Budget TRACK

Volume 4, Track 2, February 2007

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Foreword

The current financial year (2006-07) has generated a lot of debate on various important economic policies being pursued and implemented. From the perspective of the poor and marginalized sections of the society, implementation of National Rural Employment Guarantee Scheme (NREGS) and setting up of Special Economic Zones (SEZs) are two most important developments being closely monitored for their implications on these sections. Apart from these, the Approach Paper to Eleventh Five Year Plan also generated tremendous debate within and outside the Government and notably, the central focus of these debates was on the Fiscal Responsibility and Budget Management Act. The arguments essentially revolved around the constraints imposed on the Governments at various levels to undertake development expenditure (largely Revenue Expenditure in nature) by this law.

This issue of the Budget Track (Volume 4, Track 2) discusses many such important and timely issues that have come up at this stage and have significant bearing on the poor and marginalized people. The regular column on Budget and Policy Tracking of the Union Government briefs the developments that have taken place in the realm of Budget and Public Policy during the last quarter of the financial year 2006-07. Added to this, the present issue tracks the critical issues in implementation of NREGA. A comprehensive analysis of the developments on the SEZs front is also being presented in this issue. Last but not the least, the panorama of the People's Budget Initiative - a pre budget national convention conducted by a coalition of numerous civil society organisations leading to the preparation of people's charter of demand for the Union Budget 2007-08 - has also been duly summarized in this issue.

We hope the contents of the present issue would collectively reflect the voices of the marginalized sections of the society and strengthen the civil society movement in empowering such people.

IN THIS ISSUE

[Views expressed in the articles are those of the authors and not necessarily the position of the Organisation]

Its an old proverb that, 'Budget is just a method of worrying before you spend money, as well as afterwards'. The proverb can be accepted partially, since in reality 'Budget' is something more beyond money. The numbers and words within it speak for themselves, reflecting the vision & mission of the policy makers that shall stir the economy and the daily life of the masses. It's once again the time to revisit the agenda of the ruling coalition on the part of the state and for the people to put forward their agenda in the forthcoming budget session. For the UPA it's high time to review the NCMP and mobilize resources and willingness for the yet unfulfilled promises. To mention few of them we can site the example of the Right to Education Bill with suggested amendments & allocation of 6% of the GDP to Education, allocation of 3% of the GDP to Health, etc. The issues are widely discussed in several other publications of CBGA & by many other civil society organisations. Therefore, in this section dealing with the budget & policy tracking of the union government, we shall try to briefly highlight some of the relevant policy issues (for example-SEZs, FRBM Act, FDI in agriculture, Outcome Budget etc.) concerning the Indian economy, at the current juncture.

Budget and Policy Tracking of the Union Government

- Debdulal Thakur

THE ONGOING DEBATE ON SPECIAL ECONOMIC ZONE (SEZ)

BACKGROUND

Special Economic Zones (SEZs) are geographical regions that have economic laws different from a country's typical economic laws. The goal is usually an increase in foreign direct investment (FDI) in the country.

Traditionally SEZs are created as open markets within an economy that is dominated by liberal trade policies, which often are partially or loosely controlled by the government. SEZs are believed to create a conducive environment to promote investment and exports. And hence, many developing countries are developing the SEZs with the expectation that they will provide the engines of growth for their economies to achieve industrialization. To achieve its three-fold objective of attracting FDI, increasing exports and accelerating the country's economic growth, the Government of India announced the introduction of SEZs in its Export-Import (EXIM) Policy in April, 2000.

Box 1a: The Export-Import (EXIM) Policy (1997-2002) introduced a new scheme from April 1, 2000 for establishment of the Special Economic Zone (SEZ) in different parts of the country.

As per the policy-

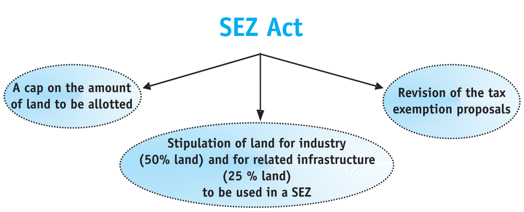
1. SEZs are permitted to be set up in the public, private, joint sector or by the State governments with a minimum size of 1000 hectares.
2. A number of incentives both fiscal and non-fiscal has also been extended to the units operating in SEZs.
3. Several measures have been adopted to improve the quality of local governance of the zones. As for example, relaxation in the conditions for approval process and simplifying custom rules.
4. Development Commissioners have been given the Labour Commissioner's powers. SEZ policy is thus the most significant thrust towards ensuring the success of export processing zones.
5. From November 1, 2000 the Export Processing Zones (EPZ) at Kandla, Santa Cruz (Mumbai), Cochin and Surat have been converted into SEZs.
6. In 2003, other existing EPZs namely, Noida, Falta, Chennai, Vizag were also converted into SEZs.

As on June 2005, 53 SEZs have been approved by the Government of India (GoI) out of which 11 SEZs are functional and the rest 42 SEZs are under establishment. According to the SEZ Act 2005, the GoI has proposed that multi-product SEZs must have an area of atleast 1,000 hectares, while sector-specific zones including ports and airports must have a minimum area of 100 hectares. However, the area norms for multi-product SEZs in the northeastern states like Assam, Meghalaya, Nagaland and the states of Jammu and Kashmir, Himachal Pradesh and Uttaranchal have been limited to 200 hectares and 50 hectares in the case of sector-specific SEZs.

Source: Special Economic Zones – Engines for Growth, May 2006. Website of the Confederation of Indian Industries (www.ciionline.org)

CHALLENGES

The typical arguments provided by the state had shortcomings. A rational mind perhaps would argue for the path of policy initiatives that fulfill the twin objectives of growth along with development. Perhaps that could have been the underlying point from where the debate regarding the SEZs germinated. It was the left parties, *Janmorcha* and several other political think tanks that raised some crucial & critical issues that could not be bypassed in any way before coming to any policy conclusion. The Act and the Rules for the SEZs requires large tracts of land to be acquired and handed over to promoter companies. These as has been proposed by the academicians & many civil society organisations, are going to lead to large-scale displacement of farmers with meagre compensation and no alternative means of livelihood. On the flip side, investors and the land speculators identified it as a cheap and dearer way to make their fortunes out of real estate development and speculation. Indiscriminate approvals for SEZs have serious implications for agriculture, food security, the interests of farmers and economic sovereignty. **Thus, the upcoming voices from several political parties and civil society organisations for changes in the Special Economic Zones (SEZ) Act and Rules are summarised in the following diagram –**



THE EVOLUTION OF SEZs

In this regard, it is to be noted that the Commerce & Industries Ministry, the strongest proponent of the SEZs clearly asserts in its official website that, **'SEZs are about infrastructure creation' and clarifying the statement bit further it states that 'infrastructure is not only roads, ports and airports but also workplaces like industrial parks and Information Technology parks'.** In this document, it also emphasises the importance of social infrastructure constituting housing facilities etc. Whereas, the Finance Ministry argues that the way SEZs are designed would cause a revenue loss of over Rs.160, 000 crores by 2010. Apart from these issues of fiscal considerations, the more fundamental issue that has been highlighted is regarding government's intervention in acquiring land for private projects. Added to this are the issues related to adequate steps to compensate and rehabilitate the displaced people by amending The Land Acquisition Act suitably for this, along with considering the coverage of farmers and allied agricultural workers. It has been proposed that the SEZs should be set up only with the approval of the State governments. Also, among the right wing parties there remains considerable concern regarding a significant revision of land acquisition norms in the SEZ Act, for protecting the interests of farmers whose land is diverted to non-agricultural uses. The debate has gained momentum when there are strong common opinions to put the farmers as "stake-holders" in the activity undertaken on the land acquired from them. Industry requires land no doubt, but certainly not at the cost of diverting prime agricultural land to non-agricultural uses. Clearly, keeping in view the agri-dominance in our country the proposal of implementing the needed SEZs must be done without jeopardizing our agricultural prospects.

