Budget TRACK

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Foreword

The recent months have witnessed inflation (in terms of wholesale price indices) reaching an all time high of around 12 percent having very adverse implications for the poor and marginalized people. Therefore, the regular feature, *Budget and Policy Tracking* of this issue of Budget Track captures this problem of very high inflation in the recent months. In addition, it also attempts to highlight some crucial legislations such as Unorganised Sector Workers' Bill, Drugs and Cosmetics (Amendments) Act and the Forest Rights Act, highlighting the key issues therein.

Even after one and a half decades have passed since the enactment of the 73rd and 74th Constitutional Amendments, still, the devolution of funds, functions and functionaries to Panchayati Raj Institutions in many states is grossly inadequate. This has led to government interventions for rural development remaining ineffective, which is brought up in the article *'Low Fiscal Decentralization: A Roadblock to Rural Development'*. The current issue also brings attention to some of the critical aspects of the Centrally Sponsored Schemes which have proliferated in the last two decades. However, due to several limitations in the design, norms and guidelines of these schemes and ultimately in their implementation, the effectiveness of such schemes has attracted criticisms by the Planning Commission as well as the C& AG besides many development policy analysts. The article titled *'On Some Aspects of Centre State Fiscal Relations: A Review of Centrally Sponsored Schemes'* highlights some of these.

The *Guest Column* by *John Samuel* questions the efficacy of the G8 process in proposing solutions to the global food, fuel and climate crisis. Lastly, the present issue provides a brief note on what the experts from diverse fields – from the Government, Opposition, Media and Academia have to say on the Union Budget 2008-09 for what it offers to the common people.

Hope this issue of Budget Track serves its intended purpose of raising significant policy issues in the public domain.

IN THIS ISSUE

On the eve of the final budget to be presented by the United Progressive Alliance (henceforth UPA) government, in her first address to the joint session of the parliament, President Pratibha Devisingh Patil claimed that "......the measures taken by my government have created the necessary architecture of inclusive growth." But unfortunately the President's address, instead of showing any roadmap to bridge the hiatus between the `shining' and the `suffering' India, emphasized mainly on the achievements of the UPA. She claimed that "for the first time in history, the Indian economy has grown at close to 9 per cent per annum for four years in a row."

Tracking the Budget and Relevant Policies of the Union Government

-Sakti Golder and Indranil

But her address brazenly omitted the glaring reality that a farmer continues to commit distress suicide every 30 minutes in our country and 78 per cent of our people live on less than Rs. 20 a day. While highlighting the features of 'shining' India through "a booming Sensex, unprecedented foreign exchange reserves, high investment and savings rates of over 34 per cent, the emergence of 48 billionaires"; the President failed to recognize the plight of the 'suffering' India. Worse, there was no reference to the continuing price rise, particularly of essential commodities, that is eroding further the living standards of the people. The President's speech, in nut shell, reflects the economic philosophy of the UPA. The UPA seems to be unwilling to learn from the miserable plight of the "India Shining" campaign of the erstwhile National Democratic Alliance (NDA) regime. Eyeing the General Elections it has already started beating its own drum of success, while undermining the wretched situation of the majority of Indians. The Union Budget 2008-09 clearly tells the story of continued neglect of the basic needs of the toiling masses.

On the 29th of February, 2008 the Finance Minister (FM henceforth), Mr. P. Chidambaram placed the last full budget of the UPA tenure. Given that the General Election is ensuing in 2009, there was this expectation that the FM won't let his neo-liberal ideology come in the way of addressing the genuine concerns of the toiling masses. It was expected that there will be substantial increase in social sector spending especially on health and education making use of the buoyancy in revenue generation. It was also expected that there will be sincere efforts made to address the deepening crisis in agriculture and unemployment and contain price rise of essential commodities. But the cat is out of the bag and Mr. Chidambaram has proved us all wrong. Through the Budget Speech of 2008-09 the FM has proved that he will not bow down to the pressure from the UPA partners and the Left and will remain loyal to neo-liberalism and put his heart and soul behind meeting Fiscal Responsibility and Budget Management (FRBM) targets and keep the so-called 'People-Centric Approach' limited to rhetoric. The irony of the situation is that, with some sops to the urban middle class and a loan waiver to the farmers, the FM has successfully convinced the media that Budget 2008-09 is a People-Centric Budget. In this issue of policy tracking we focus on the key issue of inflation, some recent legislations introduced in Parliament and some of the key concerns the pertaining to Union Budget 2008-09.

DOUBLE DIGIT INFLATION

After a gap of almost 13 years, inflation rate touched double digit figures in India. For the week ending on the 7th June, according to figures released by CSO, the annual Wholesale Price Index-based inflation was 11.05 percent, the highest since first half of 1995. While the inflation rates went up further, the UPA put whole-hearted efforts to convince people that the present inflation is mainly due to external factors and the Government can do almost nothing to contain it, leaving vast majority of Indians to the vagaries of steep rise in prices of essential commodities. Further, it has increased prices of petroleum and gas, fueling the inflation spiral further.

There is no doubt that a combination of national and international factors are contributing to the current rise in food prices, but actually, a series of liberalizing measures taken over a decade and half have led to the present scenario. The central tenets of the liberalization process is reducing the state's role regulating prices through withdrawal of control over agricultural prices and integration of Indian agriculture to global prices; shifting production towards non- food items thus reducing emphasis on food security and withdrawal of food subsidy; reducing 'price distorting' measures in international trade. Since 1990s, farmers were literally lured into producing non-food items, around 8 million hectares of our agricultural land have been shifted to horticultural crops, cotton, sugarcane and so on. Indian agriculture was gradually integrated into the global economy and farmers were exposed to the fluctuations of global prices which started crashing from mid 1990s. As a result, farmers could not benefit from the shift in cropping pattern; rather the shift coupled with declining investment in agriculture resulted in stagnation of food production. Since 2000, growth in food production became so low that it fell below population growth.

This decline in food production did not result in inflation as demand for food fell even sharply. As we have mentioned earlier, in 1997, targeted Public Distribution System (PDS) was introduced and food subsidies were gradually cutback. At the same time, decline in rural development expenditure and consequent unemployment resulted in reduction in purchasing power, especially in rural India. All these factors led to a decline in per capita demand for food to a level which was below the level prevailing during World War II. **This distress driven decline in consumption demand led to huge piling up of buffer stock and export of food to feed cattle abroad at a rate much less than what was offered to Below Poverty Line (BPL) families.**

The approach taken by the government to deal with the situation was to do away with the procurement and distribution mechanism as a means to control domestic prices. The liberalization of trade in many food commodities led to the entry of private traders including transnational buyers. These private players offered slightly higher prices than the Minimum Support Price (MSP) offered by the Food Corporation of India (FCI) and made use of the delays made by the FCI to start procurement and cornered stocks thus limiting procurement of FCI. With a prolonged stagnation of food production, now that the supply has fallen even below the demand, the government is forced to import. Earlier, the government could tide over the crisis by using the soaring foreign exchange to import food items which it is doing since 2005-06. However, given what has been happening to global prices, imports have been at prices much higher than that paid to domestic farmers, swelling the subsidy paid to cover the difference between the import price and the domestic sale price. **Unfortunately over the last few months food prices have almost doubled throughout the world, mainly due to high global price of oil leading to large-scale diversion of grain to ethanol production in advanced countries, thus causing this hue and cry.**

Tracking the Budget and Relevant Policies of the Union Government

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MEASURES TAKEN BY THE GOVERNMENT TO CONTAIN INFLATION

- Increase the Minimum Support Price(MSP) for paddy and wheat at Rs.1,000.00 per quintal
- Directorate of Export Policy Board (DEPB) benefits on export of various categories of steel products withdrawn w.e.f. 27 March, 2008. General Rate of Excise Duty reduced from 16 percent to 14 percent in the Union Budget Proposal 2008-09. Basic Customs Duty (BCD) on pig iron and mild steel products removed.
- Ban on the export on non-basmati rice. In respect to basmati rice, the Minimum Export Price will be increased to $ 1,200 per metric ton.
- In the case of all edible oils, crude form of the edible oil allowed to be imported at zero duty and the refined form will be at a duty of 7.5 per cent.
- The ban on export of pulses extended for one more year beginning 1st April, 2008.
- The customs duty on butter and ghee will be reduced from 40 to 30 per cent. The customs duty on maize will be reduced from 15 to 0 per cent under the Tariff Rate Quota of 5 lakh metric tones. The BCD on skimmed milk powder has been slashed from 15 to 5 per cent for a tariff rate quota of 10,000 tonnes per annum.
- Reduction of the Excise Duty on drugs from 16 to 8 percent.
- RBI has increased the cash reserve ratio (CRR) of the scheduled commercial banks, regional rural banks (RRBs), scheduled state co-operative banks and scheduled primary (urban) co-operative banks by 125 basis points to 8.75 per cent at several stages.

Insulating the people against food price increases through an expansion of the public distribution system and through a pegging of the ration price of food has to be the primary task before the government. Both these require an increase in the magnitude of food subsidy. The food subsidy therefore should have been much larger than last year, and yet we find an absolute stagnation. To keep the price issue steady, a substantial increase in food subsidy is necessary which the budget does not provide for. The recent proposal of the Commission for Agriculture Costs and Prices (CACP) to increase the MSP is welcome and buffer stocks are expected to increase this year. This was long overdue because there had been no revision of central issue price of rice and wheat since 2002. But even this rise may not be effective in reducing inflation if the government is not taking enough measures to curtail private procurement and speculative hoardings.

During the last four months, especially since the Union Budget when the issue of inflation came to public discourse and much hue and cry was created, the UPA has announced some measures to contain inflation. It has banned the export of steel, cement, non- basmati rice etc. and reduced excise and import duties and tariffs on several commodities. In a regime where price speculations are rampant, measures like cut in taxes and duties may not yield adequate result as the producers will not be very willing to let the benefits percolate down to the consumers in the form of lowering prices. As a monitory measure, the RBI has increased the CRR on several occasions; 7.5 percent to 8.75 percent along with an increase reserve repo rate to 8.5 percent. The increase in CRR is expected to absorb substantial amount of money from the economy. This also seems to be unsustainable in the long run given the adverse impact on investments.

The continuous rise in prices of food items and other essential commodities is causing a lot of hardship to people. Recent measures by the UPA may not be sustainable in the long run, though the bumper harvest and increase in procurement may stabilize the prices for the time being. Unfortunately, as of now, there is no measure to undo the long term causes of inflation. For the last fifteen years or so, the liberalization process has created enormous inequalities, benefiting one section hugely, while pushing the vast majority into a state of destitution. The nouveau-rich, who may be miniscule compared to the total population, in absolute numbers is quite huge. They provide quite a big market for the new form of value added commodities which are available through retail only. This overriding emphasis on retail has led to lots of speculation and hoarding. The only way out of this crisis is to strengthen the PDS by universalizing it so that ration cards are available to all; restore the cut in food grain allocations to the states under the PDS. Further, there is need to impose a ban on futures trading in 25 agricultural commodities as proposed by the Standing Committee of Parliament. Until and unless stringent actions against hoarding of essential commodities and the provisions of the Essential Commodities Act which were done away with by the NDA government are restored, price rise based on speculation cannot be controlled in the long run. However, the UPA seems reluctant to withdraw futures trading and control activities which lead to hoarding and speculation. They are happily putting the onus on the States to check hoarding. Further, the Abhijit Sen Committee which has examined the impact of futures trading on wholesale and retail prices of agricultural commodities has stopped from proposing a ban on futures trading. This exposes the dual character of the present UPA, which would like to tide over difficulties by making some cosmetic corrections without really bothering to touch upon the fundamental problems in the economy.

