Note on Expectations for Submission to the Union Ministry of Finance

14 January 2013

By:

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People's Budget Initiative (PBI) is a coalition of more than 400 civil society organisations from 23 states, formed in 2006 for promoting people's voices in the policy making processes that determine government budgets. A core mandate of PBI is to prepare a set of priority demands from the Union Budget, based on the concerns emerging from grassroots level experiences of CSOs and people's movements across the country.

We welcome the decision taken by the Finance Ministry to expand the scope of its pre-budget consultations since 2010 and also invite some of the civil society leaders for the consultation on social sectors. However, we believe that the pre-budget consultations could be more effective if they are held in the month of October when the budget formulation process begins in the government. Hence, **we would urge the Finance Ministry to hold the pre-budget consultations in the month of October and also give space in these to civil society organisations focusing on government policies and budgets for disadvantaged sections of population**.

I. Perspective

We recognize a number of fundamental problems in the overall fiscal policy framework in the country, and, believe that:

- The overall scope for government intervention, as compared to the size of the country's economy, is much less in India than that in most developed countries and a host of developing countries primarily because of **India's low level of tax-GDP ratio**. Hence, the country's tax-GDP ratio needs to be stepped up significantly in the coming years. Also, **India's tax system needs to be made more progressive** as it relies heavily on *indirect taxes* and much less on *direct taxes*.
- The government should expand the scope of budgets and pursue a re-prioritization of budgets in favour of critical sectors and development of disadvantaged sections of population. Such a fundamental change in the fiscal policy framework of the country would be required to address the problems of **inadequate coverage and poor quality of public provisioning** in most development sectors, which are rooted in acute shortage of financial resources for these sectors for decades now.
- Government **budgets need to be a lot more responsive to the needs and challenges confronting the disadvantaged sections of population**; the programmes and schemes need to be designed in such a way that they address the causal factors underlying the disadvantages of

children, women, dalits, adivasis, religious minorities, persons with disabilities, and unorganised workers.

- Fiscal policy pursued by the Union Government and the State Governments **should not promote ad hoc, short term policies for development sectors** for the sake of cost effectiveness; the government should make long term commitments for adequate public provisioning in all critical sectors, which should reflect in budgets. Such a correction in the fiscal policy in our country is necessary now to address the acute systemic weaknesses that have come up in many sectors.
- Fiscal policy in the country should **promote substantive decentralization**, from the Union Government to State Governments and from State to Local Governments. In this regard, the institutions and processes of planning and budgeting at the sub-national levels need to be strengthened, and the system of budgeting in the country should provide adequate scope for addressing locally felt needs in different regions.

II. Policies relating to Public Expenditure

- **Union Budget 2013-14 should allocate Plan funds under Scheduled Caste Sub Plan (SCSP) and Tribal Sub Plan (TSP) in proportion to the population shares of SCs (16 percent) and STs (8 percent). The funds earmarked under SCSP and TSP should have projects / interventions meant exclusively for SCs and STs.**

  As of now, the plan allocations and fund releases by the Union Ministries are not in proportion to the population shares of SCs and STs; only 9 percent and 5 percent of the total plan funds (for Union Ministries, excluding the Central Assistance for State and UT Plans) was earmarked for SCs and STs in Union Budget 2012-13. Also, some of the Ministries have notional allocations under SCSP and TSP, instead of direct beneficiary-oriented provisions. The Union government should also take strong measures to address similar problems of notional allocations under SCSP and TSP in State Budgets. Several instances have been found from some of the states wherein SCSP and TSP funds have apparently been diverted for other purposes such as expenditure on the construction of roads, bridges and flyovers, stadiums, and government buildings.

  Also, the Planning Commission should modify the guidelines for SCSP and TSP so as to require the Union Ministries not to use SCSP and TSP funds as supplementary resources for general purpose expenditures; these funds should be used for interventions / projects meant exclusively for SCs and STs.

- **The Union government should initiate long term policy measures for enabling State Governments to address the problem of acute shortages of staff in social sectors.**

Acute staff shortage in social sectors, such as health and education, is the main *systemic weakness* in the government apparatus in the states, which has constrained the capacity of the states to step up the extent and quality of fund utilization in social sectors.
Shortage of staff is also one of the main reasons behind weak enforcement of several important Central legislations (like, the PWDV Act, SC/ST Prevention of Atrocities Act etc.).
Non-plan expenditure shapes up to a significant extent the strength of the State Government apparatus in terms of availability of regular qualified staff and adequacy of the government infrastructure. However, over the last decade, Non-plan expenditure in social sectors has been checked by many states due to the emphasis of the prevailing fiscal policy on reduction of deficits through curtailment of public expenditure. In this regard, it is necessary to review the existing skewed Centre-State fiscal relations and move towards greater unconditional transfers from the Centre to the States.