Now, one of the arguments that was proposed on the part of the State governments in favour of SEZs is providing the farmers with proper compensation when their land is purchased. In this regard, Minister for Industries, Government of West Bengal mentioned that land acquisition for SEZs is unavoidable, but it is the state government's effort to ease the pain through a generous compensation package. He stated that

Budget and Policy Tracking of the Union Government

"the Finance Ministry argues that the way SEZs are designed would cause a revenue loss of over Rs.160, 000 crores by 2010"

Box 1b: **The SEZ Chronology:**

In 2000 the then Union Minister for Commerce, was impressed with existing structure of SEZ in China during his visit to China.

The ministry announced a similar policy statement for India in April 2000. Incorporation of guidelines for SEZs in the EXIM policy of 1997-2002.

SEZ Act was passed by the Parliament in March 2005. Further the rules to the Act were notified in February 2006.

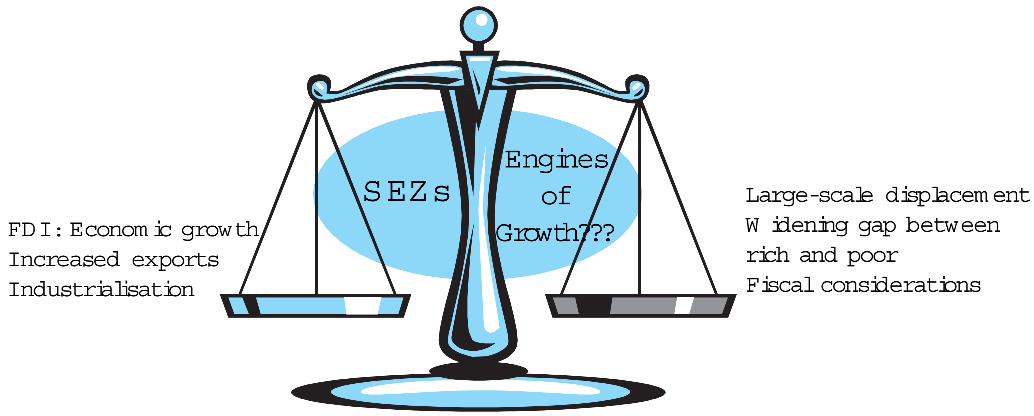
The Board of Approvals, in its first meeting (March 2006) cleared 148 of the 166 proposals before it.

apart from the statutory provisions, i.e. market value of the land and 30% solatium, the state government has given an additional incentive of 10% to landowners who have given up their land willingly. He added that, there is also a 12% interest on the total value of the land for the interval between the issue of notification and the final transfer (*Frontline*, October 20, 2006).

On the other hand, one must also agree that the fundamental & also operational problems related to the SEZs are not encaged within the boundaries of the use of land and the displacement issue. Rather, in terms of its larger goals (viz: export led growth, manufacturing-led growth and employment-led growth) the SEZ agenda needs more clarity. At the same time, creating so many SEZs would seem to exacerbate widening inequality in India – both in terms of individual income and national infrastructure. There are instances in the recent past about how the initiative of isolated areas of development has hardly benefited the broader economy. **Destroying valuable agricultural plots seems especially ill-conceived, as farmers are not likely to make an easy transition to the jobs at offer at the SEZs.** Therefore, to have a trickle down effect of the developmental moves we must reconsider our age-old resettlement and rehabilitation policies, which must be strengthened and implemented in an effective and credible manner, which will inspire confidence in the people who are displaced.

"creating so many SEZs would seem to exacerbate widening inequality in India – both in terms of individual income and national infrastructure"

Weighing the pros and cons



Special Box I: Special Economic Zones (SEZs): Whither Nationalism!

Whither nation state and welcome to 'Company Raj'.

In the last decade of the twentieth century, amidst the upheaval of crumbling ideologies and collapsing political structures; the idea of nation state, fuelled by chauvinistic nationalism, seemed to have become more resilient. In-fact, the construct of nationalism and nation state appeared to be gaining strength with a wave of ethnic and religious nationalism.

However, political commentators and observers completely underestimated the power of imperialist globalization in undermining even the most powerful structures for expanding and fulfilling the interests of global capital. This neo-liberal march has even punctured an emotive and powerful construct like nation and nationalism by introducing Special Economic Zones (SEZs) as means of 'reforming governance' and 'economic development'. Government of Maharashtra defines SEZs as 'specifically delineated duty-free enclaves treated as foreign territory'. Needless to say in this newly evolving architecture there is no place for notions of social justice and inclusive equitable economic growth.

This is a global phenomenon and the story unfolding in India is one such stark case in point. Till now India has formally approved the creation of more than 150 SEZs, of these just six big corporate houses would gobble around 1,30,625 acres (737 Sq Km) of land-which would be enough to build a city bigger than Mumbai. The number of people displaced or losing their livelihood is no more relevant, even as a statistical footnote amidst the growing enthusiasm for SEZs. Not so surprisingly, the smug Indian middle classes and the political elites are not protesting against this creation of 'foreign territories' within India.

The creation of SEZs is a not so subtle euphemism for shameless land-grab by private interests. It is a harsh story of brazen conversion of public resources into private profits, while the State plays the role of a proactive facilitator of this process. As if the illegitimate land grab is not enough, the government promises to provide huge tax exemptions and benefits for SEZs with a commitment for world-class infrastructural support. Paradoxically, the same government is unable to provide basic services like education, health and safe drinking water to majority of this country, where still more than one-fourth of the population sleeps hungry without three square meals a day.

– Amitabh Behar, Executive Director, NCAS-CBGA

FDI IN AGRICULTURE

BACKGROUND

Two thirds of India's population lives in rural areas. Agriculture and related activities are the main source of livelihood for them. The process has been further facilitated through new agricultural techniques and tools acquired by Indian farmers, mechanization, use of high yielding varieties of seeds, increasing use of fertilizers and irrigation facilities, on-going operational research in the country's numerous agricultural universities and colleges, etc.