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MYTHS AND REALITIES SURROUNDING OIL PRICE HIKE

The UPA government's decision to hike the prices of petrol, diesel and liquefied petroleum gas (LPG) could trigger the inflation spiral and lead to unsustainable levels of inflation. In the opinion of the government, the rise was inevitable given the sharp increase in prices of crude oil in the international market. It argued that since "under-recovery" by the oil marketing companies (OMCs), was leading to huge losses, it had no option. So, it chose to shift the burden to the consumer, which also includes the poor, by hiking the price of petroleum products by 10 percent and LPG by 15 percent. The immediate impact of it could be seen in shooting up of the inflation rates to double digit figures. It cannot possibly be denied that given the international scenario, the government should take concrete measures but it definitely does not mean an increase in retail prices.

Economists have pointed out to several alternative strategies that the government could adopt to avoid this situation. As argued by noted economist, Prabhat Patnaik, **the most reasonable policy option in the face of the steep increase in oil prices is a curb on aggregate consumption and the use of rationing to allocate the targeted volume**. That would obviously reduce imports and the notional losses of the OMCs.

Though the government claims to reduce taxes and duties the measures have remained inadequate. While the 5 per cent customs duty on crude oil has been scrapped, the customs duty on petrol and diesel has been reduced from 7.5 per cent to 2.5 per cent and the customs duty on other petroleum products from 10 per cent to 5 per cent. **But the heaviest taxes on petrol and diesel, namely the excise duty of Rs.14.45 a litre on petrol and Rs.4.60 a litre on diesel, have been reduced by just Re.1 a litre in both cases.** Further the government has not bothered to touch the oil producing companies, who are making hefty profits by charging conversion costs.

Though some of the **State governments have chipped in to reduce sales tax**, sacrificing their limited sources of revenue, the central government has reduced duties to a small extent. Among the first to do so were the governments of Delhi, West Bengal and Kerala. The governments of Tripura, Assam, Andhra Pradesh, Tamil Nadu, Bihar, Haryana, Orissa, Goa, Jharkhand, Uttarakhand and Maharashtra followed soon after. The ability of State governments to maneuver is far less than that of the Centre. While the Centre mobilised close to Rs.164,000 crore in taxes on petroleum products in 2007-08, it is estimated that the States earned a total of Rs.62,000 crore from taxes, chiefly in the form of sales tax on petroleum products. A significant portion also came as transfers from the Centre as their share of the pool of resources from excise and customs duties collected by the Centre.

Further the **cost of borrowing for the States will increase** because of competition from oil bonds. Presently the State Development Loans (SDLs) are auctioned at 40-55 basic points higher (8.5-8.6 percent) than the sovereign borrowing, where as the oil bonds offered by the refineries are traded 80-100 basic points higher (at around 9 percent). This means that the banks find the SDL less lucrative and States will have to issue coupons at a rate higher than 9 percent to attract banks, thus increasing the interest burden of States. Thus, States are left with no other option but to increase its dependence on small savings.

ABHIJIT SEN COMMITTEE ON THE IMPACT OF FUTURES TRADING

In April 2007, the FM, P. Chidambaram announced the appointment of a five-member committee headed by Planning Commission Member Prof. Abhijit Sen, to examine the impact of futures trading on wholesale and retail prices of agricultural commodities. The committee which submitted its report on 29th April, 2008 has not found any firm link between futures trading and commodities prices in the spot market. The panel has not expressed any view on the delisting of commodities done in 2007, saying it was not a part of its terms of reference. Pointing out that it is statistically impossible to make futures exchanges responsible for the price rise, Dr. Sen said that the commodities exchanges should be given benefit of doubt in case of any abnormal price rise. It has called for strengthening of exchanges and the regulator, Forward Markets Commission (FMC), allowing farmers greater access to information.

Apart from the issues discussed above, it would be worthwhile to focus on several other issues such as recent Bills, newer programmes/schemes which have paramount importance in the context of the present policy regime of the Union Government Also, it is important to have a re-look at the Union Budget 2008-09 from the perspective of the marginalized sections of the society.

SOME RECENT LEGISLATIONS AT THE CENTRE

Unorganized Workers Bill

For several decades the working class of India has been agitating for a legislation to protect the interests of the unorganised workers. This vast stratum of the working class was purposefully kept away from the benefits of labor laws and compelled to live a standard of life below the poverty line. The trade union movement was demanding a comprehensive legislation for the unorganised workers providing for a need based minimum wage, decent working conditions and hours of work, social security benefits, trade union rights and pension scheme to ensure a comfortable retired life.

The NDA government prepared a Bill for the unorganised workers which made a mockery of the Bill itself. In the name of providing social security it made a contributory scheme for which the unorganised workers would not be able to contribute. When the UPA government came to power in 2004, it announced a comprehensive Bill for the unorganised workers in the National Common Minimum Programme (NCMP). But the Bill circulated to the trade unions was the same as that prepared by the NDA government with minor modifications. In a meeting convened by the Prime Minister on August 19, 2006, he gave a written assurance that a separate Bill for the unorganised workers and agricultural workers would be prepared which remained unimplemented so far.

At the directive of the Union Labour Ministry a special seminar was organised by the V. V. Giri National Labour Institute in 2006 which made unanimous recommendations for a comprehensive Bill for the unorganised labour sector which also remained unimplemented. However, the Bill approved by the Cabinet provided only enabling clauses to form advisory bodies at State and Central levels to prepare schemes for the unorganised workers. With such a huge section of the working class remaining totally unprotected, the Bill should have provided for concrete measures.

IMPLEMENTATION OF THE FOREST RIGHTS ACT

On January 1, 2008, more than a year after the Act was passed; the Union government has finally notified the Rules to provide the procedure for the implementation of the Scheduled Tribes and Other Traditional Forest Dwellers (OTFD) (Recognition of Forest Rights) Act 2006. Without notification of Rules no Act can be implemented. According to Parliamentary procedure Rules are normally notified within six months of the adoption of an Act. Although in the case of the Forest Act, the Rules have been delayed while tribal communities' have faced evictions in several States. It is certainly due to the acts behind the curtain of powerful lobbies who find space to subvert the will of Parliament through either delaying the Rules or framing them in such a manner that they end up virtually rewriting certain sections of the Act by narrowing or expanding the scope.

In the present case, the anti-tribal community lobbies among conservationists and the bureaucracy, worked to convince the highest echelons of the government that notification of the Rules should be delayed until tribes living in critical wild life habitats could be evicted. Such a step would have virtually sabotaged the whole purpose of the Act. These lobbies continued their disinformation campaign that the Act would destroy the forests when it is well known that the extent of land involved is less than two percent of forestland. But it is heartening to see that due to persistent pressure, this backroom maneuver did not succeed. This achievement could be attributed to an all Party delegation to the Prime Minister, a privilege motion against the Secretary of the Ministry of Environment and Forests and numerous meetings with concerned authorities and most importantly mobilization of tribal communities.

DRUGS AND COSMETICS (AMENDMENT) BILL 2007

The Drugs and Cosmetics (Amendment) Bill, 2007 which is now pending before the Parliament, is another example of Central government's attempt to encroach upon State government's rights. The statement of 'Objects and the Reasons' of the Bill states, "The Central government had constituted an expert committee under the chairmanship of Dr R A Mashelker, director general of the Council of Scientific and Industrial Research (CSIR) in January 2003 to undertake a comprehensive examination of drug regulatory issues, including the problem of spurious drugs and to suggest measures to improve the drug administration in the country. The committee, *inter alias,* recommended setting up of a Central Drugs Authority (CDA) reporting directly to the ministry of health and family welfare and a system of centralised licensing. The Central government considered the recommendations of the committee and proposes to make amendments in the Act, in order to facilitate setting up of a Central Drugs Authority and introduction of centralised licensing for manufacture of drugs in pursuance of the said recommendations."

Therefore, the main purposes, of the Bill are 'introduction of central licensing.' and 'setting up of a Central Drug Authority.' Yet, the Bill neither contains any clause to check manufacturing and selling of spurious drugs nor there is any deterrent clause providing stronger punishment for these. The State governments issue licenses for manufacture and sale of drugs under existing laws. Now, if the licensing right is taken over by Central government and the amendment is passed by the Parliament, thousands of small and medium sector drug manufacturing companies all over the country will not be able to get their licenses and forced to close down; thousands of workers will lose jobs and the self-employed will be deprived of their livelihood. Furthermore, it will also be difficult for the State governments in procurement of generic medicines and consequently their health programmes will be seriously affected. As there is a high possibility of multinational and big companies' getting dominant power in the drug market, the Organisation of Pharmaceutical Producers of India (OPPI), the association of multinational drug firms, immediately came out in support of this Bill. The other clauses of the Bill like 'setting up of a Central Drugs Authority' and "appointing the chairperson and members", are designed in such a way that there is enough scope for drug industry men to become chairperson/members of Central Drug Authority.

Hence, would it not be an exaggeration to say that whole purpose of the Bill is to hand over the Central Drugs Authority to MNCs and big drug companies? They will "issue licenses under clause (*c*) of section 10, clause (*c*) of section 18" of the Act; "suspend any license issued;" "granting permission for conduct of clinical trials in respect of drugs and cosmetics;" "regulate manufacture for sale or for export or for distribution, or sale, stock or exhibition of drugs and cosmetics;" "regulate import of drugs and cosmetics;" etc and "shall regulate its own procedure." Furthermore, if the Bill is passed the Drug Controller General (India) will be acting as per dictates of the drug industry.

It is predictable that the implications of the Bill would be far reaching. This Bill also raises the question on the future role of the State drug control mechanism; the licensing and control on drug distribution and sale and consequently the Centre and States' health programmes etc. Besides, another alarming issue is that the critical area of outsourced clinical trials will be in the hands of the CDA, controlled and directed by drug companies. Considering the above concerns, the Bill needs to be opposed both inside and outside of the parliament.

Policy Initiatives taken by the Cabinet Committee on Economic Affairs (CCEA)

Apart from the above Acts and Bills, in the first quarter of 2008, the CCEA has approved several other programmes/schemes, which have far reaching implications for a large section of the population. In January 2008, the CCEA approved a **Central Sector Scheme to give incentives to employers in the organized sector for providing regular employment to physically challenged persons**. This is in pursuance of the National Policy for Persons with Disabilities that was adopted in 2006. The incentives are to be in the form of payments by the government to the employers' contribution to the Employees

"The policy for farmers recognizes the urgent need of empowering women to access credit services through *joint pattas* for homestead as well as agricultural land"

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"The National R&R Policy, 2007 aims to minimize large scale displacement and promote non-displacing and least displacing alternatives"

Provident Fund and the Employees State Insurance for the first three years for their employees covered under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act and the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act. The scheme is to be monitored by a high-level committee, co-chaired by the Secretaries of the Ministry of Labour & Employment and the Ministry of Social Justice and Empowerment. The Ministry of Social Justice and Empowerment is to give lump sum funds to the Employees' Provident Fund Organisation and the Employees State Insurance Corporation as an advance, which is to be later adjusted against individual claims received from the employers. This amount is to be replenished periodically.

