

# LET'S TALK ABOUT BUDGET

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CBGA

2007

Centre for Budget and Governance Accountability

# **LET'S TALK ABOUT BUDGET**

By  
**Subrat Das**

**2007**

**Centre for Budget and Governance Accountability  
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Designing and Printing : Kriti Creative Studio, 9873249374



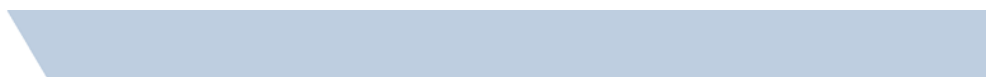
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## ACKNOWLEDGEMENTS

This booklet is meant to help the interested but uninitiated reader in comprehending some of the important aspects of Government Budgeting in India. This is a vast subject and its depth has increased over the years. At Centre for Budget and Governance Accountability (CBGA), we have been grappling with the details of Union Budgets since early 2003. Starting from 2006, we have also delved into State Budgets. I have benefited greatly from the collective experience of working on Budgets at CBGA. However, I would like to name, in particular, Mr. Siba Sankar Mohanty, Mr. Nandan Jha, Mr. Deepak Xavier and Mr. Nesar Ahmad for their valuable contribution towards CBGA Team's comprehension of Budgets.

Among the founders of CBGA, Mr. John Samuel has had a profound influence on the Team at CBGA, especially in our efforts to 'demystify' the Budget. Fr. Manu Alphonse and Dr. Vinod Vyasulu have played an important role in building the capacity of the Team at CBGA to comprehend and analyse Budgets. Hope, in this effort, I have been able to do justice to their valuable suggestions and guidance.

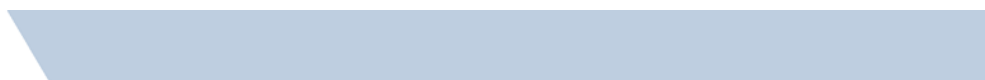
Mr. Amitabh Behar and Ms. Yamini Mishra have supported, guided and encouraged the CBGA Team at every step. I am really grateful to them for patiently bearing with the inordinate delay in completion of this task.

I am most grateful to Dr. Praveen Jha for giving me the responsibility of preparing this primer, which is essentially his brainchild. And, I really hope, this booklet does justice to Dr. Jha's visualization of a primer on budgets.

This booklet, in its last section, presents the References that I have used for various sections. However, for the sake of better readability, I have not cited the references within the text. I only take responsibility for the shortcomings in this booklet. Finally, I sincerely hope that this document would help the readers in overcoming their 'fear' of the technicalities of Budget and encourage them to delve deeper into Budgets of the Union Government and States.

**Subrat Das**



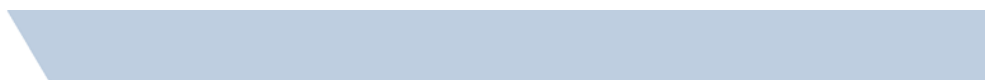




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# SHOULD WE BOTHER ABOUT BUDGETS?

We know the term 'budget' refers to some kind of a plan regarding one's income and expenditure over a certain period of time. **Budget of a government** usually refers to a statement of its receipts and expenditures for a particular year. Typically, the government budget is a comprehensive statement of government finances relating to a particular year. It is an expression of the intentions of the government as regards its expenditures over an ensuing year and its receipts to meet such expenditures in that year.

Before we get into the exercise of understanding what is a budget or what are the different concepts and processes associated with it, let's take up the question - **should we bother about budgets**, something which has conventionally been the domain of policymakers, economists and development policy analysts?

## **BUDGET IS CENTRAL TO GOVERNANCE**

In many countries, budget has become the most comprehensive and important instrument for the state through which a wide array of responsibilities can be delivered. As a result, budget of the government, in many countries, affects almost every sector of the economy and every section of the population. The policies driving the budget and implementation of the budget proposals are therefore of direct relevance to the entire population.

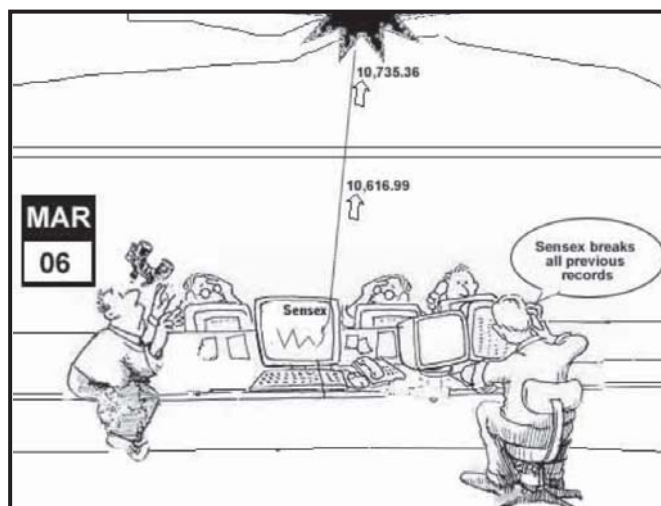
## **TOO LITTLE PUBLIC SCRUTINY OF THE BUDGET**

But neither the budget process (i.e., the process of budget preparation, presentation before the legislature, legalisation of the budget, and a periodic review of the same) nor do the budget policies (i.e., the socio-economic policies adhered to by the government in deciding the priorities in the budget) come under substantial public scrutiny. For instance in India, almost every form of media gives a lot of attention to budget in the immediate interval of its presentation in the Parliament, i.e., from the last week of February through the first fortnight of March, every year. But the debates and discussions around the budget die away even before it is enacted by the Parliament.



