Budget TRACK

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NATIONAL CONVENTION ON UNION BUDGET 2006-07

Budget forms an essential link between the promises made by the government and their implementation on the ground. All the promises made by government come to nothing if not backed by financial commitments in the budget. This fact has led a large number of Civil Society Organisations (CSOs) around the world to proactively engage with governments in the formulation and implementation of budgets. The need for engagement in the budget making process is pressing in our country in the present political context when a government has been elected on a pro poor platform but has done little to justify this mandate till now. In this backdrop, CBGA seeks to organise a National Convention on Union Budget 2006-07, involving academia, CSOs, peoples' organisations and mass movements across the country.

The Convention will provide a forum for civil society groups, mass organisations, intellectuals and individuals to deliberate on issues related to budget from the point of view of the marginalized and make concrete suggestions towards the making of Union Budget 2006-07. The Convention will be held in New Delhi on 5th and 6th of October.

The Convention will have discussions on the following themes: Employment Generation and Poverty Reduction, Agriculture, Fiscal Issues, Social Sectors, Marginalized Groups. For each theme there will be at least one expert speaker who will place his views in the plenary. This will be followed by group discussions on each theme with the objective of taking inputs from the participants and preparing a detailed 'Charter of Demands'. The demands of each group will be collated and declared in the final session. Also to ensure a follow up action on the Charter of demands, the house will nominate working groups (theme specific). Working groups will then take all possible steps to actualise these demands. These may include meetings with the Finance Minister, Deputy Chairman of the Planning Commission, and the representatives of the National Development Council and National Advisory Council.

STRUCTURE OF THE NATIONAL CONVENTION

Day 1 — 5th October

09.30 – 10.00	Registration
10.00 – 11.15	**Inaugural Session**
11.15 – 11.30	Tea Break
11.30 – 1.00	**Livelihood Issues: Employment Generation, Poverty Alleviation, and Agrarian Development**
1.00 – 2.00	Lunch
2.00 – 3.30	**Macroeconomics of the Union Budget: Resource Mobilisation and Expenditure Management**
3.30 – 3.45	Tea Break
3.45 – 5.15	**Group Discussion and Preparation of Demands (In separate groups)** ▪ Employment Generation and Poverty Alleviation ▪ Agrarian Development ▪ Public Expenditure, Deficit and Debt Management ▪ Resource Mobilization

Day 2 — 6th October

9.30 – 11.00	**Marginalised Groups: Women, Children, Dalits and Adivasis**
11.00 – 11.15	Tea Break
11.15 – 12.45	**Social Sectors: Health and Education**
12.45 – 1.45	Lunch
1.45 – 3.15	**Group Discussion and Preparation of Demands (In separate groups)** ▪ Women and Children ▪ Dalits and Adivasis ▪ Education ▪ Health
3.15 – 3.30	Tea
3.30 – 5.30	**Concluding Session** ▪ Presentation of demands by representatives of each group ▪ Chairpersons Remark ▪ Vote of Thanks and Way Forward

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Foreword

Some of the recent legislations at the level of the central government could mark a significant turning point in the course of socio-economic progress of the country. In response to the widespread criticisms of the quality of governance in the country, many progressive intellectuals have been citing 'right to information' as the remedy. The last three months witnessed the culmination of an unrelenting civil society movement seeking legislative backing for people's right to information, with the passing of the Right to Information Act in the Budget Session of the Parliament this year. Another fundamental legislation, approaching its final test in the Parliament, the National Rural Employment Guarantee Bill holds enormous potential for ensuring livelihood security in rural India. The persistent struggle led by members of National Advisory Council, a number of civil society groups, people's movements and eminent academics has been successful in getting the Standing Committee on Rural Development to recommend strongly for the employment guarantee scheme (to be mandated by the NREG Bill) to be universal (in the rural areas), irreversible and primarily funded by the Union Government.

Since its inception (in 2003), Budget Track has been following the important policies, legislations and budgetary processes of the Union Government and highlighting their implications for the weaker sections of the population. The backdrop for the present issue of Budget Track, the first issue of its third volume, holds a lot of promise for civil society interventions in the sphere of governance and policymaking. The present issue, in its different sections, takes note of some of the important developments, over the last four months, relating to the Union Budget 2005-06 and some other crucial policy initiatives of the central government. While acknowledging the positive initiatives like, Right to Information Act, National Rural Health Mission, recommendations of the Standing Committee on NREG Bill, and adoption of Gender Budgeting by the Union Government; it raises pertinent questions over the crisis of indebtedness of farmers and growing number of farmers' suicides, lack of transparency in 'Bharat Nirman', and desirability of the debt restructuring package put forward by the Twelfth Finance Commission. There are also some critical reflections on the National Electricity Policy. Finally, we may note here that this issue of Budget Track accords much greater focus to demystifying the important budgetary processes at the level of the Union Government, by tracking the developments relating to Union Budget 2005-06 in the Budget Session of the Parliament.

IN THIS ISSUE

Tracking Union Budget 2005-06 and Other Policy Initiatives - Subrat Das

More than four months have passed since the presentation of Union Budget for 2005-06 by the Finance Minister Mr. P. Chidambaram, in the Parliament, this year. The first General Budget of the UPA Government for a full year was received by many with optimism over its possible impact on the lives of the poor and marginalized people of our country. This was because, unlike any other Union Budget in the recent past, this Budget exhibited a shift towards giving emphasis on social sectors, rural infrastructure and employment generation. However, there were significant gaps between the allocations proposed for these sectors/ services and the levels of public spending that were promised in the National Common Minimum Programme. These gaps were the result of the rigidity of fiscal policy of the Government, which in turn is rooted in its adherence to conservative fiscal thinking, now legalized in the form of the Fiscal Responsibility and Budget Management (FRBM) Act.

In this section of Budget Track, we shall take note of some of the important developments, over the last three months, relating to the Budget 2005-06 and some other crucial policy initiatives of the Union Government.

1. BUDGET SESSION OF THE PARLIAMENT

The recently held Budget Session of the Parliament (4th Session of the 14th Lok Sabha and 204th Session of the Rajya Sabha) had commenced on 25th of February 2005 and it was concluded on 13th of May 2005. This Session was held in two parts, the first from 25th of February to 24th of March and the second part was held from 19th of April to 13th of May 2005. Both the Houses were in recess from 25th of March to 18th of April for the purpose of enabling the Department related Standing Committees to examine the Demands for Grants relating to various Ministries/ Departments and present their reports to the Houses.

In this Session, a total of 38 sittings each of Lok Sabha and Rajya Sabha were held, which were devoted mainly to the Railways Budget for 2005-06, the General Budget (i.e., what we refer to as the Union Budget) for 2005-06, and Budgets relating to the States of Goa and Bihar for 2005-06. Besides, the two Houses passed 26 Bills during this Session. In this note, however, we shall restrict our attention to Union Budget 2005-06 and some of the Bills related directly to the affairs of the economy.

UNION BUDGET 2005-06 IN THE PARLIAMENT

Several issues like, the "tainted ministers" question, the dispute over the Kargil-related defence purchases and the report of the Phukan Commission that probed the controversial defence deals, and the row over the role of the Election Commission in the Chapra Lok Sabha polls last year, led to a sharp division of the Parliament in the Budget Session. The differences which first led to the Opposition stalling the proceedings in the Houses on a number of occasions finally culminated in their boycott of the Parliament for as long as 12 days during the second part of the Session. All this has provoked many observers and commentators to caution against the weakening of a crucial democratic process in the country as well as note that business transacted in the Parliament during the Budget Session might have suffered from "want of credibility". In this kind of a scenario, it is not surprising to note that with respect to the Union Budget 2005-06, as many as 47 Demands for Grants for various Ministries were guillotined and passed without any discussion.

It may be worthwhile to note here that in our country, the authority for preparation of the Budget lies with the executive. However, the legislature has a vital role to play in the legalisation of the Budget. Unless the Finance Bill is passed into Finance Act, the Government cannot legitimize its collection of taxes from anyone. Similarly, unless the Appropriation Bills are passed into Appropriation Acts (in respect of the Demands for Grants under various Ministries), the Government cannot withdraw any amount for expenditure from the Consolidated Fund of India. After the presentation of the Budget by the Finance Minister in the Parliament, the various

Union Budget 2005-06 in Lok Sabha (in the Budget Session 2005)

	Whether Discussed or Not	Time Taken (Hrs.-Mts.) for Discussion
General Discussion on the Budget	Discussed	17-35
Detailed Discussion and Voting on the Demands for Grants	Demands for Grants under the control of 4 Ministries only were discussed, No discussion on the Demands for Grants under the rest of the 42 Ministries.	14-19
Finance Bill	Discussed	10-21

Source: Press Release of Ministry of Parliamentary Affairs

Note: The Constitution of our country (Article 113- Clause (2)) requires that, with respect to the Budget, the estimates of expenditure from the Consolidated Fund of India included in the Budget (technically, in the Annual Financial Statement), unless 'charged' on the Consolidated Fund, shall be submitted in the form of **Demands for Grants** for the vote of the Lok Sabha. Though, usually, one Demand is presented for each Ministry/ Department, more than one Demand is presented for the large Ministries/ Departments. Each Demand for Grant usually includes the total financial provisions required for a service, i.e., expenditure on Revenue Account as well as expenditure on Capital Account (including Loans) for the service.

Demands for Grants falling under the different Ministries of the Union Government are referred to the Department related Standing Committees, which examine the demands (for expenditure in the concerned financial year) and then report their observations to the Houses. Subsequently, the legislature is supposed to discuss the demands of the various Ministries before voting on them. Though, the power of the legislature in this sphere is restricted only to asking for either a cut in an allocation for a Ministry or complete rejection of an allocation for a Ministry, and by convention the Finance Bill and the Appropriation Bills are always passed (or else the Government would fall!), it is essential that the legislators use their limited powers in the Parliament (relating to the Budget) to force accountability on the Government. In the interest of Government's accountability to people for the Budget, it is necessary that the Members of Parliament discuss the different aspects of the Budget in detail highlighting the flaws (if any) in the budgetary proposals.

In this context, it is disappointing to note that the time devoted to the discussion of Budget 2005-06 in the Parliament was grossly inadequate, though many pertinent points were made by the legislators during whatever little time was devoted to the discussions on Budget.

GENERAL DISCUSSION

The General Discussion on the Budget, which took place among the proceedings in the first part of the Budget Session, witnessed a number of important concerns being raised by the legislators. The Members of Parliament from the Left Parties highlighted that the increase in outlay for agriculture, rural development, health, education, and irrigation and flood control is too small in comparison to the problems being faced by the people, especially in the rural areas. It was pointed out that the de-reservation of about 105 more items from the small-scale sector would force many small-scale units into closure and lead to unemployment of lakhs of workers. A strong demand was raised for the Government bringing down the Non-Performing Assets of the Banks and recovering the huge arrears of taxes so as to solve the problem of resource crunch. References were also made to the problems facing most of the States in the wake of the 12th Finance Commission recommendations, which have passed on the responsibility of checking deficits to the States, and thereby caused the risk of having financially weaker States while the financial position of the Centre would be stronger.

DETAILED DISCUSSION ON DEMANDS FOR GRANTS

During the second part of the Budget Session, Demands for Grants relating to Budget 2005-06 were discussed and voted and the related Appropriation Bill was passed by the Lok Sabha, and subsequently returned by the Rajya Sabha. Demands for Grants under the control of only 4 Ministries, viz. the Ministry of Agriculture, the Ministry of Rural Development, the Ministry of Home Affairs, and the Ministry of Science and Technology, were discussed and voted by the Lok Sabha. It is rather disappointing to know that the Demands for Grants for the remaining Ministries/ Departments (about 42 Ministries and 3 independent Departments) were put to the vote of Lok Sabha, and voted in full on 27th April, without any discussion on them. However, one consolation could be that during this period, the Rajya Sabha discussed the working of 8 other Ministries, viz. the Ministries of Water Resources, Social Justice and Empowerment, Tribal Affairs, Defence, Power, Non-Convention Energy Sources, Environment and Forests, and Consumer Affairs, Food and Public Distribution.

