



Brief Response to Interim Budget 2014-15

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As the nation gears up for the general elections, 2014, the Union Finance Minister, Shri P. Chidambaram presented his last budget speech to the ongoing session of the 15th Lok Sabha. The interim budget 2014-15 appears more of a report card of the tenure of the UPA I and II. The speech was marked by decadal comparisons of macroeconomic indicators such as the GDP growth, inflation rates and investment ratios, indicators of fiscal stability such as fiscal deficit, revenue deficit and expenditures in key social sectors. The interim budget stresses emphatically on reducing the fiscal deficit. The figures for 2013-14 show a reduction in the Fiscal Deficit from the earlier estimated level of 4.8 % of GDP (in Budget Estimates, BE) to 4.6 % of GDP (in Revised Estimates, RE). The Union Finance Ministry seems to have achieved this 'fiscal consolidation' solely on the basis of compression of crucial development expenditure as it failed to step up the tax-GDP ratio in 2013-14.

The total expenditure to GDP ratio in 2013-14 RE is at 14.0 % as compared to 14.7 % in 2013-14 BE. The projected total expenditure at Rs. 17.6 lakh crore for 2014-15 would be 13.7 % of GDP, which indicates the expenditure compression policy of the government. However, since there would be a general budget in June-July 2014, the 2014-15 BE figures provided in the interim budget do not hold much water. It is significant although to have a look at the difference between the BE and RE for 2013-14. It is important to note that there has been a substantial compression of development expenditure from the Union Budget in a number of crucial sectors, particularly Rural Development and Health.

Rural Development

The Union Government's Actual Expenditure under the Department of Rural Development has fallen drastically from Rs. 64,263 crore in 2011-12 to Rs. 50,187 crore in 2012-13; for 2013-14, the Budget Estimate for the Department had been pegged at Rs. 74,478 crore but it has been slashed to Rs. 59,356 crore in Revised Estimate for this year. What is disturbing is the negligence of MGNREGA by the UPA-II government in the last three years, with the funds for this crucial scheme stagnating at Rs. 29,213 crore in 2011-12 (Actuals), Rs. 30,274 crore in 2012-13 (Actuals), and Rs. 33,000 crore in 2013-14 (Revised Estimates). Thus, the budget for MGNREGA has not kept up with inflation over the period.

Education

While key sectors like education and health have also observed slashed expenditure commitments, in education the interim budget does not reflect any major change towards improving educational sector entitlements. Union Government's total allocation for education was 0.7 % of GDP in 2013-14 BE, which has decreased to 0.66 % of GDP in 2013-14 RE. This reduction is attributed to the decrease in Plan expenditure by Rs. 4000 Crore. A closer look of revised estimates for 2013-14 shows a 5 % reduction in the Department of School Education and Literacy and 8.5 % cut in Department of Higher Education from their respective budget allocations for 2013-14. The major scheme for universalization of elementary education, *Sarva Shiksha Abhiyan (SSA)*, a vehicle for implementing the Right to Education Act has also experienced a 2.4 % reduction in 2013-14 RE (Rs. 26608 crore) as compared to 2013-14 BE (Rs. 27258 crore). A substantial decrease of 21.6 % in expenditure is observed in case of *Rashtriya Madhyamik*

Shiksha Abhiyan (RMSA) between 2013-14 BE (Rs. 3983 crore) and 2013-14 RE (Rs. 3123 crore). *Rastriya Uchha Shiksha Abhiyan* (RUSA) which was introduced in 2013-14 BE, with a small outlay of Rs. 400 crore, has witnessed the maximum drop (about 40 %) in allocation, the outlay being Rs. 240 crore in 2013-14 RE. The interim budget however announced that the period of education loan taken up to 31.3.2009 as moratorium period and indicated that the government would take over the liability for outstanding interest, which will benefit a large number of students borrowed loan in this period.

Health

In health, the difference between the allocations and expenditures in 2013-14 has been Rs. 6,483 crore which marks a super decline in centre's share of health expenditure by 17.4 % since last year's projected figures. It is a major cut in expenditure in this crucial sector given that the National Rural Health Mission was transformed to include urban areas under the National Health Mission. While budgetary allocations to NHM last year were inadequate, a slash in expenditure (from Rs. 21,104 crore in 2013-14 BE to Rs. 18,206 crore in 2013-14 RE) seems to question the intention of the outgoing government towards universalisation of healthcare facilities.

