Budget as an Instrument to Transparency

A. Indira

Centre for Budget and Governance Accountability
A-11, Second Floor, Niti Bagh, New Delhi – 110049
Telefax: +91-11-41741285 / 6 / 7 Email: info@cbgaindia.org
www.cbgaindia.org

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Abstract: Budget is a political statement of the government in power. It is an expression of what the elected government wants to do for the country. Through it there can be repercussions of a social and economic nature. Much of the budget preparation is an in-house process. Today world over there is a move towards understanding budgets and being pro-active so that the budget can act as an effective tool for better governance. Towards this many states in India have come forward to legislate the right to information so that there is more transparency. The present paper is to understand the issue of transparency in the light of budget analysis. The case of Karnataka is taken for discussion of one state in India.

I

Introduction

E-governance is the in-thing. That there is computerization of the line departments, such as payment of electric bills, water bills, etc., is put up regularly in advertisements by the Government to show that things are more pro-active, customer-friendly and better administered than ever before. In many states there has been computerization of land records making it easier to get the *'khata'* certificates by the users. Many governments are taking the lead in putting up budget speeches, state policies on information technology and biotechnology also on the websites (for eg. www.kar.nic.in). However when one begins to search for specific information in a maze of data, it is found that there is often no adequate information. Many times there is only a repetition of the same figures and facts. These hide more than they reveal. But things are changing and transparency in governance has become a right.

There is much bombardment of all kinds of information through the print media, television and internet. Even so awareness of issues is lost in the melee. One such important annual ritual is the budget of the government that is presented every year on February 28 at 11a.m in India. Traditionally the Indian budget was presented in New Delhi at 5p.m. to coincide with the opening of Parliament in London. But the present coalition (National Democratic Alliance NDA) changed the timings to show that one of the last symbolic yokes of the colonial rule was being shed. In fact there are two budgets. The Railway Minister presents the railway budget a few days before the general budget. This distinction also has come down from the Pre-Independence days.

The whole budget exercise is always received with mixed responses. In the protectionist period, when there were more of direct controls on industry, the people awaited the budget with lots of suspense and intrigue. People looked forward to Shri Palkivala's comments on the budget. However after liberalization and the New Economic Policy there is more openness. The industry is hopeful of a more equitable playing field without the license raj. The salaried class has heaved sigh of relief with the reduction in the income tax limits. The large majority still does not understand all that is contained in budget. This is because most are satisfied in knowing what they want to know in their own limited sphere. But budget analysis can become an interesting exercise to take part in. and it is not difficult.

The Federal setup

The Indian Parliamentary system follows the Westminster Model. India has a federal democracy where there is a Constitutional division of powers between the Union and States. There are some areas where the state is pre-eminent and others where the State and Union hold equal powers. Liberalization has reduced the degree of control exercised by the Centre in many areas leaving much greater scope for state level initiatives. The 73rd Constitutional Amendment giving more powers to Panchayat Raj Institutions has further strengthened this process.

Articles 112 to 117 gives the Procedure in Financial Matters of the Union Government. Articles 202 to 207 gives the Procedure in Financial Matters of the States. There is a well-established and sound legal framework for public finance management. The State governments present their won budgets every year. The Constitution imposes significant responsibilities on the states and gives considerable autonomy to define the development policies.

During the budget preparation and later, only those in the government, the Chief Economic Adviser in the Finance Department who prepares the Economic Survey giving the status of the economy, Reserve Bank of India as the Bankers' Bank, the various Parliamentary Standing Committees which finalize the expenditures of the various ministries and the demands of the departments, research institutions like the National Institute for Public Finance and Policy, New Delhi and finally the Finance Ministry itself which finalize the document are in the know.

The processes remain more or less similar at the state level also. The annual budget gives a detailed line item budget of the various departments. Under fiscal federalism, the States and the Centre share the various tax revenues as per a decided formula.

Budget by itself contains several documents running into more than 2000-3000 pages. The two primary categories of information are (i) Estimates of Flows (receipts and disbursements) from the Consolidated Fund, Public Account and Contingency Fund. This may also be called the 'Annual Financial Statement'; and (b) Demands for Grants, which are estimates of disbursements from the Consolidated Fund organized by the various departments. Hence there would be as many demands for grants as there are departments, one for each department. Appropriations approved by the legislature are based on these demands for grants. The states have their own revenues. Any shortfall in the revenues and total expenditures is partly financed by tax transfers and grants from the Union government.

After the 73rd Constitutional Amendment in 1993, the Local Self Governments have come into their own. Greater decentralization has meant a direct transfer of funds to the local levels. Each State has passed its own Panchayat Raj Act. Under the Act 29 departments have been transferred to the Panchayat Raj Institutions. Though the responsibilities have been passed over, full financial powers are still not fully with the PRIs. And hence in most states PRIs act as a conduit to transfer the funds allocated to them in the State Annual Budget. These numbers are given in the link documents, which is an appendix to the budget. The PRIs have different sources of monies flowing into them via different schemes, like Jawahar Rozgar Yojana, Indira Awas Yojana, etc. and through other fixed grants.

Similarly the 74th Constitutional Amendment, 1994 has empowered the Urban Local Bodies (municipalities) with such powers and authority to enable them to function as institutions of self-government. There are also provisions for the devolution of powers and responsibilities for the preparation of plans for economic development and social justice.

The delegation of powers has engineered the need for more information. People are more aware of the various schemes available, and especially at the zilla panchayat, taluk panchayat and the grama panchayat are keen than ever before to know. It has been realized that many times elected representatives at the grassroots level lack information. This happens due to a delay in the percolation process when the Government orders do not reach all concerned at the correct time. Or in some blatant cases bureaucracy refuses to share information with local elected representatives.