This CSS envisages in providing 1 lakh jobs per annum to the persons with disabilities, with a proposed outlay of Rs.1800 crore during the 11th Plan Period. In addition, CCEA also approved a provision of Rs.16 crore for four years to create adequate publicity for the Scheme. The implementation of the scheme will lead to considerable social profit and goodwill as the persons with disabilities, who are otherwise in a disadvantageous position, will get regular employment in the organized sector. It is applicable to employees with wages up to Rs. 25,000 per month.

The CCEA, in January 2008 approved another Centrally Sponsored Scheme of Pre-matric Scholarship for students belonging to minority communities through the State governments/ Union Territory (UT) Administrations. The funds, to the tune of Rs.1,868.50 crore during the XI Five Year Plan (2007-2012) have been approved for the Scheme. Out of this, an amount of Rs.1, 408.40 crore will be borne by Centre whereas Rs.460.10 crore will be shared by the States. UTs would be provided 100 per cent Central assistance. The scheme will be launched during the financial year 2007-08, targeting 25 lakh scholarships for the 11th Five Year Plan (2007-2012). The scholarships will be awarded to students from the minority communities for studies in India in government or private schools from class I to class X, including residential government institutes and eligible private institutes selected and notified in a transparent manner by the State. Governments/UTs concerned. 30 percent of the scholarships will be earmarked for girl students of each minority community in a State/UT and will be transferable to boy students only if eligible girl students are not available. The maximum ceiling of tuition fee entitlement would be Rs.350 per month, subject to actuals. The rates of maintenance allowance would be Rs.600 per month for hostellers from class VI onwards, subject to actuals and Rs.100 per month for day-scholars from class I onwards. Admission fee from class VI onwards would be Rs.500 per annum subject to actuals. 25 lakh scholarships will be given to the meritorious students belonging to the notified minority communities during XI Five Year Plan period for their empowerment through education which is expected to lead to mainstreaming of the minority communities.

The CCEA, in March 2008, also gave its approval for continuation of a dedicated fund called the 'Social and Infrastructure Development Fund' beyond 2007-08 for funding the initiatives taken by the government towards social and infrastructure development. The initiatives include up gradation of 1,396 industrial training institutes, training of farmers, employment for physically challenged, means cum-merit scholarships, ground water recharge, social security through provision of death and disability insurance cover through Life Insurance Corporation to rural landless households and support to various institutes of historical, cultural, economic and agricultural significance, for improving infrastructure. The fund will be augmented as per requirement of the government. In the current year 2007-08, an amount of Rs.6,000 crore will be transferred to the 'Social and Infrastructure Development Fund'.

Lastly, according to the CCEA approval of the Mahila Samakhya Programme, which was initiated in 1989 to translate the goals of the National Policy on Education into a concrete programme for the education and empowerment of women in rural areas, particularly those from socially and economically marginalized groups, will be continued and expanded in the 11th Five year Plan with an outlay of Rs.210.00 crore with the assistance of Department for International Development (DIFD) of UK and the government meeting its costs on a 90:10 basis. The Programme would continue in 9 States and expand its outreach during the 11th Plan period to additional States and 58-60 additional Districts. A substantive expansion of the scheme to cover additional States/Districts with educationally backward Blocks would yield positive results, both for women's empowerment and girls' education.

KEY CONCERNS WITH UNION BUDGET 2008-09

Since the UPA came to power in 2004, the economy has grown quite fast, resulting in buoyancy in revenue collections. The FM has happily used this favourable situation to meet the annual targets of FRBM, without fulfilling the NCMP commitments. The UPA, through out its tenure, has disrespected the NCMP leaving most of its commitments only on paper but ensured that FRBM targets are met. The overwhelming emphasis on FRBM Act, which restricts governments' capacity to spend, clearly shows the fiscal conservatism of the UPA regime. It failed to recognise that the promised increase in health and education to 9 per cent of GDP cannot be realized if a substantial increase in allocations is not made. To its shame, in certain key social sectors the spending during the UPA regime has fallen below the level that prevailed during NDA tenure. In the following sections, we would like to review the Union Budget 2008-09 with respect to mobilizing resources for social sector spending, the marginalized sections of society, stimulating growth in rural sector especially in agriculture and containing inflation in essential commodities.

RESOURCE MOBILISATION

To start with let us first look at some of the aspects of resource mobilization. During the UPA tenure the Tax-GDP ratio has increased substantially. From 9.75 percent of GDP in 2004-05, the Gross Tax Revenue collection has increased to 12.47 per cent of GDP. In contrast to that, total expenditure as a percent of GDP has decreased during the same period- from 15.9 percent in 2004-05, to 14.2 percent by 2008-09 (BE). This clearly reflects the government's conservationist nature and its commitments to the FRBM Act, where increased revenue collection is being used for meeting FRBM targets instead of stepping us public expenditure. For 2008-09 (BE) the estimated Gross Fiscal Deficit has been projected to be 2.5 percent which by far exceeds the FRBM target for the year. Further, the primary deficit for 2008-09 is projected to be negative, which means that the government is not interested in financing current expenditure through borrowing. In a developing economy like India where there is unemployment and constraints in demand, enhanced primary deficit can be an effective tool to augment demand.

After few years of enormous growth, when the global economy is showing clear signs of recession with an inevitable impact on the Indian economy, the FM has taken some measures to tide over the situation. Apart from the overwhelming emphasis on increasing credit supply and reducing interest rate, the Budget proposes to increase the exemption limits for income tax and restructure the tax slabs. Further, the FM has proposed an across the board reduction of CENVAT rates and reduction of customs duty for some commodities. All these measures are aimed at stimulating consumption demand through increased private consumption; whereas the entire aspect of stimulating demand through public expenditure gets undermined in the neo-liberal framework of demand management. The inherent problem of such kind of private consumption-led demand management is that, much of the revenue that is being generated through increased growth will be consumed in sustaining the growth itself. As a consequence, the ability of the government to control inflation becomes extremely limited. The recent trend in inflation and government's inability to curb it is a major cause of concern.

The FM's affinity to the private sector gets reflected from the kind of tax concessions, sops and other benefits that has been offered to private capital, which has led to a significant amount of inequality. Huge amount of resources are being foregone every year on account of various tax exemptions in the central tax system itself. **The total amount of revenue estimated to be foregone in the central tax system alone for the year 2007-08 is around 7.2 percent of GDP which is more than the total social sector expenditure of the States and Centre taken together and total budgetary support for Plan expenditure**. While a large majority of Indians, involved in farming are suffering losses, the FM seems to be satisfied with the success of the upper middle class, the rich and the rising number of billionaires.

RURAL DEVELOPMENT AND AGRICULTURE

The most significant announcement of this year's budget is the **debt-relief scheme for farmers.** The announcement has certainly helped the UPA project itself as a pro-poor government and it deserves a certain amount of appreciation for it. Under the scheme, all agricultural loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions up to March 31, 2007 and overdue as on December 31, 2007 will be covered. For marginal farmers (holding up to 1 hectare) and small farmers (holdings upto 1-2 hectare), there will be a

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Tracking the Budget and Relevant Policies of the Union Government

"When the issue was raised in several quarters about the absence of budgetary provision for the debt waiver scheme, the government has come up with an amount of Rs. 10,000 crores in the third batch of supplementary demand for grants"

"The government's lack of commitment to food security is reflected from the fact that every year the subsidy on PDS is going down; there is a constant cut down in allocation of grains from the Central pool to the State"

complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008. In respect to other farmers, there will be a one time settlement (OTS) scheme for all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008. Under the OTS, a rebate of 25 per cent will be given against payment of the balance of 75 per cent. It is expected that the scheme will benefit over 3 crores small and marginal farmers and the estimated cost will be around Rs. 60,000 crores. The scheme has certain obvious limitations. Firstly, it does not address the issue of debt to money lenders which accounts for almost half of total farm debt. Furthermore, the two-hectare limit excludes most of the dry land farmers and especially those in the most crisis-hit and suicide-prone districts of the country.

The Government has already started projecting that the implementation of the scheme will require lots of resources. The Prime Minister has already talked about the need to privatise public enterprises to finance the scheme. Ironically, there is no provision for the scheme in the Union Budget. Some prominent progressive economists have expressed their concerns over the nature of financing of the scheme. According to them, the government has to ask banks to substitute government bonds for agricultural debt in their portfolios. The government does not have to use any fiscal resources for this purpose. The only thing that the government is obliged to do is to meet the interest payment obligation on these bonds whenever they fall due. However, it is to be noted that States will have to find fiscal resources to finance the scheme, given the strict control of the Centre over their borrowing. When the issue was raised in several quarters about the absence of budgetary provision for the debt waiver scheme, the government has come up with an amount of Rs. 10,000 crores in the third batch of supplementary demand for grants.

The issue of farmers' suicide, which is in public discourse for almost the last seven years, has not been dealt with enough sensitivity by the UPA. The delayed start of the scheme, just on the year before the General Elections and State Elections, has evoked serious doubts about the integrity of the UPA to over come the deep agrarian crisis. It is now the prerogative of the Centre on how well it will implement the scheme and build on the delayed but good start.

The most significant initiative of the UPA to address the issue of agrarian crisis and unemployment was the implementation of the NREGA (or the NREG Scheme). The scheme, for right reasons, has generated enormous euphoria, especially among the progressive sections of the society. Since its implementation in February 2006, the NREGA has not received the requisite funding or made part of an urgent policy search of the UPA government. Even as the NREG Scheme was nominally extended to almost all rural districts, the corresponding increase in expenditure is merely Rs. 4,000 crores from last years' expenditure of Rs. 12,000 crores. Furthermore, Central government's expenditure on rural employment as a proportion of GDP as well as total government expenditure is declining in recent years. The NREGA was brought in to restore the aggregate demand in the rural economy, where majority of the Indian population reside. Whether it has been able to restore the situation or not is yet to be found out. The expenditure data from the NSSO 61st round (2004-05) clearly reveals that a large proportion of population are being pushed to acute under-nourishment. Around 87 percent of rural population was unable to access 2,400 calories every day. The proportion of extreme poverty-intake of under-1,800 calories doubled to 52 percent between 1993-94 and 2004-05.
One of the major factors behind this grave situation is the weakening of the PDS. The government's lack of commitment to food security is reflected from the fact that every year the subsidy on PDS is going down; there is a constant cut down in allocation of grains from the Central pool to the State. Both these factors contribute to weaken the whole structure of PDS. One the other hand, the arbitrary categorization of APL (Above Poverty Line) and BPL (Below Poverty Line) has made the situation worse. Even in rural areas, a huge disparity has been built among various social groups.

The latest NSS Report on Public Distribution and other Household Consumption (2004-2005) highlights the massive exclusion of the most vulnerable sections from the PDS. It reveals the shocking situation that 61 percent of SC households and 55 percent of ST households in rural India and over half of all landless are excluded from the Antodaya or BPL ration cards. The report points out that the States are provided "quotas" of BPL households on the basis of the poverty estimates made by the Planning Commission, which are fraudulent and leads to major underestimation and exclusion of huge section of deserving households from the BPL list. The need of the hour is that the Planning Commission poverty estimates and BPL quotas are dumped. The FM should have announced substantial increases in food subsidies to include a much larger number of households into the BPL and Antodaya categories. But budget 2008-09 fails to address these issues.

In addition, where the APL card holders are concerned, there are a large number of poor people who fall in this category and are also being excluded from the PDS. The APL definition means anyone earning more than the BPL benchmark of Rs 350 or so per month and the APL card holders will get food grains depending on availability. Therefore, such a policy reflected in the budget means that vast sections of the poor are virtually pushed out of the food security net. In the last year, allocations of foodgrains to the PDS have been slashed by almost 20 per cent, a whopping 139.62 lakh tonnes. In this context, the meager increase in the food subsidy by just 3.5 per cent over last year (which actually entails a reduction since the budget assumes a 6 per cent inflation rate) is a slap in the face of all those who had hoped for some relief from hunger from this budget.