DISCUSSION ON FINANCE BILL

The NDA-led Opposition, during the second part of the Budget Session, fortunately joined in the Finance Bill discussions in both the Houses, showing some respect to the role of a responsible watchdog of the Government policies that the Opposition is expected to play. The Finance Bill 2005 was discussed and passed by the Lok Sabha, and subsequently discussed and returned by the Rajya Sabha. Again, a discussion on the Finance Bill gave many a legislator an opportunity to raise important concerns relating to the economy. The MPs from the Left Parties put forward the concerns regarding the adverse effect of the reductions in deposit interest rates on the senior citizens, tax concessions being given in the name of tax reforms, the tax compliance by the rich being low despite the fact that tax incidence on the rich is less. In Rajya Sabha, CPI (M) M.P. Chittabrata Majumdar drew attention to the fact that tax arrears had increased from Rs. 47,000 crore in 1997-98 to Rs. 1,00,000 crore in 2003-04, a huge source of revenue which the Government could mobilize. He said that direct taxes worth Rs. 55,138 crore and indirect taxes worth Rs. 19,473 crore have been locked up in the tribunals because of various factors, and that the Government seems to be lenient to the rich with regard to debt recovery also.

IMPORTANT BILLS IN THE PARLIAMENT: A STATUS CHECK

Apart from Budget 2005-06, some of the Bills introduced and passed in the two Houses, during the Budget Session, are worth taking note of since these legislations could have a far-reaching impact both on the economic policies and the quality of governance in our country.

PATENTS (AMENDMENT) BILL

The Patents (Amendment) Bill 2005, which the Government claims is necessary to fulfill India's obligations under the trade-related aspects of Intellectual Property Rights under the WTO, initially faced strong opposition from many non-Congress political parties and public-interest groups. But later, as many of the amendments in this legislation suggested by the Left parties were incorporated, the Bill got passed in both the Houses with the support of the Left parties.

RIGHT TO INFORMATION BILL

The much awaited Right to Information Bill 2005, which has incorporated many positive elements suggested by the National Advisory Council, has been passed in both the Houses. Many legislators, in the Parliament, praised this Bill as it provides for the law being applicable throughout India, an independent system of appeal, and penalty specifications, etc., all of which will go a long way towards empowering people and making the Government accountable to people. However, CPI (M) M.P. in the Rajya Sabha, Ms. Sarla Maheswari, pointed out that this Bill is confined only to governments working at various levels. She raised a pertinent demand that besides government offices and establishments, the provision of right to information should be made applicable to all non-governmental organisations and private companies also.

PREVENTION OF MONEY LAUNDERING (AMENDMENT) BILL

The stated purpose of the Prevention of Money-Laundering Act, 2002 was to prevent money laundering and to provide for measures like, confiscation of property derived from/ involved in money laundering. And, this Act had become necessary to implement the Political Declaration adopted by the Special Session of the U.N. General Assembly held in June 1999, which called upon the Member States to adopt national money-laundering legislation and programme. The present Bill of 2005 to amend this Act seeks to overcome certain difficulties that were envisaged while planning the implementation of this Act. This Amendment Bill, which has been passed by both the Houses, is expected to facilitate curbing the huge black economy in the country and mobilize resources by tapping such accumulated wealth.

PENSION FUND REGULATORY AND DEVELOPMENT AUTHORITY BILL

The controversial Pension Fund Regulatory and Development Authority (PFRDA) Bill 2005, after being introduced in the Lok Sabha, was referred to the Department-related Standing Committee on Finance. Reportedly, in the meetings of the standing committee on this Bill, the Government has presented its pro-reform arguments to support the Bill and claimed that the new Fully Funded scheme (started from 2005) would be sustainable despite its dependence on the market; on the other hand, the Left parties have opposed the Bill on the grounds of the new scheme leading to privatization of social security, possible diversion of workers' contributions to the stock market and its inaccessibility to the unorganized sector. It is important to note here that the supporters of pension reforms have created enough hype about the potential gains from such reforms while keeping away from discussing the lessons about the negative consequences coming from the Latin American countries.

NATIONAL RURAL EMPLOYMENT GUARANTEE BILL

National Rural Employment Guarantee Bill 2004 holds the potential of giving a pro-poor thrust to the development trajectory of the country, by comprehensively addressing the crisis of livelihood facing a vast majority of the rural population. The force in this thrust will of course depend on the teeth of the legislation that gets enacted, which in turn depends on the recommendations of the Department-related Standing Committee on Rural Development who is considering the Bill. While many people waited eagerly for this Bill to be taken up and passed in the Budget Session, that didn't happen. The probable reason seems to be that the Standing Committee on Rural Development, headed by Mr. Kalyan Singh of the BJP, did not call any meeting on the Bill during the Budget Session. It is hoped that the Standing Committee on Rural Development will soon complete its work on the Bill in time for its discussion and approval in the Parliament in the coming Monsoon Session.

(Please see the Box on Recommendations of the Standing Committee on Rural Development on the NREG Bill)

BILLS PUSHING FORWARD FINANCIAL SECTOR LIBERALIZATION

On the last day of the Budget Session, the Government introduced in the Lok Sabha the Banking Regulation (Amendment) Bill 2005 and the Reserve Bank of India (Amendment) Bill 2005, which underscore its thrust for financial sector liberalization. The Banking Regulation (Amendment) Bill is meant for lifting the 10 % cap on voting rights to foreign banks acquiring equity in Indian banks, although any person acquiring more than 5 % equity in an Indian bank will be required to obtain approval of the RBI. This Bill also seeks to allow the RBI to specify the Statutory Liquidity Ratio without any floor or ceiling. The Reserve Bank of India (Amendment) Bill seeks to remove the floor and upper ceilings of the Cash Reserve Ratio and empower RBI to deal in derivatives. Both the Bills were referred to the Parliamentary Standing Committee on Finance.

Cost of Running the Parliament

The cost of running the Parliament in the year 2000, as per media reports, used to be around Rs. 12,950 per minute, Rs. 7.77 lakh per hour, or Rs. 58.26 lakhs per day. After five years, now in 2005, the cost of running the two Houses must be much higher. Apart from the long boycott of the Parliament by the NDA-led Opposition, a lot of time was lost in the last Budget Session due to adjournment on account of interruptions. In the last Budget Session (according to the Ministry of Parliamentary Affairs), Lok Sabha lost about 30 hours and Rajya Sabha lost about 34 hours due to adjournment on account of interruptions in the Houses. Thus, at least around Rs. 3 crore of the public money have been wasted in the last Budget Session. If we take into account only the productive time in the Sessions, the wastage of money would be at a much higher figure. Therefore, it is pertinent to ask our M.P.s to be more responsible during the Sessions in the Parliament, keeping in mind the fact that they are accountable to the people of this country.

The UPA Government's consistent efforts in pushing forward the process of financial liberalization betrays its repeated promises of addressing the problems of growing inequity and deprivation of a majority of the population. This Government has introduced some policies for making education and healthcare accessible to the poor in the country (through measures like, levying the education cess for mobilizing resources for elementary education, and introducing the National Rural Health Mission) and is in the process of adopting policies for securing livelihoods of the rural poor; but its belief in neoliberal economic thinking seems firmly intact. The latter fact gets reflected in the way financial sector liberalization has constituted an integral part of the macroeconomic policies pursued by the Government. Unless this process is checked, the policy space of the Government as well as the RBI, with respect to many important economic instruments like, interest rates, government borrowings, and role of the public sector units, etc. would shrink further making it increasingly difficult to address the root causes of inequity and deprivation.

2. AN UPDATE ON IMPORTANT PROMISES OF BUDGET' 05-06

BHARAT NIRMAN: INNOVATIVE OR CONCEALED?

Bharat Nirman in Union Budget 2005-06

Bharat Nirman has been conceived as a business plan, to be implemented over a period of four years, for building infrastructure, especially in rural India. It will have six components, namely, irrigation, roads, water supply, housing, rural electrification and rural telecom connectivity. In each of these areas, we must dare to be bold and set for ourselves high targets to be achieved by the year 2009.

The UPA Government's goals are:

- to bring an additional one crore hectares under assured irrigation;
- to connect all villages that have a population of 1000 (or 500 in hilly/tribal areas) with a road;
- to construct 60 lakh additional houses for the poor;
- to provide drinking water to the remaining 74,000 habitations that are uncovered;
- to reach electricity to the remaining 1,25,000 villages and offer electricity connection to 2.3 crore households; and
- to give telephone connectivity to the remaining 66,822 villages.

'Bharat Nirman' will require huge resources. Government believes that Bharat Nirman is an achievable project, and it is our intention to give rural India a new deal fully involving the Panchayati Raj Institutions in the planning and implementation.

Source: Budget (2005-2006) Speech of Mr. P. Chidambaram, Minister of Finance

Tracking Union Budget 2005-06 and Other Policy Initiatives

According to the PM-

"Bharat Nirman is the most important initiative of the UPA Government this year, offering a 'New Deal to Rural India'. It will emphasise outcomes and not just outlays"

"In the absence of timely, comprehensive and accurate information about the financial allocations to be made available for the stated policy goals, setting physical targets alone does not serve the purpose of informing the public about the actual priorities of the Government"

In the second week of May this year Prime Minister, Dr. Manmohan Singh, chaired a meeting of the Committee on Rural Infrastructure and approved the proposal for Bharat Nirman, which will entail an investment of over Rs. 1,74,000 crore in six critical areas of rural infrastructure, over a period of 4 years from 2005-06 to 2008-09. Reportedly, the Prime Minister told the meeting, "Bharat Nirman is the most important initiative of the UPA Government this year, offering a 'New Deal to Rural India'. It will emphasise outcomes and not just outlays" (http://www.pmindia.nic.in/prelease/ - May 16, 2005).

The question that arises in the context of Bharat Nirman, the "center-piece of the expenditure-programme of the Government" to quote the Finance Minister (from his deliberations in the Rajya Sabha in the last Budget Session), is that – **does the Government intend to conceal its outlays in the area of rural infrastructure, for which it has set physical targets for the next four years?**

Unlike most Budgets in the past, in the Union Budget for 2005-06, the Finance Minister resorted to setting physical targets relating to six crucial areas of rural infrastructure (refer to the Box above), instead of setting out financial allocations in a consolidated manner. Quantifying the targets related to any expenditure programme of the Government is undoubtedly a welcome step, as it bridges the disconnect between policy goals and resource allocations made in the Budgets. However, in the absence of timely, comprehensive and accurate information about the financial allocations to be made available for the stated policy goals, setting physical targets alone does not serve the purpose of informing the public about the actual priorities of the Government.