The Union government has tried to bring in a common format for presenting budgets. In a meeting of State Finance Secretaries, on June 12, 1999, a Core Group on Voluntary Disclosure Norms for State Governments was constituted in January 2000, with members from various governments, Planning Commission, Ministry of Finance and Reserve Bank. Accordingly it has been suggested that (a) common format for all the States be put together, including critical summary indicators viz., gross fiscal deficit, revenue deficit and primary deficit, level and composition of outstanding and contingent liabilities, explicit or hidden subsidies, resources of public enterprises, the budgetary support to PSUs and demarcation of loan and equity components of such financing. (b) States maybe persuaded to disseminate time series data on fiscal indicators, and (c) enhance transparency practices in the fiscal operations focusing on work-methods and budgetary practices.

Today there are many outside the government who take part in budget analysis on a continuous basis in India. These are people who are not necessarily taking part in discussions of the National Budget but are looking at sub-national, and local level budgets. The various actors in the civil society consist of research cells or units working on budgets to understand the implications of changes in monies allocated for various plans or schemes taken up by the government, grass-root level organizations who are working on the right to know the local self-government accounts, and various advocacy societies which disseminate the research findings and also build awareness about the whole exercise of knowing how the monies are being spent and what more has to be done. Of course this is still an exercise undertaken after the budget is presented. The processes leading to budget making is still much beyond the purview of the stakeholders. That is something that is still to be achieved.

The present paper tries to put together a picture of budget analysis – and the need for transparency and a change in attitudes towards public participation. But can budget analysis be a viable instrument for change? How much depends on it? Is it exaggerated?

Budget – a little bag?

The origin of the word "*budget*" itself is an interesting story. The word owes its origin to the Latin word 'bulga' meaning a little pouch or knapsack. It came into English through the French word 'bougette' to mean a leather bag. The first connection with finance came in 1733 as a result of a scurrilous pamphlet entitled "The Budget Opened", an attack directed at Sir Robert Walpole (then Prime Minister). The reference was derogatory to mean the bag was opened for money to be spent on wasteful expenses. But by 1880s it began to be used as a verb in the sense of planning one's expenditure. However the attribute meaning of 'inexpensive, suitable for someone of limited means' was first recorded only in 1958.

Joseph Schumpeter, the famous economist has said, "The spirit of the people, its cultural level, its social structure, the deeds its policy may prepare, all this and more is written in its fiscal policy … He who knows how to listen to its messenger here discerns the thunder of world history more clearly than anywhere else".

So what is fiscal policy of a people? For one it is the budget statement made on the floor of the House by the elected government at the beginning of every financial year. Budget becomes a political statement by which the concerned political party translates its ideologies into money statements.

It is seen that prior to the exercise of February 28 the Reserve Bank of India, the Planning Commission in the government put together the position of the economy, exact figures of what is available for various expenditures. This is matched with the plans and proposals received from the various departments of government and discussed in the Standing Committees of Parliament. The Finance Minister also meets with the various business organizations, and other stakeholders to get a feel of what is wanted by the common man. All this put together goes into the making of the budget statement.

The entire process of preparing for the budget session takes a few days and the innermost group involved with putting together papers, printing and such other activities are cooped up down below in the North Block in New Delhi in utter secrecy. Of course this veil of secrecy has to a certain degree come down with the 'license raj' being dismantled in most sectors. It is seen that the exercise eventually cannot please everybody and there is invariably a discussion of who is going to be most benefited and who most troubled by the proposals made by the Finance Minister.

So how is it done? The government has a rein over three things. They are taxes, expenditures and regulations. Tax is the collective responsibility to pool resources, expenditure is the allocative function and regulation is the redistributive arm. It means that revenues are collected through both direct/ indirect means, which is spent on various schemes/ plans. There are various rules/ procedures set up to put things in order. That means a judicious mix of the three is supposed to ensure good governance for the betterment of the people. The budget statement tries to put these things together for the elected assembly to approve. Together with the budget statement there is a finance bill that is to be approved. After approval the new provisions come into effect from the next financial year. In India the financial year is between April and March.

During the budget session the budget is discussed and passed. The money bill as defined in Art. 110 is a test of government. If the bill does not get passed in the House of People or Lok Sabha, the government can fall. The procedures are clearly defined in the Constitution. It can also happen if there is a 'cut' motion, if approved, would mean that the government has lost the confidence of the House and has to resign.

But it is seen that though there is much din in the House about the budget, there is no substantial discussion on the main issues that concern the common man in the Budget. It is seen that many times that the Lok Sabha has voted and approved the budget in less than half an hour, while Rajya Sabha took five minutes over the budget. Most get passed in the routine manner. In fact it is interesting to note that many crucial decisions have been taken not necessarily through debate but by regulations. This happened in 1990s during the time of the minority government under the Prime Minister Shri P.V.Narasimha Rao when the economic reforms were initiated using institutional mechanisms of RBI to change interest rates to look after the rupee value.

It is clearly seen that the Budget cannot be taken as a little bag. In fact, it seems to open a Pandora's box whenever serious discussions take place on issues of military spending, amounts spent towards R & D, education, health etc.

What is the budget?

The accounts of the government are prepared/ maintained in three parts: Part I – Consolidated Fund, Part II – Contingency Fund and Part III – Public Account.

Part I, namely, Consolidated Fund is the largest and most important part of the government accounts. There are two main divisions, viz.

1) Revenue – consisting of sections for 'Receipt heads (Revenue Account) and Expenditure heads (Revenue Account)'.
2) Capital – consisting of Public Debt, Loans, etc and containing sections for 'Receipt heads (Capital Account)', and 'Public Debt', 'Loans and Advances etc.'.

The Revenue division accounts for the proceeds of taxation and other receipts classed as revenue and the expenditure met from, the net results of which represents the revenue surplus or deficit of the year.

In Capital division, the section 'Receipt Heads (Capital Account)' accounts for the receipts of capital nature, which cannot be set-off against capital expenditure.