The declining growth rate in agriculture has remained a major cause of concern, at least in the words of UPA's policies. It was acknowledged that a huge amount of pubic investment is required to boost this dying sector. But their words are not matched by their deeds. There is no sign of increased public investment, in fact in the Union Budget 08-09, it has declined to only 0.21 percent from previous year's 0.36 percent. With regard to rural infrastructure though, there is some increase in budgetary support for Bharat Nirman as a proportion of total expenditure of the Central government from the Financial Year 2005-06 (BE) to 2007-08 (BE), in 2008-09 (BE) it has remained constant. In the wake of the crisis of rising prices and deepening crisis in agriculture and food security, the Union Budget has in short, failed to deliver. There is only one positive step, in the form of the Debt Waiver Scheme, but given the magnitude of the problem this is actually a very small step and surely not worthy of the kind of publicity it got.

Let us now look at government's commitment towards social sector especially health and education. These two sectors were given prime importance in the NCMP and the government had promised to spend at least 9 percent of GDP on health and education taken together. Unfortunately, there has been no increase in expenditure, as percentage of GDP, when compared to the NDA regime, which was criticized heavily for cutting back on social sector spending.

EDUCATION

The expenditure on higher education is budgeted to increase from Rs 6,397 crores in 2007-08 (RE) to Rs 10,853 crores in 2008-09, which is a welcome increase. But the increase in elementary education is appalling, from Rs 18,440 crores to Rs 19,778 crores that is by 7.3 per cent. Total Union Budget outlay on education has increased by 20 percent (over previous year) in 2008-09 which is less in comparison to the increase in Union Budget outlay on education between 2006-07 and 2007-08. The NCMP promise of 6 percent of GDP as public resources for education, remains unfulfilled, with the combined outlay for the education Departments of Centre and States remaining at a meager 2.84 percent of GDP in 2007-08. The FM has proposed to extend the Mid-Day Meal Scheme to upper primary classes in Government and Government-aided schools in all blocks; this is a welcome step from the UPA Government. The NDA had introduced the Education Cess in 2003-04 to finance the Sarva Shiksha Abhiyan (SSA). Since then, there has been a growing tendency to depend on the resources generated from the cess. Currently, nearly 60 percent of spending on SSA is through the cess. The outlay for SSA (excluding the NER component) decreased from Rs. 12,020 crore in 2007-08 (RE) to Rs. 11,940 crore in 2008-09 (BE). Another area of concern is the growing role of the States towards contributing to education. Given their worsening fiscal situation, the burden of the States in supporting SSA has grown from 15 percent (Ninth Plan) to 35 percent at present, which will progressively increase to 50 percent by the end of the Eleventh Plan. Therefore, it would appear as if the Central government is actually insistent on cutting down the programme.

HEALTH

Allocations on health are proposed to increase by 15 percent (over allocations in 2007-08) to Rs.16,534 crore in 2008-09. With this meager increase, the UPA Government has shown insincerity to its own commitment to increase total public spending on health in the country to 2-3 percent of GDP. The proposed allocation for NRHM is Rs. 12,050 crore which is a mere 11.4 percent increase over 2007-08 RE. This is a clear departure from UPA's commitment to increase NRHM allocation by 30 percent every year.

The FM has introduced Rashtriya Swasthya Bima Yojana that will provide a health cover of Rs. 30,000 for every worker in the unorganised sector falling under the BPL category and their family

"The NCMP promise of 6 percent of GDP as public resources for education, remains unfulfilled, with the combined outlay for the education Departments of Centre and States remaining at a meager 2.84 percent of GDP in 2007-08"

"The proposed allocation for NRHM is Rs. 12,050 crore which is a mere 11.4 percent increase over 2007-08 RE. This is a clear departure from UPA's commitment to increase NRHM allocation by 30 percent every year" and allocated Rs. 205 crore as Centre's share. This is clearly a meagre amount and it seems the Central government is proposing to shift the major burden of the scheme to States. The FM has also proposed to grant a five-year tax holiday to encourage hospitals to be set up anywhere in India except certain specified urban agglomerations, especially in tier-2 and tier-3 towns in order to serve the rural hinterland. This is clearly an initiative to encourage private sector. Given the poor state of regulation of private sector on health and huge subsidies towards private hospitals as part of public-private participation, further subsidies should not be encouraged.

MARGINALISED GROUPS

In terms of allocation towards the marginalized groups like women, children, dalits and adivasis, no significant increase in the Union Budget 2008-09 can be seen.

Women

The Gender Budget statement shows a slight increase in allocation. From 3.3 percent of GDP in 2007-08 allocations have increased to only 3.6 percent for the current year. Unfortunately there is no new inclusion of Ministries or Departments in the reporting of Gender Budget statement this year. A significant increase in the allocations have taken place in the Ministry of Minority Affairs from Rs.362.83 crore to Rs. 1,013.83 crore but no schemes to address the specific vulnerabilities of Muslim women.

"The Union government has introduced a Statement on child specific schemes in Budget 2008-09, which is a welcome step"

Children

Recently, the Working Group on Children for the Eleventh Five Year Plan made some startling revelations on the plight of children in India. Every year 25 lakh children die in India, accounting for one fifth of child deaths in the world. More than 58 out of every 1,000 children born in this country die before reaching their first birth day. Apart from these, according to a report of WHO, 55 percent of infant mortality is contributed by malnutrition directly or indirectly. India accounts for 35 per cent of the developing world's low birth weight babies and every second Indian child is underweight. Nevertheless, Budget 2008-09 has not made any significant provision for improving the status of children. The Union government has introduced a Statement on child specific schemes in Budget 2008-09, which is a welcome step. The total outlay for child specific schemes accounts for 5.35 percent of total outlay from the Union Budget in 2008-09. Prioritisation of total outlay earmarked for children in the Union Budget is still skewed, with interventions meant for protection of children in difficult circumstances getting very low magnitude of funds.

One of the major programmes for the development of children is the Integrated Child Development Scheme (ICDS) which is run with grossly underpaid Anganwadi workers and helpers. Although, in the budget the salaries of both these categories of workers have been raised; still they are abysmally low. The Anganwadi workers are meant to get Rs 1,500 per month which is still below the minimum wage; for Anganwadi helpers the salary has been raised to a mere Rs 750 per month. Yet, the total increase in allocation under ICDS is a mere Rs 852 crore, which is certainly inadequate for universalising the ICDS as directed by the Supreme Court.

Dalits and Adivasis

In the Union Budget 2008-09, there are some new interventions for the Scheduled Castes (SCs) and Scheduled Tribes (STs), some of which include special focus on SC and ST women in NREGS. A Rs.130 crore allocation to make Jawahar Navodaya Vidyalayas accessible to SC and ST students in 20 districts that have large concentration of SC and ST population, for National Means-cum-Merit Scholarship Scheme Rs.750 crore has been allocated for the award of 100,000 scholarships beginning 2008-09 and Rs. 75 crore in 2008-09 for the Rajiv Gandhi National Fellowship programme, which in fact is less by Rs. 13 crore compared to the previous Budget. An analysis of Union Budget 2008-09 shows that the total Plan Outlay earmarked for SCs as percentage of total government expenditure (excluding Central Assistance for State & UT Plans) has declined from 7.90 percent in 2007-08 (BE) to 7.51 percent in 2008-09 (BE). The total Plan Outlay earmarked for STs as percentage of total government expenditure (excluding Central Assistance to State & UT Plans) has declined from 4.77 percent in 2007-08 (BE) to 4.45 percent in 2008-09 (BE). Out of more than 100 Demands for Grants in the Union Budget, less than 30 Demands for Grants had some allocations earmarked for SCs and STs.

Low Fiscal Decentralization: A Road-block to Rural Development

-Jawed A. Khan

In India, 72.2 percent of the total population live in rural areas, out of which, 59 percent of the population are dependent on agriculture and allied activities for their livelihood. Rural India accounts for only 59 per cent of literate persons while the infant mortality is enumerated as 64 per thousand live births. Overall, these data reflect very low development indicators in rural areas. Since the country gained Independence, sustained efforts have been made to improve the living standard of the rural poor by implementing numerous rural development policies and programmes. However, efforts made by both the Central as well as the State governments in this direction, have failed to provide any significant benefits for them. The main obstacles in the promotion of rural development are found to be the lack of adequate infrastructure, highly centralized system of governance, weak mechanism of public delivery of services and last but not the least, low people's participation.

The B. R. Mehta (1957) committee after reviewing the community development Programme (1952) recommended the three-tier (Zilla, Intermediate and Village level Panchayat) system of local self government or Panchayati Raj Institutions (PRIs). The new system was christened as 'Panchayati Raj' by Jawaharlal Nehru. The PRIs were supposed to improve people's participation and create a decentralized system of governance but did not achieve much success due to lack of desired power devolution by states.

Finally, the 73rd Constitutional Amendment of 1992 gave wider functional and adequate financial powers to PRIs to prepare plans for economic development and social justice for rural areas. More than 15 years have passed since its enactment, yet PRIs are still struggling to get their due share of power and functions mandated by the Constitution, in spite of shouldering many responsibilities related to rural development. In the following section we will delve into the evolution of PRIs as an institution of rural development. Subsequently, we will look into the devolution of powers to the PRIs for rural development, especially focusing on fund devolution.

PRIs AS AN INSTITUTION OF RURAL DEVELOPMENT

Decentralization is broadly defined as transfer of power to the lower level of government (PRIs). It mainly takes three forms, namely political, administrative and fiscal. The legitimacy of the centralized system of governance is on a decline because of various factors including lower participation by people, lack of accountability, weak and inefficient delivery mechanism of public services and corruption in many government programmes. Therefore, it is widely believed by the policy makers that decentralization of power would make governance system more responsive and efficient in providing public services at lower level.

It is also expected that decentralisation would improve efficiency in resource mobilization, its appropriation as well as accountability so that benefits of development reaches the poor. The new system can, in many ways, overcome weaknesses and problems of the centralized system of governance like lack of information, high transaction cost, and higher cost of contract enforcement. It can also solve the problems of adverse selection, free-riding, rent-seeking behaviour and principal -agent problems as well. The decentralized system can help in building social and other capital resources for overall development that are appropriately matched with local demands.

The decentralization of power at the lower level also figures as a powerful tool for achieving the development goals that respond to the needs of local communities. It is assumed that by assigning power to the people through Panchayats, they can manage local resources and would have information and incentive to make decisions best suited to their needs. Panchayats would bear the economic consequence of their decision making by taking the political responsibilities. Decentralized planning of resources is an important pillar of 73rd Constitutional Amendment which is to be prepared at each tier with people's participation as one of the important features. The effects of people's participation on society emphasized in the PRI system can be understood by the sequence given below.

"Decentralized planning of resources is an important pillar of 73rd Constitutional Amendment which is to be prepared at each tier with people's participation as one of the important features"

Participation

Representation

Empowerment

Benefits for All

Poverty Reduction

Rural Development

DECENTRALIZATION OF POWERS AND FUNCTIONS TO PRIs

The autonomy in decision making process, transfer of fiscal power and desired administrative capacity and control is a precondition for smooth functioning of any institution. PRIs as an institution were assigned the responsibilities for preparing plans for economic and social justice. The implementation of plans was entrusted to the PRIs with the objective of developing rural areas. It had also entrusted State governments to devolve all the necessary financial, administrative and functional power to PRIs to carry out development activities in rural areas.

