7	12404
1983-84	3219.1	136.6		3355.7	5973.6	4678.9	693.5	11346	14701.7
1984-85	3952.6	170.7		4123.3	7194.8	5489.1	744	13427.9	17551.2
1985-86	4451.5	106.2		4557.7	10053.5	6082.4	783.6	16919.5	21477.2
1986-87	5817.3	87.7		5905	10800.2	6523.4	1091.1	18414.7	24319.7
1987-88	5683.1	277.5		5960.6	12723.4	5667.2	1418.9	19809.5	25770.1
1988-89	6976.7	79.5		7056.2	13956.4	6316.5	1648.2	21921.1	28977.3
1989-90	7799.9	336.7		8136.6	13935	7053.9	3887.2	24876.1	33012.7
1990-91	8193	408.9		8601.9	20009.1	5541	905.4	26455.5	35057.4
1991-92	9056.4	202.7		9259.1	19376.5	4764.3	1764.7	25905.5	35164.6
1992-93	11642.9	231.7		11874.6	19651.3	4730.4	1392.3	25774	37648.6
1993-94	13106.1	-341		12765.1	23196.3	6632.2	2456.9	32285.4	45050.5
1994-95	14804.3	-475.9		14328.4	27416.1	7190.8	5264.6	39871.5	54199.9
1995-96	16857.5	-172.9		16684.6	27571.3	4222.1	6797.6	38591	55275.6
1996-97	17631.7	314.7		17946.4	32945.3	4174.2	5884.4	43003.9	60950.3
1997-98	18692.9	262.3		18955.2	23578	5848.7	6433.1	35859.8	54815
1998-99	20324	322.7		20646.7	25612.6	6400.5	5146.7	37159.8	57806.5
1999-2000(RE)	25572.6	968.5		26541.1	29165.7	7288.1	6020.8	42474.6	69015.7
2000-01(BE)	30877.3	1109.9		31987.2	31848.6	7464.2	5654.1	44966.9	76954.1

a Public undertakings operated by autonomous corporations and corporations

b Includes loans and grants to local authorities for capital formation

c From 1993-94 onwards, Delhi is not included.

d From 1997-98 onwards loans to states/UT are exclusive of loans against States/UT share in the small saving collection.

Source: Economic Survey, Government of India, 2000-2001.

Table A7
Central Government Subsidies

(Rupees crore)

	Food (incl sugar)	Indigenous Fertiliser (urea)	Imported Fertiliser (urea)	Sale of Decontrolled Fertiliser	Major Subsidies	Import Ex of edible oil, sugar	Interest subsidies	Other Subsidies	Total subsidies
1992-93	2800	4800	996	0	8596	0	113	2115	10824
1993-94	5537	3800	762	0	10099	0	113	1393	11605
1994-95	5100	4075	1166	528	10869	0	76	909	11854
1995-96	5377	4300	1935	500	12112	100	34	420	12666
1996-97	6066	4743	1163	1672	13644	0	1222	633	15499
1997-98	7900	6600	722	2596	17818	20	78	624	18540
1998-99	9100	7473	333	3790	20696	105	1434	1358	23593
1999-2000	9435	8670	293	4500	22898	50	1371	387	24706
2000-01RE	12125	9480	1	4319	25925	40	121	863	26949
2001-02BE	13675	7956	500	5714	27845	50	143	1763	29801

Source: Budget documents of the Union Government.

Table A8
Staff strength in select Government Departments

	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97	1995-96
Agriculture	13782	14309	13871	13855	12599	12599	11336
Communication	606174	606055	960871	965784	963366	961485	957566
Defense (Civil)	40019	38751	35552	36476	35745	36416	35719
Finance	226661	235002	221804	229591	227678	225461	227454
Health and Family Welfare	27041	26804	26781	26756	31210	35717	28026
Home Affairs and police	63805	620957	609937	597658	593103	605233	542241
Human Resource development	16702	16684	17394	13492	13489	13956	13504
Mines	18380	18712	18207	18574	18891	19671	19855
Railways	1569026	1583122	1593474	1514015	1564043	1587130	1589000
Science and Technology	26042	26031	23489	23726	21550	21555	24993
Urban affairs and employment	29968	29968	30167	33135	36879	38435	39515
Atomic energy and nuclear power	36564	34651	32663	32428	31184	31910	33726
Space	16703	16703	16581	16423	16380	16593	16573
UTs without legislature	55617	62649	62542	58947	58886	57405	60348
Total	**3446963**	**3455076**	**3776666**	**3745664**	**3786865**	**3827751**	**3765745**

Source: Expenditure Budgets Vol I, Union Budget, GoI, 2001-02.