The section 'Expenditure Heads (Capital Account)' accounts for the expenditure met mostly from borrowed funds with the object of creating concrete assets of a material and permanent character or investing outside the government. It also accounts for receipts of a capital nature as are set-off against expenditure.

The section 'Public Debt', Loans and Advances, etc., account for loans raised and their repayments by Government such as 'Internal Debt' of the Central Government and 'Loans and Advances' made (and their recoveries) by Government. This section also accounts for certain special transactions relating to 'Appropriation to the Contingency Fund' and 'Inter-State Settlement'.

Part II is the contingency fund, which as the name suggests a corpus fund to be drawn by the Government to meet unforeseen or urgent expenditures. This has been established under Article 267 of the Constitution of India.

In Part III, namely, the Public Account, the accounts of the transactions relating the 'Debt' (other than those included in Part-I), 'Deposits', 'Advances', 'Remittances' and 'Suspense' are recorded. The transactions under 'Debt', 'Deposits' and 'Advances' in this part are such in respect of which Government incurs a liability to repay the monies received or has a claim to recover the amounts paid, together with repayments of the former ('Debt' and 'Deposits') and the recoveries of the latter ('Advances'). The transactions relating to 'Remittances' in the Part account for remittance of cash between treasuries and currency chests, transfers between different accounting circles, etc. The initial debits or credits to these heads are cleared eventually by corresponding receipts or payments either within the same circle of account or in another account circle. The transactions ending adjustment on final booking in accounts are recorded under Suspense heads.

So the government not only puts together the various sums in place as in the three parts described above, but also gives a political statement of what it intends to do for the economy when it presents a budget. For the analysts however there is an easier way of understanding the various fund flows. This is done by understanding the different sectors and heads of accounts. There is a good system of classification though cumbersome at times.

Sectors and Heads of Accounts

It is seen that within each of the sections in Part I mentioned above, the transactions are accounted for, are grouped into sectors. They are 'Tax Revenue', 'Non-Tax Revenue' and 'Grants-in-aid and contributions' for the receipt heads (revenue account), and 'General Services', Economic Services' and 'Social Services' and 'Grants-in-aid and Contributions' for expenditure heads. Specific functions or services are grouped in a sector for expenditure heads (such as education, sports, art and culture, health and family welfare, water supply, sanitation, housing and urban development under social services). In part III (public account) also, the transactions are grouped in sectors, such as small savings, provident funds, reserve funds, etc. these sectors are sub-divided into major heads of account. In some cases, the sectors are in addition, sub-divided into sub-sectors before their division into major heads of account.

The major heads are divided into minor heads, each of which has a number of subordinate heads, generally known as sub-heads. The sub-heads are further divided into detailed heads. Apart from the sector and sub-sectoral classification, the major heads, sub-major heads, minor heads, sub-heads, detailed heads and object heads together constitute a six-tier arrangement within the classification structure of government accounts. The major, minor and sub-heads prescribed for the detailed classification of expenditure in the general accounts are not necessarily identical with the description of sub-heads and other units of allotments in the grants which are adopted by Governments in the Demands for Grants, presented to Parliament. But in general a good degree of correlation is maintained between the demands for grants and the finance accounts, by suitable cross referencing in the budget accounts.

The major heads of account, falling within the sectors for expenditure heads, generally correspond to functions of government, while the minor heads, subordinate to them, identify the programmes undertaken to achieve the objectives of the function represented by the major head. The sub-head represents schemes, the detailed head, sub-scheme and object heads, the object level of classification.

Many times the revenues and expenditures do not match. Generally three kinds of deficits are measured. (a) The gross fiscal deficit which is the excess of total expenditure including loans net of recovery over revenue receipts (including external grants) and non-debt capital receipts; (b) revenue deficit denotes the difference between revenue receipts and revenue expenditure and (c) the conventional deficit which is the difference between all the receipts and expenditure, both revenue and capital. But a fourth kind, primary deficit, is gaining prominence which is defined as the non-interest deficit i.e., gross fiscal deficit net of interest payments. The significance of primary deficit is that it indicates the extent of discretionary fiscal policy changes. There are various studies to show how these variables are faring over time.

Combined Deficits of Centre and States (Rupees in crores)

Items		2002-03 Revised estimates	2002-03 Budget estimate	2001-02	1995-96	1990-91
Gross fiscal deficit	Centre	1,45,466	1,35,524	1,40,955	60,423	44,632
	States	1,16,730	1,02,882	0,95,986	31,426	18,787
	Combined	2,48,979	2,26,864	2,26,418	77,671	53,580
Revenue Deficit	Centre	1,04,712	95,377	1,00,162	29,731	18,562
	States	0,61,302	48,314	0,59,233	08,201	05,309
	Combined	1,66,014	1,43,691	1,59,395	37,932	23,871
Primary Deficit	Centre	29,803	18,134	33,495	10,198	23,134
	States	42,584	30,629	33,497	09,494	10,132
	Combined	88,492	64,442	84,048	18,598	28,585

Source: RBI annual report

How is it faring?

It is seen that all kinds of deficits have been rising over the years. The most alarming is the revenue deficit. It means that there is not only a revenue shortfall but also an increase in borrowings and debts. While the expenditures are inflexible the receipts are vulnerable to wide fluctuations due to various factors. This gets reflected in the deviations between actual and projections. It also brings forth the need for compatibility between plans and budgets. In fact it directly affects the show of fiscal marksmanship and transparency of budgets. Fiscal marksmanship is the degree of accuracy between estimates and actual of budgetary data. The lack of fiscal marksmanship or forecasting accuracy of the budget may result in distortions in fiscal management, if the forecasting errors are significantly large. Sanctity of the budget is lost if there is a large variation between budget estimates and revised estimates.