Table I. below enumerates the status of devolution of funds, functions and functionaries (3 Fs) to PRIs. One can see, that it reflects a very uneven picture regarding power devolution to PRIs across the states. In terms of devolution of the 3 Fs, five states namely Karnataka, Kerala, Sikkim, Rajasthan and Maharashtra have made substantial improvements, while the other states are lagging far behind. Till date, the powers transferred to PRIs in terms of the 3Fs are merely symbolic. There is a lack of demarcation of power and functions at the three tier level. The line department is still stronger than PRIs and elected representatives are unable to exercise their power. Most of the political parties are also not interested to devolve the necessary power to them.

"In terms of devolution of the 3 Fs, five states namely Karnataka, Kerala, Sikkim, Rajasthan and Maharashtra have made substantial improvements, while the other states are lagging far behind"

Table I.
Status of Devolution of Funds, Functions and Functionaries to PRIs (as on 1.4.2004)

States	No. of Departments /Subjects Transferred to panchayats with		
	Funds	Functions	Functionaries
Karnataka	29	29	29
Kerala	26	26	26
Sikkim	24	24	24
Maharashtra	18	18	18
Andhra Pradesh	05	17	02
Arunachal Pradesh	-	-	-
Assam	-	29	-
Bihar	8	25	Only functional control
Jharkhand	-	-	-
Goa	6	6	-
Gujarat	15	15	15
Haryana	-	16	-
Himachal Pradesh	02	26	11
MP	10	23	9
Chhattisgarh	10	29	09
Manipur	-	22	4
Orissa	9	25	21
Punjab	-	7	-
Rajasthan	18	29	18
Tamil Nadu	-	29	-
Tripura	-	12	-
Uttar Pradesh	04	12	06
Uttaranchal	-	11	11
West Bengal	12	29	12
A&N Island	6	6	6
Chandigarh	-	-	-
D&N Haveli	-	3	3
Daman &Diu	5	9	3
NTC of Delhi Panchayat System		yet to be revived	
Pondicherry	-	-	-
Lakshadweep	-	6	-

Source: MoPanchayati Raj,GoI, 2004

It was also expected that the functionaries of the following type of local institutions would be transferred to the PRIs.

a) ICDS Centre
b) Health Sub Centre
c) Primary Health Centre
d) Veterinary Centre
e) Agricultural Centre (Krishi Bhawan)
f) Schools

However, as of now, PRIs only have the power to supervise and keep attendance record of these transferred staff and in some institutions, disburse salaries to them. In reality, the PRIs have no control on the staff and local institutions except for the task of monitoring and supervision without any disciplinary powers. It has also been found that, at the Panchayat Samiti and Zilla Parishad level, government officials are more powerful than the elected representatives in terms of exercising their powers.

FISCAL DECENTRALISAION TO PRIS

Fiscal decentralization means devolution of taxing and spending powers to lower level governments. It also emphasises on fiscal autonomy which implies (1) the availability of fund over which Panchayats have full control as distinguished from the schematic fund or specific purpose grants (2) authority to spend funds without obtaining approval from any other agency.

The 73rd and 74th Amendment Act mandated the State governments to enact conformity laws and constitute the State Finance Commission (SFC) for fiscal decentralisaton[1] to the PRIs. In this regard, the role of the SFC was to make the Panchayat more autonomous in the fiscal matter of implementing 29 subjects[2]. Further, there was a provision for assignment of taxes, duties, levies and tolls to local bodies. PRIs receive funds mainly from four sources:

(1) The Consolidated Fund of the State as per the recommendations of the SFCs
(2) Grants-in-aid as per Central Finance Commission award
(3) Central government via Centrally Sponsored Scheme (CSS)
(4) Own Source Revenue (OSR).

The recommendations of various SFCs regarding fund devolution can be further divided into three categories:

(1) Assignment of taxes, duties, levies and tolls to local bodies
(2) Sharing of tax revenue proceeds and
(3) Grants–in–aid and other financial assistance. There is a provision for PRIs to have adequate power over untied funds[3] to deliver public good and services assigned to them.

Various research studies have found that revenue mobilization by PRIs is abysmally low and spending power is very weak. The share of untied funds accounts for a very small amount in the total revenue receipts of PRIs. The reasons cited for low fiscal decentralization include mismatch between the functional assignment and financial power, poor tax base, weak administrative and enforcement capacity. A study by Bahl, 1999, identifies the necessary and desirable conditions for a system of fiscal decentralization to function effectively is reproduced in Table II. below.

Low Fiscal Decentralization: A Road-block to Rural Development

"The 73rd and 74th Amendment Act mandated the State governments to enact conformity laws and constitute the State Finance Commission (SFC) for fiscal decentralisaton to the PRIs"

"Various research studies have found that revenue mobilization by PRIs is abysmally low and spending power is very weak"

Table II.
The Components in a System of Fiscal Decentralization

Necessary conditions	Desirable conditions
■ Elected local council	■ Transparency and accountability
■ Locally appointed chief officers	■ Freedom from excessive central expenditure mandates
■ Significant local government discretion to raise revenue	■ Unconditional transfer from higher level governments
■ Significant local government expenditure responsibilities	■ Borrowing powers
■ Budget autonomy	
■ A hard budget constraint	

Source: Bahl, 1999

[1] Articles 243 (I) and 243 (H) of the Indian Constitution provide financial devolution to Panchayats through constitution of SFCs, implementation of its reports and assignment of taxes
[2] The activities related to socio-economic and infrastructure issues given to PRIs
[3] Untied funds would imply the assigned tax and non-tax revenues raised by PRIs or higher level governments unconditional transfers in terms of share in taxes or in block grants.

Low Fiscal Decentralization: A Road-block to Rural Development

"The revenues raised by Panchayat as a ratio of GDP increased from 0.04 per cent in 1997-98 to 0.07 per cent in 2002-03"

The low transfer of taxing and spending powers to PRIs has caused vertical fiscal imbalances[4]. At the same time, lack of proper demarcation in financial power within each tier of PRIs has created horizontal fiscal imbalances. The horizontal fiscal imbalances[5] at Panchayat level elucidates that, the capacity to raise resources differs at different tiers of PRIs and therefore are not able to do comparable levy of services at comparable tax rates. The process of decentralization has created a mechanism to reduce both vertical and horizontal fiscal imbalances so that adequacy, equity and efficiency could be maximized in provision of public services.

The study by Rao and Rao (2008) reveal that the revenue mobilization by rural local bodies is dreadfully low. The revenues assigned to the Panchayat do not include any important item. In fact the Panchayats are not even able to exploit the only notable tax base assigned to them; *viz.* property tax .Table III explains that the revenues raised by Panchayat as a ratio of GDP increased from 0.04 per cent in 1997-98 to 0.07 per cent in 2002-03. At the same time their revenue accruals increased to 1 per cent. These estimates show that the revenue mobilization is quite negligible.

life of rural people towards self-sustenance. In this regard, Central government initiated many Central Sector (CS) and Centrally Sponsored Schemes (CSS) to strengthen the rural development programmes. Subsequently during this process, the role of PRIs came into the limelight as implementing agencies besides line departments.

The CSS mainly operating in rural areas cover various programmes related to poverty alleviation, education, health, water and sanitation, women and child development, rural housing, road and electrification etc. The CSS are designed by the Central Ministries and the outlay and nature of the individual schemes is determined by the provisions and guidelines attached to the respective schemes. The funds for many CSS bypass the State budget and goes through different agencies like District authorities, State/ District registered societies and local bodies. Out of the 41 schemes bypassing the State budgets 10 schemes are mainly related to rural development amounting to Rs 21,407.90 crore in the year 2006-07 and have been reaching the PRIs.

Table III.
Revenues of Different Levels of Governments (% of GDP)

Level of governments	1997-98		2002-03	
	Revenue* collections	Revenue# accrual	Revenue collections	Revenue accrual
Centre	11.4	6.8	11.8	7.74
States	6.3	10.9	6.7	9.63
Local-Urban	0.5	2.1	0.3	0.51
Local-Rural	0.04	0.8	0.07	0.98
Total	18.3	19.8	18.87	18.86

* *Represents own source revenue*
 # Represents includes revenue from assigned taxes, share in taxes and grants from higher level of taxes
Sources: (1) Public finance statistics, 2005-06, ministry of finance, GoI, (2) Reports of the Eleventh and Twelfth Finance commission, Ministry of Finance, GoI

FISCAL DECENTRALIZATION AND RURAL DEVELOPMENT SCHEMES

Rural Development is a process that focuses on developing human and natural resources, utilizing new technologies, infrastructure building, strengthening institutions and organizations to implement government policies and programmes. It also encourages and fastens the economic development in rural areas to improve quality of

These programmes and schemes include Sampoorna Grameen Rozgar Yojna (SGRY), Swarn Jayanti Gram Swarozgar Yojna (SGSY), Indira Awas Yojna (IAY), National Rural Employment Guarantee Scheme (NREGS), Integrated Waste Land Development Programme (IWDP), Drought Prone Area progamme (DPAP) Desert Development Programme (DDP), Total Sanitation Campaign (TSC), Member of Parliament/Member of Legislative Assembly Local Area Development

[4] Vertical imbalance implies the fiscal imbalances between centre , states and PRIs
[5] Horizontal imbalances explain the fiscal imbalances between the three tiers of Panchayats

Scheme (MPLAD & MLALAD). There are many CSS in the social sector apart from the rural development programmes like, Sarva Shiksha Abhiyan (SSA), Mid-Day Meal (MDM), TSC, Reproductive and Child Health Programme (RCH), Integrated Child Development Services (ICDS), and National Child Labour Project (NCLP). Among them, funds for MDM and TSC are being transferred directly to Panchayats.

Looking at Table IV, one can observe that PRIs are actively involved in the process of implementation of several Centrally Sponsored Schemes. The role of Panchayat Samiti and Gram Panchayat has been found to be more prominent in the implementation along with monitoring and supervision of the schemes. In a few schemes, the Panchayat Samiti provides all technical and non-technical support to Gram Panchayats, while the funds they receive under the CSS are backed by rigid guidelines. Most of the CSS have a top-down approach and are implemented as a supply-driven programme. In the implementation of these schemes, PRIs work as agents of Central /State government, doing things on their behalf. They do not have any authority or discretion to spend funds allocated for schemes without obtaining prior approval from a higher level agency. Hence, the definition of ' fiscal decentralization to PRIs' holds true only in the aspect of implementation of the above mentioned CSS, but when it comes to spending matters, their hands are tied.

The grants from the Central and State government are very meager in terms of total expenditure. The Own Source Revenue (OSR) generation of PRIs at all levels is found to be very uneven and negligible. Their internal revenue mobilization constitutes only 4.17 percent of their total revenue as per the study done on the behalf of Eleventh Finance Commission. The inefficiencies arise because of reluctance to charge fees, low rates, non revision of tax rate, encroachment of States in jurisdiction of Panchayats and lack of administrative capacity for tax collection. This reflects that PRIs as an institution of local self

Low Fiscal Decentralization: A Road-block to Rural Development

"The Own Source Revenue (OSR) generation of PRIs at all levels is found to be very uneven and negligible"

Table IV.