Table A9
Expenditure Pattern of the State Governments

(Rupees crore)

	Revenue Expenditure	Capital Expenditure	Capital Outlay	Loans & Advances	Total Exp
1970-71	3390	1784	556	491	5174
1971-72	4039	2131	668	555	6170
1972-73	4962	2297	740	721	7259
1973-74	5669	2558	984	604	8228
1974-75	6037	2577	1110	816	8614
1975-76	6967	3314	1404	1090	10281
1976-77	7940	3901	1655	1317	11841
1977-78	8911	4349	1854	1483	13260
1978-79	10511	5178	2287	1858	15689
1979-80	12081	5841	2675	2141	17922
1980-81	14808	7856	3201	2447	22664
1981-82	17075	8095	3589	2504	25170
1982-83	20238	8504	3719	2822	28742
1983-84	23803	9737	4277	3077	33540
1984-85	28349	11508	4910	3395	39857
1985-86	32770	12097	5453	3531	44867
1986-87	38057	13729	6277	4159	51786
1987-88	45088	14783	6655	4521	59871
1988-89	52228	14850	7077	4119	67078
1989-90	60217	16565	7963	4826	76782
1990-91	71776	19312	9223	5756	91088
1991-92	86186	21743	10096	6463	107929
1992-93	96205	23129	10655	7045	119335
1993-94	109376	25272	12450	6752	134649
1994-95	128440	33114	17351	9416	161554
1995-96	145004	32580	18495	8231	177584
1996-97	168950	33819	17540	9545	202769
1997-98	186634	41501	22802	10557	228135
1998-99	220090	46271	23072	11347	266361
1999-2000(RE)	271611	54023	28734	13216	325634
2000-01(BE)	290622	60144	35088	13231	350766

RE: Revised Estimates, BE: Budget Estimates

Note: Data for capital expenditure prior to 1991-92 have been adjusted for remittances (net).

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, 2000.

Table A10

Expenditure Pattern of the State Governments: Developmental and Non-developmental

(Rupees crore)

	Developmental Expenditure	Economic Services	Social Service	Non-Developmental Expenditure	Interest	Administrative Services	Pension & Miscell General Services
1970-71	2428	NA	NA	1518	398	455	165
1971-72	2861	NA	NA	1845	456	508	298
1972-73	4068	1908	2160	1604	470	425	71
1973-74	4696	2268	2428	1899	552	531	76
1974-75	5944	3295	2649	1946	539	731	116
1975-76	7073	4015	3058	2314	688	798	156
1976-77	8234	4728	3506	2585	757	881	193
1977-78	9348	5417	3931	2797	822	931	221
1978-79	11397	6837	4560	3129	953	1054	260
1979-80	13250	7844	5406	3471	942	1256	296
1980-81	15961	9360	6601	4289	1225	1562	375
1981-82	17960	10303	7657	4996	1440	1825	489
1982-83	20649	11297	9352	5882	1705	2092	636
1983-84	23972	13184	10788	6882	1963	2410	793
1984-85	27958	15540	12418	8340	2466	2810	1002
1985-86	31732	17192	14540	9618	2940	3318	1207
1986-87	36827	20041	16786	11219	4101	3718	1390
1987-88	42451	23042	19409	13322	4898	4418	1758
1988-89	46984	24674	22310	15886	5935	5031	2392
1989-90	53150	27376	25774	19253	7186	5975	2931
1990-91	63370	33410	29960	22600	8655	7018	3593
1991-92	74588	40900	33688	27143	10944	7810	4479
1992-93	80567	43235	37332	32104	13210	9344	5272
1993-94	89388	47408	41979	38020	15801	10473	6999
1994-95	104348	55475	48873	49556	19413	11664	11927
1995-96	114819	56984	57835	55380	21932	13391	12834
1996-97	132008	66548	65459	62095	25576	14950	13515
1997-98	145268	71748	73520	71767	30113	17075	15004
1998-99	164504	76412	88092	86474	35874	19757	18326
1999-2000(RE)	198322	87658	110664	110137	45526	24424	24750
2000-01(BE)	208332	95022	113310	125484	54271	29219	27415

RE: Revised Estimates, BE: Budget Estimates

Note: Data for capital expenditure prior to 1991-92 have been adjusted for remittances (net).

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India, 2000.

Table A11

Compensation of Employees: Center, State and Local bodies

(Rupees crore)

	Current				Constant			
	Compensation of Employees*				Compensation of Employees*			
	Central@	State	Local	Total	Central	State	Local	Total
1980-81	2399	4358	1280	8037	2399	4358	1280	8037
1987-88	7729	13397	2995	24121	4212	7301	1632	13145
1988-89	8808	15777	3782	28367	4404	7889	1891	14184
1989-90	9918	18853	4412	33183	4663	8864	2074	15601
1990-91	10376	22808	5074	38258	4373	9612	2138	16123
1991-92	12589	25563	5762	43914	4675	9494	2140	16309
1992-93	14412	29408	6683	50503	4884	9966	2265	17115
1993-94	14530	33793	7341	55664	14530	33793	7341	55664
1994-95	16250	37861	8222	62333	14762	34394	7469	56625
1995-96	19134	44576	10286	73996	15772	36742	8478	60992
1996-97	21884	51548	12138	85570	16509	38887	9157	64553
1997-98	29084	60558	14420	104062	20502	42688	10165	73355
1998-99	36832	79270	17304	133406	22953	49399	10784	83136

* Excludes wage component of new construction

@ Including National Capital territory of Delhi and Union Territories.