Budgetary Support for Functions of the Central Government related to Bharat Nirman

Function of the Central Government	2003-04 (BE) (Rs. Crore)	2004-05 (BE) (Rs. Crore)	2005-06 (BE) (Rs. Crore)
Water Supply and Sanitation [Major Heads 2215 (Revenue), 4215 (Capital) and 6215 (Loan)]	1030.31	2006.32	2197.46
Housing [Major Heads 2216 (Revenue), 4216 (Capital) and 6216 (Loan)]	2820.96	3354.81	3351.22
Major and Medium Irrigation [Major Heads 2701 (Revenue), 4701 (Capital) and 6701 (Loan)]	175.24	188.25	191.04
Minor Irrigation [Major Heads 2702 (Revenue), 4702 (Capital) and 6702 (Loan)]	133.78	107.32	115.40
Power [Major Heads 2801 (Revenue), 4801 (Capital) and 6801 (Loan)]	7211.10	7372.42	6502.97
Roads and Bridges [Major Heads 3054 (Revenue), 5054 (Capital) and 7054 (Loan)]	10042.90	10658.90	16235.00
Telecommunications* [Budgetary Provisions for the Department of Telecommunications]	357.45	956.50	2858.65
Total Budgetary Support for the Functions listed above (1)	21771.74	24644.52	31451.74
Total Expenditure of the Central Government (Budget Estimate) (2)	438795	477829	514344
(1) as a proportion of (2)	4.96 %	5.16 %	6.11 %

Note: 1. In order to compare the policy stance of the Government in different years, we have taken Budget Estimates (BE) for each of the three years, instead of Actuals for 2003-04 or Revised for 2004-05.
2. * In the Annual Financial Statement of Budget 2005-06, the section on *Communications* has three sub-sections/ functions, viz. *Postal Services*, *Satellite Systems*, and *Other Communication Services*. Hence, we have considered here the Budgetary Provisions (of the Centre) for Demand No. 15, which is under the Department of Telecommunications of the Ministry of Communications and Information Technology.

Source: Annual Financial Statement and Expenditure Budget (Vol.I and Vol.II) of the Central Government for the years 2003-04, 2004-05 and 2005-06.

As expected, Budget Speech of the Finance Minister had provoked skepticism about the Government's actual priorities for investments in rural infrastructure. Kamala Prasad, commenting on Budget'05-06 (in Mainstream, April 16, 2005) wrote, "Bharat Nirman has been touted as an innovative approach for bridging the urban-rural divide. Apart from telecommunications, all other programmes in the package are continuing ones, some since the sixties. **The worst part is that no monetary allocation has been made in any consolidated manner to give indication of enhanced priority, implying that the States' allocations will be the major component. Thus, the Budget gives a false picture of a substantial Central shift in priorities.** This has provided the 'reforms' lobby to mount assault on the ground of wastage of allocations in implementation through the government machinery" (emphasis has been added).

Now that the Prime Minister has approved the Bharat Nirman 'business plan', the need for the Government to spell out its quantum of financial allocations as well as the mechanism of fund-flow (between the Centre and the States) for the different sectors under this programme has only increased. However, there are no such clear and comprehensive statements from the Government as yet, except for rhetorical claims regarding the 'preparedness' of the Finance Ministry to fund the initiatives (under Bharat Nirman) this year. **Could there be a need for the Government to conceal its actual intentions regarding financial allocations for the programmes under Bharat Nirman? At least, a comparison of the budgetary support for some of the functions/ services of the Central Government related to Bharat Nirman (i.e., rural infrastructure sectors), over the last three years (2003-04, 2004-05 and 2005-06), as presented in the Table above, would imply so.**

Since there are no pronouncements from the Government on the mechanism of fund flow for Bharat Nirman, we can look at the allocations in Union Budgets, in the last three years, on functions like, *Water Supply and Sanitation*, *Housing*, *Major and Medium Irrigation*, *Minor Irrigation*, *Power*, *Roads and Bridges*, and *Telecommunications*, each of which is going to be crucial for achieving the physical targets set by the Government (under Bharat Nirman). The allocations given in the Table above include the budgetary provisions (of the Centre) both for rural and urban areas, and hence the budgetary support given by the Centre in 2005-06 for achieving the infrastructure targets in the rural areas would only be a part of these total allocations. Although this Table does not capture fully the functions/services of the Central Government that would be handling the rural infrastructure programmes, it presents a consistent three-year comparison of the budgetary allocations of the Centre on the relevant functions/services. We find that, **in the Budget Estimates for 2005-06, only *Roads and Bridges* and *Telecommunications* show an appreciable increase over the amounts proposed in the Budgets of the last two years. While the allocations (in BE 2005-06) for *Water Supply and Sanitation*, *Major and Medium Irrigation* and *Minor Irrigation* are almost the same as those in BE 2004-05, the allocations for *Housing* and *Power* (in BE 2005-06) are actually lower than the allocations in the previous year.** In terms of the Centre's priorities for these infrastructure areas, we find that total budgetary support (from the Centre) for these selected functions/services as a proportion of the total expenditure of the Central Government has increased from 4.96 % in 2003-04 (BE) and 5.16 % in 2004-05 (BE) to 6.11 % in 2005-06 (BE) (refer to the Table above). **While, this step up in priorities is welcome, it also shows that there is not going to be any quantum jump in the outlays (and, hence outcomes) in the area of rural infrastructure this year.** The UPA Government, in the year 2005-06, will only be able to give a little boost to the rural infrastructure programmes, most of which have been continuing since many years. It is worthwhile to mention here that, **in India, total investment in infrastructure (i.e., public as well as private investment in infrastructure) has declined from (a small) 5.4 % of GDP in 1993-94 to 3.7 % of GDP in 2002-03 (Economic Survey 2003-04). Therefore, what is needed is a significant increase in public investment in infrastructure, especially in the rural areas, not just a hyped up 'business plan' like Bharat Nirman**.

By now, it has become obvious that a major chunk of the financial outlays for Bharat Nirman will come from the States, not just in 2005-06 but also in the subsequent years. As per media reports (The Times of India- 18 May 2005), officials of the Finance Ministry have hinted that since most of the programmes are executed by the States, the funding will be shared by them, and, the possibilities of funding from multilateral financial institutions as well as domestic institutional finance will also be explored. **The strategy of the UPA Government seems to be dependent on the fact that bulk of the outlay (required for achieving the stated targets) is already part of the expenditure budgets of the Centre and the States, and that the need for higher spending, than what has already been provided for in Budget'05-06 on rural infrastructure, would arise only if the utilisation of funds is fast.** It may be worthwhile to take note of the example on irrigation given by the Finance Minister, during discussions on Budget in the Rajya Sabha (in the last Budget Session), asserting that there are enough resources for achieving the physical targets set under Bharat Nirman. According to him, for the additional one crore hectare to be brought under shared irrigation, about Rs. 67,500 crore will be required at the rate of Rs. 75,000 per hectare for major and medium irrigation and Rs. 50,000 per hectare for minor irrigation. In the year 2003-04, all the States, put together, incurred a capital expenditure of Rs. 12,042 crore on major, medium and minor irrigation projects. At this level of spending, about Rs. 50,000 crore will be available in four years for irrigation, and a gap of only Rs. 17,500 crore over the next four years will need to be filled up by the Centre.

There are two points to be considered in this context. **First of all, the estimation of financial requirements for achieving the physical targets of rural infrastructure under Bharat Nirman (at Rs. 1,74,000 crore) is not very realistic.** In response to the Finance Minister's example on irrigation, TDP M.P. in Rajya Sabha, Mr. C. Ramachandraiah, pointed out that Andhra Pradesh alone requires Rs. 60,000 crore for irrigation and hence a total sum of Rs. 67,500 crore for additional irrigation facilities in the entire country is inadequate. Again, as per recent media reports (The Indian Express- June 24, 2005), based on the feedback from various Ministries the Government has revised the total expenditure package under Bharat Nirman, in four years, to around Rs. 2,44,000 crore from the earlier estimate of Rs. 1,74,000 crore. When we take into account the huge level of resources required for achieving the targets under Bharat Nirman, we find the budgetary support of the Centre for rural infrastructure in 2005-06 to be meagre. Secondly, even the physical targets set under Bharat Nirman, to be achieved over a period of four years, are far from adequate. In case of irrigation, the target is to add to the irrigation potential in the country by 1 crore or 10 million hectares. As per the Tenth Five Year Plan, the total ultimate irrigation potential of the country is around 140 million hectare (roughly 59 million hectare is the ultimate potential from major and medium irrigation, and 81 million hectare is that from minor irrigation). The 10th Plan document anticipates that by 2002, the country's total irrigation potential would have reached 94 million hectares. Thus, even if this target were met by 2002, **presently there would still be more than 40 million hectares of land to be brought under irrigation potential. And, by targeting for additional 10 million hectares by 2009, the Government is certainly not doing full justice to the agriculturists in the country.** Similarly, the Bharat Nirman target for giving telephones to the remaining 66,822 villages across the country appears to be the minimum the Government should do; when we find that "**the teledensity** (per 100 population) **is 20 in urban areas and 40 in metros while in rural areas it is only 1.9**" (Mr. Nilotpal Basu, CPI (M) M.P. in Rajya Sabha, during the Motion of Thanks Debate in the Rajya Sabha in the last Budget Session).

NRHM: A WELCOME STEP

PROPOSAL FOR NATIONAL RURAL HEALTH MISSION IN UNION BUDGET 2005-06

The National Rural Health Mission (NRHM) will be launched in the next fiscal. Its focus will be strengthening primary health care through grass root level public health interventions based on community ownership. The total allocation for the Department of Health and the Department of Family Welfare will increase from Rs.8,420 crore in the current year to Rs.10,280 crore in the next year. The increase will finance the NRHM and its components like training of health volunteers, providing more medicines and strengthening the primary and community health centre system.

Source: Budget (2005-2006) Speech of Mr. P. Chidambaram, Minister of Finance

Prime Minister, Dr. Manmohan Singh, launched the National Rural Health Mission (NRHM) on 12 April 2005. The stated goal of NRHM is to "improve the availability of and access to quality healthcare by people, especially those residing in rural areas, the poor, women and children". NRHM plans to decentralize the delivery of healthcare services to the rural population, and one of the goals of this mission is to provide a trained person in every village, with focus on providing primary healthcare to newborns and pregnant women.

Under this mission, public health centers and community health centers will be upgraded and sub-centre buildings will be constructed in the rural areas. Also, an untied fund of Rs. 10,000 would be provided to every sub-centre to address the needs recognized in the village health plans. This kind of emphasis on strengthening rural healthcare infrastructure, envisaged in the NRHM, is certainly a long-overdue step. As regards outcomes, apart from improving universal access to public health services, the Mission will stress on reducing maternal and infant mortality rates, preventing communicable and non-communicable diseases, stabilizing population, and maintaining gender and demographic balance.

NRHM will cover around 3 lakh villages (i.e., nearly half of the 5,93,000 inhabited villages) spread across all States, with special focus on 18 States which have weak health infrastructure and poor demographic indicators. The Prime Minister has also assured that his Government is committed to increase public spending on health from the prevailing level of 0.9 % of GDP to 2 % of GDP within the next few years. Though it remains to be seen how committed is the UPA Government to stepping up public expenditure on healthcare in the coming years, NRHM is welcome as the first blueprint in a long time for expansion of healthcare services in the rural areas.

FARMERS' INDEBTEDNESS AND SUICIDES: IS THE GOVERNMENT LISTENING?