Schemes Implemented through PRIs

S.No	Category	Schemes implemented through PRIs
1.	Poverty Alleviation	National Rural Employment Guarantee Scheme (NREGA) and Sampoorna Grameen Rozgar Yojna(SGRY)
		Swarn Jayanti Gram Swarozgar Yojna
2.	Education	Sarva Siksha Abhiyan
		Mid-day Meal Programme
		Adult Literacy
3.	Water and Sanitation	Drinking Water Mission /Accelerated Rural Water Supply Programme
		Total Sanitation Campaign
4.	Health	National Rural Health Mission
5.	Women and Child Development	Integrated Child Development Services (ICDS)
6.	Rural Housing	Indira Awas Yojna
7.	Rural Roads	Pardhan Mantri Grameen Sadak Yojna
8.	Rural Electrification	Rajiv Gandhai Grameen Vidyutikran Yojna. Programmes for non-conventional energy

Source: MOPR, Action Programmes for 11th Five year Plan, 2006.

Gram Panchayat is the main authority to implement programs at lower level by selection of beneficiary, activity, work plan and work place. Moreover, Zilla Panchayats also play a supervisory and monitoring role in these schemes.

The role of Panchayat has become critical in the successful completion of these programmes but governance are lacking in devolution of funds which is essential for better delivery of public services with accountability towards local people.

Field experience also reveals that the role of PRIs is varied. They are understaffed and in addition most of the staff has poor training and no capacity building. Planning and project formulation is weak. The elected representatives' lack political will and are unaware of the Guidelines and provisions of schemes which are found to be rigid at the implementation level. Due to lack of people's participation, transparency and accountability of PRIs is far from satisfactory.

The above discussion has revealed that devolution of funds to PRIs is inadequate. Planning process is very weak at various levels of PRIs .The people's participation in the day to day functioning of PRIs was found to be very minimal. As far as the accountability mechanism is concerned, upward accountability is being applied but down ward accountability is still not prevalent. Based on the foregoing discussion, some measures can be taken to make PRIs into an effective local institution for rural development.

Firstly, there should be a clear cut demarcation of power among all the tiers of Panchayat regarding function, funds and functionaries with proper activity mapping. Secondly, all functions should be devolved to PRIs with funds and functionaries. Thirdly, more untied funds should be provided to Panchayat and regulation and guidelines attached with CSS and grants from Centre and States should be made flexible. Fourthly, a parallel authority like State and Central Board of Taxes must be created for PRIs in case of revenue collection for improving their own source revenue. Fifthly, the Panchayats generating more own source revenue, should be rewarded. Sixthly, special attention should be given for improvement of budgeting, accounting and auditing system. Lastly, for augmenting own source revenue, appropriate training and capacity building programmes should be organized periodically.

"There should be a clear cut demarcation of power among all the tiers of Panchayat regarding function, funds and functionaries with proper activity mapping"

THE FEDERAL FISCAL ARCHITECTURE IN INDIA

The Constitution of India provides a clear division of the roles and responsibilities of the Central Government and State Governments, which has translated into a division of expenditure responsibilities and taxation powers between the two. The Constitution, in its seventh schedule, assigns the taxation powers and expenditure functions of both the Center and the States. This schedule specifies the exclusive powers of the Centre in the Union list; exclusive powers of the States in the State list; and those falling under the joint jurisdiction are placed in the Concurrent list. All residual expenditure powers are assigned to the Centre. The nature of these assignments is typical of federal nations. The assignment of tax powers is based on the principle of separation, i.e., tax categories are exclusively assigned either to the Centre or to the States. Most broad-based taxes have been assigned to the Centre, including taxes on non-agricultural income. Out of a long list of taxes assigned to the States, only the tax on the sale and purchase of goods has been significant for state revenues. The Centre has also been assigned all residual taxation powers.

Centre-State Fiscal Relations: Role of Centrally Sponsored Schemes

-Ramgati Singh

CONSTITUTIONAL FRAMEWORK FOR ALLOCATION OF FUNCTIONS AND FINANCIAL RESOURCES

The Indian Constitution under the Seventh Schedule (Article 246) lays down the respective functions and financial resources of the Government at the Union and State level and contains three lists as set out below:

List I - Union List (97 Items)

- **Functions:**Defense, Atomic Energy and Mineral Resources, Foreign Affairs, Diplomatic Relations, Railways, Airways, Posts and Telegraph, Public Debt of the Union, Currency and Coinage, RBI, Banking, Insurance, Stock Exchanges, *etc*.

- **Financial Resources:** Taxes on Income (other than Agricultural Income), Custom Duties, Excise Duties on manufactured Goods, Corporation Tax, Service Tax, *etc*.

List II - State List (66 Items)

- **Functions:**Public Order, Police, Local Government, Public Health and Sanitation, Hospitals and Dispensaries, Agriculture, Water, Fisheries, Public Debt of State, *etc*.

- **Financial Resources:** Taxes on Agricultural Income, Taxes on Lands and Buildings, Taxes on Mineral Rights, Excise Duties, Entry Tax, Taxes on Electricity, Taxes on the Sale or Purchase of Goods (VAT), Taxes on Vehicles, Tolls, Taxes on Profession, Trades, Entertainment Taxes, Stamp Duties, *etc*.

List III - Concurrent List (47 Items)

- Criminal Law, Criminal Procedure, Administration of India, Social Security, Employment and Unemployment, Labour Welfare, Education, including technical education, medical education and universities, Price Control, Factories, Electricity, *etc*.

Source: Constitution of India, Government of India (as compiled in Annex 4; State Finances: A Study of Budgets of 2007-08; RBI).

Centre-State Fiscal Relations: Role of Centrally Sponsored Schemes

However, there is a ***vertical imbalance*** between the powers of the States and Centre to raise revenue through taxes and duties in comparison to their expenditure requirements. The powers of revenue mobilization vested with the States are insufficient to help them mobilize resources that would meet their total expenditure requirements. This kind of a vertical imbalance was built into the fiscal architecture of India keeping in mind the need for Central Government's interventions to address the ***horizontal imbalance***, i.e. the limited ability of some of the States to mobilize adequate resources from within their State economies. In the fiscal architecture that has evolved in India, a significant amount of financial resources are transferred from the Central Government every year to every State Government so as to enable the State Governments to meet their expenditure requirements.

In fact, for any State, a large part of State Government's total revenues is provided by the Central Government in the form of: a share in tax revenue collected by the Centre, loans, and grants. A part of the grants are 'untied' (i.e. not tied to any specific spending programme designed by the Centre), which are also known as 'block grants' or 'general purpose grants'. But, a sizable chunk of the Central Government's grants for a State are 'tied' or 'specific purpose' grants. (We may note here that starting from the fiscal year 2005-06, the Central Government has sharply reduced 'loans' for the States, following the recommendation of the 12th Finance Commission.)

Among these different types of funds which flow from the Union Budget into the Budgets of States, share of a State in tax revenue collected by Centre, 'untied' grants for the State and loans are based on some pre-designed formula (accepted by both Centre and the States). These formula-based fund transfers from Union Budget to the State Budget are based on recommendations of the central Finance Commission and the central Planning Commission.

"The powers of revenue mobilization vested with the States are insufficient to help them mobilize resources that would meet their total expenditure requirements"

THE FINANCE COMMISSION

- Articles 270, 273, 275 and 280 of the Constitution of India provide for the formation of a Finance Commission (at the interval of every five years) to recommend to the President certain measures relating to the distribution of financial resources between the Centre and the States. Hence, the President appoints (at the interval of every five years) a Finance Commission comprising five members, including the Chairman, following certain Constitutional guidelines (about the qualifications/experience of the people to be appointed as members). The First Finance Commission was constituted in 1951, which had submitted its report in 1953.
- Presently, the recommendations made by the 12th Finance Commission are in effect, which are being followed by the Central Government in its Union Budgets. The recommendation period of this 12th Finance Commission is from 2005-06 to 2009-10.
- The most important recommendations made by the Finance Commission are those relating to: the distribution of the tax revenue of the Central Government between the Centre and the States; the allocation of the respective shares of such tax revenue among the different States; and the principles which should govern the grants-in-aid for the States to be provided out of the Consolidated Fund of India.

THE PLANNING COMMISSION

- The Planning Commission is not a Constitutional body. It was set up as an advisory and specialised institution by a Resolution of the Government of India in March 1950. The Planning Commission was given the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating Plans for the most effective and balanced utilization of resources and determining priorities.
- The Prime Minister of the country is the Chairman of the Planning Commission. The Deputy Chairman and the full time members of the Commission, as a composite body, provide advice and guidance to the different subject Divisions (in the Planning Commission) for the formulation of Five Year Plans and Annual Plans, both at the national level as also for different States.
- The Planning Commission is supposed to work under the overall guidance of the National Development Council. The working of the Planning Commission led to the setting up of the National Development Council (NDC) in 1952, as an adjunct to the Planning Commission, to associate the States in the formulation of the Plans. Since mid 1967, all members of the Union cabinet, Chief Ministers of States, the Administrators of the Union Territories and members of Planning Commission have been members of the NDC.
- The most important suggestions made by the Planning Commission are those relating to: the magnitude of funds to be given from Union Budget to different States as 'Central Assistance for State Plans'; and the magnitude of funds to be given to Central Government Ministries/Departments for Plan expenditure on the Central Sector Schemes.

The Finance Commission is expected to be a neutral institution with no bias either in favour of the States or the Central Government. However, some observers have pointed out that starting with the 10th Finance Commission, a clear tilt towards promoting the fiscal policy of the Centre and dominance of the Centre in the overall fiscal architecture has been witnessed in the recommendations of the Finance Commissions. The Planning Commission makes an assessment of the availability of own resources with a State Government and its capacity to utilize Plan funds before finalizing the size of the State Plan. Once the size of the State Plan is decided, the Planning Commission recommends the Centre to provide some financial assistance to the State for its State Plan, which is also formula-based.

There are three channels of financial resource transfers from the Centre to the States. First, as mentioned earlier, the Finance Commission decides on tax shares and makes grants. Second, the Planning Commission makes grants and loans for implementing development plans. Third, there are the *central sector schemes* and *centrally sponsored schemes*, in which various central Ministries give grants to their counterparts in the States for specified projects either wholly funded by the center (central sector schemes) or requiring the states to share a proportion of the cost (centrally sponsored schemes).

THREE DIFFERENT TYPES OF PLAN SCHEMES

There are three different kinds of Plan Schemes, which are implemented in any State, viz. State Plan Schemes, Central Sector Schemes and Centrally Sponsored Schemes.

- State Plan Schemes – The funds for State Plan Schemes are provided only by the State Government, with no direct contribution from the Centre.
- Central Sector Schemes – The entire amount of funds for a Central Sector Scheme is provided by the Central Government from the Union Budget. The State Government implements the Scheme, but it does not provide any Plan funds for such a Scheme from its Budget.
- Centrally Sponsored Schemes – In case of a Centrally Sponsored Scheme, the Central Government provides a part of the funds and the State Government provides a matching grant for the Scheme. The ratio of contributions by the Centre and a State is pre-decided through negotiations between the two.

Assistance given to states through *central sector schemes* and *centrally sponsored schemes* is in some respects the most contentious form of transfers. These transfers are not only discretionary to some extent, there has also been a proliferation of such schemes.

CONFLICTS IN THE DOMAIN OF TRANSFER OF RESOURCES FROM CENTRE TO STATES

One of the most important developments, in the context of Centre-State fiscal relations, has been the marked decline in resource transfers from Centre to States. Gross Devolution and Transfers (GDT) from Centre to States have fallen both in comparison to the country's GDP as well as in comparison to the Aggregate Disbursements of States over the two decades from 1986-87 to 2007-08.