But still **with the 'opening up' of the agricultural and plantation sector of our economy to 100 per cent FDI by merely shifting 'residual items' like agriculture and plantations to the 'automatic list' is a matter of deep concern. Automatic list refers to those items listed (e.g. cars & motor vehicles, fertilizers & pesticides etc) for the inflow of FDI where the FDI can be channeled through the 'automatic route' (i.e. no general rule of prior permission from the government regarding the investment is required)**. The only prior requirement is that the investors have to inform the Reserve Bank of India (RBI) thirty (30) days in advance to their investment or issuing of share. On the other hand, residuals list covers those left out items from the automatic list for which there is a cap on FDI limit (e.g. Defense) and for those items for which FDI is strictly prohibited. So far, items like agriculture plantations (excluding tea plantation), retail trade, gambling was kept out of the ambit of the automatic list.

Box 1c: The Present Policy on FDI in Agriculture & Plantation

1. FDI up to 100% is permitted under the automatic route only in the under-mentioned activities viz. Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture and Cultivation of Vegetables & Mushrooms, under controlled conditions and services related to agro and allied sectors.
2. FDI up to 100% with prior Government approval is permitted in Tea plantation subject to the conditions of divestment of 26% equity of the company in favour of an Indian partner/ Indian public within a period of five years; and prior approval of the State Government concerned in case of any future land use change.
3. Besides the above two, FDI is not allowed in any other agricultural sector/activity.

The above information was provided by Dr Ashwani Kumar, Minister of State for Industry in a written reply in Rajya Sabha on 23rd August 2006.

Source : www.commerce.nic.in

CHALLENGES

The importance of the agricultural sector must not be undermined since it contributes almost 62% of the employment in India. But, when the government suddenly decides to replace major components of the same to the automatic list, then debate and clarity for proper understanding of the policy is inevitable. It is to note in this regard that the Group of Ministers (GoM) on FDI, while considering the proposal for review of FDI policy in January 2006 recommended, inter-alia, the proposal to remove agriculture and plantation, with exclusions, from the list of prohibited activities, and recommended listing out the permitted activities in these sectors under the sectoral policy. **Moreover, no recommendations were made by the GoM to open up for 100 percent FDI through the automatic route to agriculture and plantation sector** as reported in *Business Standard* dated *July 12, 2006*. However, the Group of Ministers recommended amendment to the permitted activities as incorporated in Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, amended on 18/6/2003, by inclusion of 'Aquaculture' and deletion of 'etc' appearing after the word 'mushroom' (*GoI Press Release, August 01, 2006*). However, these recommendations of the GoM headed by the agriculture minister seem to shrewdly bypass the existing Foreign Exchange Management Act (FEMA). FEMA states that a person of Indian origin, resident outside India may transfer any immovable property in India other than agricultural land/farm, house/plantation property, by way of sale to a person resident in India. Further, the same is valid when one considers the transfer, by way of gift or sale to a person resident in India, who is a citizen of India. Therefore, to take such a decision in hush-hush is a matter of serious concern, especially for sensitive sectors like agriculture.

FISCAL SITUATION

BACKGROUND

The Union Budget 2006-07, taking forward the fiscal consolidation stipulated under the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004, projected the revenue deficit and gross fiscal deficit at 2.1 per cent and 3.8 per cent of GDP, respectively, lower than that of 2.6 per cent and 4.1 per cent of GDP in the revised estimates for 2005-06. The Budget envisaged revenue-led correction along with reprioritization of expenditure to augment allocations for improvement in the social and physical infrastructure particularly in the rural areas. Available information on Central Government finances during April-May 2006 indicates buoyant

"The only prior requirement for FDI in agriculture and plantation is that the investors have to inform the RBI 30 days in advance to their investment or issuing of share" tax collections, particularly in respect of corporation tax, personal income tax and customs duties. Union excise duties, however, declined during April-May 2006 over their level a year ago. Non-tax revenue showed improvement mainly on account of returns from economic services. Aggregate expenditure during April-May 2006 registered substantial growth on account of increase in interest payments, food and fertilizer subsidies, grants to States and higher non-defense capital outlay. Accordingly, all the key deficit indicators, as proportion to budget estimates, during April-May 2006 were placed significantly higher than their levels a year ago.

INITIATIVES TAKEN

The State budgets for 2006-07 proposed various policy initiatives to carry forward the process of fiscal correction and consolidation. **The States have emphasized fiscal empowerment through broad basing and rationalization of the tax system. In order to improve the accountability of budget proposals, some States have proposed to introduce 'Outcome Budget', following the pattern of the Central Government. Furthermore, many State Governments have proposed to introduce 'Gender Budgeting'. A number of States announced introduction of new pension schemes based on defined contribution to restrict their rising pension obligations. Further, the so called progressive enactment of Fiscal Responsibility Legislation (FRL) to put in place a rule-based fiscal policy at the State level (22 States as at end-March 2006), as proposed by the Twelfth Finance Commission also needs to be scanned, since it seems to bring much vulnerability to the State' exchequer.**

"all the key deficit indicators, as proportion to budget estimates, during April-May 2006 were placed significantly higher than their levels a year ago"

THE FRBM DEBATE: A SHORT REVIEW

BACKGROUND

The Fiscal Responsibility and Budget Management Act (FRBM Act) was enacted by Parliament in 2003. It received the President's assent in August the same year. The United Progressive Alliance (UPA) government had notified the FRBM Rules in July 2004. Under this Act, the Government is required to bring down revenue deficit to zero by 2007-08. **To understand the mechanism, let's consider a simple example of family budgets. If a family spends more than it earns, the extra must be borrowed, and paid for with interest. It's a lesson that is seldom honoured by governments, since the elected representatives i.e. the politicians are much eager to spend more at the present time even through borrowing and thus, let the repayment costs pass on to future generations to whom they are not accountable.**

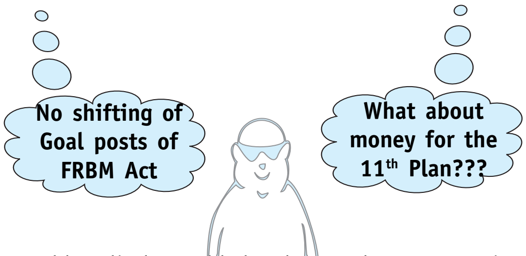
ARGUMENTS AND CHALLENGES

Now arises the problem. Consider, in reality large number of elected representatives spending a huge sum of money over a wider time frame, eventually the repayment problem can no longer be put off to the future. Rather, it must be addressed at this present point of time. This is roughly the situation under which Parliament passed the FRBM Act. As a matter of fact, after decades of spending more than what could be paid for by the revenues of the government, the bill for the interest on those borrowings alone has risen to exorbitant levels. **In the 2004-05, Finance Minister Mr. Chidambaram presented the budget outlay of about Rs.130, 000 crores. This amount was used to pay the interest on outstanding loans. It's alarming since this huge sum of money was proposed to be used as the payment for not the principal, but the interest! Imagine, if the money could have been spent on schools, hospitals, and all those other social services and necessities that people expect in the form of public provisioning. But then, by the time the interest is paid, and all the needed and essential expenses required for running the state are also disbursed, the share of cake that is left over for spending on programs for those needed social services are inadequate.** Therefore, in a line what

Box 2a: Glossary of terms used:

1. A region's **Gross Domestic Product**, or GDP, is one of the several measures of the size of its economy. The GDP of a country is defined as the money value of all final goods and services produced within the country in a given period of time. GDP = consumption + investment + government spending.
2. **Balance of Payments (BoP)** measures the payments that flow between any individual country and all other countries. The **current account** of the balance of payments is the sum of the balance of trade (exports less imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). **A current account surplus** increases a country's net foreign assets by the corresponding amount, and a **current account deficit** does the reverse.
3. **Revenue deficit** is the gap between **revenue expenditure** and **revenue receipts**. It is therefore the borrowing undertaken to meet the current needs of the Government.
4. **Fiscal Deficit** of the Government is the gap between its total expenditure (including loans net of repayments) and its sum total of non-debt creating receipts. Thus, fiscal deficit indicates the total borrowing requirements of the Government in a particular year. [Fiscal Deficit = Total Expenditure – (Revenue Receipts + Recoveries of Loans + Other Capital Receipts excluding debts)].

this all means is that, it's high time to design mechanisms for expenditure management or in other words to squeeze the flow of expenditures, and raise more money on the revenue side to reduce the deficit. These lines of arguments initiated a debate between the Finance Minister, Mr. P. Chidambaram, and the Deputy Chairman of the Planning Commission, Dr. M. S. Ahluwalia.



Dr. Ahluwalia has said that he was keen on getting more money for the 11th Plan rather than belt-tightening to meet fiscal deficit targets. On the other hand, Mr. Chidambaram does not favour the shifting of goalposts of FRBM Act in order to provide more resources for the 11th Plan as suggested by the Commission. Under the FRBM Act, the government has reduced fiscal deficit by 0.3% and revenue deficit by 0.5% of Gross Domestic Product (GDP) annually in a bid to wipe out revenue deficit and bring down fiscal deficit to 3% of GDP by 2009. The mercury soured when, on August 14, Chidambaram wrote to Ahluwalia questioning the fundamental assumptions of the approach to the 11th Five-Year Plan. In the letter, the Finance Minister has said that his ministry does not accept the Plan Panel's view that the burgeoning Current Account Deficit will hinder economic growth and questioned the logic that poor demand will inhibit farm growth. The most important objection, and perhaps the binding one—given that Chidambaram holds the purse strings, is his objection to the proposal to shift FRBM targets. **Now the question is whether the Indian Economy has to pay, if at all, for shifting the FRBM targets, and if so to what extent? Further, supposing that the above proposition is true and the shifting of the FRBM targets does cost the Indian Economy at large, do the benefits from higher public spending outweigh these costs?**

Observers defending the finance ministry argue that higher GDP growth in the last three years has come from higher investment. In the period from 2001-02, there was an increase in the investment rate by 7% (rose from 23% in 2001-02 to 30.1% in 2004-05) of GDP. This investment was financed by a rise in both the gross savings rate and net capital flows from abroad. The component of savings that showed the most remarkable swing was public savings achieved by fiscal consolidation at both the state and central levels. In 2001-02, the public sector as a whole accrued losses of Rs 46,377 crore. In 2004-05 the government and public sector enterprises saved Rs 69,390 crore. This signifies that there was a shift in public sector savings from a negative to a positive (2.2%) percentage of GDP. Further the combined revenue deficit and fiscal deficit is estimated to fall during the coming years. Therefore, from the standpoint of the finance minister shifting FRBM targets, as proposed by the approach paper, would mean decreasing public savings. If the current account deficit rises by say, 1% to 1.5% from the present 1.3%, it can finance an additional 1% to 1.5% of investment. **A current account deficit of over 3 % may not be sustainable. Precisely the ministry argues that, shifting FRBM targets would mean lower investment and lower growth. However, the finance ministry maintained a silence about the more substantive problem of hidden or a disguised leakage in spends occurring under the aegis of plan programmes.** Additional 1 to 2.5% of GDP would be required to be spent on the NREGA, health, education and irrigation. The paper refers to a *Pratham* study (Annual Status of Education-Rural 2005) highlighting the fact that **38 % of children who have completed four years of schooling cannot**

Special Box II: Wrinkle of Fear

In the ongoing winter session of the parliament' The India Post Amendment Bill'06 was tabled on the Rajya Sabha. This proposes to render exclusive rights to 'India Posts' (the new name of our neighborhood post offices) to carry and deliver letters weighting up to 300 grams. Naturally, given that the letters are a stronghold of the courier business, the private courier operators, mostly small & medium enterprises (SMEs) are forced to face serious challenges for their existence. Apart from investing high for on all India coverage, there remains further challenge for gathering enough funds and invest them for building proper infrastructure for timely delivery. The interesting fact is that, according to a recent study by Credit Analysis & Research (CARE) advisory, the size of the Indian express industry is around Rs.7100 crore with 2500 players, derived from their service tax payment of Rs.630 crore in 2005-06.Further, almost 70% to 80% of these tax payers are from the SMEs. Therefore, if the bill in its current shape is passed, it simply means a revenue loss of a huge amount and also a reduction of business of 30% to 35% among the semi-organized and unorganized players in various parts of the country. On the flip side, keeping in mind the new cost structure, the rates for courier services may rise, which in turn is sure to affect the consumers Therefore, keeping those views in mind both from the side of the SMEs and the consumers, there certainly remains enough room for dialogue and hence modification of the bill before its is placed in the parliament.

Source: The Economic Times, 17th October 2006.

"38 % of children who have completed four years of schooling cannot read even short sentences and 55 % among such children cannot divide a three-digit number by a one-digit number"

read even short sentences and 55 % among such children cannot divide a three-digit number by a one-digit number. The condition for other subjects can be rest assumed. Though, the study by Pratham has been criticized by some segments of the intelligentsia, but still as a part of the approach paper document it clearly points out the grim pictures of Sarva Shiksha Abhiyan outcomes.

Similarly, the Eleventh Plan Approach Paper notes that rural health care in most states in India is marked by absenteeism of health providers, low level of skills, shortage of medicines, inadequate monitoring and callous attitudes.

The midterm appraisal of the 10th five-year plan remarks ...
"When people first seek treatment, an estimated 70-85 percent visit a private sector provider for their health care needs". It further states that, "the poor avail of the costlier services provided by the private practitioner, even when they have access to subsidized or free public health care, due to reasons of distance, but most importantly, on account of the unpredictable availability and very low quality of health care services provided by the rural public primary health sector."

The approach paper provides solution to these problems in the form of education vouchers or a well designed stick and carrot policy or to empower Panchayati Raj institutions to manage, administer and be accountable for health services in community levels and for alike social sectors. But, as felt by several academicians that considering the complex socio-economic-politico context of India, the feasibility of such solutions are ambiguous. Precisely, the very vision of the Approach Paper to the Eleventh Five-Year Plan, combining innovative financing of infrastructure with a massive decentralized thrust on education, health and agriculture, may be defeated, since they are in effect grants to implementing agencies in states, even though they finance asset creation on ground. **To get over this difficulty, the plan paper mentions that revenue deficits as defined in India are not regarded as essential elements of fiscal responsibility legislation internationally.** Further, considering the global practice of fiscal adjustments, there is a case for redefining the approach to FRBM to conform to global practice in the long term.