PROPOSALS ON RURAL CREDIT AND INDEBTEDNESS IN UNION BUDGET' 05-06

> Government intends to continue with its effort to turn the focus of commercial banks, regional rural banks (RRBs) and cooperative banks towards providing credit, especially production credit, to rural households and farm households. Particularly in agricultural credit, innovations are possible. I propose to request the Reserve Bank of India (RBI) to examine the issue of allowing banks to adopt the agency model, by using the infrastructure of civil society organizations, rural kiosks and village knowledge centres, to provide credit support to rural and farm sectors.
>
> In June 2004, I had announced my intention to double the flow of agricultural credit in three years. I had also announced an indicative target of Rs.1,05,000 crore. Notwithstanding a below par performance by co-operative banks, together, all three arms will disburse Rs.1,08,500 crore in the current year. Continuing on the same path, I propose to ask commercial banks, RRBs and cooperative banks to increase the flow of credit by another 30 per cent in 2005-06. Further, the public sector banks would be asked to increase the number of borrowers by another 50 lakh.
>
> *Source:* Budget (2005-2006) Speech of Mr. P. Chidambaram, Minister of Finance

The Finance Minister, in his Budget Speech (see the Box above), articulated his intention to double the flow of agricultural credit in a span of three years, and also claimed that commercial banks, Regional Rural Banks and the cooperative banks, taken together, would have disbursed a total agricultural credit of Rs. 1,08,500 crore in the fiscal year 2004-05. However, recent data about the sharp increase in the number of farmers' suicides (in Andhra Pradesh and Maharashtra) in the year 2004 shows the grim reality about the agriculture sector in the country.

Perhaps the most destructive impact of the neoliberal economic policies pursued in our country over the last one and a half decades gets reflected in the alarming number of suicides by farmers in the country. Reportedly, in the past few years, more than 4,000 farmers have killed themselves, the reason for which is traced in their mounting indebtedness, crop failure and poverty (Outlook, Vol. XLV, No. 26). Recently, data on farmers' suicides recorded between April and December 2004, based on the figures sent by the different States to the Union Ministry of Agriculture and Cooperation, was made public by the Government. According to these data, **Andhra Pradesh and Maharashtra witnessed a sharp increase in the number of suicides by farmers in 2004 over the previous year.** Out of the **1,529 farmer suicides reported from across the country between April and December 2004**, Andhra Pradesh accounted for 758 (the figure for 2003-04 was 258) and Maharashtra accounted for 524 (the figure for 2003-04 was 180). **The States with maximum number of farmer suicides reported, over the year 2004, are Andhra Pradesh, Maharashtra, Karnataka and Tamil Nadu.** The crisis of indebtedness is being seen as the primary reason for the increasing number of farmer suicides. It is important to note that the degree of indebted farmers has been found to be the highest in Andhra Pradesh by a recent survey of the National Sample Survey Organisation (NSSO).

A recent report by the NSSO, "Indebtedness of Farmer Households", presents the findings of the Situation Assessment Survey of Farmers conducted by the NSSO as part of its 59th Round Survey over the period from January to December 2003. This Survey had covered 51,770 households in 6,638 villages across the country. According to this report, **out of the 89.35 million rural farmer households in the country, about 43.42 million (i.e., 48.6 %) are in debt. While Andhra Pradesh has the highest, 82 % of its farmer households in debt, Tamil Nadu has 74.5 % and Punjab has 65.4 % of the farmer households in debt.** The average outstanding loan per farmer household is as high as Rs. 41,576 in Punjab, Rs. 33,907 in Kerala, Rs. 26,007 in Haryana and Rs. 23,965 in Andhra Pradesh. The Survey finds that more than half of the indebted farmer households had taken loans for capital or current expenditure on farm businesses. Also, in terms of source of loans, **while moneylenders account for 26 % of the loans (to farmer households) at the national level, in Andhra Pradesh they account for the loans to almost 52 % of the indebted farmer households**. Also, it has been reported that the total short-term credit required for crops in India is about Rs. 1 lakh crore a year, but the Financial Institutions provide only 12-14 % of this amount (Outlook, Vol. XLV, No. 26). Thus, the crisis of rural indebtedness requires urgent and comprehensive attention by the Government, postponing which will push a vast number of the country's farmers to the clutches of misery and ultimately, death.

RECOMMENDATIONS OF THE STANDING COMMITTEE ON RURAL DEVELOPMENT ON THE NATIONAL RURAL EMPLOYMENT GUARANTEE BILL 2004

The Standing Committee's report on the National Rural Employment Guarantee Bill was tabled in Parliament on 27 July 2005. This has been hailed as a very positive report, which endorses most of the demands made by people's organisations over the last few months. In fact, the Standing Committee opines that the NREG Bill is "a path breaking piece of legislation" and that it is "one of the most important Bills introduced in Parliament after Independence" and "the first step...towards ensuring some sort of economic and social security".

Main Recommendations in the Report of the Standing Committee on NREG Bill

1. Universal eligibility. BPL cards should not be used as an eligibility criterion.
2. Individual entitlements - anyone who comes forward should be given work.
3. Time bound extension - within four years to the entire country.
4. Removal of the provision for "switching off" the guarantee.
5. States must notify within 6 months.
6. Wages in according with the Minimum Wages Act, 1948. Also tied to National floor minimum wage.
7. Wages must be paid within a week.
8. Wages to be de-linked from quality and quantity of work.
9. Full cost to be borne by Central government.
10. Unemployment allowance to be paid by states except when Central government is responsible for delay in providing work.
11. No eligibility criterion for unemployment allowance.
12. Recommends increasing the unemployment allowance to one half and three-fourths.
13. Debarring from unemployment allowance only for the duration that the worker does not report for work.
14. PRIs to be main implementing agency. Central role accorded to PRIs.
15. Works should include those that can be performed easily by women and disabled persons
16. Minimum number of applicants required to start new works reduced from 50 to 10.
17. Provision of crèche when there are a minimum of 5 women, other facilities as well.
18. Less restrictive list of works
19. Non-compliance will attract a penalty of Rs. 5000 or 3 months imprisonment (or debarring from holding public office in the case of elected representative).
20. Foodgrains to be valued at BPL prices
21. Compensation increased from Rs. 10,000 to Rs. 25,000.
22. States should be allowed greater flexibility in the list of works.

Source: **www.righttofoodindia.org**

However, we must add here that the recommendations of the Standing Committee would be discussed in the Group of Ministers and subsequently by the Cabinet of the UPA Government, before a revised version of the Bill is introduced in the Parliament. It remains to be seen whether the Group of Ministers and the Cabinet agree with all of the recommendations of the said report, or they end up diluting one or more of its recommendations.

3. UNION GOVERNMENT ACCOUNTS AT A GLANCE (AS AT THE END OF JUNE 2005)

(Rs. in Crores)

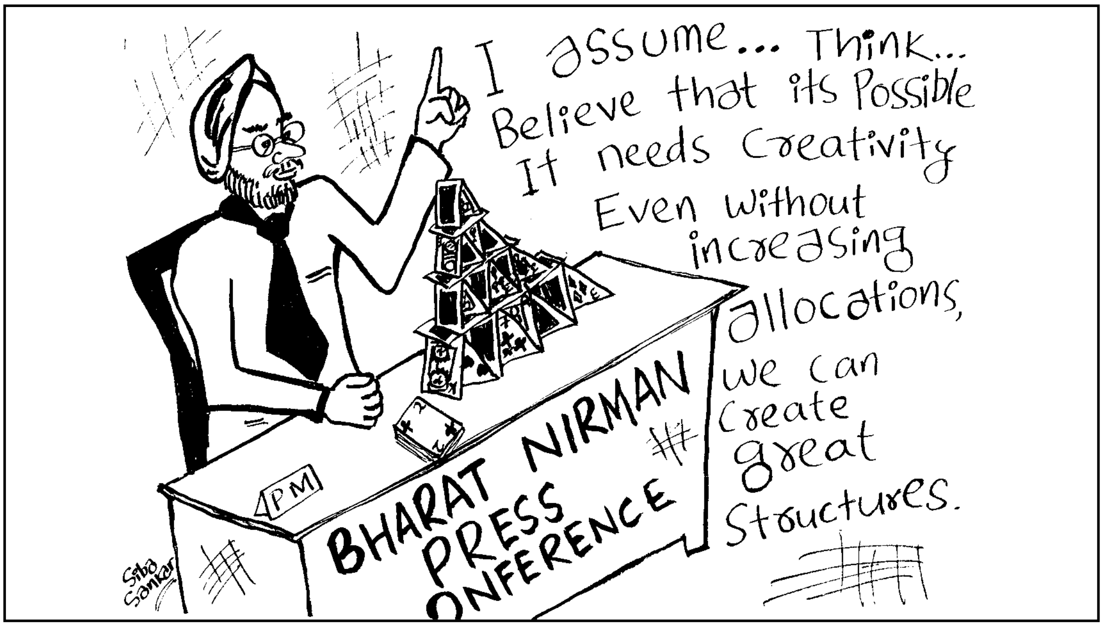
		Budget Estimates 2005-2006* Rs.	Actuals@ for APRIL-JUNE 2005 Rs.	% of Actuals to Budget Estimates Current	COPPY**
1	**Revenue Receipts**	**3,51,200**	**38,003**	**10.8%**	(9.9%)
2	Tax Revenue (Net)	2,73,466	31,668	11.6%	(10.4%)
3	Non-Tax Revenue	77,734	6,335	8.1%	(8.4%)
4	**Non-Debt Capital Receipts**	**12,000**	**1,064**	**8.9%**	(55.9%)
5	Recovery of Loans	12,000	1,063	8.9%	(63.7%)
6	Other Receipts	0	1		(3.0%)
7	**Total Receipts (1+4)**	**3,63,200**	**39,067**	**10.8%**	(14.1%)
8	**Non-Plan Expenditure**	**3,70,847**	**69,330**	**18.7%**	(20.1%)
9	On Revenue Account	3,30,530	66,467	20.1%	(20.8%)
	(i) of which Interest Payments	1,33,945	26,428	19.7%	(19.1%)
10	On Capital Account	40,317	2,863	7.1%	(14.7%)
	(i) of which Loans disbursed	1,576	709	45.0%	(29.4%)
11	**Plan Expenditure**	**1,43,497**	**24,254**	**16.9%**	(15.8%)
12	On Revenue Account	1,15,982	18,847	16.2%	(17.5%)
13	On Capital Account	27,515	5,407	19.7%	(13.0%)
	(i) of which Loans disbursed	4,076	669	16.4%	(14.1%)
14	**Total Expenditure (8+11)**	**5,14,344**	**93,584**	**18.2%**	(18.8%)
15	Fiscal Deficit (14-7)	1,51,144	54,517	36.1%	(30.3%)
16	Revenue Deficit (9+12-1)	95,312	47,311	49.6%	(60.9%)
17	Primary Deficit {15-9(i)}	17,199	28,089	163.3%	(215.0%)

Financial Year runs from* *"April to March"***

****COPPY**: *Corresponding Period of the Previous Year*

@ Actuals are unaudited provisional figures.

Source: Website of the Controller General of Accounts (www.cga.nic.in)



On the Debt Restructuring Package of the Twelfth Finance Commission

-Vineet Kohli

INTRODUCTION

It is a widely recognized fact that functional responsibilities of state governments are far greater than their revenue raising capacity whereas central government enjoys revenue-raising powers that are disproportionately large when compared to its functional responsibilities (see Box). To address this imbalance in responsibilities and powers, our Constitution requires the Finance commission to recommend a portion of Central revenues that should be devolved to states. The job of the Finance Commission has not merely been to recommend States' share in Central revenues, it has also been to ensure that overall financial position of state governments is comfortable so that they can deliver the responsibilities entrusted to them in an unimpeded manner. It is with this objective that successive finance Commissions have reviewed the debt position of states and recommended corrective measures regarding the same. Till the Eighth Finance Commission, the usual practice was to write off all debts owed by states to centre. From the Ninth Finance Commission, all such concessions were made available to states on the condition that they produce lower deficits in their budgets. The Twelfth Finance Commission has walked the same path. It has made two specific recommendations regarding debt relief to states:

1. Consolidation of all existing Central loans to states and their reschedulement for a fresh term of twenty years at a lower interest rate of 7.5% (in the recent past, Centre has been charging a rate of interest of 12% on its loans to states). This facility will be available to those states that pass fiscal responsibility legislations.
2. Writing off of existing Central loans to States. The amount of write off being a positive function of the amount by which states reduce their revenue deficit in absolute terms in a given year

In short, TFC recommends interest relief to states that promise to reduce their fiscal deficit in future through enactment of Fiscal Responsibility legislations and a greater relief through debt write off to better performers who show results in terms of reduced deficits.