Table I: Trends in Gross Devolution of Funds from Centre to States

	Gross Devolution and Transfers (GDT) from Centre to State (in Rs. Crore)	GDT as % of GDP	GDT as % of Aggregate Disbursements of States
1986-87	23072	7.4	44.6
1987-88	26969	7.6	45
1988-89	30333	7.2	45.2
1989-90	32862	6.8	42.8
1990-91	40859	7.2	44.9
1991-92	45143	6.9	41.8
1992-93	51439	6.9	43.1
1993-94	57848	6.7	43.2
2002-03	128,657	5.2	31.4
2003-04	143,785	5.2	28
2004-05	160,750	5.1	29
2005-06	178,871	5	31.8
2006-07 (RE)	228,889	5.5	33.3
2007-08 (BE)	268,422	5.8	35

Source: A Study of State Budgets 2007-08; RBI.

One of the important grounds for assigning greater powers of revenue collections with the Centre (in comparison to the greater responsibility of service provision and public expenditure vested with the States), in the Constitution of our country, is the objective of achieving equity through redistribution of resources by the Centre among the different States. However, there is enough evidence to suggest that this objective of equity through redistribution has been sidelined by the Centre in the era of liberalization; on the one hand Centre's policies

Centre-State Fiscal Relations: Role of Centrally Sponsored Schemes

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Centre-State Fiscal Relations: Role of Centrally Sponsored Schemes

"The National Development Council had decided in 1969 that the total value of *Centrally Sponsored Schemes* should be limited to one-sixth of the total Central Assistance to the States"

"Since a Central Government Ministry prepares the framework and expenditure norms of a *Centrally Sponsored Scheme*, which are usually uniform for all States, the design of the scheme can fail to address some problems in a State which may be specific to that State"

have promoted greater inequity among the States in economic development and on the other the transfer of resources to States started shrinking relative to the growing expenditure commitments of the States.

Growing Share of *Centrally Sponsored Schemes*

It has been pointed out by several observers that while a major share of Finance Commission and Planning Commission transfers to the States are based on objective criteria and anchored on some pre-determined and transparent formulae, that is not the case with other Central transfers to States. Grants for *Central Sector Schemes* and *Centrally Sponsored Schemes* represent the discretionary grants from the Centre. These Schemes are designed by the Central Ministries, and they are governed by the provisions and guidelines attached to them, leaving almost no flexibility for the States. In case of *Centrally Sponsored Schemes*, the States are not only the implementing agencies but they are also required to put forward a matching grant under each scheme. While on the one hand, the *Centrally Sponsored Schemes* are too rigid for allowing the State to fit in their specific needs and provisions, they also put the economically backward States at a disadvantage vis-à-vis the economically better off States as the poorer States find it hard to allocate matching grants under the schemes. The National Development Council had decided in 1969 that the total value of *Centrally Sponsored Schemes* should be limited to one-sixth of the total Central Assistance to the States.

However, the number of such Schemes increased sharply from 45 in 1969 to roughly 360 during the Ninth Five Year Plan period, with the allocation on them being almost 60 per cent of Central assistance to the States (Saxena, N.C. [2004], "Central Transfers to States and Centrally Sponsored Schemes", Papers submitted by individual members to the National Advisory Council).

Table II: Growing Magnitude of Grants to States under Central Schemes (*Centrally Sponsored Schemes* and *Central Sector Schemes*) in the Recent Years

	Central Schemes and Transfers grant as % of Total Plan Grants to States	Central Schemes grant as % of Total Grants	Gross Devolution as % of States Development Expenditure
2005-06	35.6	20.7	24.3
2006-07	38.6	25.0	25.4
2007-08	37.1	26.4	25.9

Source: A Study of State Budgets, 2007-08; RBI

As of 2007-08, we find that a substantial proportion of the grants provided to the States were under *Centrally Sponsored Schemes* (more than 21 %) and *Central Sector Schemes* (nearly 5 %).

PROBLEMS WITH CENTRALLY SPONSORED SCHEMES (CSS)

Since a Central Government Ministry prepares the framework and expenditure norms of a *Centrally Sponsored Scheme*, which are usually uniform for all States, the design of the scheme can fail to address some problems in a State which may be specific to that State. Also, the States, while implementing the CSS, are rarely permitted to amend the norms/ guidelines for expenditure. One pertinent example is the case of Sarva Shiksha Abhiyan (SSA) scheme in Maharashtra– despite the felt need to distribute Free Text Books under SSA to boys from other social categories, apart from all girls and SC/ST children, the Government of Maharashtra could not modify the norms of SSA (in 2003-04), as its request was turned down by the nodal authorities of SSA in the Central Government. Therefore, in case of CSS with rigid guidelines, it is quite possible that States implement them without any sense of ownership over the scheme. Transfers under CSS represent the discretionary part of Central transfers to States, since the allocation of resources among different States is not mandated either by the Finance Commission or the Planning Commission. Hence, it may be difficult to make an objective assessment of the magnitudes of resources transferred to different States under CSS, which leaves scope for the resource transfers to get influenced by political interests. Also, CSS by design favour economically better off States, since such States find it less difficult to contribute matching grants for the schemes and also have better institutional capacity to implement the schemes and utilize allocations in time. On the other hand, the poorer States, because of their inability to provide matching grants as also their relatively lower capacity to utilize resources in time, might suffer from non-release or delayed release of Centre's share.

However, despite such inherent problems with the whole concept of CSS, States have continued to accept the growth of CSS in several sectors. One of the major reasons for this is said to be the fact that between Central Assistance for State Plans and CSS, the States have preferred the latter. This is because the 70:30 loan and grants arrangement for the general category States had discouraged many States from preferring Central

Assistance over transfer of resources through CSS. On the other hand, the Central Ministries in the past have strongly resisted the attempts from Planning Commission for shifting a major chunk of the CSS to the States, as this would drastically reduce the Budgets for these Ministries. Saxena (2004) observes that "Government of India has employed huge bureaucracy in the social sector Ministries, and they resist any such reduction in their budgets".

Saxena (2004) also presents the observations by the Comptroller and Auditor General (C & AG) of India on the implementation of CSS, which report a common pattern of shortcomings in the CSS. Some of these are as given below:

- Inability of the Union Ministries to control the implementation of Centrally Sponsored Schemes so as to ensuring the accomplishment of the stated objectives in the most cost effective manner and within the given time-frame, as a result of which, the programs continued to be executed in uncontrolled and open-ended manner without quantitative and qualitative evaluation of delivery.
- The Ministries were unable to ensure correctness of the data and facts reported by the State governments. Over-statement of the figures of physical and financial performance by the State governments was rampant. No system of accountability for incorrect reporting and verification of reported performance were in use.
- The Ministries were more concerned with expenditure rather than the achieving the objectives. Large parts of funds were released in the last month of the financial year, which could not be spent by the respective State governments during that financial year.
- The State government's attitude to the implementation of the CSS was generally indifferent. They laid emphasis on release of assistance by the Ministry rather than ensuring the quality of expenditure and attainment of the objectives. Misuse of the funds provided was rampant. The State governments' attitude towards such misuse was one of unconcern. The controlling Union Ministries had no clue to such misuse. Thus, in many cases, the figures of expenditure booked in accounts assumed precedence over the bonafide and propriety of the expenditure.

Following the recommendations of the Twelfth Finance Commission (TFC), the system of Central Government giving loans to States for their State Plan schemes has been discontinued. Since 2005-06, 'Central Assistance for State and UT Plans' has been almost entirely in the form of grants. Hence, presently, there is no major reason for the States to prefer grants through CSS over 'Central Assistance for State and UT Plans'. However, even in the 11th Five Year Plan period, the role of CSS in the domain of resource transfers from Centre to States continues to be significant, although there have been no concerted efforts by the Central Government to address the problems in implementation of CSS in the States.

(This article has drawn substantially from the following sources:

1. Saxena, N.C. [2004], "Central Transfers to States and Centrally Sponsored Schemes", Papers submitted by individual members to the National Advisory Council

2. Jha, Praveen, S. Das, S.S. Mohanty and N. Jha [2008], Public Provisioning for Elementary Education in India, SAGE Publications

3. Das, Subrat [2007], Let's Talk about Budget, Centre for Budget and Governance Accountability, New Delhi.)

GUEST COLUMN: John Samuel

G8 Hokkaido: An Exercise in Escapism

The recent meeting of G8 leaders in Hokkaido, Japan, proved to be an exercise in escapism. The final communiqué of the G8 leaders is more recycled rhetoric of broken promises. This meeting, held in the midst of a financial, fuel, food and climate crisis, failed to recognize the gravity of the situation. It only accentuates the legitimacy crisis of the G8 as a credible forum for the development of viable solutions to global hunger and injustice — partly perpetuated by the corporate and institutional interests of G8 countries.

The original grouping of rich industrialised nations – the G7— emerged in the context of the oil crisis of the 1970s. After almost 30 years, what is the balance sheet of the G8 — which includes the co-opted Russia? It clearly shows that the G8 as an institutionalised venue has failed to provide any meaningful solutions to poverty, war, inequities and injustice. While they have managed to impose the neoliberal policy paradigm — with the strategic use of World Bank and IMF conditionalities — on the developing and poor nations of the world, they have not been able to do anything substantial to address trade inequities, aid diversion and debt traps. In fact, G8 leaders, instead of solving these issues, have often used the Summits to push forward the interests of rich countries, with lots of window dressing and rhetoric about poverty reduction and more aid for the poor countries. In 2005, they promised to write off the debt and double aid to Africa to address poverty, disease and sustainable development. After three years, these leaders stand exposed in the graveyard of broken promises.

Though a new grouping of G5 countries, including India, China, South Africa, Brazil and Mexico, is being co-opted into the periphery of the G8 summits, the G5 countries too have failed to influence the agenda or outcome of the G8 process. It is high time the G5 countries pondered the very validity of being on the periphery of the G8 summit. Are they doing anything more than legitimising the agenda of the rich and powerful countries? Instead of playing second fiddle to the rich American-European axis and a co-opted Japan, the G5 should explore the option of reviving the G20 process as an alternative to discuss and adopt collective measures. This requires fresh imagination and political will from the G5 leaders.

The Hokkaido summit happened in the midst of an international policy and political crisis. Though G8 leaders claim that it is a grouping of democratic and developed nations of the world, the irony is that it is one of the most undemocratic of global processes. The leaders discuss neither the key issues in their parliament nor involve citizens or civil society in setting the agenda for the meeting. The public rating of many leaders, including George Bush and Yasuo Fukuda, is at the lowest. The fact that G8 summits are held in faraway luxury resorts, fearing citizens' and people's action, shows that they are insulated from the people and processes of democratic culture. This year, an estimated US$ 250 million was spent by Japan for security alone. The leaders addressed the press through video conferencing facilities rather than facing the journalists. Why should the "leaders of the world" be afraid of people on whose behalf they are supposed to take decisions? Such a situation seems to indicate their lack of democratic credentials and legitimacy to represent the peoples of their countries or to take decisions on their behalf. Authority without accountability and transparency is essentially undemocratic in its very content and form. So the G8 summit itself failed to meet any standards of democratic or accountable governance.