It is seen that over the years, especially after the New Economic Policy and Liberalization there has been a growing disparity between the poorer and richer states. The growth performance of states can be judged from the gross State Domestic Product for each state.

Annual rates of growth of gross state domestic product

States	1980-81 to 1990-91 (per cent per annum)	1991-92 to 1997-98 (per cent per annum)
Bihar	4.66	2.69
Rajasthan	6.60	6.54
Uttar Pradesh	4.95	3.58
Orissa	4.29	3.25
Madhya Pradesh	4.56	6.17
Andhra Pradesh	5.65	5.03
Tamil Nadu	5.38	6.22
Kerala	3.57	5.81
Karnataka	5.29	5.29
West Bengal	4.71	6.91
Gujarat	5.08	9.57
Haryana	6.43	5.02
Maharastra	6.02	8.01
Punjab	5.32	4.71
Combined SDP of 14 states	5.24	5.94
GDP (national a/cs	5.55	6.89

Source: Montek Singh Ahluwalia, "Economic Performance of States in Post-Reforms Period", *Economic and Political Weekly*, May 6, 2000.

The study (Ahluwalia, op.cit.) clearly shows that some states are growing faster than others. The accelerated growth was particularly marked in Maharastra, Gujarat, WB, Kerala, Tamil Nadu and MP. The group of poor performers has now been typified under the acronym – BIMARU to stand for Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. Orissa was left out of the list since it was considered critically ill.

Those States growing faster are also feeling the pinch of a drag from the poorer states and demanding a restructuring of the sharing of tax revenues. In the long run this would put fiscal federalism under duress. But how has this happened? The main reasons are:

1) The expenditures on the wages and salaries bill. This has been a major source of worry for long. Though there has been no fresh recruitments and cuts on different perks like leave travel concessions, still the total salary bills of the state governments have

become so large that there are cases where salaries are not being paid in time. So much for the security of a government job!

2) Populist policies in terms of cheap or free water and electricity, and other subsidies which affect non-tax revenues.

3) There is lack of uniformity of sales tax, which is trying to be corrected by having a uniform slab rates based on value-added for different products.

4) Many states use supplementary budgets, which is permitted three times a year to push in difficult policies after the initial budget exercise has long been finished with. This makes the sums in the budget a loose one. And that an aggregate figure given in the House has no sanctity;

5) Many times to tide over the issue of balancing deficits, the states use overdraft facilities from RBI, and monies available with the government with public sector enterprises and other guarantees for a short term exigency. This puts extra burden on the states.

All this brings a point to fore, whether there is a no way to know that such problems exist and who is taking note of it.

Checks and balances

All of the above weaknesses in the system are well understood and documented. The main watchdog of the process is the Comptroller and Auditor General of India. His functions are given in the Constitution under the Articles 149-151. Art. 149 envisages an Act of Parliament to regulate the duties and powers of the CAG. Parliament has enacted the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 that came into force from 15th December 1971.

According to the Act the CAG has been relieved from the responsibility for *preparation* of the Finance Accounts of the Union but he is responsible for the *submission* to the President for it being laid before the Parliament. In so far as the States are concerned, the CAG continues to (a) compile the accounts of each state; (b) keep such accounts in relation to compiling of the accounts of the states as may be necessary; and (c) prepare the Appropriation Accounts and Finance Accounts thereof.

Further, sections 13, 16 and 17 of the Act define the duties of the CAG in relation to the audit of the accounts of and the transactions relating to the Consolidated Fund, Contingency Fund and the Public Accounts of the Union, the states and Union Territories. Section 13 of the Act enjoins on the CAG the duty to audit all expenditure from the Consolidated Fund of India, each State and each Union Territory having legislative assembly and to ascertain whether the monies shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.

Audits are conducted throughout the years and result in various reports. They are (1) local audit notes that are expected to be addressed at the individual offices audited; (2) inspection reports that contain more important findings to be brought to the attention of department heads and (3) financial audit reports, issued annually and submitted to the state government and tabled at the legislature.

The audit of the expenditure is comprehensive and includes (a) audit against provision of funds – analyses the financial position of the government, and the trends and quality of receipts and expenditures; (b) regularity audit – audit observations on aspects such as irregularities and non-observance of rules and regulations, wasteful or unnecessary expenditures; and inefficiency and delays and non-achievement of objectives in project implementation; (c) propriety audit; and (d) efficiency-cum-performance audit – evaluate performance of state government on various financial management and accounting issues.

Over and above all this there is a Section 20, which is an enabling provision whereby the audit of accounts of certain bodies and authorities not covered under Section 19 or other provisions of the Act can be entrusted to the CAG. This makes the responsibility and powers all encompassing. The CAG gets work only from the Parliament and all the findings are also strictly tabled in the House and only later become part of public domain. But in many cases there is a lag between the auditing and reporting. Also though the information is public, as the reports are not for sale, getting a copy of the report is very difficult.

Legislative review of budget execution is principally carried out through committee on public accounts of the legislature. The PAC examines the annual finance and appropriation accounts and audit reports. The PAC also examines special subjects that are assigned to it by the legislature. So if things are in order, where do people come in?

II

Why Budget Analysis

The interest in budget analysis has gained momentum in the post reforms period. There are myriad players today in this field. India is one of the few countries which has started quite early in this area of work concerning budget transparency. The work on budget requires varied skills, viz., accountancy, economics, statistics, social work, gender studies, law and management. But the encouraging thing is though expertise in the subject helps to pick up the jargon soon, any person with a keen eye and mind can pick up the logic and work with simple techniques of balancing the numbers, putting the flow of money from the Ministry to the Department via the various schemes to the last subject, to put it simplistically.