BREAKING THE MYTH OF PROFLIGATE STATE GOVERNMENTS

The chain of arguments through which TFC has arrived at its recommendations can be summarized as below:

1. Debts are accumulated deficits and become unsustainable when governments run deficits that are incommensurate with the criterion of debt sustainability.
2. Large and growing deficits of state governments are a result of profligate behavior on the part of these governments.

The Indian Constitution, in its Seventh Schedule, lays out the powers and functions of the Centre and the states. The exclusive powers of Centre are mentioned in the Union list, and exclusive powers of the states in the State list. The powers falling under joint jurisdiction are placed in the Concurrent list. As typical of any federal setup, Central government assumes all responsibilities that have implications for more than one state. These include defense, maintaining macroeconomic stability, international trade and relations etc. The responsibilities assigned exclusively to states include public order, public health, agriculture, irrigation, land rights, fisheries and industries, and minor minerals. The states also play an important role for subjects mentioned in the concurrent list, including education, transportation, social security, and social insurance.

As opposed to responsibilities, of which a major chunk falls on the shoulders of states, power to collect revenues lies mainly with the Centre. Most broad based taxes, including taxes on non-agricultural income, corporation tax, taxes on production (excluding those on liquor), and customs duty, are assigned to the Centre. States are assigned a long list of taxes. However most of the taxes assigned to states account for a very small proportion of their own revenues with a significant portion coming only from one source viz, sales tax.

Together 1 and 2 imply that long run solution to the debt problem of states lies in state governments curbing their profligate behavior and putting in place mechanisms such as the FRBM legislation, which will forestall such behavior by governments in future. While 1 is a truism, it is 2 that seems problematic to us. It is unfair to hold state governments responsible for all their financial problems because much happens in the realm of state finances that lies outside the control of state governments. In the recent years one can identify at least two such external factors that have contributed to the growing debt burden of states. These include growing expenditure of state governments on interest payments and salaries.

Before the Twelfth Finance Commission recommended a direct access of state governments to market loans, all loans to states had to be routed through the centre. The Centre, in turn, used its vantage position of being a sole direct lender to states by charging them a rate of interest that was much higher than the market rate. Since the high interest rate on Central loans has contributed to the rising indebtedness of states, it is ironical that TFC has held states responsible for their rising interest payments and made interest rate relief conditional on enactment of Fiscal responsibility legislation. A fair solution would have been to recommend an unconditional reduction in interest rates for all states including those who do not want to enact fiscal responsibility legislation and are interested in pursuing a more independent fiscal policy.

The other main culprit behind rising indebtedness of states, viz their rising salary bill was direct fallout of Centre implementing the proposals of the Fifth Pay Commission. Once the Central government had implemented these proposals, State governments had little choice but to give in to similar demand of salary hike by their employees. Since the increase in salary and pension expenditure of state governments was sparked off by Centre's decision to implement the proposals of Fifth Pay Commission, it is unjustified to make state governments pay a price for it. Importantly, while expenditure on salaries and pensions could have contributed to the debt burden of governments in the past, it is inflexible downwards implying that the reduction in state government deficits proposed by the TFC could imply a reduction in expnditure on health, education, employment generation etc. Since per capita real development expenditure of state governments had already taken a lot of beating in the last one and a half decades of economic reforms, we were hoping that TFC would come up with recommendations that would reverse these trends. Instead, by linking up debt relief with deficit reduction, TFC has created incentives for further reduction of expenditure under these heads.

DEBT SUSTAINABILITY: SOFT LANDING OR HARD CRASH?

In the above discussion we have not touched on the issue of debt sustainability and policies required to attain a sustainable debt position for states. Is the bitter pill prescribed by the TFC the only way to attain debt sustainability or are their ways of attaining debt sustainability consistent with a more expansionary fiscal stance of the government? Below, we outline one such alternative to TFC's proposal of debt restructuring.

Note that sustainability of any given level of debt depends on the total output of the country. For any given level of public debt, higher total output implies an imposition of lower tax rate to service this debt. Thus it is not the absolute size of the public debt rather its size in relation to the size of GDP that matters in appraising the debt position of the government. Debt position of government can be called sustainable if the existing ratio of debt to GDP either lies below a pre-determined acceptable norm or if it lies above this acceptable norm, it should be falling overtime so that it converges with it at some future date. According to TFC all states should strive for a debt to GSDP ratio of 28%. Similarly Centre's debt to GDP ratio should not exceed the benchmark of 28%. Thus, according to TFC combined debt to GDP ratio should not exceed the norm of 56%. Since the combined debt of Centre and States is around 83% of GDP at present, combined debt position can be called sustainable if the combined debt to GDP ratio falls overtime. This will require share of debt in additional changes in GDP to lie below the existing ratio of debt to GDP, or put more simply this will require (combined) fiscal deficit to GDP ratio to fall overtime. This is an arithmetic requirement for debt to GDP ratio to fall overtime and cannot be debated; controversy lies in the methods resorted to reduce fiscal deficit.

Fiscal deficit is a sum of primary deficit and interest payments. Primary deficit is a deficit on account of the current programmes of the government and includes expenditure on all development heads like social sectors, agriculture, rural development etc. Interest payments, on the other hand, reflect burden of the past programmes of the government. A reduction in fiscal deficit can be attained either through a reduction in primary deficits or through a reduction in interest payments (via the reduction in interest rates on past debts). TFC, while it has recommended reduction in interest rates for state governments, has also built strong incentives in its package for a reduction in their primary deficits. Similarly, it has asked the Centre to reduce its primary deficit. This was completely unrequired considering that primary deficits are correlated with development expenditure and the same effect could have been attained by reducing the interest rates while holding constant (or even increasing!) the share of primary deficits in GDP. By requiring that both interest rates and primary deficits fall, TFC is imposing an arbitrary speed on the reduction of debt. Remember that principles of debt sustainability require debt to GDP ratio to fall overtime; they do not require it to converge to its norm before a specified date. TFCs proposals are thus based more on paranoia of government deficits rather than any economic rationale.

CONCLUSION

The alternative suggested by us above requires a permanent shift to a regime of low interest rates. If the interest rates are low, government can maintain a decent share of primary deficit in GDP without running into problems of debt sustainability. TFC, on the other hand has relied mainly on the reduction of primary deficits to attain debt sustainability. Some very eminent economists, including the Chairman of the Twelfth Finance Commission Prof. C. Rangarajan, have in fact called into question the feasibility of maintaining low interest rates in a liberalized financial regime. Two comments would be appropriate here. First of all before the Twelfth Finance Commission required the states to go directly to the market, interest rate on state government borrowings was determined by the Centre and not in the market for loans. In this context we find it disturbing that by requiring the states to go directly to the market for raising loans, **TFC has foreclosed any possibility of recontracting the new debt of states at concessional terms. Thus as the share of new debt in total debt of the state governments rises average interest rates on state government borrowings will also rise.** In other words TFC has replaced a policy in which Centre controlled the interest rates on state borrowings with a policy in which market will assess the creditworthiness of each state and accordingly allocate credit and charge interest rates. This move of TFC is likely to aggravate inequity in the provision of public goods across states.

Secondly, we must not forget that interest rates on Central government borrowings did not rise spontaneously. They rose because the Centre willingly gave away its control over captive finance through liberalization of the banking sector. Since interest rates have increased due to policies followed by the government, these policies can be reversed to make expansionary fiscal stance of the government consistent with debt sustainability criterion. Whether or not government reasserts its claim over the financial resources depends on whose interests it attaches greater priority to: **a handful of financial speculators or a majority of Indian population?**

Power Shocks in the Name of Power Reforms

-Deepak L. Xavier

The Enron's closed down Dabhol power generation plant in Maharashtra sends strong waves to the entire nation that what private players' involvement in crucial sectors would imply on the exchequer: each day the MSEB would loss around five crore rupees for buying power from the ill-fated Dabhol power plant. Yet, we have not learnt a lesson. The Power Ministry has notified the National Electricity Policy (NEP), 2005 under the compliance of Section 3 of the Electricity Act, 2003, in February 2005. The Electricity Act, 2003 enjoins that the Government has to prepare and publish a National Policy for the development of power system in the country from time to time. The latest policy, which is merely a continuation of the electricity act and previous draft policies, does not deviate from subserving the interests of private sector in this crucial arena.

The power sector, a complete monopoly of the Government till recently, has been the most sought after sector for investments by the private players. The reason is quite obvious: huge and persisting demand for quality power across the country by diversified consumers. According to Central Electricity Authority (CEA), an additional 1, 40, 000 MW of power generation is required to meet the Indian power requirements in 2012. The Government in its National Electricity Policy talks of providing access to electricity to all rural and urban households by 2012, which means almost doubling the country's electricity generation in next seven years. Hence, the policy strongly argues for involvement of private players in power generation, which means, in very near future we are going to witness more Enrons chasing away Electricity Boards.

What the National Electricity Policy has to offer to the millions of ordinary consumers and farmers is the most crucial aspect that needs to be studied. Though the availability and total usage of electricity by the domestic consumers and farmers are very low compared to that of industrial sector, the number of consumers in the domestic and agricultural categories is far higher than that of industrial users. Unless the interest of the former is taken into account, the power sector reforms would lead us nowhere. This piece attempts to track the ongoing reform process in the power sector and tries to project the implications of the latest policy on the consumers in the domestic and farming fronts.

AGENDA FOR PRIVATISATION

Reforms in the power sector were formally introduced along with the economic liberalisation in 1991-92. Like the forceful adoption of liberalisation policies in India, the Government had to enforce reforms in the power sector under the directives of the powerful International Financial Institutions (mainly the Brettonwoods Institutions and the ADB). These institutions had set pre-conditionalities, while lending the Government for necessary public spending on power sector. **The central thrust of these conditionalities has been the agenda of withdrawing States' spending on social sectors and involving private players in almost all the sectors irrespective of their socio-economic implications on the poor and marginalized sections.** This is exactly what has happened with the power sector in India. Though nobody denies the serious problems of governance in the public sector electricity boards, a solution to restore their smooth functioning cannot be achieved by doing away with them. These funding institutions should have, on the contrary, funded the Government with pre-conditionalities to rebuild the electricity boards and make them financially and managerially viable so as to provide electricity at an affordable cost to the common masses. But what is happening? They are compelling the Government to evade from its commitments towards socially and economically weaker sections of this country.

During the 90s, some State Governments had borrowed from the World Bank and ADB for revamping their respective State Electricity Boards (SEBs) through the instrumentality of the Union Government. While lending money to restore the SEBs, these institutions have also made pre-conditions for the receipt of the loans by the State Governments. The conditions mentioned in the loan document were: restructuring and privatisation of SEBs and also setting up organisations independent of Government control such as regulatory bodies and sate-owned corporate firms. Further to this, the conditions for availing loan entailed policies and legislations to be passed in the legislature and reflected in the State Governments' budget speech. USAID sponsored a study titled 'the Role of Planning in India's Restructured Power Sector' in the mid nineties. The report of the study identified three critical areas for shaping and restructuring the State run power institutions. The areas were:

(a) Reconstituted independent organisations,

(b) Integrated power utilities to be partially or fully separated into generation, transmission and distribution entities (unbundled functions), and

(c) Private-owned commercial and profit-motive utilities to provide for the growth.