Water Supply and Sanitation

Similarly, in outlays for rural water and sanitation, Rs 3,260 crore have been reduced in the 2013-14 RE which amounts to a decline of 21 % from the 2013-14 BE figures. The expenditure decline in *Nirmal Bharat Abhiyan*, the flagship programme for rural sanitation, compared to last year's allocation has been 46 % including the component towards the North-Eastern states.

Urban Housing and Poverty Alleviation

In terms of urban development, the Ministry of Housing and Poverty Alleviation revised down its budget estimates from Rs. 1,468 crore to Rs 1,208 crore for the year 2013-14 which is a decline of 18 % of the Budget Estimate. The allocations for the much hyped *Rajiv Awas Yojana* also saw a major cut of 38 % in the 2013-14 revised estimates. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) also faced a disparity between allocations and expenditure.

Agriculture and Food Security

While agriculture featured as a 'stellar' sector in the budget speech, with growth rate at 4.6 % in 2013-14, increase in foodgrain production from 255.36 million tonnes in 2012-13 to an estimate for the current year at 263 million tonnes, the expenditure in agriculture reduced from Rs. 29,773 crore in 2013-14 BE to Rs. 26,071 crore in 2013-14 RE. As percentage of total expenditure, the sector's share reduced from 1.7 % in 2012-13 (Actuals), 1.8 % in 2013-14 BE to 1.4 % in 2013-14 RE. Food security provisions, mainly food subsidy, increased by Rs. 2000 crore in 2013-14 RE which is due to the passage of the National Food Security Bill which makes the increase quite unsubstantial. However, a higher amount Rs. 1,15,000 crore has been allocated for Food Subsidy in 2014-15 BE.

Renewable Energy

Similarly, although the budget speech announced four ultra-mega solar power projects, each with a capacity of over 500 MW under National Solar Mission in 2014-15, highlighting its commitment towards renewable energy, the 2013-14 RE for Ministry of New and Renewable Energy at Rs.437.96 crore is less than its allocation in last year's budget at Rs. 1533.55 crore. Allocation for schemes such as Renewable Energy for Rural Application and Renewable Energy for Urban, Industrial and Commercial Applications show a decrease of 12 % and 51 % respectively in revised estimates of 2013-2014 in comparison to budget estimates.

Women

In terms of marginalised sections, while the budget speech does mention relief for women in terms of making *Nirbhaya*, a fund announced in last year's budget into a permanent non-lapsable fund of Rs. 1000 crore, the total allocation to the Ministry of Women and Child Development shows around 10 % decrease from Rs 20,440 crore for 2013-14 BE to Rs. 18285.65 crore for 2013-14 RE. Of this total, the allocation for ICDS alone is Rs 16432 crore, which was announced to be operational in all districts. As a result, there has been a decline in allocations for almost all schemes for Womens' Welfare. For example, allocations for Umbrella Scheme for Protection and Development of Women which was allocated Rs. 288.10 crore in 2013-14 BE, has been reduced to merely Rs. 77.45 crore in the Revised Estimates of 2013-14. Similarly, allocation for *Indira Gandhi Matritava Sahyog Yojana* (IGMSY)-CMB Scheme has been reduced from Rs. 450.00 crore in 2013-14 BE to Rs. 270.00 crore in RE. Allocation for Support to Training & Employment Programme (STEP) which was Rs. 18 crore in the budget estimates, which in itself was inadequate, was revised to Rs. 9 crore in 2013-14 RE. However, no steps have been taken to review the format of Gender Budget Statement. The total magnitude of the Gender Budget Statement is Rs. 85,495.42 crore as per 2013-14 RE, which marks a decrease of around 12 % from Rs. 97,134 crore in 2013-14 BE. Total allocation in the Gender Budget Statement is 5.38 % of the total Union Budget expenditure as per 2013-14 RE, as compared to 5.83 % as per 2013-14 BE, marking a marginal decline.