"the 11th plan approach paper mentions that revenue deficits as defined in India are not regarded as essential elements of fiscal responsibility legislation internationally"

Lastly, apart from those views mentioned earlier, there remains another group of economists, who do not find any theoretical justification whatsoever for putting a ceiling on the fiscal deficit. **The idea that if it is not monetized, a rise in the fiscal deficit causes a rise in interest rates or inflation sounds irrational. The passion for reducing the size of the fiscal deficit under the above mentioned logic provided by the finance ministry replicates the much-debated colonial policy of 'sound finance', serving sectional interests but which has no rationale as a macroeconomic policy.** It is also clear from the approach paper that the problem is not only the scarcity or bottlenecks in funding, but also mingled with it is the absence of the sense of accountability. The path to better social services outcome starts and ends with appropriately implementing the service delivery mechanisms, and not just by higher spending. The Planning Commission therefore might adopt a stick and carrot policy for any further spending, even by a single rupee on the services/schemes that have stopped working or lacks far behind the desired outcome or output. Till then there may not be sufficient justification for shifting FRBM targets. It's worth mentioning Prof.Prabhat Patnaik's statement:

> *'We do not anyway encourage fiscal irresponsibility, rather, we are trying to emphasize that fiscal responsibility can be enforced only through some meaningful assumptions'.*

THE OUTCOME BUDGET 2006

Recently, the long awaited Outcome Budget 2006 for several ministries has been published. We shall here try to provide a quick summary of some of the major projects/schemes as has been highlighted in the Outcome Budgets under relevant ministries. They are as follows:

A. MINISTRY OF HEALTH & FAMILY WELFARE (MoHFW)

1. **Accredited Social Health Activist (ASHA) under the National Rural Health Mission (NRHM):** The physical output to be delivered was to train ASHA, one for every 1000 population or less / for large isolated habitations in 18 Special Focus States. The outcome budget states that 1 lakh ASHAs have been already selected during 2005-06 and additional 1.5 lakh are to be selected during 2006-07. Further, 4 lakh ASHAs are to be selected by 2007-08. It is also stated that the **risk factors associated with the same is that selection of ASHA is a community based process and the pace of progress is a function of the capacity and extent of participation of the community.**

2. **Routine Immunization of Children (RIC) against six Vaccine Preventable Diseases [VPD] and reduction in morbidity and mortality rate due to VPD was carried out under the National Rural Health Mission**

(NRHM). As per the District Level Household survey of 2002-03, the immunization level of coverage in the country is 47.6 %. On the basis of this, the **physical output is to be raised a minimum of 75 % for each of the antigens, i.e. BCG, DPT, OPV and Measles**. The processes and timelines set for the same maintained fixed days and fixed sites, weekly sessions at the sub-centre and outreach areas with special immunization weeks in the Empowered action Groups (EAG) and North Eastern (NE) States. Nevertheless, **the outcome budget states that vacant posts of Auxiliary Nurse Midwives (ANMs) at the sub centre and District Immunization Officers (DIOs) in the districts are to be filled up** without which it would be difficult to achieve the coverage indicated.

3. **To reduce the incidence of Malaria, the NRHM considered the National Vector Borne Disease Control Programme with a total budget outlay of Rs.378 crore for 2006-07.** The physical output that was proposed to be delivered was maintaining the Annual Blood Examination rate (ABER) at 10 % of target population under surveillance. The projected outcome expected to reduce Mortality by 10%. The processes for the success contained several agendas like fortnightly visits of households by Health Workers, operationalization of at least one Drug Distribution Centre (DDC) / Fever Treatment Department (FTD) per village in high-risk areas, provision of microscopy at sector level Primary Health Centre (PHC), introduction of quality control and assurance for microscopy etc. **Some of the risk factors that have to be addressed immediately for the success of the programme identified in the outcome budget are:**

    filling up of vacant posts of Health Workers for domiciliary visits

    timely release of funds in states for programme implementation

    submission of utilization certificates by states to Government of India (GOI) for timely release of funds

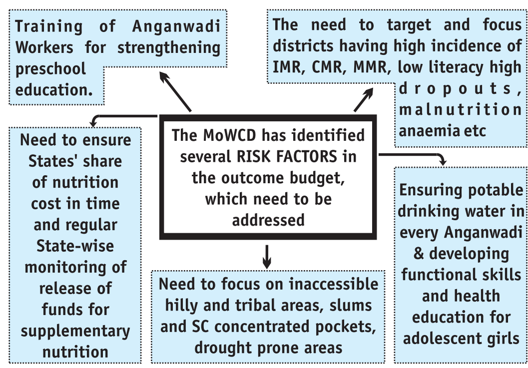
    functional microscopy services etc.

B. MINISTRY OF WOMEN AND CHILD DEVELOPMENT (MoWCD)

The major scheme/ project taken up by the MoWCD is the Integrated Child Development Services (ICDS). The budgetary outlay for ICDS during 2006-07 has been Rs. 4,543 Crore. Considering its utmost importance for the welfare of the target stakeholders, the ministry outlined few physical outputs that it proposes to deliver. They are-

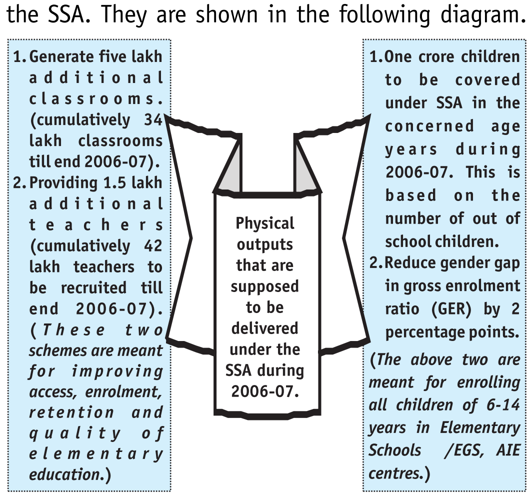
1. **Maintain the number of Operational Projects upto 5635.**
2. **Maintain the number of Aanganwadi centres (AWCs): 7.44 lakh**
    a) Number of beneficiaries: - total: 4,99,04,769; women: 91,49,359; children: 4,07,55,410
    b) Number of children given supplementary nutrition: 4,07,18,734
    c) Number of functionaries trained (job): 8,44,969
    d) Number of 'refresher' trainings: 4,51,349
    e) Number of children attended pre-school: 2,30,87,619.

The projected outcome considering the physical outputs mentioned above are significant. The information gathered by Ministry of Health & Family Welfare states a reduction in Infant Mortality Rate (IMR) / Maternal Mortality rate (MMR) and an increase in number of children enrolled in school (from next year).



C. MINISTRY OF HUMAN RESOURCE DEVELOPMENT (MoHRD)

One of the mega projects of the MoHRD for the universalisation of Elementary Education has been the Sarva Shiksha Abhiyan (SSA). The Budgetary outlay for SSA during 2006-07 has been Rs.11,000 crore. The outcome budget states some physical outputs that are supposed to be delivered under the SSA. They are shown in the following diagram.



Budget and Policy Tracking of the Union Government

"selection of ASHA is a community based process and the pace of progress is a function of the capacity and extent of participation of the community"

Budget and Policy Tracking of the Union Government

“micro loans can be seen as a tool but it should not be romanticized as a form of transformational activity”

Special Box III: Definitely an honour for the developing world, but ...