- **The Union government should regularize service conditions of frontline women workers in Central Schemes.**
  While there has been some progress in terms of the government acknowledging the role of frontline service providers in delivery of critical services in some sectors (as is evident from the stepping up of honorarium of Anganwadi Workers and Anganwadi Helpers), this needs to be extended to the other contractual, voluntary staff as well. It is essential to increase allocations to ensure regularisation of women workers, such as, Auxiliary Nurse Midwives (ANMs), Accredited Social Health Activists (ASHAs), *Swachchhata Doot* / Sanitation Messengers, *Kisan Mitra* / Women Farmer Friends, among others.

- **Union Budget 2013-14 should pay attention to the challenges of persons with disabilities and provide adequate outlays for improving accessibility.**
  Adequate budgets are necessary to create mechanisms at the village and panchayat levels for effective implementation, building capacity of the implementing officials, and most significantly, reporting of physical and financial data specific to persons with disabilities. Specific to accessibility, public procurement related to products, works and services for persons with disabilities must adhere to the universal design standards. Additionally, budgetary provision for sign language interpreters in all key public services (police, courts, hospitals) must be earmarked. In this regard, resources must be set apart for training and development of these interpreters.

- **Government should provide 100 percent premium for crop insurance and Panchayat should be considered as the unit of such insurance coverage.**
  As of now the Union government has two insurance schemes, viz. the National Agricultural Insurance scheme and the weather based insurance scheme, in which the guidelines

provide that for failure of crops - District should be considered as the unit for insurance payment and the Union government is paying 50 percent insurance premium across farm categories. Odisha has a progressive policy since last couple of years, in which Block has been considered as the unit of insurance coverage, and if the extent of crop failure is more than 50 % then full insurance coverage is being paid for by the government (the Government of Odisha is shouldering the additional financial responsibility for crop insurance). This progressive initiative should be replicated across all states.

- Given the criticality of the issue of soil health, the Union government should address this on a mission mode by **scaling up the National Project on Management of Soil Health and Fertility** with adequate budgetary resources.

- **The Union government should present the Financial Memorandum for the Right to Education (RTE) Act.**
  It is imperative to put in place a financial memorandum to the RTE Act that has been operational for over two-and-a-half years now. The total amount of Rs. 2.31 lakh crore for implementation of RTE-SSA from 2010-11 to 2014-15, as per the 12th Plan Working Group on Elementary Education and Literacy, was to have been front-loaded, rather than postponed to the later years of the 12th Plan.
  In this context, Union Budget 2013-14 should provide greater amount of resources for implementation of the RTE Act and the unit costs in SSA should be improved adequately.

III. Taxation Policies

- India's total tax revenue (collected by the Union and state governments) at 16.6 % of GDP (for 2011-12 BE) remains significantly lower than not just the developed countries but also some of the developing countries. Hence, **it is critical that the Union Budget 2013-14 takes strong measures for increasing the country's tax-GDP ratio**, which would enable our government to provide more resources for development spending in crucial sectors.
  In this context, we may note here that –
  - with a tax-GDP ratio of 15.5 % in 2009-10, India ranked second last in a comparison across BRICS and G20 countries;
  - with Direct taxes' share of 32.5 % in Total Taxes, India ranked second last in Direct taxes' share comparison across BRICS and G20 countries for the year 2008;
  - India's marginal Income Tax rate, at 30 %, is lower than that in most countries, while, only 1.3 % of India's total tax payers are in the highest income tax slab of greater than Rs. 20 lakh per annum.

The highest marginal rate of income tax should be increased from the current 30 % to tax the rich and affluent sections to a higher extent.

- The Union government needs to **make Wealth Tax more broad based and progressive in order to pursue the objectives of reducing inequality and increasing revenue mobilization**; in this regard, there is also a need to address administrative bottlenecks in wealth tax collection. **Re-introducing the Inheritance Tax** is also recommended.
  In this context, we may note here that –
  - The extent of wealth inequality in India is large, as indicated by the facts that it is home to 55 'dollar billionaires' worth US $ 240 bn (Forbes 2012) and the top 5 % of India's households possess around 38 % of total assets (Planning Commission 2011);
  - In terms of revenue raised from Property taxes as per cent of GDP for year 2009-10 (when evaluated as per the methodology of IMF - GFS Manual 2001), India stood last among BRICS and G20 countries;
  - A conservative estimate of revenue potential of Inheritance Tax and Wealth tax has been found out to be Rs. 63,539 crore per annum, i.e. around 0.8 % of GDP (for 2011-12);
  - Due to improvements in technology and tax administration reforms, government expenditure incurred on each Rs. 100 of Wealth Tax collected has reduced significantly over last decade – from Rs 53.8 in 2001 to Rs 0.7 in 2011-12.