Children

There has been a cut of 6.13 % amounting to Rs. 4739.74 crore on Child welfare schemes in 2013-14 RE according to the Child Budget Statement. Expenditure cuts in SSA (2.4 %), MDM (7.8 %), RMSA (22 %) and National Child Labour Project (44.5 %) have been reflected in the statement during 2013-14 RE. However, clubbing of specific schemes under "Umbrella Scheme for Education of ST Children", namely, 'Strengthening and Establishment of Ashram schools and hostels', 'Establishment of Vocational Education Centers within Ashram Schools', 'Pre. Matric Scholarship', 'Post matric Scholarship' and 'Top Class Education' under the Ministry of Tribal Affairs has been announced with an allocation of Rs. 1058 crore in 2014-15 BE. There has also been an increase of Rs. 23.88 crore (1.4 %) in the schemes related with minorities students and in the expenditure on *Kendriya Vidyalayas Sangathan* by a minor 0.8 %.

Scheduled Castes

The allocation for the Ministry of Social Justice and Employment (MSJE) has declined from Rs. 6725.32 crore in 2013-14 BE to Rs. 5723.35 crore in 2013-14 RE. Schemes such as Special Central Assistance to Scheduled Castes Sub-Plan related to the welfare of the Scheduled Castes have experienced a decline in their allocations from Rs.1030 crore in 2013-14 BE to Rs. 783 crore in 2013-14 RE. The Self Employment Scheme for Liberation and Rehabilitation of Manual Scavengers, *Pradhan Mantri Adarsh Gram Yojana*, etc has also experienced expenditure cuts. Steep decline in the allocations for Scheme for Liberation and Rehabilitation of Manual Scavengers is a matter of concern especially in view of the “Prohibition of Employment as Manual Scavengers and their Rehabilitation Bill, 2012” which re-affirms the government’s commitment to eradicate the practice. The allocation under the Scheduled Caste Sub Plan (SCSP) has also decreased to Rs. 35, 800.60 crore in 2013-14 RE from Rs.41, 561 crore in 2013-14 BE. This marks a decrease of almost 14 % . However, certain schemes have witnessed increases in their respective allocations from 2013-14 BE to 2013-14 RE, such as, Machinery for implementation of Protection of Civil Rights Act, 1955 and Prevention of Atrocities Act 1989 from Rs. 88 crore to Rs. 128crore; Post-Matric Scholarship Scheme: from Rs. 1470 crore to Rs. 1870.37 crore; Pre-Matric Scholarship for children of those engaged in unclean occupation from Rs. 9.50 crore to Rs. 20.10 crore. There has also been a minor increase of 0.1 % in the share of SCSP in the Total Plan Allocations of Union Budget (excluding Central Assistance to States and Union Territories) from 2013-14 BE to 2013-14 RE. In order to promote entrepreneurship among the scheduled castes and to provide concessional finance, the interim budget provisioned for a Venture Capital Fund for Scheduled Castes to be set up with Industrial Finance Corporation of India with an initial capital of Rs. 200 crore.

Scheduled Tribes

The total allocation for the Ministry of Tribal Affairs has witnessed a decline of around 9 % from Rs. 4295.94 crore in 2013-14 BE to Rs. 3896.05 crore in 2013-14 RE. Allocations under the Central Assistance for State Plans (includes Special Central Assistance to Tribal Sub-Plan and Assistance for schemes under proviso (i) to Article 275(1) of the Constitution)) has declined from Rs. 2517.00 crore in 2013-14 BE to Rs. 2147.14 crore in its RE. For other key schemes under the Ministry of Tribal Affairs, particularly on educational development of STs, the allocations have remained almost the same as expenditures in 2013-14. Under Statement 21A (in Expenditure Budget Vol I) of Union Budget 2014-15, the allocation under the Tribal Sub Plan (TSP) has decreased to Rs. 22,030.47 crore in 2013-14 RE from Rs.24,598.39 crore in 2013-14 BE, almost a 10 % decrease. There has been a minor increase of 0.31 % in the share of TSP in the Total Plan Allocations of Union Budget (excluding Central Assistance to States and Union Territories).

Minorities

The total allocation for Ministry of Minority Affairs has also decreased to Rs.3130.84 crore in RE from Rs 3,530 crore BE which is almost 11 % reduction. The Multi-Sectoral Development Programme (MSDP) which was being implemented in 710 Blocks in 196 districts as per the 12th Five Year Plan, there has been a decline of Rs. 268.46 crore in the allocation for the MSDP in 2013-14 RE.