Prof. Muhammad Yunus and the Grameen Bank, Bangladesh were awarded the Nobel Peace Prize-2006 for their work in advancing economic and social opportunities. The economist and his bank, who will share the prize, were cited for their efforts to help “create economic and social development from below” in their home country.

Yunus used innovative economic programmes such as microcredit lending. “Across cultures and civilizations, Yunus and Grameen Bank have shown that even the poorest of the poor can work to bring about their own development,” the Nobel Committee said in its citation. The committee further emphasized that unless the female half of humanity participates on an equal footing with the male economic growth and political democracy cannot achieve their full potential. No doubt, the honour to Yunus and the Grameen Bank is a salute to the unheard majority of the south.

But there remains a strong range of difference of opinions regarding the validity and sustainability of the process universally. As a matter of fact, only two countries, Bangladesh & Bolivia have successfully implemented the mechanism, at the same time they are the two poorest economies of the globe. Nowadays, several economists argue that micro loans can be seen as a tool but it should not be romanticized as a form of transformational activity. At the end of the day micro loans do not make any macro difference. No doubt those loans have helped poorer women in some parts of the globe but in their own way they are reflections of defeat. Precisely, the trouble with the publicly–subsidized credit programms are that they are public & they are large and run against the mandate of the neoliberal regime.

Therefore, there remains enough room for rethinking the issues from a broader perspective in terms of its viability round the globe as a means to breakthrough the unfreedoms of life.

UNION GOVERNMENT ACCOUNTS AT A GLANCE (AS AT THE END OF DECEMBER 2006)

(Rs. in Crores)

		Budget Estimates 2006-2007* Rs.	Actuals@ upto November 2006 Rs.	% of Actuals to Budget Estimates	
				Current	COPPY**
1	**Revenue Receipts**	**403465**	**280915**	**69.6%**	**(61.7%)**
2	Tax Revenue (Net)	327205	232171	71.0%	(61.7%)
3	Non-Tax Revenue	76260	48744	63.9 %	(61.8 %)
4	**Non-Debt Capital Receipts**	**11840**	**7952**	**67.2 %**	**(61.8 %)**
5	Recovery of Loans	8000	7952	99.4 %	(61.7%)
6	Other Receipts	3840	0		
7	**Total Receipts (1+4)**	**415305**	**288867**	**69.6 %**	**(61.7 %)**
8	**Non-Plan Expenditure**	**391263**	**272203**	**69.6 %**	**(64.2%)**
9	On Revenue Account (i) of which Interest Payments	344430 139823	253791 92634	73.7 % 66.3%	(67.0 %) (60.5 %)
10	On Capital Account (i) of which Loans disbursed	1666 46833	854 18412	39.3 % 51.3%	(40.6 %) (58.5 %)
11	**Plan Expenditure**	**172728**	**111518**	**64.6 %**	**(65.9 %)**
12	On Revenue Account	143762	93901	65.3 %	(64.6 %)
13	On Capital Account (i) of which Loans disbursed	28966 7195	17617 5685	60.8 % 79.0 %	(71.7%) (149.8 %)
14	**Total Expenditure (8+11)**	**563991**	**383721**	**68.0 %**	**(64.6 %)**
15	Fiscal Deficit (14-7)	**148686**	**94854**	**63.8 %**	**(71.7 %)**
16	Revenue Deficit (9+12-1)	**84727**	**66777**	**78.8%**	**(83.6 %)**
17	Primary Deficit {15-9(i)}	**8863**	**2220**	**25.0%**	**(159.1%)**

Notes: **Financial Year runs from* ***“April to March”***
****COPPY**: *Corresponding Period of the Previous Year*
@ Actuals are unaudited provisional figures.
Source: Website of the Controller General of Accounts (www.cga.nic.in)

Guest Column: *Biplove Choudhary*

Special Economic Zones: Padding Gains, Discounting Losses

It's a debate that is unlikely to wind down anytime soon. Since the time the Special Economic Zones (SEZ) Act, 2005 has kicked in, a slew of projections of the costs and benefits are being bandied about with little convergence on what they are likely to achieve. SEZs were China's biggest draw for the foreign investors and are believed to be the key driver in putting the country right on top as the world's biggest recipient of foreign direct investment (FDI). Over the years, inflows of FDI into China have climbed up steeply in sharp contrast to Indian trends. Thus, UNCTAD's World Investment Report 2006, records FDI inflows into China at $72.4 billion in 2005. India FDI's inflows of $6.6 billion barely match up. It has been presumed that SEZ Act may just be the enabling trigger. Export promotion and employment generation through provision of world class infrastructure and a raft of special fiscal provisions including exemptions from customs duty, excise and service taxes, drawback on goods and services supplied to SEZs form key attractions to potential investors and are outlined in sections 26-30 of the Act.

Media reports estimate that around 263 companies have already received formal approvals to set up SEZs and another 169 have been granted clearance in principle by the government. An examination of the bare details available for approved SEZ's reveal that they cover a wide range and include multi product ones to sector specific enterprises such as pharmaceuticals and biotechnology, engineering products, IT/ITES, Gems and jewellery, textiles and electronics. Broadly, SEZs are spread over 15 states including Andhra Pradesh, Maharashtra, Uttar Pradesh, Madhya Pradesh, Haryana, Punjab, West Bengal and Karnataka. Of course, the total number of SEZs as well as their sizes differs across states.

While corporate India is focused on the analysis of the business model and time horizons when profits start pouring in, it is important to touch upon the key issues and concerns which are yet unresolved as the SEZ bangwagon rolls out.

DO WE REALLY NEED TO EMULATE THE MODEL ADOPTED BY CHINA?

The first basic concern relates to its origin, overall philosophy and historical context and whether or not it continues to be relevant today. Simply put, it has been advanced that the Chinese model was necessitated because of the need to create to stringent across the board policy constraints emanating from the insular nature of its economy. SEZs offered a practical option for attracting the Overseas Chinese investors and later MNCs. It is a moot point whether such a need exists in the post reforms Indian economy. Many economists including Prof. Jagdish Bhagwati, feel that the SEZ act has outlived its utility and India does not need to copycat through distortionary incentives and provisions.

HAVE WE FORESEEN THE WIDE RANGE OF ISSUES SUCH AS REHABILITATION POLICY AND THOSE RELATED TO ENVIRONMENT?

Concerns abound over several aspects of the operationalisation and implementation of the SEZ Act, ranging from diversion of prime agricultural land and consequent implications on displacement of farmers, alternative livelihoods and overall food security, revenue losses with attendant linkages apprehensions over real estate grab in lucrative locations, non- application of protective legislations for workers in SEZ areas to environmental issues. There are also misgivings relating to the exemption of SEZ's from application of other Central Acts and rules as laid down under section 49 of the Act, including denial of popular participation in local self government.