Source: National Accounts Statistics, CSO, GoI, 2000.

Table A12

Net Purchase of Commodities and Services: Center, State and Local bodies

(Rupees crore)

	Current				Constant			
	Net Purchase of Commodities & Services				Net Purchase of Commodities & Services			
	Center@	State	Local	Total	Center	State	Local	Total
1987-88	9263	3919	917	14099	5445	2241	524	8210
1988-89	10411	4508	996	15915	5551	2251	497	8299
1989-90	11257	5064	1162	17483	5439	2213	508	8160
1990-91	12439	5845	1336	19620	5518	2382	544	8444
1991-92	12463	6915	1517	20895	4943	2557	561	8061
1992-93	13602	7415	1760	22777	4909	2530	600	8039
1993-94	20094	8242	1937	30273	20094	8242	1937	30273
1994-95	21131	9898	2158	33187	19367	9088	1981	30436
1995-96	25716	11170	2460	39346	21785	9413	2073	33271
1996-97	28761	11145	2902	42808	23112	8773	2284	34169
1997-98	32839	10627	3482	46948	25283	7929	2598	35810
1998-99	41851	13836	4178	59865	30841	9682	2924	43447

Source: National Accounts Statistics, CSO, GoI, 2000.

Annexure I

A Chronology of the Expenditure Management Policies

Some of the major expenditure reduction/management policies undertaken during the nineties after the initiation of the economic reform in India are briefly presented below.

Immediately after the balance of payments crisis, the stabilization package was adopted in 1991 to restore fiscal discipline. The successful reduction in fiscal deficit as a percentage of GDP during 1991-92 could be attributable to

- the decision to abolish the export subsidies,
- to increase the fertilizer prices as well as, and
- steps taken to keep non plan expenditure (including defense expenditure) in check.

The Economic Survey for 1992-93 considered expenditure reform to be as important as tax reform though the focus of expenditure reform was rather limited. It remained confined to "a continuous monitoring of performance" of welfare expenditures administered by the states with the objective of bringing about significant improvements in cost-effectiveness. During 1992-93 several other measures were also adopted. They are as follows,

- The budgetary support of the central plan was maintained at the nominal level of the previous year budget estimate,
- Non-plan revenue expenditures were controlled.
- The decontrol of phosphatic and potassic fertilizers checked the expenditure on fertilizer subsidies.
- As a part of expenditure control strategy and in order to regulate the level of borrowing from RBI, fiscal deficit ceilings were prescribed for the quarters ending June, September, and December 1992.
- The existing expenditure control mechanisms were strengthened.

During 1994-95, steps were also taken to control the growth of expenditure. They are as follows,

- Reduction of posts at various levels.
- Cut in the overall expenditure on consumption of petrol/diesel, on telephone, restricting the purchase of vehicles.

It was recognized that further steps need to be taken towards more effective financing through user charges.

The first major discussion on expenditure reduction and its management began in 1997-98 with the release of a Discussion paper on subsidies by the Government of India entitled "Government Subsidies in India" to generate debate and initiate a more open approach to subsidies.

Another important step towards fiscal discipline was taken when the financing of the budgetary deficit through the ad-hoc treasury bills was discontinued.

The Union Budget for 1999-2000 recognized the importance of adoption of a medium term fiscal correction target of eliminating revenue deficit and bringing down fiscal deficit to 2 percent of GDP in four years. It was announced that an Expenditure Reform Commission was to be set up to examine the entire gamut of expenditure in an unbiased way, free of any Departmental interests. To promote transparency and curb the growth of contingent liabilities, the budget constituted Guarantee Redemption Fund, with an initial corpus of Rs. 50 crore and later the states will be asked to do the same.

The Fiscal Responsibility and the Budget Management Bill 2000 was introduced in the Lok Sabha in December 2000. The proposed legislation was supposed to provide for a legal and institutional framework to eliminate revenue deficit and bring down the fiscal deficit to ensure fiscal sustainability in terms of a stable debt to GDP ratio.

The Union Budget for 2000-01 proposed a number of policy measures with the objective of checking the momentum of built in expenditure growth owing to the large proportion of pre-committed expenditure in total expenditure.

- Subjecting all ongoing schemes to zero based budgeting.
- Reviewing the norms for creation of posts and fresh recruitment in government budgeting.
- Redeployment of surplus staff and making VRS more effective.
- All subsidies to be reviewed in line with the cost based user charges wherever feasible.
- Budgetary support to autonomous institutions would be reviewed and they will be encouraged to generate internal resources.

During the course of the year, the government took a series of measures for controlling growth in non-plan non-developmental expenditure which include a mandatory 10 percent cut in the budgetary allocation for non plan non salary expenditure of all ministries and departments and autonomous institutions. Purchase of vehicles was banned for one year, cut in the consumption and allocation of funds for expenditure on POL for staff cars by 10 percent; ban on creation of new posts for one year and ban on foreign travel to study tours and seminars, etc.