Only three short years after the G8 pledged to "make poverty history" at Gleneagles in 2005, spiraling food and fuel prices are making poverty in large proportions. The G8 has done nothing to stop it. The ranks of the hungry have swelled to 950 million this year and it is estimated that another 750 million are now at risk of falling into chronic hunger. As many as 1.7 billion people, or one of every four persons in the world, may now lack basic food security. In fact the so-called food crisis is a symptom of a deeper crisis of finance capital and speculative commodity markets. Over the last 20 years, most of the marginal farmers and small agricultural producers have been slow-poisoned through systematic withdrawal of support systems and subsidies, as a part of the neo-liberal structural adjustment programmes imposed on the developing world and poor countries by the G8 force and WB/IMF as their extension services. The climate crisis was used as an opportunity to subsidise rich farmers through biofuel subsidies. Rising food prices are driven partly by the new appetite for biofuel energy. The corn needed to fill a car tank with ethanol could feed a hungry person for a year. This in effect makes biofuel the new poison that can undermine the food security of millions of people and steal their food and lives. It is imperative to stop all subsidies for biofuel, primarily by the US. It is important to declare a moratorium on the diversion of agricultural land for biofuel monocropping. However, it is appalling to see the evasive tactic of G8 leaders on the issue of biofuels perpetuating food insecurity and crisis.

Though there has been lots of discussion about climate change, G8 leaders simply failed to walk their talk. The G8 countries' failure to reduce greenhouse gas emissions is already wreaking havoc on agriculture through severe floods, droughts and rising temperatures. The carbon dioxide emissions from G8 countries make up 40% of the world's total emissions. And yet only 13% of the world population lives in G8 countries. Not only are G8 countries responsible for large-scale pollution, they are also failing to compensate poor countries that are bearing the brunt of the G8 countries' dirty emission. Though G8 countries have promised that they will reduce emission by half by 2050, that is too distant a commitment to meet the challenge. So the promise of 2050 is more an escapist stalling tactic than a real commitment to act upon the climate crisis. While the environmental and economic viability of nuclear power generation is increasingly questioned in their own countries, it seems G8 is once again pedaling nuclear power generation as a response to the climate crisis. When we locate this in the context of the proposed civil nuclear deal between India and the US, it is clear that many of the G8 countries seem more keen to market their old nuclear reactors to emerging markets such as India.

The Hokkaido G8 summit was more regressive than progressive. The final communiqué thoroughly exposed the lack of policy or political imagination of the G8 leaders. The communiqué also signified their lack of political will and the deficit of moral and political legitimacy to act as the leaders of the world. So the pertinent question is whether G8 is a part of the problem or a part of the solution. The Hokkaido summit seems to suggest that G8 is more keen to remain a part of the problem. The world requires more accountable, imaginative and multilateral processes to address the issues of injustice, poverty and environmental crisis. The answer should lie more in reforming the multilateral United Nations process, rather than this quasi-global governance posturing of the G8 leaders.

"The world requires more accountable, imaginative and multilateral processes to address the issues of injustice, poverty and environmental crisis. The answer should lie more in reforming the multilateral United Nations process, rather than this quasi-global governance posturing of the G8 leaders"

This article was originally published in InfoChange News & Features, July 2008.

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Highlights of "Budget 2008-09: As If People Matter"

-Bhumika Jhamb

Centre for Budget and Governance Accountability, for the third successive year, organised the Panel discussion titled "Budget: *As If* People Matter" at the Amphitheatre of the India Habitat Centre, New Delhi on 1st March 2008. The focus of this year's panel discussion was on Union Budget 2008-09, which had been presented in Parliament the previous day, i.e. on 29th February 2008. This much awaited and eagerly anticipated event has become unique for the fact that it discusses the Union Budget from the common man's perspective and not from the viewpoint of the corporate sector or stock markets.

The participants for the event comprised not only people from various civil society organizations but also a large number of students and research scholars from colleges, educational institutes and universities in New Delhi. There were a fair number of media professionals and government officials making it a diverse group of more than 300 people. The panelists included eminent personalities from the fields of politics, media and academia. They were Mr. Digvijay Singh, Ms Amarjeet Kaur, Mr. Nilotpal Basu, Dr. Subhashish Gangopadhyay, Mr. Anil Padmanabhan, Prof. Jayati Ghosh and Dr.Praveen Jha. The moderator for the discussion was Dr. Yogendra Yadav.

Yogendra Yadav (member of the faculty at Centre for the Study of Developing Society, New Delhi), the moderator of the session, kicked off the discussion by congratulating CBGA for not only being able to get a person from the Ministry of Finance on the panel but also an affirmative reply from a member of the opposition party (BJP) to be part of the panel, although the latter could not attend the panel discussion due to some unavoidable circumstances.

Dr. Praveen Jha (noted economist and Honorary Advisor to CBGA) set the tone of the discussion by his initial remarks on the Union Budget 2008-09. He maintained that although like several other budgets of the previous years, this year's budget too had some plus points as well as some major shortcomings which needed immediate attention. He stressed on the shrinkages in allocations for various critical sectors and drew attention to the huge amounts of tax exemptions being given which was actually more than the value of tax collected.

HIGHLIGHTS OF WHAT THE PANELISTS HAD TO SAY ON UNION BUDGET 2008-09

First Set of Panelists: Political Leaders

1. Mr. Digvijay Singh, General Secretary, All India Congress Committee (AICC)

- While accepting the failure of the Government in power to meet the targets set by the National Common Minimum Programme, he defended the Government by emphasizing the operation of it under certain parameters. While highlighting the significant amount of allocations made under *Backward Regions Grant Fund* and the *National Rural Employment Guarantee Scheme* (NREGS) by the Government, he underlined the necessity of balancing the recession in the global scenario (the implications on the manufacturing sector) and the spending on the social sectors.

- On the issue of allocations from the States' perspective, he strongly held that unlike earlier, now the State Governments were flush with funds and the issue thus, was not the stagnancy in the Central Assistance to the State Plans but the need for a larger untied fund from the Centre to States which would enable them to innovate based on local needs. Further, he emphasized the need to closely monitor the Scheduled Caste Sub Plan for SCs and Tribal Sub Plan for STs, citing examples of diversion of funds under these Plans.

- As a response to the questions raised on loan waiver for farmers and the failure of the Government to address the real causes underlying farmers' suicides, he maintained that the major challenge and the most important cause of farmers' suicides was ecological deprivation. He further added that the Government's announcement of the loan waiver was not an election gimmick but the result of the several studies conducted during due course to understand the reasons for farm crisis. On the issue of non-formal lending, he held that the issue of money lenders was a State subject and various States had enacted their respective Money Lending Acts.

'The Government has made significant allocations for BRGF and NREGS. We need to balance the recession in the global scenario and spending on social sectors...'

Digvijay Singh

2. Ms. Amarjeet Kaur, Secretary, All India Trade Union Congress (AITUC)

- Taking on from the report released by CBGA and agreeing to the analysis done by the Centre, the well known trade unionist stressed the exclusiveness of the common man in the latest Budget. She emphasized that the processes and methodologies which should have been adopted to make the Budget inclusive were largely missing. She also strongly asserted that the Government had given no attention to Arjun Sen Gupta's Report which was the prime reason behind the exclusion of *aam aadmi* in the Budget.

- She highlighted the absence of any employment generation measures in the Budget. Here, she mentioned the fact that thousands of students who had already taken loans from the Central Government for higher studies were actually being reduced to slaves or made bonded labourers. Budget 2008-09 was again making additional provisions for such loans but offered nothing for creation of employment.

- Further, she held that the Government's recommendation of 12 hours as a norm for working hours was an attempt to undo the gains by the labour movement in India.
- Calling the step taken by the Government for farmers as a one-time waiver, she criticized the Government for not doing anything to address the real causes responsible for the indebtedness of farmers.

'Budget 2008-09 does not offer anything new. Whatever was done in the past years has been repeated this year too....there is no innovative thinking gone in the Budget. The announcement made by the Finance Minister is just a one time waiver which has not touched the real causes of crisis ridden farmers'

Amarjeet Kaur

3. Mr. Nilotpal Basu, Member of Parliament and Senior Leader, Communist Party of India- Marxist (CPIM) Nilotpal Basu's response to the Budget 2008-09 has been given below in the form of two observations:

- He underlined the fact the budget was as much a political exercise as it was economic. Therefore, media addressing this budget as a *Political Budget* would not explicitly qualify Budget 2008-09.

- Secondly, he held that the Budget 2008-09 revealed a clash of paradigms; that of a Finance Minister of a coalition Government committed to a Common Minimum Programme and a Finance Minister deeply committed to an extraneous consideration called the economic reforms.

Second Set of Panelists: Economists

1. **Dr. Subhashish Gangopadhyay** (noted economist & Economic Advisor to the Finance Minister, Government of India)

- He drew attention to the component of Skill Development and thus the formation of the Skill Development Corporation as a major highlight of the Union budget 2008-09, which he felt was not pointed out by majority of the people.

- He strongly asserted the need to do a lot for healthcare in India. He propagated a mix of Public and Private whereby the former could be largely be meant for 'preventive' and the latter for 'care'. He also maintained that the most important question to be raised pertaining to health services was whether the private resources were being harnessed in an appropriate manner.

- On allocations on education and health, he held that since education and health were

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State subjects, Centre did not have much control on the delivery of such services. Moreover, according to him, owing to underspending by the States, allocations made were sufficient. He held that the percentages of allocations as a proportion to GDP did not have any meaning as well as highlighted the fact that quality of services was critical.

'I don't have any calculations on how much should be spent on education and health…what is important is every child should go to school…we need to do a lot more for health care services'.

Subhashish Gangopadhyay

2. Mr. Anil Padmanabhan (Bureau Chief, Mint)

- Taking the stand from the media, Anil Padmanabhan strongly held that the Budget 2008-09 was much more political than the earlier budgets of the UPA Government.
- Agreeing with Subhashish Gangopadhyay, he maintained that since a lot more emphasis was laid on tax exemptions benefiting the middle class and the loan waiver for farmers, the component of skill development got underplayed, which was rather the most important one in the Budget.

'Budget is a macrostatement, and thus anyone who is looking for specifics would be certainly disappointed'.

Anil Padmanabhan

3. Prof. Jayati Ghosh (noted economist & member of the faculty at Centre for Economic Studies & Planning, JNU)

- Jayati Ghosh reiterated the failure of the Government to fulfill its promises made in the NCMP. Here, she emphasized that the spending on education was higher in the NDA regime than it is at the present level.
- Responding to Digvijay Singh's stand on underspending by states and thus sufficient allocations, she stressed the rigidity and timing of transfers from the Central Government to the States and held that the reduction in allocations owing to underspending was thus a convenient way to cut spending on critical sectors. She also pointed out the fact that although we could forget the percentages of allocations as highlighted by Subhashish Gangopadhyay, still, doubling the spending on health and education was the minimum required.
- Finally, she criticized the Government of passing the Fiscal Responsibility and Management Act and the Government's rigidity of complying with FRBM targets.

'The allocation for expansion of strengthening of PDS is a mere 48 crore. Such amount is used for holding international seminars nowadays…I want to highlight the stupidity of FRBM Act. There are actually two khatas…due to which the deficit figure quoted by the Finance Minister is not a correct one'.

Jayati Ghosh

Dr. Praveen Jha in his concluding remarks said that there was no fiscal profligacy in the Budget 2008-09. He held that *if anything was there, it was fundamental fundamentalism*. Although, in absolute terms, allocations were increasing, as proportion of GDP, the percentages were decreasing.

Yogendra Yadav rounded the event by applauding the effort of CBGA and recommended that this healthy practice of questioning and answering (transparency and accountability) should be continued in the future.