Social Security

The demands for the Union Government to provide adequate resources for social security for the millions of elderly and deprived people of this country have been ignored yet again. The National Social Assistance Programme (NSAP) had been budgeted Rs. 8,382 crore for 2012-13, but the Actual Expenditure on the same that financial year has fallen to Rs. 7,825 crore; the amount budget for NSAP for 2013-14 has remained the same in Budget Estimates and the Revised Estimates at Rs. 9,541 crore, and in 2014-15 BE a slightly higher amount of Rs. 10618 crore has been provided for this programme.

We need to note here that the 10 % hike in Dearness Allowance for Central Government employees and pensioners last year (announced in September 2013 and made effective in retrospect from July 1, 2013), benefitting 50 lakh employees and 30 lakh pensioners, would imply an additional expenditure to the tune of Rs. 19000 crore. But the total amount of funds provided by the Centre for NSAP (which includes Old Age Pension Scheme, Widow Pension Scheme and Disability Pension Scheme) has been less than Rs. 10000 crore a year.

Taxation

The total tax revenue collected by Centre and States (combined) had fallen from 17.4 % of GDP in 2007-08 to 14.7 % of GDP in 2010-11; it has registered a rise to 17.2 % of GDP in 2012-13 (BE) but it still is way below the average tax-GDP ratio for BRICS countries at 22 %. The UPA-II government has failed to address the urgent need for increasing the country's tax-GDP ratio; the Gross Tax Revenue of the Centre registers a decline from 10.9 % of GDP in 2013-14 (BE) to 10.2 % of GDP in 2013-14 (RE) and it is pegged at 10.7 % of GDP in 2014-15 (BE).

The Gross Tax Revenue of the Union Government in 2013-14 is lower (at Rs. 11.59 lakh crore in RE) than what had been projected last year (at Rs. 12.36 lakh crore in BE); thus, despite the Finance Minister's admission in his Budget Speech last year that India's tax-GDP ratio is low for a large developing country. The interim budget did not propose any changes in the structure of the direct taxes, but has announced certain concessions in excise duties for specific industries citing reasons to boost growth of the same. They would be namely automobiles, indigenous mobiles, certain consumer durables, etc. However, revenue elasticity of tax cuts in the above sector is not very high. There might be a substitution effect of product transformation in this sector because of rate cuts which may not have larger impact on revenue generation for the Government.

Centre-State Resource Flows

However the government has shown its commitment towards the restructuring of the centrally sponsored schemes and has transferred a large part of the money meant for CSS to the states as central assistance to state plan. This has come as welcome step towards strengthening the states' financial autonomy and is in the spirit to uphold the recommendations made by the B K Chaturvedi committee report. Last year's budget promised a step towards restructuring the CSS and providing the states with more flexibility in terms of implementing Plan schemes. A laudable step towards that has been an increase in the quantum of the Central Assistance to State Plans from Rs. 1,36,254 crore in 2013-14 BE

to Rs. 3,38,562 in 2014-15 BE via the Additional Central Assistance component. This marked increase is reflected in the budgets of most Ministries and Departments implementing the 'big-bang schemes' such as the Ministries of Minority Affairs, Tribal Affairs, Women and child Development, Social justice and empowerment, Drinking Water and Sanitation, Human Resource Development, Rural Development, Health and Family welfare and Panchayati Raj institutions, under a separate head of State and UT plans. This would enhance internal accountability in the process of fund utilization (as these would come under the direct purview of the CAG audit every year).

However, it does not yet address the long standing concern of the States for stepping up the share of truly untied funds within Central Assistance for State Plans, since the magnitude of *Normal Central Assistance for State Plans* (determined by the Revised Gadgil-Mukherjee formula) continues to be a small part of the Centre's Gross Budgetary Support to Plan.

Nevertheless, it is also important to note that total Plan Expenditure budgeted for 2014-15 remains same as last year's projections at Rs. 5,55,322 crore. In 2012-13, the total Plan Expenditure from Union Budget was projected to be Rs. 5.21 lakh crore (in BE); however, the actual magnitude for the year has fallen sharply to Rs. 4.14 lakh crore. Likewise, the total Plan Expenditure in 2013-14 had been projected last year as Rs. 5.55 lakh crore (in BE), but it has now been slashed to Rs. 4.75 lakh crore (in RE). On the expenditure side, therefore, the UPA-II government has ardently pursued a roadmap of fiscal conservatism.

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