The Union Budget 2001-02

Expenditure management, broadly speaking, featured as one of the major objectives of the government as envisaged in the last budget. The objectives as stated in the Budget speech, mainly refer to three aspects, stringent expenditure control of non-productive expenditure, rationalization of subsidies and improvement in the quality of the expenditure.

The measures include

- Postal rates are revised.
- Fresh recruitment is limited to 1 percent of total civilian staff strength. Since 3 percent retire every year, the manpower is likely to come down by 2 percent every year, leading to a 10 percent fall in 5 years.

- The surplus pool in the Department of Personnel will be streamlined and steps taken to equip them with the necessary skills and retrain them for redeployment. The employees in the surplus pool may be offered VRS.

- The standard license fee (rent) on government accommodation enhanced by 50 percent for group A, 25 percent for group B, 15 percent for all other with effect from April 1, 2001.

- Leave Travel Concession (LTC) suspended for two years except for employees who are entitled to last LTC before retirement.

- Information technology will be used in government with substantial public interface to promote efficiency.

- Expenditure Reforms Commission has recommended downsizing of 6 departments. They are (1) Department of Economic Affairs, (2) Ministry of Information and Broadcasting (3) Ministry of Coal (4) Department of Heavy Industry 5) Department of Public Enterprises (6) Ministry of Small Scale Industry.

- In order to make the beginning in downsizing of government department, the Finance Minister has announced in the Union Budget 2001-02 that three secretary/special secretary and 2 joint secretary level posts in the Department of Economic Affairs are to abolished by July 31,2001. Also 44 post of directors or below are to be abolished. In the Currency and Coinage Department, 1675 posts are abolished, while the staff strength 1191 of National Saving Organization will be brought down to 25.

- During the Tenth Five Year Plan, to ensure improvement in the quality of government spending, all schemes both at the center and the state level, will be subject to zero-based budgeting and only the efficient and successful schemes will be continued. To avoid duplication, all the schemes, similar in nature, will be converged. Possibilities will be explored to transfer the Centrally Sponsored Schemes that can be transferred to the states. Resource flows will be linked to the performance of the projects. Necessary procedural changes will also be made to speed up the decision making process. Importance will be given to decentralized planning.

Annexure II

The Fiscal Responsibility and Budget Management Bill, 2000.

In the context of the fragile fiscal situation of the country in the nineties, the Budget for 2000-01stressed the need for a medium term management of the fiscal deficit with the support of a strong institutional mechanism enshrined in a Fiscal Responsibility Act. Rule-based fiscal policy along with the support from appropriate legislation and institution was identified to be the only alterative. This will help achieve the objectives of transparency, sustainability, credibility and accountability. It is expected to render the fiscal policy more credible in the eyes of the public and help the business community to plan for the future accordingly. The rationale is clearly encapsulated in the opening paragraph of the Bill, which is as follows,

to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and macro-economic stability by progressive elimination of revenue deficit, removal of fiscal impediments in the effective conduct of monetary policy and prudential debt management consistent with fiscal sustainability through limits on Central Government borrowings, debt and deficits, greater transparency in fiscal operations of Central Government and conduct of fiscal policy in a medium-term framework and for matters connected therewith or incidental thereto.

Fiscal policy statements to be laid before Parliament

The Important features of the Bill, *inter alia*, provide as under:

- Laying before both Houses of Parliament, the following statements of fiscal policy, along with the annual Budget in each financial year: (a) Medium-term Fiscal Policy Statement; (b) Fiscal Policy Strategy statement and (c) Macro-economic Framework Statement.

- The Medium-term Fiscal Policy Statement shall set-forth a three-year rolling target for prescribed fiscal indictors with specification of underlying assumptions. Besides, the Medium-term Fiscal Policy Statement shall include an assessment of sustainability relating to: (i) the balance between revenue receipts and revenue expenditures and; (ii) the use of capital receipts including market borrowings for generating productive assets.

The Fiscal Policy Strategy Statement shall, *inter alia*, contain:

- the policies of the Central Government for the ensuing financial year relating to taxation, expenditure market, borrowings and other liabilities, lending and investments, pricing of administered goods and services, securities and description of other activities, such as, underwriting and guarantees which have potential budgetary implications;

- the strategic priorities of the Central Government of the ensuing financial year in the fiscal area;

- key fiscal measures and rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administered pricing and borrowings;

- an evaluation as to how the current policies of the Central Government are in conformity with the fiscal management principles set out in Fiscal Policy Strategy Statement and the objectives set out in the Medium-term Fiscal policy Statement.