The acquisition of large chunks of fertile agricultural land in and around urban agglomerations such as, in Haryana and Maharashtra has led to protests by farmers and public interest groups. In Haryana for instance the SEZ big players like Reliance Industries and DLF have projected acquisitions of land to the tune of 10,000 hectares and 9,000 hectares respectively. In Maharashtra, the Mumbai SEZ alone measures "the land sought to be acquired for the Mumbai SEZ has been reportedly priced at Rs. 1.7 lakhs to Rs. 2.5 lakhs an acre whereas the market price for the same is in the range between Rs. 20-40 lakhs per acre"

14,000 hectares. It is inevitable that large parts of the acquisition would involve a diversion of prime agricultural land to the industry which is yet to be firmly quantified. It is important to note that while the Act does mention minimum area requirement, ceilings have not been set as laid down under Section 5 (2). Displacement of farmers and agricultural workers arising on this count would but follow in the absence of a National Rehabilitation policy. Besides, the government seems only too willing to step in and facilitate the purchase of land at prices which are significantly below par than the market value of the land. Thus, the land sought to be acquired for the Mumbai SEZ has been reportedly priced at Rs. 1.7 lakhs to Rs. 2.5 lakhs an acre whereas the market price for the same is in the range between Rs. 20-40 lakhs per acre.

WHAT ARE THE LARGER IMPLICATIONS OF SEZ ACT?

Projections of staggering revenue losses by the Finance Ministry to the tune of Rs. 1,75,000 crores as against the projected investment of Rs. 3,60,000 crore are deeply worrying. This is bound to put Government budgets under strain if we also factor in future revenue losses on account of India's commitments in the making at the World Trade Organisation. Taken together, there is bound to be an impact on social sector and other welfare spending of the government in such a scenario. The Planning Commission and the Reserve Bank of India (RBI) have also sounded a cautionary note on this count. In its Annual Report, 2005-06, RBI notes that the revenue losses can only be justified if the SEZ units ensure forward and backward linkages with the domestic economy. To what extent this would happen is not at all predictable.

ARE WE PROMOTING REGIONAL INEQUITY?

At the beginning of economic reforms in China, Deng Xioping propounded his policy of 'letting some areas and people getting rich for achievement of common prosperity ultimately', there was no forethought about the potential for regional inequities embedding in such an approach. There are reasons to believe that a similar pattern may be witnessed in India which would further accentuate the uneven development of regions as underlined by the RBI Annual report by drawing out resources from less developed areas.

While, a detailed discussion on other provisions of the Act is beyond the scope of this write up, suffice it to say that in the light of the foregoing concerns, the SEZ Act needs to be comprehensively reviewed. Current policy seems be hinged on the principles of padding up gains and discounting losses imminent on account of the operationalisation of the Act. While land is a state subject, the Centre does need to step into appropriately in order to regulate its acquisition and its ultimate use. Importantly, the constitution of the Board of Approval needs to be broad based with all the major stakeholders represented in the decision making process. Civil society actors need to play a role at every step in the governance of SEZ right from policy formulation stage to its actual implementation.

***Biplove Choudhary** is Centre Coordinator, CENTAD, New Delhi.*

People's Budget Initiative: An Effort to Democratize Budget Making Process in India - Yamini

In making the systems and institutions of governance work, a strong and vigilant 'people's voice' which continuously builds pressure on these institutions to deliver cannot be underestimated. Increasingly in this respect, across several countries, budget analysis is emerging as a critical tool in the hands of the civil society to leverage state accountability. In India too, budget analysis and budget advocacy seems to be moving up in the agenda and priority list of several people's organisations and movements in their struggle for human rights and social justice. At CBGA, we believe that **Budgets are *the most important* policy document as moral-laden commitments without a concomitant putting in of adequate money is meaningless.** Budgets reveal in black and white the government's priorities and intentions. Unfortunately though, in India, like in many other countries, the voices heard in the discourse on the budget are dominated by the economists, policy makers, academics and corporate houses. What is clearly missing is the voice of the people and the perspective of the poor and the marginalised, who constitute a majority of the population in India.

To create a greater space for people's voice in the budget making process, CBGA has joined hands with several organizations and the foundation of a new initiative, the ***People's Budget Initiative,*** has been laid.

The *People's Budget Initiative* is a broad alliance that has been constituted to advocate for greater democratisation of the budget making process and budget documents. The alliance has representatives from people's movements, grassroots organizations, academia and the media as well as national and international development organisations.

This initiative has been working over the past several months in nine different Working Groups reflecting on issues of concern related to the Union Budget 2007-08. These Working Groups are on Agriculture, Infrastructure, Resource Mobilisation and Expenditure Management, Health, Education, Women, Dalits and Adivasis, Children and on Human Rights. Over 100 individuals and around 50 organisations have joined hands to strengthen this initiative.

As a next step, the alliance organized a National Convention, (held on 27-28 November 2006 at Delhi, India) which aimed at analysing key budget related issues in these **sectors** and putting forth our recommendations for the Union Budgets 2007-08, from a pro-people, pro-poor perspective. A Charter of Demands for Union Budget 2007-08 has been drawn up, which will consolidate specific demands for the forthcoming budget across these sectors. Despite several invitations and faxes sent to the Ministry of Finance, to either be a part of the closing plenary to receive our Charter of Demands or to receive our delegation with the Charter of Demands later, the Ministry of Finance was not represented at the event.

Attended by over 180 individuals, the two days saw active participation in the deliberations. The People's Budget Initiative seems to have resonated well with the participants, despite their diverse backgrounds and areas of work. Participants seem enthused and came up with creative suggestions on how to take it forward, including a postcard campaign, initiation activities at the local and state level, taking the Charter of Demands forward, etc.

A series of advocacy exercises will be initiated as a follow up to push forward the Charter of Demands. This will include meeting concerned government officials and groups critical to the budget making process, including, the Finance Minister & the Commerce Minister, members of the Planning and Finance Commission, secretaries in the department of Revenue and Finance, members of the National Advisory Council and National Development Council, separate meeting with political parties, Members of Parliament and the Standing Committees of the Parliament, etc.

The relevant sections of the Charter of Demands will be broken up and taken to the relevant ministries so that these may be incorporated in the ministries' demand for grants. For instance, the

"The *People's Budget Initiative* is a broad alliance that has been constituted to advocate for greater democratisation of the budget making process and budget documents"

demands from the budget emerging from the section in our Charter of Demands on women and children will be taken to the Ministry of Women and Child Development, the section on agriculture can be taken to the Ministry of Agriculture and so on.

Apart from the government, the Charter of Demands will be circulated widely to civil society groups to ensure that the Charter of Demands reaches a wider population that can call collectively for democratizing budgets and the process of their preparation. We are exploring possibilities of asking the government some pointed questions using the newly founded Right to Information Act at the right point in the budget making process.

Consultations with farmers associations, trade unions, etc., will also be organized as they do engage with the budgetary processes in any case, so as to try to see if our Charter of Demands can be tucked into their advocacy calls, as well as, to urge them to join us in our advocacy. We also plan to make concrete efforts for media advocacy to garner media support for our Charter of Demands.

These attempts will be made between now and early February. However, these should be seen as part of CBGA's year-long advocacy along the budget cycle. The Union Budget in India is released by the Finance Minister on February 28th, every year. Within 24 hours of the release of the budget, CBGA publishes a quick Response to the Union Budget, highlighting critical issues like social sector allocation, increase or decrease therein, etc. A public event is also organized in which eminent members of the academia, parliament and media debate on the budget from the perspective of the poor and the marginalized. Armed with the response to the Union Budget and the Charter of Demands, another round of lobbying the members of the parliament is done in the Budget Session in the parliament before the end of the session where the Union Budget is passed by the parliament.