This report prepared by the US consultants actually forms the basis for the SEBs' reform.

THE NEW MANAGERIAL MODEL

The Ministry of Power of the Government of India also endorsed the management model evolved out of this study. This management model, which emphasises privatisation, profit making and limiting governments' involvement in the power sector, has been set up as a necessary pre-condition for the SEBs to avail themselves of funds from World Bank and ADB. These pre-conditions have been translated into policies and the borrower State Governments have adopted the managerial models proposed by these institutions. Madhya Pradesh is a good example of what these reforms or the funding institutions' agenda have done to the common public (see Box).

THE ELECTRICITY ACT, 2003

The Electricity Act, 2003 was largely an outcome of pro-reform thinking. The Act was passed in both the Houses of the Parliament in a hurry without any serious and adequate discussion on the implications of various provisions in the Act for different categories of consumers, the structure, tariff and control of the power sector. The Act mandates to create various power regulatory committees at the national, regional and state levels to regulate tariff, generation, transmission and distribution. These commissions along with the Central Electricity Authority would act as nodal organisations. The Act has opened up a range of opportunities for restructuring the power sector, which will be shaped by the actions of the major player like the regulatory commissions and big private power companies. This has led to an uncertainty over very important issues like tariff for poor, regulation of private companies and competition. The Act also makes it mandatory for all SEBs to unbundle into separate generation, transmission and distribution entities so as to presumably make them apparently more efficient than vertically integrated utilities.

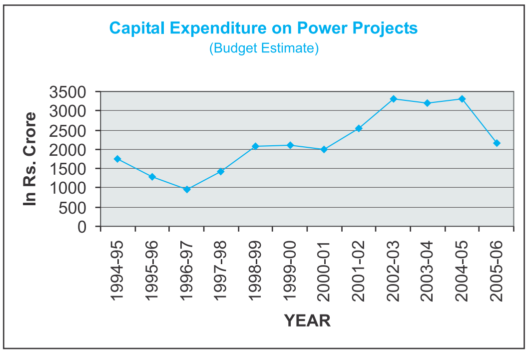
Over all, the Act pertains to contentious structural changes and requires that the Central Government as well as the regulators formulate appropriate policies to safeguard the values of liberalisation. These anti-poor agenda in the power sector have widely been criticised by political parties (particularly the left parties), trade unions, academics and more importantly the electricity consumers i.e. the common people. The continuous pressure from these groups had made the UPA Government to promise the review of the Electricity Act of 2003 in its National Common Minimum Programme. Now, we can only wait and see what the UPA has got to deliver to the public, which voted it to power.

MADHYA PRADESH EXPERIENCE

The Government of Madhya Pradesh took a loan of $250 million from ADB in 1999 through the Government of India for restructuring 14 public sector enterprises in the State. 'Restructuring' really meant the implementation of ADB's agenda of privatisation, public-private partnership and closure of non-performing units leaving behind more than 16, 000 workers jobless. Again in 2000, Madhya Pradesh took a second loan of $350 million to reform its power sector. One would have expected that the reform would make electricity cheaper, reliable and much more efficient, and would increase the accessibility of electricity to the people of MP. In contrast, the SEB disconnected thousands of single-point connections, which were generally used by the poor consumers under subsidised electricity regime. The Government also cancelled single-point facility on the plea for fiscal discipline and avoiding financial wastefulness. The private sector participation in the power sector has almost taken over the total control from the Government. The tariff hikes in 2001 and 2002 have resulted in disconnection of about 6 lakh agricultural connections (i.e. almost half of the agricultural connections) in the State. The major reason for the routing of the Congress Government in the Assembly Elections of 2003 is ascribed to the anger of the public against the electricity policy of the then Government.

THE NATIONAL ELECTRICITY POLICY, 2005

Apart from privatisation and competition, the electricity policy also talks of very few good things. The policy promises availability of electricity to all households by 2012. This includes both rural and urban households. The policy has separately mentioned rural electrification and proposed a plan to electrify all rural homes. **As per the Census 2001, about 44 per cent of the households do not have electricity, which means the need for almost doubling the electricity generation within next 7 years.** Is the Government determined in fulfilling this objective of the policy (i.e. providing electricity to all Indian households) – is a big question mark. The Budget Estimate for 2005-06 suggests that the Government is in no mood to foresee the persisting demand for electricity in the coming years. The following chart shows a steep decline in Capital Expenditure over the preceding year. Instead of increasing Capital Expenditure on Power Projects vis-à-vis increasing power generation, the Government has reduced expenditure by over 1, 000 crore rupees in 2005-06 Budget. Does this mean that all new and ongoing power projects will solely be privatised or will be financed by private sector? At this juncture, providing electricity to all households by 2012 appear to be mere rhetoric, as the promise lacks substance in terms of Government's financial commitments.



Targets set under National Electricity Policy, 2005

- Access to Electricity - Available for all households in next five years
- Availability of Power - Demand to be fully met by 2012. Energy and peaking shortages to be overcome and adequate spinning reserve to be available.
- Supply of Reliable and Quality Power of specified standards in an efficient manner and at reasonable rates.
- Per capita availability of electricity to be increased to over 1000 units by 2012.
- Minimum lifeline consumption of 1 unit/ household/day as a merit good by year 2012.
- Financial Turnaround and Commercial Viability of Electricity Sector.
- Protection of consumers' interests

While talking of providing electricity to all households, the policy also talks of reducing the cross subsidies gradually. Reducing or removing subsidy will obviously end up increasing the tariff, which may not be affordable by all the consumers. This will lead to a situation where only those who can pay can avail themselves of electricity. Even at a subsidised domestic rate how many households can afford electricity? Is it not a distortion of the definition of electricity in the policy document - an essential requirement for all facets of our life? The National Policy Document also argues for extending 'availability based tariff policy' to the States by April 2006. This would make electricity tariffs costlier in States where there is acute shortage in power generation. Except for a few rhetorical promises, the policy as a whole has nothing to offer to the domestic consumers and farmers who depend solely on subsidised power. The policy has failed to acknowledge the fact that electricity is one of the most crucial inputs for agricultural production.

NOT TOO LATE

Electricity is a basic need. The Government has an obligation to provide quality supply of electricity to poor households and consumers in rural and remote areas at an affordable cost. In the new system of governance, driven by market orientation, the Government seems to be bent on withdrawing from its commitment and obligation to provide quality power to all the consumers at rates affordable to different categories. Both the Electricity Act and the National Electricity Policy have failed to address the concerns of the marginalized sections of this country. The latest Government policies suggest withdrawing of subsidies gradually. The Government cannot unilaterally withdraw subsidies that are provided to different consumers just to curb the cost. Because, the Government has an obligation to provide its citizens their basic needs. Before finalising the National Tariff Policy, the Government should identify consumer categories deserving subsidy and fix a rate at which they shall be supplied electricity by both public and private electricity distribution companies. Also, the Government should realise that unbundling and privatising the SEBs are not the solutions to the poor performance of the power sector. It is to be noted that the privatised distribution companies have not till now shown any significant performance over the public distribution companies in India. The experiences of Orissa, Madhya Pradesh, Maharashtra (particularly in Mumbai) and Delhi are a telling warning to the entire nation!

Guest Column: *Prashant Raymus*, *CEHAT, Mumbai*

Bridging Gender Gap through Budgets: Union Budget 2005-06

The role of women in the national economy is widely recognised at least by the academia and radical outfits but policy making especially budget making with a gender perspective is a relatively new practice. It has started taking shape in democratic countries worldwide with growing emphasis on reducing gender gaps.

World Economic Forum in its gender gap study covering 58 nations has ranked India a lowly 53. The report measures the gap between women and men in five critical areas like economic participation, economic opportunity, political empowerment, educational attainment, and health and well-being. These five categories identify concrete measures of the gender gap and provide an unambiguous framework for future policy-making. By quantifying the size of the gap in each of five key categories, it will highlight the priority areas for reform.

In recognition of the importance of establishing gender equality around the world, the United Nations Development Fund for Women (UNIFEM) was established as a separate fund within the United Nations Development Program (UNDP) in 1984. At that time, the General Assembly instructed it to "ensure women's involvement with mainstream activities." The Platform of Action resulting from the 1995 Beijing World Conference on Women expanded this concept, calling it "gender mainstreaming"—i.e. the application of gender perspectives to all legal and social norms and standards, to all policy development, research, planning, advocacy, development, implementation and monitoring—as a mandate for all member states. In this way, the gender factor is no longer to be only a supplement to development but central to the practice of development. As a result of the Beijing conference—and the many years of work leading up to it—more than 100 countries announced new initiatives to improve the status of women. In 2000, the follow-up Beijing +5 conference further strengthened the application of the mainstreaming concept, and used it to highlight the need for more progress in reaching equality worldwide.

It is argued that a reduction of gender disparity in access to resources and opportunities lead to an increase in the rate of economic growth, which in turn, is poverty-reducing. This is because greater gender equality enables women to take up income-earning opportunities, and participate in the growth process. Equitable representation of women in decision-making structures and their voice in the formulation of policies result in political empowerment of women. This may result in a shift in spending priorities. It is argued that as decision makers at different levels of governance women are more likely to prioritize expenditures on family and community resources for improving health, education, infrastructure and the eradication of poverty, as opposed to the defence, production of luxury goods and speculative activities.

Education is the most fundamental prerequisite for empowering women and reducing gender gap. Empirics have shown that spread of education and literacy among the women reduce mortality rates of children and help reduce fertility rates. Similar is the case with health and family welfare, where there are substantial differences between women and men in their access to sufficient nutrition, healthcare and reproductive facilities. Reproductive health data, such as the percentage of births attended by skilled health staff, and maternal and infant mortality ratios, under weights babies are the key indicators of poor access to health care and reproductive health care. Most of these poor health outcomes are results of gender insensitiveness of policymakers and the policies over the entire plan period. Budget being an important tool for implementing fiscal policy framework in India, the need for the practice of gender sensitive budget making is a relevant issue.

GENDER SENSITIVE BUDGET MAKING

Gendered budget analysis can help to focus on these neglected aspects; it provides information regarding the contents and focus of existing government policies from a gender perspective. Armed with that, women's organisations can confront policy-makers and demand changes in policies as per their needs and choices. The

Gender Sensitive Budget Making or Gender Budgeting is one of the important tools of gender mainstreaming, aimed principally at poverty reduction. The major focus of gender budgeting is to assess and formulate particular fiscal interventions having potential to affect gender equality positively, in the formulation phase of budget making. Gender budget initiatives not only identify targeted expenditures, or allocate more money to women, but also aim to break down and identify the differentiated impact and incidence of general public revenue and expenditure on women and men and significantly contribute to overall objectives like equity, equality, efficiency, transparency, the realization of social, economic and cultural rights, and good governance, thus offering a practical way of evaluating government action (or inaction). Close monitoring and analysis of gender effects has to become a mechanism for holding policy-makers increasingly accountable for the impact of policies on the lives of both women and men, so that the large percentage of women can be taken into account while formulating economic policies including budget making.

process is for greater transparency and for deepening of democracy. Gender budgeting exercises are meant to verify from actual schemes and allotments included in the budget how far these intentions are actually being translated into concrete policies

UNION BUDGET 2005: GENDER BUDGETING INTRODUCED FOR THE FIRST TIME

Although the inclusion of gender budgeting has received a positive response from women's groups, concerns are being raised about the inadequacy of funds allocated for various schemes

The introduction, for the first time, of the concept of 'gender-budgeting' in India's Budget 2005 has evoked positive reactions from women's groups, although many feel that more needs to be done.