Fiscal Management principles

- The Central Government shall take appropriate measures to eliminate the revenue deficit, bring down the fiscal deficit and build up adequate revenue surplus and in particular shall:

- reduce revenue deficit by an amount equivalent to one-half percent, or more of the estimated gross domestic product at the end of each financial year beginning on the 1st day of April, 2001;

- reduce revenue deficit to nil within a period of five financial years beginning from the initial financial year on the 1st day of April, 2001 and ending on the 31st day of March 2006;

- build up surplus amount of revenue and utilize such amount for discharging liabilities in excess of assets;

- reduce fiscal deficit by an amount equivalent to one-half percent or more of the estimated gross domestic product at the end of each financial year beginning on the 1st day of April, 2001;

- reduce fiscal deficit for a financial year to not more than two percent of the reduce fiscal deficit for a financial year to not more than two percent of the estimated gross domestic product for that year, within a period of five financial years beginning from the initial financial year on the 1st day of April, 2001and ending on the 31st day of March 2006;

- not give guarantee for any amount exceeding one-half per cent of the estimated gross domestic product in any financial year and;

- ensure within a period of ten financial years, beginning from the initial financial year on the 1st day of April, 2001, and ending on the 31st day of March, 2011, that the total liabilities (including external debt at current exchange rate) at the end of a financial year, do not exceed fifty per cent of the estimated gross domestic product for that year.

Borrowing from the Reserve Bank of India

- Prohibition of direct borrowings by the Central Government from the Reserve Bank of India after three years except by way of advances to meet temporary cash needs in certain circumstances.

Measures for Fiscal Transparency

- Central Government to take suitable measures to ensure greater transparency in fiscal operations and to minimization of, as far as practicable in public interest, secrecy in the preparation of

- Quarterly review of the trends in receipts and expenditures in relation to the budget by the Finance Minister and placing the outcome of such reviews before both Houses of Parliament.

- The Central Government to cut expenditure authorizations in a proportionate manner, while protecting the "charged" expenditure, whenever there is a shortfall of revenue or excess of expenditure over specified targets.

- Finance Minister to make a statement in both Houses of Parliament explaining any deviation in meeting the obligations cast on the Central Government under this Act and the remedial measures the Central Government proposes to take.

- Relaxation from deficit reduction targets to deal with unforeseen demands on the finances of the Central Government on account of national security or natural calamities of national dimension.

Kopits (2001), in his assessment of the adoption of fiscal policy rules for India has raised several valuable points worth mentioning. For successful implementation of the Fiscal Responsibility Act few notable things are which are necessary are as follows,

- To establish a mechanism to ensure adoption of fiscal rules at the sub-national levels of government. This might entail infusion of strong incentives for expenditure reduction and revenue raising at lower tiers of government without sacrificing regional or local autonomy. This may require a re-examination of the fiscal relations between center and the States.

- The fiscal measures are to be complemented with structural reform measures such as downsizing the government's staff strength, continuation of the rationalization of subsidies, and gradual elimination of quasi-fiscal operations.

Source: Report of The committee on Fiscal Responsibility Legislation, Ministry of Finance, DEA, and Economic Survey 2000-01.

Annexure III

Major recommendations of Expenditure Reforms Commission (ERC)

The Expenditure Reforms Commission have so far submitted five reports. The first two cover the first five areas and the third, fourth, and the fifth reports deal with the remaining seven. The areas are (i) Food Subsidy, (ii) Fertiliser subsidy (iii) Optimizing staff Strength (iv) Ministry of Information and broadcasting and (v) Ministry of Coal. (vi) Department of Economic Affairs, (vii) Ministry of Small-Scale Industries and Agro and Village Industries (viii) Department of Heavy Industry (ix) Department of Public Enterprises (x) Department of Posts (xi) Department of Supply (xii) Autonomous Institutions. The recommendations of the above Ministries/Departments, besides Ministry of Small-Scale Industries and Agro and Village Industries and the Department of Supply are presented below in brief.

Food Subsidy

With a view to reduce subsidy on food, ERC has suggested series of measures which among other include:

- Efforts to ensure that quantities allocated for below the poverty line (BPL) population reach them at the prices at which the Government of India releases. To this end, State Governments should identify the BPL population in a transparent manner.

- A National Food Security buffer stock of 10 million tonnes- 4 million tonnes of wheat and 6 million tonnes of rice - should be maintained at all times.

- The cost of buffer stocks held in excess of the above requirements should be treated as 'producer's subsidy' and steps should be taken to phase it out over the next three years through. (i) moderating the increase in minimum support prices and; (ii) moving towards procurement of single (common) variety of paddy/rice, as in the case of wheat. Besides, through a suitable adjustment in the pricing mechanism, reduce procurement of paddy and increase procurement of rice through a levy system; (iii) encouraging State Governments and private sector to enter procurement, trade and export of good grains through and assurance of continuity of policy over the next 15 years. The objective of the procurement policy should be to maintain a Food Security Buffer for 10 million tonnes and availability of 21 million tonnes per annum of distribution through the PDS. Thus the total average stocks to be maintained for distribution and buffer stock should be no more than 17 million tonnes or so compared to likely level of 24 million tonnes in the current year.

- Steps should be taken to minimize F.C.I.'s overhead charges and the methodology for allocation of F.C.I.'s overheads as between distribution and buffer stocks needs to be modified to ensure that the consumers, particularly those below poverty line are not made to pay for the cost attributable to excess stocks of F.C.I.'s inefficiencies.