The main stay of the work so far however has been sectoral analyses. Work on analysis of effects on different classes or groups of people are also being taken up. After the coming of Panchayat Raj Institutions, the focus has been on helping in understanding the decentralization process, as also advocating the need to be involved in the budget processes in a better manner at the local levels. A more rigorous analysis is now required in putting together tax and revenue analysis. So far much of the work is aimed at the expenditure side, but to be effective and be more participatory in budget work, work should be put together on the revenue side too.

For those not involved in the analysis but in dissemination work, it is seen that what is required in the field is more awareness building, training in the basics of budgets and a knowledge of the Constitution and various wings, namely the legislative, executive and the judiciary among the various users like elected representatives, NGO workers, lower staff of government offices who put down the data in the formats and sometimes the higher official themselves who are not exposed to working in the finance department.

Budget analysis taken up by many non-governmental organizations helps in intervening at different points of the budget process. For a long time budget discussions revolved around the tax rate of an industrial product being exported or imported. But in the past decade the quality of budget discussions have undergone a change. This has come about because of the process of democratization sweeping across the globe.

There are a few inherent weaknesses such as: (a) poor knowledge of accounts by both official and representatives; (b) poor record keeping; (c) insufficient knowledge of either local language or English; (d) poor interaction between various departments; (e) fear of audit. These can be overcome by understanding the system and putting together information.

The budget process has four stages. (1) Budget formulation, when the budget plan is put together by the executive branch; (2) enactment, when the budget plan is debated, altered, and approved by the legislative branch; (3) implementation, when the features of the budget are carried out by the government; and (4) auditing and outcome assessment, when the actual expenditures on the budget are accounted for and assessed for their effectiveness. There can be interventions in any of the four stages. In India most times the budget analysis work is done during implementation stages or in understanding the outcomes. Efforts are being made to push for greater participation during the formulation and the enactment stage for more effectiveness.

This means that the civil society comprising of different stakeholders but a common value system of pushing for transparency come together. They also need to pool their skill-sets and the minimum resources. The most important ingredient is patience in dealing with the numbers and reams of data.

Where is the data?

As already discussed much of the data is in public domain, that is printed documents are available for study. It is generally seen that at the national level the data is very well maintained. At the state level data sources are being improved. But there exists situations where sometimes there is an overlapping of data, for eg.monies allotted for a scheme. The concerned state department shows the money spent on a particular scheme, while the post audit figure gives a consolidated number without going into details. Ofcourse many states are working to settle this confusion. Even so it is seen that when one is dealing with district level data there is no clarity and usability is a little doubtful. This would mean that more needs to be done to improve the data systems. This is not a questions of accessibility, but the existence of data itself.

In cases where there is data, then one comes to deal with accessibility and then the question of transparency of how much data is open to public. It is quite clear that the government is self-contained with its own checks and balances. But primarily the data is available only with the government. And is not shared with the commoners. Most times the officials hid behind the Official Secrets Act. The official secrets act was enacted to consolidate and amend the law relating to official secrets. The protection of official secrets is regulated by this Act. Except for a few minor amendments in 1951, the act has remained unmodified since it was enacted more than 78 years ago when India was a colony whose interests had to be protected. The problems of internal and external security, which the country faces, have been made cognizable and non-bailable and the maximum penalties have been enhanced. Hence this dominates the mindset of most working in the government departments.

The Official Secrets Act is further supported by restrictive provisions in other Acts, viz., Indian Evidence Act, the Code of Conduct for Civil Servants marking most ordinary documents as 'secret' or 'confidential'. The Acts while encompassing the entire gamut of information gives little or no discretion of what can be out of purview of high security or allows one to decide what can be shard and how it is to be shared. This happens because the country in many cases is still following the colonial governance pattern where the ordinary citizen of the country is not trusted. But for better democratic principles to prevail, people need to be free to choose and select what they want.

The changes that have come about due to panchayat raj in the last decade have change the political mosaic of India. Added to this the worsening fiscal situation has made it imperative on the part of the Union and State governments to take some bold steps. But this has not come in any easy manner. One of the earliest to have worked relentlessly at the grassroots has been the Mazdoor Kisan Shakti Sanghathan (MKSS) in Rajasthan. MKSS highlighted the key issue – the right to information –a the first element in a participatory budgeting process, but also because it fits into the category of citizens' monitoring initiatives in the battle over corruption.

Most NGOs have taken to social auditing. Social auditing is the process of understanding whether the said expenditures are being made for stated social aims. It works to support accountability and being responsive to the needs of the people. There are some other bigger players who are encouraging interventionist measures of designing budgets by the locals on very topical issues. This is what is called as people-centred budgeting. People-centred budgeting is about the content of budgets and the process of formulating budgets in ways that are transparent and participatory. The desire to make budgets more participatory and transparent is part of a larger agenda to 'democratize' the formulation of macroeconomic policy frameworks.

The two main players who have done exceedingly well within their systems are United Sate and South and South Africa. The contrasts between the two stand out. Unite States as one of the most vibrant democratic society with a capitalistic base has been able to put together the skills of industry lobbying together with the 'others', namely the non-governmental sector workers. The work done includes learning tax implications for the poor and the marginalized. The interventions take place right from the first stage when the budget is being formulated. One of the main actors is the Centre for Budget and Policy Priorities (CBPP), Washington. D.C., which over the last twenty years has emerged as one of the most vocal lobby to speak for the under privileged and marginal people.

South Africa on the other hand has been able to successfully redesign its need of a pluralistic society with the new Constitution. Here too the civil society has come together to put information in the public domain. This has made it possible to better understand the requirements of the marginalized and improving the efficacy of the system. IDASA was one of the earliest to bring together a plural group working for the poor and the needy of the country.