Budget proposals this year include a separate statement on gender sensitiveness regarding budgetary allocations under 10 demands for grants (Expenditure Budget Vol. 1 2005-06, statement 19). The finance minister revealed that, henceforth, all government departments would be required to present gender budgets. According to available data, only 2.8 % of this year's total budgetary support is for women's schemes or for the women's component in general schemes.

The National council of Women (NCW) had earlier submitted a 10-point charter of demands to the finance minister, of which tapping water resources, health and education were given substantial allocations. The major boost was in the field of reproductive and child health where allocations have been increased from Rs 710 crore to 1,380 crore.

A total allocation of Rs 14,378 crore has been made as part of gender budgeting. However the budget should have included girls not only from minorities but also other disadvantaged social groups in special education schemes.

In coherence with Gender Budgeting in Department of Rural Development, Rs. 360 crore for the year 2004-05 RE and Rs. 344 crore for the year 2005-06 BE has been allocated for the purpose which is equivalent to around 40 percent of allocations for Swarna Jayanti Gram Swarozgar Yojana and 30 percent of the allocations for Sampoorna Gramin Rozgar Yojana.

It is noteworthy that the policy makers have accepted the demand of several women's organisations to look at the arena of policy making from a gender perspective. However, concerted efforts must be made to ensure proper, efficient and judicious utilization of the funds allocated exclusively for women and those general schemes having greater welfare impact on women. Schemes and programs targeting women must be advertised widely. Capacity building workshops for development of gender perspectives must be organized for elected representatives and bureaucrats in different ministries both at State and Central government level. Beneficiary impact analysis of gender budget needs to be undertaken on a regular basis.

This is an abridged version of the paper presented at National Alliance Of Women, Orissa (NAWO), Gender budget training workshop, Dt. May 5-8,05

"To provide for setting out the practical regime of right to information for citizens to secure access to information under the control of public authorities, in order to promote transparency and accountability in the working of every public authority..." – (Preamble to The Right to Information Act, 2005)

DERIVATION OF THE LAW

Right to Information is recognized as fundamental as stated at the UN General Assembly Resolution in 1946, and is enshrined in the Universal Declaration of Human Rights, 1948, Article 19, "Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and *to seek, receive and impart information and ideas through any media and regardless of frontiers*" Its status is made legally binding under the treaty obligation in the International Covenant on Civil and Political Rights, 1976, Article 19.

In the Indian context Right to Information is seen as the "nodal link" between The Right to Freedom of Speech and Expression (Article 19 (1) (a) and the Right to Life (Article 21), guaranteed under the Constitution and interpreted by the Supreme Court on several occasions:

- ***S. P. Gupta v. Union of India (AIR 1982 SC 149)*; or the Judges' Appointment case;**
- ***State of UP vs. Raj Narain' (1975) 3 SCR 333;* the Indira Gandhi's election case, where the court ruled that the citizens have the right to know about all aspects of government functioning and rejected the government's claim of privilege;**
- ***UOI v. Association for Democratic Reforms & Anr. with PUCL & Anr. v. UOI & Anr: 2002 (5) SCC 294*); the most recent and path breaking the Elections Reform case, where the Bench directed the Election Commission to compel candidates to disclose any information regarding their criminal antecedents and their assets and liabilities.**

Information Act 2002, (FOI) though a weak and toothless act, was passed in December 2003, but which never got notified in the Central Gazette and so the milestone was never reached. With the coming of the UPA Government and its assurance in the CMP that "The Right to Information Act will be made more progressive, participatory and meaningful" and accelerated lobbying by activists and led to the introduction of the Right to Information (RTI) Bill in Parliament. On December 23, 2004 by Suresh Pachauri, Minister of State in the Ministry of Personnel, Public Grievances and Pensions, introduced the Bill in Parliament and was referred to a Parliamentary Standing Committee. With recommendations from the Standing Committee and the National Advisory Council, chaired by Smt. Sonia Gandhi and members on board such as Jean Dreze and Aruna Roy, the key figures in the right to information movement, the Bill was substantially altered to give shape to a far more progressive piece of legislation, than the one passed before. Thus with the passing of the Right to Information Bill 2005, on 11 May 2005, and the Presidential assent given on June 15, the Freedom of Information Act 2002 (FOI) stands repealed.

One of the major differences in the two instruments is in their very title, where the latter recognizes access to information as a right, the former doled it out "more as a favour than an entitlement". Also to make the Act an active piece of legislation, unlike in the past, the Bill in the very first section, subsection (3) states that the Act shall come into force 120 days from its enactment.

Right to Information Granted

-Shivani Sen

RIGHT TO INFORMATION ACT, 2005

After many a dharnas, jan sunwais, social audits, campaigns ...the Right to Information movement started in 1994-95 in rural central Rajasthan, led by Mazdoor Kisan Shakti Sangathan (MKSS), an organization of peasants and rural workers, and greatly supported by National Campaign for People's Right to Information (NCPRI), is finally recognized by the Government of India, with the enactment of the Right to Information Act 2005, (RTI 2005) It is a major step forward in transforming Governance.

A similar feeling of at least having touched a milestone was felt when the Freedom of

WHAT THE BILL CONTAINS

- Most importantly the Act extends to any 'public authority' which is "established, constituted, owned, controlled or substantially financed by funds provided directly or indirectly" by Centre or State Government and where 'public authority' means "any authority or body or institution" which includes local bodies, private and voluntary sectors, such as NGOs as well.
- The Act requires for independent Central and State Information Commissions to be set up with appointment of 'Chief Information Commissioner' (CIC) and 'Information

Commissioner' (IC). In terms and conditions of service he or she shall be on par with the Chief Election Commissioner and Election Commissioner respectively.

- While for purposes of providing information, every public authority has to, within 100 days of enactment of this Act, appoint Central Public Information Officer (CPIO) and State Public Information Officers (SPIO) in all administrative units or offices and Central and State Assistant Public Information Officer at the sub-divisional and sub-district level, to receive applications for information or appeals.
- The public authority is required to, within 100 days, duly catalogue and index particulars of the organization, to provide as much information *suo moto,* through various means of communication, including the Internet.
- An application for obtaining information can be made in writing or through electronic means, in English, Hindi or in the official language of the area, and "where such request cannot be made in writing the Officer shall render all reasonable assistance..."
- No reasons for requesting the information or any other personal details is required to be given, except contact information. A reasonable fee will be charged except from those below the poverty line and where the public authority fails to comply with the time limits, information will be provided free of charge.
- When information is sought on a subject matter which is more closely connected with the functions of another public authority, the public authority to which the application was made, "shall transfer the application or such part of it as may be appropriate to that other public authority and inform the applicant immediately about such transfer" Important to note here is that the onus is on the 'public authority' to transfer the application and inform the applicant.
- Providing any reason specified in sections 8 and 9, which lists exemptions to the right to information, applications may be rejected. However these **exemptions are not strictly absolute and access may be allowed if "public interest in disclosure outweighs the harm to the protected interests."** This exemption from 'exemptions' is bold and progressive.
- For the first time security and intelligence agencies (though otherwise kept out of the purview of this Act), can come under the scanner in matters relating to corruption charges or violation of human rights, but subject to approval from the Information Commission. Such information will be granted within forty-five days.
- The Act also grants access in part, wherein access can be given to only that part which "can be reasonably severed from any part that contains exempt information" These clauses mark a shift in the thinking of the government.
- Thirty days from the receipt of the request is the time laid out for providing the information or rejecting it. However in case of a situation where life and liberty of a person is at stake, information must be provided within 48 hours.
- In case a request is rejected, reasons for rejection, period within which an appeal against the rejection can be made and the particulars of the appellate authority, must be communicated to the person who made the request.
- An appeal can be filed if a response is not got from the officer or request is rejected, first to a higher officer within thirty days and then a second appeal within ninety days to the Central or State Information Commission. The appeal shall be disposed of within thirty days and not exceeding forty-five days. [When inquiring into a complaint the CIC or SIC will have the same powers as are vested in a civil court while trying a suit under the Code of Civil Procedure, 1908, in matters of summoning and enforcing attendance of person and compel them to give evidence, documents and any other matter which may be prescribed.]
- A penalty of Rs. 250 each day till application is received or information furnished (depending on the offence the appeal was made against) can be imposed. The penalty cannot exceed a total of Rs. 25000. Disciplinary action can be recommended under the service rules applicable.

The Central and State Information Commissions are also required to, at the end of each year, prepare a report on the implementation of the provisions of this Act during that year and forward it to the government, which shall place a copy before each House of Parliament or State legislature.

Several States like Andhra Pradesh (2001), Assam (2001), Chhattisgarh (1998), Delhi (2001), Goa (1997), Jammu & Kashmir (2004), Jharkhand, Karnataka (2000), Kerala (2002), Madhya Pradesh

Right to Information Granted

(2003), Maharashtra (2003), Orissa (2002), Rajasthan (2000), Tamil Nadu (1997), Uttar Pradesh (Code of Practice on Access to Information 2000), Uttaranchal (Code of Practice on Access to Information, (Govt of Uttar Pradesh) 2000, already have a Right to Information laws, but with the coming of the Central Act, the citizens will have a choice between either piece of legislation.

OFFICIAL SECRETS ACT 1923 OVERRIDDEN

Until now the Indian governance system wore the garment of secrecy sanctioned by the Official Secrets Act, 1923, section 5 of which made it a crime for an official to communicate any information, while also held him under oath of confidence. This age old law is now finally overridden with Section 8 (2) of the new Act stating, "Notwithstanding anything in the Official Secrets Act, 1923 nor any of the exemptions permissible in accordance with sub-section (1), a public authority may allow access to information, if public interest outweighs the harm to protected interests"

THE GOVERNMENT GEARING UP

Leaving a loose end, the Act does not make it mandatory for the Government to allocate the amount required to set up the infrastructure for implementing the legislation, but simply puts it as, "Government may, to the extent of availability of financial and other resources..."

The infrastructure for the implementation of the Act is to come up in 120 days, wherein the Centre and States' Information Commissions comprising up to 11 members each need to be set up. Which means that about 40 posts of Chief Information Commissioner, at the level of Chief Election Commissioner, and about 300 Information Commissioners of the level of Chief Secretaries of States need to be created, besides every public authority must have a Public Information Officer and Assistant Public Information Officer at sub-divisional and sub-district level. This would undoubtedly be a mammoth task in terms of appointments and financial resources. "Rs. 65 crore per annum would be spent on this count. This amount is apart from accommodation, office equipment, vehicles and other needs of the commission." (*Indian Express, 23 June 2005*) Reportedly (*Indian Express, "Info Bill amendments cause job mess", Manoj Mitta, 16th of June 2005*), the Bill that was proposed by the National Advisory Council (NAC) had envisaged only one Commission with appellate jurisdiction over applications seeking information from the Centre as well as States, also the Bill that was originally introduced in Parliament, provided for only one Commission. **The problem seems to have arisen because of the hundred-odd amendments to the draft of the original Bill made in the last minute.**

The President, a strong advocate of transparent system of governance, when giving his consent to the Act, communicated to the Prime Minister on certain points which should be kept out of the purview of the Act. He said that disclosure of communication between the President and Council of Ministers (including Prime Minister) should not be allowed because it rarely affects the public, moreover it is guaranteed in the Constitution as well. Documents in the President's office should also remain privileged. He also expressed that notings, which senior bureaucrats make on various files should be kept classified and confidential and out of the purview of the law so that decision making is not hampered. For smooth functioning and uniformity of the law, President said that only the Centre should be allowed to frame rules under the proposed law. The Act presently allows both Centre and States to make rules on its various provisions.