Rationalizing Fertilizer Subsidies

The Retention Price Scheme (RPS) has led to the development of a large domestic industry and near self-sufficiency. However, the unit wide RPS is a cost plus scheme. It results in high cost fertilizers, excess payment to industry and provides no incentives to be cost efficient. Besides, fertilizer subsidies have grown over the years. The package suggested to rationalize fertilizer subsidies takes care of the needs of small farmers and proposed to bring fertilizer prices to the level of import parity price in a gradual and phased manner over a period of time as follows:

- To protect small farmers and marginal farmers who consume a large part of their output from a loss in their real incomes arising out of increase in farm gate prices of fertilizers two options are suggested: (a) introduction of a dual price scheme under which all cultivator households are given 120 Kgs. of fertilizers at subsidized prices and; (b) expansion of Employment Guarantee Scheme and rural Works Programs to provide additional incomes to small farmers.

- Dismantling of the control system in a phased manner, leading to a decontrolled fertilizer industry, which can complete with import albeit with a small level of protection and feedstock cost differential compensation to naphtha/liquefied natural gas (LNG) based units to ensure self-sufficiency.

- The ERC recommends a 7 percent increase in the price of urea in real terms every year from 1.4. 2001. With this order of increase, open market price will reach Rs. 6903 per tonne by 1.4.2006, a level at which the industry can be freed from all controls and be required to compete with imports, with variable levy ensuring availability of such imports at the farm gate at Rs. 7000 per tonne of urea. While no concessions will be necessary from this date onwards for gas based, fuel oil/light sulphur heavy stock and mixed feed stock plants, existing naphtha plants converting to LNG as also new plants and substantial additions to existing plants will be entitled to a feed stock differential with that for LNG plants serving as a ceiling.

- The farm gate prices of nitrogenous, phosphatic and potassic fertilizers should be set to promote a desired balance for fertilizer use. In the circumstances, it is suggested that once urea price is re-determined every six months, the prices of potassic and phosphatic fertilizers should be suitably adjusted to ensure the desire NPK balance. It will be useful if government could announce in advance the formula to be adopted for fixing the prices of P&K fertilizers with reference to a given urea price.

Optimizing Government Staff Strength

- A 10 per cent cut on the staff strength as on 1.1.2000 to be carried out by the year 2004-2005. Besides, an annual direct recruitment plan for all cadres to be prepared by a Screening Committee consisting of Secretary of the concerned Ministry, a representative of DOPT and a representative Department of Expenditure.

- There should be a total ban on creation of new posts for two years.

- Staff declared surplus should be transferred to the Surplus Cell to be re-designated as the Division of Retraining and Deployment, which will pay their salary, requirement benefits etc.

- Surplus staff should be made eligible for a liberal Voluntary Retirement Scheme recommended by the Fifth Central Pay Commission with the exception that commutation entitlements will be as at present and ex-gratia amount will be paid in monthly installments covering a five-year period.

- Those who do not opt for Voluntary Scheme and are not redeployed within one year will be discharged from service.

Rationalising of the Functions, activities and structures of the Ministry of Information and Broadcasting

Some of the measures which would have bearing on expenditure control or revenue generation in the Information and Broadcasting Corporation including Prasar Bharati Corporation are:

- Films Division may be wound up and individual ministries may produce the film documentaries.
- Children's Film Society may also be wound up and the NGOs may be provided with the funds for making films for the children.
- The Film and Television Institute of India and Satyajit Ray Films and Television Institute of India at Kolkata may be handed over to the Film industry.
- National Film awards may be looked after by a small cell in the Ministry but the Directorate of Film Festival may be wound up.
- Indian Institute of Mass Communication be further developed and encouraged while the four branches may be closed down.
- Directorate of Field Publicity and Song and Drama Division, Photo Division, the Publications Division may be closed down. The branch offices not located in the State capitals may be closed down while the Head office may be modernized.
- The staff strength may be rationalized.
- The staff strength of the Ministry and various organizations, other than Delhi Doordarshan (DD) and All India Radio (AIR), may come down from 7779 to 2176.
- Prasar Bharati should be revamped taking into account, *inter alia*, the recommendations of the Narayanamurthy Committee.

Rationalisation of the Functions, Activities and structures in the Ministry of Coal.

The Expenditure Reforms Commission stressed the need to reorient the Ministry's strategy keeping in mind the role coal sector plays in ensuring energy security. The recommendations having immediate impact on expenditure are summarized below:

- Private developers should be allowed in exploration and production of coal by expediting the amendment to the Coal Mines Nationalization Act, 1973.
- Efficiency of operations needs to be improved and surplus manpower to be eliminated in the public sector coal companies.
- The regional offices of Coal India all over the country and liaison offices of subsidiaries at Kolkata need to be wound up.
- The Coal Controller's Office needs to be wound up and the residual work of the Commissioner of Payments office needs to be phased out.
- The heavy loss making Low Temperature Carbonization Plant at Dankuni needs to be disposed off.