In an interesting exercise persons involved with both CBPP, and IDASA have come together to put up the 'International' Budget Project'. This has grown in the last few years in a big way. The main aim has been to encourage more NGOs in different countries to come together to form an alternative research wing to understand the local budgets. This includes intensive training in advocacy and technical analysis of different sectors, sensitizing to different needs, etc. There are now groups in different parts of the world working on budgets and sharing information among the various actors, like the Latin Group where Mexico has taken the lead, the Arab groups which is lead by Egypt, etc. Interestingly the initiatives in many countries have come from within the government itself improve accountability and transparency. This has been more so in such places where there is no civil society worth the name.

So it is essential to access and use the data to analyse how priorities for public spending as expressed through the budget can effect the lieves of the poor and the vulnerable. It is a socially purposive exercise. And more the system is made to answer and give figures more the changer becomes visible in keeping the figures correctly, maintaining data in the proper format and sharing the same for greater discussion. After all in a democratic setup voices are the catalyst for a change. And if the louder voices are backed with good research the better.

III

Need for transparency

The move towards transparency in financial matters in India is accentuated due to the grim situation both the Centre and States. Hard Budget constraints have become inevitable. People need to know how the monies are flowing and where so that the government can deliver better. Demystification of the budget hence becomes important from the point of view of empowerment of people. By making budget and budget-related documents more transparent, user-friendly there is a way to bring forth participatory management.

Not satisfied with the systems that are being continuously framed and the old ones that yet to be implemented effectively, government has come up with the concept of citizen charters to help citizens understand what they are entitled to. This is one of the measures to improve transparency in government departments. The Department is actively involved in developing the Citizen's Charter. A Citizen Charter represents the commitment of the organization towards standard, quality and a time frame of service delivery, grievance redress mechanism, transparency and accountability. This is done by Department Administrative Reforms and Public Grievances, Ministry of Personnel, Public Grievances and Pensions, GOI. (http://goicharters.nic.in/). The main objective of the exercise to issue the citizen charter of an organization is to improve the quality of public services. This is done by letting people know the mandate of the concerned ministry / department / organization, how one can get touch with its officials, what to expect by way of services and how to seek a reedy if something goes wrong. The citizen charter does not by itself create new legal rights, but is surely helps in enforcing existing rights. But this is a small and significant step towards a feeling of ownership among the citizens.

Rights underlined

Not to be left behind the judiciary also has come forward to clarify many issues relating to Art. 19 under the constitution. The Constitution of India has under Article 19 bestowed the Right to freedom of speech and expression and Art. 326 gives adult suffrage. These two articles are the epitome of citizen's freedom to know, to express sand to give a verdict about the happenings in the country. What it means that a citizen ha a legal right to know any information that affects him/her to act vote accordingly.

There have been two landmark Supreme Court rulings, which have paved the way for understanding the need for information. In the Secretary, Ministry of Information & Broadcasting V. Cricket Assn. Of Bengal case (1995, 2 SCC 161 at p. 300 para 201 (3) (b), the three-member bench has succinctly put is as "*The right of free speech and expression includes the right to receive and impart information*". For ensuring the free speech right to the citizens of this country, it is necessary that the citizens have the benefit of plurality of views and a range of opinions on all public issues. A successful democracy posits an 'aware' citizenry. Diversity of opinions, views, ideas and ideologies is essential to enable the citizens to arrive at informed judgement on all issues touching them. This cannot be provided by a medium controlled by a monopoly - whether the monopoly is of the State or any other individual, group organization. (italics by author).

In another case of Tata Press Ltd. V. Mahanager Telephone Nigam Ltd, (1995, 5 SCC 139 at p. 156 para 24), the court has clarified that Art. 19 (1) (a) not only guarantees freedom of speech and expression, it also protects the rights of an individual to listen, read and receive the said speech.. The protection of Article 19 (1) (a) is available to the speaker as expression guaranteed under Art. 19 (1) (a) of the Constitution can only by restricted under Article 19 (2). "*The said right cannot be denied by creating a monopoly in favour of the Government or any other authority*". (Italics by author).

This brings out the fact that even government cannot deny the right to freedom of speech and expression. This is an important step towards more transparency in receiving giving information, which the citizen has to put to good use by being pro-active.

The way in Karnataka

Karnataka in South India is one of the fastest growing states. Between 1993-94 and 200-01, the Karnataka economy grew at an average rate of 7.9% per year, 1.6 percentage points higher than the growth rate of agriculture, industry and service sectors in Karanataka between 1993-94 and 200-01 were 4.5%, 8.3% and 10.4% respectively, compared to 2.8% 6.4% and 8.5% respectively for the Indian economy.

It has many first to its credit. As part of the Economic Restructuring Program with the aid of World Bank Funds, Government of Karnataka launched in 2000-01 fiscal and public expenditure reforms, which is one of the four-pronged reforms. The others are administrative reforms, private sector development reforms, strengthening of poverty monitoring and statistical system. The fiscal and public expenditure reforms include a multi-year framework for fiscal adjustment, reforms to improve fiscal transparency, tax and expenditure policies, public expenditure management, financial accountability, and procurement transparency. It also aims to create additional funds for high-priority expenditure, and promoting more efficient and transparent management of government's financial resources.

Several measures have been taken to put more information in the public domain. In addition to key budget documents, Karnataka has been the first Indian state that publishes a summarized extract of its Monthly Accounts on the web. Much more information is now being published monthly including borrowings (budget and off-budget) and major tax collections.

The sate has initiated several improvements in the last 2.-3 years to further strengthen public finance management. Some of them include:

1. A robust fiscal policy has been established.
2. The first steps to provide Department with greater flexibility and incentives, and to introduce more performance orientation, are being taken. Demands for grants (the documents used for budgetary

appropriations) have now been aligned by Department (from 203-2004). Departmental Medium Term Fiscal Plans (DMTFPs) that explicitly state performance targets have been piloted in selected departments.