After the President the Central Bureau of Investigation (CBI) and the Central Vigilance Commission (CVC) have demanded immunity from Right to Information Act 2005, saying they are important statutory bodies, which play an advisory role in cases of corruption and resultant disciplinary action and cannot be "a service board" nor "a public relations office which can deal with constant requests for information." on their way of functioning and the cases handled by them.

With Presidential assent the Act has already become law, and while the President's advice, if taken will have to be incorporated through amendments, while the addition or deletion of any agency can be done by notification in the Official Gazette as laid out in Section 24(2) of the Act.

Thus we can say the government machinery is waking up to the possibility of its being held answerable to its people. The Act has enough potential and instrumental value towards promoting a more meaningful democracy with people participation and taking forward action for development.

IMPLICATIONS OF RIGHT TO INFORMATION ON PUBLIC POLICY

Right to information can be expected to have a significant impact on public policy in the country. People's participation in the process of formulating, implementing and reviewing public policy has been a long-standing demand of a large section of the civil society practitioners. And, information is the key to meaningful participation in any process. Without access to comprehensive, accurate and timely information, people (or any public-interest group) cannot engage with the state for the espousal of appropriate public policy. Right to information can pave the way for substantial transparency, not only in formulation of important policies but also in their implementation at the ground level. It can prove to be a useful instrument in curbing corruption and improving governance in the country. A statement by the former Prime Minister, late Mr. Rajiv Gandhi, that "*out of each Rupee spent by the Government in our country, only fifteen Paise reach the targeted population*" has been quoted repeatedly to capture the poor state of governance in India. Hopefully, right to information will soon take us to a stage when the above statement will not be as oft quoted!

Further right to information needs to be extended to right to "comprehensible" information. This becomes important for example when looking at Budgets that contain a lot of technical information, which a layperson finds difficult to comprehend and hence it is of little use. **In October 2004, CBGA had participated in the National Campaign on People's Right to Information (NCPRI) and facilitated a discussion on right to information vis-à-vis budgets. The most common demand of the participants, who had come from across the country, was that information provided in budgets should be comprehensible to common people.** In this regard, it was suggested that the government budgets should provide supplementary information (i.e., in addition to the technical information given in the budget papers). This information must be free of technical jargon to the maximum extent possible, it must articulate the policy goals of the government, and explain how the budgetary proposals/ allocations by the government are going to achieve set targets within the stipulated time period. Also, it is worthwhile to note here that right to information can strengthen the demand for participatory budget-making process of the Union Government.

IMPACT OF RIGHT TO INFORMATION*

Right to Information campaign has had a major impact on governance in the State of Rajasthan. The law has affected the conduct of relief and famine programmes in the years since its enactment. Senior State Bureaucrats accede that the number of complaints regarding denial of wages has been drastically reduced as a result of the law and of other disclosure policies that accompanied it. At the helm of such state of affairs is the pioneering organization MKSS, internationally recognized for its right to information campaign.

MKSS made all this possible at a time when the right to information was yet not legitimized. It had employed a range of strategies to obtain the wages owed to workers in public projects. To leverage the information for effective advocacy and public mobilization, the MKSS conceived of a forum in which village communities (many of whom were public wageworkers) could discuss public expenditures incurred in their areas. This led to the birth of *Jan Sunwais* (public hearings), also called social audits.

A formal panel, consisting of eminent citizens of the region, chaired each forum. Following a systematic procedure, community members were given an opportunity to voice their opinions on selected projects. In turn, the elected and government officials responsible for these projects were invited to respond to community residents' comments.

Because its public hearings were so effective, MKSS successfully lobbied the state government to introduce aspects of the public hearing process within local governance processes and thereby institutionalized the social audit process.

Since a Right to Information law was passed in 2000 by the Rajasthan State Legislature, the MKSS uses the provisions of the law to request documents. However having obtained official records, the MKSS faced its next challenge – that of deciphering the details contained in the records. While some of the documents like cash books, muster rolls, expenditure vouchers are easy to understand, there were more challenging records that a layperson seldom encounters, such as the project engineers' measurement books (MB), and utilization certificates (UC) verifying complete details of the project expenditure. The MKSS took on the task of becoming familiar with the jargon of project documentation, with help from friends and well wishers who had experience in official documentation processes. These semi-literate members of the MKSS, empowered with knowledge and much to the amazement of the officials, would stride into their offices and demand copies of project documents using terms like UC, MB, and ledgers. MKSS members then undertook to transfer this knowledge to villagers.

Over a period of time, the MKSS became familiar with project documents and prepared a simple methodology for collating the information into summary matrices. One matrix, prepared from labor rolls, details for each worker, the days in a year that she or he was employed at a particular project site. This matrix was very useful as it identified cases of fraud in which a worker was shown to have been working on two different project sites on the same day. Similarly, a matrix was developed to summarize materials used in a project. Volumes of sand, cement and stones were measured in terms of camel or bullock cartloads rather than metric tons, to make them easier for villagers to verify. The matrix detailing commodity measures enable residents to identify erroneous records.

Then followed distributing the information, public hearings, and follow up public hearings.

Right to Information Granted

The right-to-information campaign has consistently recognized that its strength lies in its integral relationship with other movements. Today, many other civic groups are using the right to information as a weapon in their respective battles.

In October 2004, NCPRI organized the second National Convention on the Right to Information, in which 39 workshops addressed the impact of right to information on a range of issues like essential supplies, corruption, problems of people displaced by large public infrastructure projects, the adverse impacts of economic globalization, the disappearance of citizens as a result of state security action and more. The breadth of topics truly demonstrated the impact of the Right to Information Law on all citizens in the country. Today, many other civic groups are using the right to information as a weapon in their respective battles.

(*** Source:** Just Associates (2005): Making Change Happen Series, #2; Case Study, Part 2: **The Right to Know Movement in India** By ***Vivek Ramkumar***)

CONCLUSION

Right to Information can have far reaching effects in several spheres of governance and accountability on those who exercise authority. Especially with the Bill extending to "public authority" as well, there is no knowing yet how widely this right can be used.

Until now, in the struggle, the right, has been most successfully used in rural Rajasthan by MKSS activists, which focused on public audit of development expenditure in Panchayati Raj institutions, where they came across large scale embezzlement of development funds.

Till now data to measure performance indicators was not available, it was difficult to determine how and where the allocated sum got spent, access to programme documents of the government were not easy to come by. But **with the coming of the new era of information sharing with citizens, we hope it will be possible now to carry out a qualitative assessment of the government.** The new right will enable budget analysis of expenditures on different target groups such as tribals, women, children, employment opportunity, health of tribals and specifically tribal women and children, road construction etc. To measure the performance of a government agency, civil society will be able to obtain information on its outputs during a certain period and compare it to publicly declared outputs and performance monitoring indicators. Therefore general budgetary allocations can now be analysed for their impact.

Of course getting ready the machinery, the personnel and rules of the legislation is a mammoth task but the government officials themselves need to change their functioning and mindset in face of the new reality. The Bill should be seen as bridging the gap between people and officials rather than as a baton in the hands of the people to get after the officials. The Prime Minister, realising the resistance and discomfort of the bureaucracy, at the time of debate before the passing of the Bill urged it to look at the Bill in a positive light, "as an instrument for improving government – citizen interface."

WHISTLE BLOWERS CAN STILL BE BLOWN OFF

Recently there have been news reports of disclosures made on corrupt practices and those who have made public such information have had to pay heavily, some even loosing their lives. (Satyender Dubey case remains the freshest in our recent memory). Protection to those who use information to expose corruption in governance is not too much too ask for. At the time of the FOI Bill 2002, NGOs as well as the Standing Committee of Home Affairs (to which the FOI Bill 2002 was referred) had recommended a specific provision. It had stated in its report, "Provisions for providing protection to 'whistle blowers' must be added to provide protection to persons, who use information to expose wrongdoings and also protection to officials who make available information in public interest"

However the advice was ignored and no such provision made in the FOI Bill 2002. When the entire act could be revised with some 150 amendments, the government now had a golden opportunity to incorporate such a provision, but it let it pass. Maybe the same fear of making it appear "draconian" to the bureaucrats, which caused omitting of imprisonment earlier envisaged in the penalty clause, did not let protection to 'whistle blowers' come in.

Fraud in the US Financial Market

Nandan Jha

Morgan Stanley, a leading investment bank in the United States, has been indicted for fraud. On May 16, a Florida jury ruled that Morgan Stanley had misled and defrauded former corporate financier Ronald O. Perelman in 1998. Perelman, now the chairman of Revlon Inc., the cosmetics company, had sought $1.8 billion in punitive damages. Under Florida law, the jurors can award the amount sought as punitive damages (Where the defendant's conduct is found to be intentional or wilful or wanton or malicious, the courts may permit an award of punitive damages in addition to compensatory damages), or triple the amount of compensatory damages (Damages awarded according to the amount of actual harm suffered by the plaintiff).

In the first instance it required Morgan Stanley to pay Perelman $604 million in compensation. Two days later, the jury ordered Morgan Stanley to pay a further $850 million in punitive damages. This took the total awarded to Perelman to $1.45 billion. For Morgan Stanley, the punitive damage payments far exceeded a recent fine the firm had paid as part of the Wall Street settlement over conflicted research, which was a mere $125 million. However, Morgan Stanley is not financially threatened, having earned $4.5 billion last year and already put aside $360 million for the case.

In 1998, in a deal brokered by Morgan Stanley, Perelman sold his 82 per cent stake in Coleman, a manufacturer of camping gear, to Sunbeam, a consumer appliances manufacturer, for 14 million shares of Sunbeam and cash. Morgan Stanley was closely involved in the transaction, having advised Sunbeam and approached Perelman to seal the deal. It helped Sunbeam to raise $750 million to finance the cash component of the transaction and meet other costs. This it did by underwriting the high-yield, below investment grade "junk bonds" and the bank loans that helped finance the Coleman acquisition. Morgan Stanley, reportedly, had planned to pass on some of these loans, which devolved on it as underwriter to other institutions at a later date, but it was not able to do so in full. A few months after the Coleman deal, it became clear that Sunbeam's profit record that led to rising share values was the result of a manipulation of the accounts rather than an actual turnaround. In 2001 Sunbeam collapsed and filed for bankruptcy protection. In the event, the prices of the company's share collapsed and Perelman's Sunbeam shares became worthless.

Morgan Stanley too lost $300 million because of the portfolio of Sunbeam debt that it had not managed to offload. Needless to say, among those who lost in the deal must have been a large number of smaller investors, who must have directly and indirectly bought into Sunbeam when its share prices were rising.

There were three big players who were party to this speculative deal from which they expected to gain significantly - Alfred Dunlap (former Sunbeam chairman), Morgan Stanley and Ronald Perelman. When that deal went awry, Dunlap got away lightly - he lost his job, had to make some settlement payments, but was never investigated for fraud and charged. Perelman has now made a significant gain. Morgan Stanley lost, but an amount, which its deep pockets can easily afford. **As for all the smaller players who may have invested in Sunbeam believing in the signals that the big players were directly or indirectly sending out, they lost without even being considered for compensation since they were not part of the case. In part, it is their participation and their losses that go to soar up the gains of Dunlap and Perelman.**

The recurrence of such instances makes clear that US financial markets are not competitive, transparent or well regulated. It is unfortunate to note with regard to India that it is emulating the US pattern of financial market in its zeal to implement liberalization policies. Given the size of the market here and the relative strength of market players, it is likely that the damage of speculative financial activity would even be greater. Past experience of such damage had forced small investors out of the market. But by keeping open the scope for manipulating the structure of financial rates of return, and encouraging banks, insurance companies and pension funds to enter that market, the government still seeks to find platforms on which the small investor can be lured and brought back, so that the large players can find new sources of gains even though they themselves produce no surpluses.

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