Department of Economic Affairs

Keeping in mind the importance of the Finance Ministry in formulating and evaluating policies for the ongoing economic reform, the ERC has felt the need for filling up four/five posts at the Additional/Joint Secretary level in the Economic/Banking/Insurance/Capital markets division, preferably with experts recruited from outside on a contractual basis. However, the ERC has recommended downsizing of the department in a big way, some of the recommendations have already been announced in the Union Budget 2001-02.

- The Board for Industrial and Financial Reconstruction and the Appellate Authority for Industrial Finance Reconstruction may be wound up since they seem to have not fulfilled the objectives.

- The National Saving Organization may be downsized into a compact policy making body of staff strength of only 20/25 from the existing strength of 1191. Similarly, the Indian Investment Centre may also be downsized to staff strength of 20 from the existing strength of 126.

- In view of low productivity and excessive workforce of the Mints (other than the one at Noida) drastic downsizing of around 60-70 percent of the sanctioned strength of around 25,000 is required.

- The ERC has also recommended abolition of one post of each of special secretary, Additional Secretary and Joint Secretary as well as 31 others at the level of Director / Deputy Secretary / Under Secretary / Section Officer, as also downgrading of one post of secretary to that of Additional Secretary in the first stage , abolition of one post of Joint Secretary and 4 posts at the level of Director/Deputy Secretary in the next stage followed by a reduction at the support levels.

Department of Heavy Industry

The Department of Heavy Industry administers 48 PSEs representing almost a fifth of the total 240 Central PSEs. Most of these are sick. Only 16 out of 48 made profit in 1998-99. All the PSEs together made a net loss of Rs 411 crore. Some of the recommendations of the ERC defining the tasks ahead are as follow,

- Expedite the conversion into joint ventures all undertakings identified for this purpose.
- Close down enterprises which have already been recommended by BIFR for winding up.
- Undertake a time bound study of all other enterprises to identify (a) those which can be made viable through restructuring and (b) those which are chronically sick and need to be closed down. The already identified sick units should either be closed down or disposed of through outright sale.

- Funding for the PSEs for VRS should be arranged from the sources other than budgetary resources of the government. Steps should be initiated to properly utilize the physical assets of the PSEs.

Department of Posts

The Postal Department is one of the oldest departmentally-run Public Sector Undertakings of the Government of India. The ERC has made various recommendations for additional resource mobilization and expenditure compression. Some of the steps which can contribute to the compression of expenditure are as follows,

- A total freeze on filling up of vacant posts and on fresh recruitment.
- The departmentally-owned-and-operated Mail Motor Service should be abolished if the fleet strength is less than 10 and continued elsewhere if cost-competitive.
- The works of the Civil Construction Wing of the Department can be entrusted to other construction agencies in the public and private sector.
- A large Accounts Organisation comprising about 7900 officers and staff is no longer essential with large scale computerization and automatic data accounting systems. Much of this work can be entrusted to Accountants working in Postal Operative Offices.
- A large number of housekeeping functions like chowkidars and sweepers should be outsourced.
- Post box delivery should be made compulsory for all the government departments. Collection and even delivery of mail can be outsourced.

Autonomous Institutions

Though ERC could compile a list of only 433 Autonomous Institutions, the reports of Comptroller and Auditor General for the year 1998-99 covers 496 institutions. An analysis of the Budget grants for the year 1999-2000 of some of the major ministries/departments reveal a total budgetary support , by way of grants in aid of over Rs 8000 crore. The Audit Reports of the CAG indicates that there has been a steady increase in the number (322 in 1995-96 to 437 in 1998-99) of Autonomous Institutions over the years as also the budgetary outlay on them.

- In order to have a comprehensive picture as also information about each and every Autonomous Institutions set up by the Government of India, compilation of a list is the first and foremost requirement.
- Freeze on recruitment of staff in all the autonomous organizations. In addition, an adhoc 10 percent reduction in the staff strength should be imposed.
- There has to be a system of 'outside'/ 'peer' review of every autonomous organizations once in every three / five years to look into the possibility of maximizing internal resource generation, the staff strength at the support level and above all whether the activities should be continued at all. The zero based budget approach should be adopted for assessing the performance.
- Autonomous organizations with a budgetary support of more than Rs 5 crore per annum, should be required to enter into a Memorandum of Understanding with the parent ministry/department, spelling out clearly the input requirements, financial, manpower etc., and the output targets. The output performance assessment should be an important element in determining the program as well as the budget support for the next financial year.

Source: Expenditure Reforms Commission, First, Second, Third, Fourth and Fifth Reports, Ministry of Finance, Government of India,

Annexure IV

A Note on Classification of Central Government Expenditure

The database for the central government expenditure comprises the Union Government budget documents under plan and non-plan heads, Report on Currency and Finance (RCF) published by the Reserve Bank of India under developmental and non-developmental heads, the Indian Public Finance Statistics (IPFS) brought out Ministry of Finance (Department of Economic Affairs) also under developmental and non-developmental heads, and the Economic Survey by Government of India. The constituents of the central government expenditure as classified under plan and non-plan as well as developmental and non-developmental heads are presented below, based largely on the analysis of Saibaba and Sarangi (1997).