3. To strengthen the Finance Department's capacity to lead and coordinate Public Financial Management and Acceptability modernization, an Office of Controller (Accounts Management), has been created within the Finance Department (first among Indian states).
4. An advanced computerized treasury system has been established and is operational. This has networked all the state's 215 treasury offices, and significantly enhances the state's capacity to exercise better budgetary control, generate more timely and reliable information, and reduce possibility of fraud, computerization of others like non-treasury payments, and rural local governments' accounting - has also been initiated.
5. Several measures have been taken to put more information in the public domain. In addition to key budget documents, Karnataka has been the first Indian state that publishes a summarized extract of its Monthly Accounts on the web. Much more information is now being published monthly including borrowings (budget and off – budget), and major tax collections.
6. Major steps have been initiated to tackle the issue of non-responsiveness of audits. Recently, the Controller (Accounts Management) of Government of Karnataka has created a database of audit report paras and of government responses to these. This is being used to actively follow-up with Departments.

All this has come because of sustained efforts at the government level. Many acts have been passed, and consequently the rules and procedures published for easy systems. The work has been further strengthened by the work of the civil society working on different issues. The Government has taken the lead and is far ahead in implementing public policies in many respects.

Karnataka's recently established robust fiscal policy framework for aggregate fiscal management ahs institutional and legal backing. This consists of three major elements: Medium-Term Fiscal Plan (MTFP) updated annually, a Fiscal Responsibility Act The Karnataka Fiscal responsibility Act, 2002 and a legislative Ceiling on Government Guarantees (COGA). This framework includes key aspects relating to fiscal sustainability, comprehensiveness and transparency. The annual budgets are now prepared within the overall framework of an MTFP that sets aggregate fiscal targets (deficits and borrowings).

The MTFP is a multi-year expenditure and revenue framework. It include the budget year and thee outer years. It is updated every year, along with the budget. It shows how Karnataka will achieve its fiscal targets (i.e., regain fiscal sustainability by reducing the deficit) and how it will reallocate expenditures to designated "high priority" sectors (social sectors and some key infrastructure sectors). A draft MTFP is prepared prior to the budget to guide budget preparation, and then it is updated and published once the budget is released.

Government of Karnataka released its first Medium Term Fiscal Plan for the period 200-01 to 204-05 during the budget session in 2001. This was a sequel to the release of White Paper on Karnataka State Finances in 2000. While the White Paper identified the sources and causes of stagnancy in revenue and reasons for proliferation of public expenditure and had indicated directions and guidelines for undertaking implementable reforms in the fiscal area over a medium term. The MTFP clearly says "this was done in the context of the commitment of Government of Karnataka to its overarching goal of reduction of poverty. It was realized that without fiscal sustainability, reduction of poverty would be extremely difficult. Once the fiscal situation comes under control, the State Government can afford to priorities expenditure in favour of critical areas like social and infrastructure sectors."

Since the publication of 201 MTFP, there are efforts to improve accountability and transparency by giving all figures for comparison. It has been seen that fiscal performance showed its first signs of improvement. After years of increase, the budget fiscal deficit fell from 4.45% of GSDP (gross state domestic product) in 1999-00 to 4.00% in 200-01. Including off-budget borrowing the actual consolidated deficit for 2000-01 was almost on-target at 5.47% of GSDP compared to the budget estimates at 5.44%. Karnataka was the only major Indian state in 2000-01 and 2000-02 not to use RBI's overdraft facility.

The second MTFP reported on 2001-02 and set targets for the period 2002-03s to 2005-06. In return for the Departments accepting hard-budget constraints and more accountability, the budget is being simplied to give Department greater flexibility. Already the number of object codes (which report on the object of expenditure: salaries, purchases, etc) has been reduced from 296 to 132. A number of Departments have already greatly reduced the number of schemes they operate eg. Health, commerce and industry, agriculture, animal husbandry. Efforts are also on to rationalize the demands for grants along departmental lines to promote the concept of departmental budgeting and accountability.

The third MTFP in this rolling series reports on the achievements of 2002-03 and has set targets for 200-04 to 2006-07. It is seen in the latest report that in the case of primary and secondary education, the average growth rate in the reform period has been about 6%. In the MTFP period, the average growth targeted is 10%.

The statutory backing for the MTFP and fiscal reforms is provided by the Karnataka Fiscal Responsibility Act, 2002 which has come into force from April 1, 2003. The Karnataka Fiscal Responsibility Act, 2002 is an Act to provide for the responsibility for the State Government to ensure fiscal stability and sustainability, and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, reducing fiscal deficit and removing impediments to the effective conduct of fiscal policy and prudent debt management through limits on State government borrowings, debt and deficits, greater transparency in fiscal operations of the State Government and use of a medium-term fiscal framework and for matters connected therewith or incidental thereto.

It basically gives legislative backing to the MTFP and its quantitative targets, and mandates that they by achieved by a target year and that each year show progress towards this goal. There is a requirement to update the MTFP annually. The FRA also contains strict reporting requirements and specifies corrective mechanisms to ensure that the fiscal goals are achieved. It seems quite ironic that what should be has to be spelt out so clearly and be given to keep on track. The Act is most comprehensive where nothing is left unsaid, including giving the limits to which guarantees can be given by the Government.

The COGA's most important requirement is that the face value of outstanding guarantees be no more than 80% of revenue two years previous; and this has been adhered to.

On the same lines, with the initiative of Shri. Jaswant Singh, the Finance Minister the Union government has also passed the Fiscal Responsibility and Budget Management Act, 2003. This is an act to provide for the responsibility of the Central government to ensure inter-generational equity in fiscal management and long-term macro-economic stability by achieving sufficient revenue surplus and removing fiscal impediments in the effective conduct of monetary policy and prudential debt management consistent with fiscal sustainability through limits on the Central government borrowings, debt and deficits, greater transparency in fiscal operations of the central government and conducting fiscal policy in a medium-term framework.