- There is a **need to reduce and rationalize the existing gamut of tax exemptions, particularly those meant for the corporate sector**, and review the rationale for most of the exemptions. Tax breaks should be project-specific, and should not be treated as a 'cost-saving' source for corporations seeking sustained tax holidays. There is a need for a White Paper on tax exemptions providing detailed sectoral break-up of revenue foregone for different industries with a comparative assessment regarding objectives of exemptions fulfilled vis-à-vis magnitude of exemptions.

- **The government needs to carry out a comprehensive review of India's Double Taxation Avoidance Agreements (DTAAs)**. Against the backdrop of revenue losses with regards to capital gains specifically in the India-Mauritius treaty, even though talks are on-going to amend the Mauritius treaty, a comprehensive review of all DTAAs is needed to understand the revenue implications and extent of treaty shopping currently taking place. **Relevant data detailing transactions that avail of treaty benefits (which are currently unavailable) should be recorded and made available publicly**. Such a review, with the relevant data will help establish the need for DTAAs and explore more efficient alternatives.

- **The government should review the royalty payments for extraction of resources in all mineral rich states.** In mineral rich states (like, Jharkhand, Odisha, and Chhattisgarh, among others) payment of royalty for extraction of resources needs to be reviewed to ensure that such states get greater share of revenue raised from the extractive sector.

IV. Transparency in the Union Budget

- The *Budget at a Glance* document in the Union Budget presents a summary of the expenditure as well as receipts side of the budget, which is critical for developing an informed opinion about the government's budget proposals. However, this important document is replete with budgetary jargon making it quite inaccessible to most people. **We would urge the Finance Ministry to simplify the *Budget at a Glance* document and improve its comprehensibility for the lay audience by introducing appropriate charts and figures as well as explanatory notes**.

- The Central Schemes have attracted criticism on the ground of the discretion available to the Union Ministries in deciding the budget allocations for different States. The absence of State-wise break ups of the total budget allocations for the Central Schemes in the Union Budget documents proves to be a hurdle in assessing the priorities of the Union Ministries. Hence, **the Union Budget documents should provide information on State-wise break up of the allocations and expenditures for various Central Schemes**.

- The methodology adopted by the Union ministries for reporting in the *Gender Budgeting Statement* needs to be reviewed thoroughly. The assumptions underlying the different proportions of budget allocations for schemes being reported in the GB Statement (i.e. the Part B of the Statement) need to be explained through **a narrative statement, which should also document the policy measures adopted by each and every Union ministry towards addressing the gender-based disadvantages of women and girl children in their sector(s) of concern**.

- The Union Ministry of Minority Affairs provides scheme wise information on the *Prime Minister's New 15-Point Programme*; however, for a number of important schemes like SSA, ICDS, and SGSY, only the data on physical achievements is reported without the information on their financial performance. Hence, **the Union Budget 2013-14 should introduce a statement on fund allocations for the welfare of minorities in all programmes and schemes covered in the Prime Minister's New 15-Point Programme.**

- The Union Government should urge its Ministries to review the fund flow mechanisms in their programmes and schemes; in many Central schemes, the Union Budget outlays for a state are bypassing the State Budgets, which has weakened the level of transparency and accountability in the utilization of funds in these schemes. Hence, **the Union Budget outlays for all Central schemes should be flown through the State Budgets and brought under the purview of audits by the office of the C&AG of India**.

- Since 2001-02, the Union Budget documents have stopped providing information on commodity-wise details of revenue collected through indirect taxes (like, Customs Duties and Union Excise Duties). Such information, if available, would facilitate an assessment of the implications of the indirect taxes on different sections of population. Hence, **the government should start providing information on commodity-wise details of revenue collected through indirect taxes again from Union Budget 2013-14**.
- The Union Budget in **the Statement on Tax Arrears** (i.e. statement on *Tax Revenues Raised But Not Realised*) should provide information on – how much of the tax arrears have actually been recovered by the government, how much of the arrears have been dropped due to decisions unfavourable to the government in the litigations pertaining to taxes, and how much of the arrears have been written off by the government over the last five years.
- The estimation made by the Finance Ministry for revenue foregone due to exemptions in the Central Government tax system have indicated a significant potential for increasing the tax revenue through a reduction of the number and extent of these exemptions. However, there is a need for greater clarity about the rationale for the exemptions, their revenue implications and the scope for reducing those to generate more revenue. Hence, **we would urge the Finance Ministry to bring out a Position Paper on tax exemptions or revenue foregone due to exemptions in the Central Government Tax System.**
- We would also urge the Union Government to bring out a Position Paper on SEZs, focusing on whether the purposes of SEZs are being fulfilled and what their implications are for government revenue.

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