Since 1986-87, the classification of expenditures in the central government budget has been under plan and non-plan heads. 'Plan' heads include those programs and projects financed by the Central government on the recommendations of the Planning Commission. Whereas the Finance Commission considers 'non-plan' heads to recommend financial assistance to the states. After the completion of the projects financed under the Plan, the maintenance is brought under the non-plan head during the next plan period. Therefore, as per budget classification,

Total Expenditure = Plan expenditures + non-plan expenditures.

The central government expenditure, classified under plan and non-plan expenditures are further disaggregated into revenue and capital account separately.

Or, Total Expenditure = Plan-revenue expenditures - plan-capital expenditures + non-plan revenue expenditures + non-plan capital expenditures

Further, plan expenditures on revenue and capital account consist of (i) expenditures on services and (ii) central assistance to states and union territories.

Expenditures on non-plan revenue account are available for the following items, (i) interest payment, (ii) defense expenditures, (iii) subsidies and (iv) grants to states and union territories. Non-plan expenditures on capital account are sub-divided under the following heads, (a) expenditures on defense, (b) expenditures on services, (c) loans and advances to states and UTs and (d) other loans. Therefore,

Total Expenditure = (i) Plan revenue expenditures on services and (ii) Plan revenue central assistance to states and union territories + (iii) Plan capital expenditures on services and (iv) Plan capital central assistance to states and union territories + (v) interest payment + (vi) defense expenditures + (vii) subsidies + (viii) grants to states and union territories + (ix) adjustment factor on revenue account + (x) non-plan capital expenditures on defense + (xi) non-plan capital expenditures on services + (xi) loans and advances to states and UTs + (xii) other loans (both (xi) and (xii) are under non-plan capital).

Classification of expenditures under developmental and non-developmental heads gives an idea what the government has done with the taxpayer's money, though it is very difficult to say that the expenditure classified as non-developmental does not in any way contribute to development. Classification of expenditures under developmental and non-developmental heads also distinguishes between revenue account and capital account. Total developmental expenditures on revenue account consist of the following: (i) expenditure on social and community services, which includes (a) education, art, culture, scientific services and research (b) medical, family welfare and public health,(c) labor and employment (d) broadcasting and (e) other social and community services, like urban development and housing, social security and welfare; (ii) expenditures on economic services include (a) agriculture and allied services,(b) industries and minerals (c) foreign trade and export promotion (d) water and power development (includes power projects and irrigation) (e) energy (f) transport and communication (g) science, technology and environment (h) other economic services, (iii) expenditure on general services which includes (a) expenditure on grants to states and UTs for development and disbursement to UTs.

Non-developmental revenue expenditures are classified under the following heads, fiscal services which includes mainly (a) cost of collection of taxes and duties, (b) currency, coinage and mint, (c) audit, (d) interest payments, (e) administrative services (f) defense expenditures (net) (g) grants in aid to state and UTs for non-developmental purposes (h) other general services (i) compensation and assignment to local bodies (j) technical cooperation with other countries (k) accounting transfers and write-backs (l) postal services (net). IPFS includes pension and other retirement benefits and food subsidy. Total capital expenditure can be similarly disaggregated into developmental capital outlay, non-developmental capital outlay and loans and advances.

Not all the items in both the sources can be identified and matched, besides of course, interest payment and defense services (Saibaba and Sarangi, 1997) on both revenue and capital account. These items figure under non-plan expenditure in the budget documents and under non-developmental expenditure in the Report on Currency and Finance. The difference in the total expenditure under the two classifications may be attributable to revenue expenditures on commercial departments, which is included in the Report on Currency and Finance. Though the classification in the IPFS and the Report on Currency and Finance is the same, the magnitudes differ on account of (i) IPFS data excludes receipts of commercial departments whereas the Report on Currency and Finance includes this, (ii) IPFS data keeps statutory grants to states out of both development and non-development heads while RBI data is presented on a gross basis, (iii) IPFS consider loans and advances on a net basis, whereas RBI data is on a gross basis and (iv) securities issued to IMF and nationalized banks are included in the IPFS data. In contrast. RBI treats them as contra items and therefore not included in both receipts and expenditures.

The Economic Classification of the budget

The Economic classification of the central government expenditure data has been taken from the Economic Survey, which classifies the total expenditure as follows,

Total Expenditures = consumption expenditure + gross capital formation + current transfer payments to the rest of the economy + capital transfers to the rest of the economy + financial investments and loans to the rest of the economy (gross).

The last item, financial investment and loans include (i) investment in shares (ii) loans for capital formation (iii) other loans (iv) subscription to the international financial organizations (v) net purchase of gold and silver. Current transfers comprise interest payment, grants in aid to local authorities, subsidies and other current transfers. Capital transfers may be classified into grants for capital formation and other capital transfers.

Under capital formation, the information on inventory investment and fixed investment are available separately. Total consumption expenditure figures are also available in the National Accounts Statistics, which is split into compensation of employees (wages and salaries) and net purchases of goods and services.