Continuing in similar fashion Karnataka has passed three more important acts in the area of fiscal responsibility and right to information. They are: (a) The Karnataka Transparency in Public Procurements Act 1999; (b) The

Karnataka Right to Information Act, 2000; and (c) Karnataka Local Fund Authorities Fiscal Responsibility Act, 2003.

The Karnataka Transparency in Public Procurements Act 1999 is an Act to provide for ensuring transparency in public procurements of goods and services by streamlining the procedure in inviting, processing and acceptance of tenders by Procurement entities and for matters related thereto. Information on all procurements made by any Government department, a state government undertaking, local authority or Board, Body or Corporation established by or under any law and owned or controlled by the Government, and any other body or authority owned or controlled by the Government can be got.

For the first time tenderers can ask for details of processing just as the public. But one major lacuna is that the procedures specified in respect of the Projects funded by International Financial Agencies or Projects covered under International Agreements are not within the purview of this Act. This leaves much out of public scrutiny since in Karnataka there are many externally funded projects. as it is the details of such projects are not available in the regular accounts of Finance Department. The specific loan heads are put in a single file system of entry and are Retrieval of required information form the data is very difficult. But overall, the act has brought transparency of process and ensured savings to government. There is however still need to strengthen the Procurement Cell to spearhead preferential treatment to both private and public sector entities, by fashioning a set of standard tender documents and technical specifications preferably with expert advise and by introducing punitive " Black listing" rules.

Karnataka has been one of the pioneer states for decentralization. The template of the Panchyat Raj Act, 1987 was used the 73rd CA also. The panchayat raj system has substantial emphasis on local level transparency. It provides for a 'social audit' for the village level PRIs (jamabanhi), and for regular consultation with the local citizens of the PRIs (grama sabhas).

The Karnataka Local Fund Authorities Fiscal Responsibility Act, 2003 is an Act to provide for the responsibility of Local Authorities to ensure best practice of financial management of local funds and to enhance the scope for improving social and physical infrastructure and human development by achieving sufficient revenue surplus, ensuring prudent management of public fiscal operations of the Local Funds and use of a medium term fiscal framework. " Local fund" means the revenue administered by bodies which by any law or rule having the force of law are under the control of State Government whether in regard to the proceeding generally to the creation of filling up of post or sanctioning of their budget, sanction to the creation or filling up of post or particular appointments or encashment of leave, pension or similar matters.

The MTFP would be a source document for the preparation of the annual budget and shall address the prime needs of the citizens as relevant to the specific local fund authority such as water supply, construction of road, education, public health, solid waste management and the like. The MTFP shall have a functional focus and provide for backend modalities such as fund based accounting system, computerization and a realistic and transparent budgeting process. The act further emphasizes that every local fund authority shall ensure that there are atleast two meetings every year at the time of budget preparation and finalization with such citizen forums as may be prescribed.

There are many public initiatives in Karnataka, which are working towards greater transparency in governance. These use budget data to a large extent. The most popular and the recent example has been 'PROOF', which was a coming together of four diverse civil society players to work with the Bangalore Municipal corporation on budget matters from a citizen's perspective. This exercise has followed many of the initiatives set up in the Karnataka Local Fund authorities Fiscal Responsibility Act, 2003; like setting up a fund based accounting system, having regular meetings with citizen forums and the elected representatives. The most comprehensive thing has been that of having a continuous dialogue with the officials and the elected representatives to improve th4e system. The other NGOs are: (1) Centre for Budget and Policy Studies which works in the area of both urban and rural governance by doing budget analyses; (2) Public Affairs Centre, which has worked on civic issues and brings out the report cards to understand public perception; (3) Voices which is into media work and Janaagraha which is citizen's movement for participation in local urban governance which help in advocating the needs for better governance.

Like in most other states The Karnatka Right to Information Act, 2000 has also come in force.

The Act provides for the following:

(i) Requiring public authorities to make voluntary disclosure of certain information.

(ii) Listing exemption from giving information under certain circumstances.

(iii) Specifying the procedure for supply of information.

(iv) Specifying the grounds for refusal to supply information in certain cases.

(v) Imposing a penalty on the competent authority upto two thousand rupees for failure to give information without any reasonable cause.

(vi) An appeal is provided against the order of the competent authority and a second appeal lies to the Karnataka Appellate Tribunal.

The Act clearly puts in place systems where information can be denied under the fact that it is vital and not for public review. It has option for internal appeals only. But experts and others using the Act observe that it has taken a long period to notify the rules and bring the Act into effect. It is also seen that though the data is available, it would be costly many times since it costs Rs. 5 /- for each A-4 size folio unlike in states like Rajasthan where it is Rs. 2 /- per page. But ofcourse it is to be recognized that the move for the Bill and the subsequent Act in Karnataka has come through the initiative of the Government and not the people. Wherever there has been people's involvement it has made a difference.

The way ahead

What comes out is that there are many players in the civil society having different skill-sets. It is important to work on different aspects of budget analysis, viz., revenue side, expenditure side, tax analysis, etc. There is a need to improve the data systems. This can be done by understanding the tools study also. This would help in realizing what is missing and working towards better ways of compiling data.

The government has also come forward with the various Acts to enable in the process of greater transparency. The Supreme Court has passed historic judgements to reinstate the faith put in the constitution as being the final touchstone of democracy. A right is as good as long as it is used. Hence there is a need for creative use of the right.

As seen while those committing criminal acts get convicted though justice maybe slow, but those doing economic offences go scot-free. Allowing time to pass by without acting would be criminal. It is to be recognized that the Acts discussed above are all enabling ones to strengthen the institutional functions and procedures, which are already preordained. But when the same procedures are left to discretion these very Acts help in firming up issues and guiding one to keep on the path of transparent governance. Hence it is seen that time and again policy and legal changes have to be made to ensure accountability of the system. After all government is of the people, for the people and by the people.

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