Being able to actually influence budgets in a country as huge and diverse as India, where the interested parties use the ignorance of the masses to consciously keep them out of these processes is indeed a tall order. It will take several years of concerted effort to even become a voice that the Finance Minister cannot choose to ignore. However, in a democratic polity, where parties are voted in and out of power, based on the promises they make, one can hope that such a promising initiative will make a dent in the system sooner or later.

Interivew: *Prof. Jayati Ghosh*

NREGA: Some key learnings and the way ahead

What are the major challenges at the ground level with regard to implementation of NREGA?

The NREGA requires a significant change in the way the government machinery operates, particularly at the local level but also at the state and central levels. Therefore, there are still huge challenges to ensure its effective implementation, and there are evident variations across states in this regard. Some of the challenges are:

1. To disseminate the information about the Act and workers' rights to the local population as quickly and clearly as possible.
2. To prevent local power elites and landlord-contractor groups from distorting the scheme.
3. To ensure that workers get the minimum wage for a regular day's work, which is not happening in most states at present.
4. To empower the local authorities – both the district administration and the panchayats, to create and implement a shelf of works which is relevant, required and productive (in different ways) for the area. This requires much more administrative and technical expenditure than is currently allowed under the scheme.
5. To make the local authorities more responsive to the legitimate complaints of workers and redress grievances quickly and correctly.
6. To ensure that certain groups such as women, certain castes, tribes and communities, do not get excluded from the benefits of the programme.
7. To make the gram sabhas and social audit that is envisaged in the Act more effective.

What immediate steps have to be taken by the Central and State Governments to ensure that the objectives of the Act are fully met?

1. Money flow from Centre to States should be smoother and more rapid than it has been so far.
2. Much more money and other resources have to be provided for administrative and technical tasks associated with planning and implementing works, supervision, accounting etc.
3. State governments MUST respond quickly to complaints about irregularities and take strict action against those misusing the programme or not implementing it according to the law, especially in cases of evident siphoning off of funds and non-payment of wages, etc.

Do you think that the current funding pattern of the scheme is viable?

The current funding pattern is viable; it just needs to be implemented more smoothly.

What are the potential sources of funding the NREGA in the coming days as the demand for work under NREGA has been increasing steadily?

Thus far the actual amounts utilized for NREGA are well below the budgeted amount (I believe significantly less than half) and this amount is also very little even compared to the total of previous employment schemes taken together. Even if the entire budgeted amount is eventually spent, it will amount to less than 0.4 per cent of GDP, which is nothing. So there is no reason at all to fear that funding NREGA will become impossible in the near future.

Even when it is spread to the entire country, the total amount is not likely to exceed 1.5 per cent of GDP. This can easily be raised through taxes if the government is serious about the matter.

What are some key learnings from the recent social audit exercises?

The Dungarpur social audit experience shows that a major and committed programme of social mobilization can achieve very impressive results in terms of ensuring effective implementation even in a state known for it feudal practices and generally non-responsive administration. Social mobilization is therefore the key. But it also requires that the state government and local administration are responsive to the issues thrown up by such mobilization.

Are the current work norms and measurement practices labour friendly, and what changes have to be made to ensure that the labourers are paid the statutory minimum wage?

The major problem currently in most states is

NREGA: Some key learnings and the way ahead

"The major problem currently in most states is that the work norms are so unrealistic that most workers do not get paid the minimum wage even for a full day's work"

that the work norms are so unrealistic that most workers do not get paid the minimum wage even for a full day's work. Therefore there is urgent need to revise these norms through appropriate time and motion studies. Several states have already revised the norm, but in some cases even the revision is still inadequate to ensure that the minimum wage is received by most workers.

Will there be possible financial constraints in funding the NREGA due to FRBM Act?

The FRBM Act is problematic, but if affects all government expenditure, not just the NREGA. As noted already, the NREGA will cost very little in relation to total central government expenditure even under the most expansive estimates, so there is no reason to suppose that only this programme should be adversely affected by the FRBM Act.

What are the measures that you would suggest to keep a check on the criticism of 'wastage of money' using the current structures?

Most of the mechanisms to check corruption and wastage are already described in the Act, and along with the Right to Information Act and large-scale social mobilization, these should be enough. The emphasis should be on the central and state governments to actually implement all the legal provisions.

Do you feel that there is a need to fix the wage rate across the country?

The wage rate should be the minimum wage of each state. Given the differences in GDP and CPI across the states, it is not sensible to think of a national uniform wage rate. In any case, this would violate the existing laws of the land.

Jayati Ghosh *is Professor, Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi.*

How Open is Our Budget?

India ranks 17 among 59 countries in terms of openness of its budget documents. A recent study done by International Budget Project (IBP), Washington in partnership with various Civil Society groups around the world including Centre for Budget and Governance Accountability in India, reveals that budget documents in countries like Botswana, Brazil, South Africa, etc. are more accessible as compared to India. The Open Budget indicators in the study provide comprehensive and practical information to gauge the government's commitment to be transparent and accountable.

The results reveal that around 40 per cent of the countries' public budget documents gave very scanty information on public finances. 33 per cent countries did not audit their budgets and in the budgets of more than 50 per cent countries, including India, information on conditions associated with external debt was not detailed. In a 100-point scale, India scores only 52, indicating an *average* level of openness of the budgets.

In India, pre budget statements are not made public. Even with a five-year plan cycle, there is no multi year budgeting, a common feature in many other countries. Policy proposals are not linked to budgets, and impact assessment not presented. Budgets do not give any information on non-financial assets. The time for discussion in the Parliament is less than six weeks thus restricting any effective participation of the MPs. Though we have an independent audit authority (CAG) that monitors government expenditure, its recommendations are not followed up adequately. Nonetheless, the government has put budget information on the internet, facilitating greater access to these otherwise closed documents. However, useful information is available only for the Central government finances. At the state level, in most of the cases, available database is limited to Budget Speech. Even after enacting the 'Right to Information', common people spend money to obtain financial information. It is worth noting that in the year 2004, only 32 people could access the internet as a source of information.

Open Budget Indices presented in the report will be helpful for the policy makers to reorient our budget processes in order to make them more transparent and accessible.

FOR MORE INFORMATION, CONTACT:

CBGA

Centre for Budget and Governance Accountability

www.cbgaindia.org

A-11, Second Floor, Niti Bagh, Khel Gaon Marg, New Delhi - 110 049, INDIA
Phone: +91-11-4174 1285 / 86 / 87 Email: cbadelhi@vsnl.net

NCAS FACILITATING SOCIAL CHANGE

National Centre for Advocacy Studies

www.ncasindia.org

Serenity Complex, Ramnagar Colony, Pune – 411 021, India
Tel: 91-20-22952003 / 4 Email: ncas@vsnl.com

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Illustration
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Design
Mayank Bhatnagar

Layout & Printing
Kriti Creative Studio