## ATTENTION OF THE MEDIA LOADED IN FAVOUR OF THEIR URBAN CLIENTELE

Also, during this very short-lived public scrutiny, media pays attention mostly to those issues which affect the urban, middle class population as they form the largest clientele of electronic and print media. Also, with the gradual expansion of financial services sector in Indian economy (as a result of increasing financial liberalization since 1990s), issues affecting the stock markets have been commanding enough media attention. The poor and marginalized sections of India's population- those who live in the rural areas, who depend on agriculture for their livelihood, who are in acute need of welfare measures from the state, who need free or inexpensive educational and healthcare facilities- hardly find their case being argued strongly in the limited scrutiny of the budget in the mainstream media. Their needs get acknowledged at best in certain sections of the academia, which may not have much influence on the policymakers in the government.



Source: Sify Finance, March 2006 (Budget Effect- Sensex goes through the roof)

## BUDGETS ARE NOT NEUTRAL TO POLITICAL IDEOLOGIES AND STRATEGIES

One of the most commonly held misleading notions about government budgets is that - the proposals and policies in the budgets are based on technocratic analyses, assumptions and conclusions. In reality, many of the budgetary proposals/ policies are deliberate political choices of the government in power. The decisions about collection of tax revenue from different sources within the country, public expenditure on the different areas/ services, and even those about deficits and debts, are often based on political strategies and they favour certain sections of the society.

“If, after all, Washington is a quintessentially political town, budgeting is a quintessentially political process.”- Al Gore, former Vice President of the United States, in ‘From Red Tape to Results: Creating a Government That Works Better and Costs Less: Mission-Driven, Results-Oriented Budgeting’, Washington DC, 1993. (Cited in Henry, 2003).

## **ECONOMICALLY AND SOCIALLY WEAKER SECTIONS OF THE POPULATION ARE MOST VULNERABLE TO NEGLIGENCE IN THE BUDGETS**

When budgets pursue unjust economic policies and when the pro-poor budgetary proposals do not get translated into reality, the poor and marginalized sections are the worst hit. Also, in many countries, there exists no direct and timely mechanism which can perform the necessary task of making the government answerable to such sections for its budget policies and implementation.

## **BRIDGING THE GAP BETWEEN PEOPLE AND THE GOVERNMENT**

The need for establishing accountability for budgets cannot be overstated in a country like India. The people-centric civil society organizations can perform the crucial task of bridging the gap between the vulnerable sections of the population and the government so as to make the government apparatus accept and honour its accountability to people for its budget policies and implementation.

## **UNDERSTANDING THE BUDGET IS KEY TO PARTICIPATION IN THE BUDGET PROCESS**

The task of establishing this accountability (in India) is very difficult given that only a miniscule proportion of the population understands the technicalities involved with budgets and the most crucial stage of budget process, that of budget preparation, does not allow any kind of participation by civil society organizations. Thus, public understanding and involvement in the budget process is critical for ensuring that the government is accountable to the public. Such a process of seeking accountability can lead to the formulation and proper implementation of pro-poor and pro-marginalised budgets.

## WHAT HELP DOES THIS BOOKLET OFFER?

This booklet aims to guide the interested but uninitiated readers in comprehending some of the important elements of government budgeting in India. However, government budgeting covers a wide array of issues and, it is difficult to predict the specific interest of the likely readers within this vast field. Hence, this booklet covers several aspects relating to government budgets in India, as outlined in the following.

Many of us take interest in the news or developments relating to public expenditure, taxes, deficits and public debt etc. However, we often confront problems with the analyses being presented due to the jargon and implicit assumptions used in them. To deal with this commonly faced hurdle, the third section of this booklet, **The Budget of “Dharamपुरi”**, explains the basics of a government budget with the help of an example. *Dharamपुरi* is a fictitious country with a very small budget - while the total expenditure from Union Budget of India in fiscal year 2007-08 is projected to be Rs. 680521 Crore, the total expenditure from *Dharamपुरi* Budget in 2007-08 is projected to be only 1000 *Mudras*. Most of the concepts and jargon used in the analyses of government budgets is explained in this third section with the help of examples from *Dharamपुरi*.

Some of the readers would be keenly interested in figuring out what do people mean when they refer to the Union Budget of India or the Budget of the Central Government of India? For all such readers, the fourth section of this booklet, **Union Budget of India**, presents a brief discussion and a few illustrations to explain the basic structure of the Central Government’s Budget. Some of us may be more interested in knowing if and when civil society organisations, peoples’ movements or activists can engage with government budgeting in India? In light of this, the fifth section of the booklet, **How is the Union Budget Prepared?**, presents a brief account of the various processes relating to the Union Budget, such as the making of the Union Budget, its approval by the Parliament and the review of its implementation. However, those of us who want to use the Union Budget documents for their own analyses/ interpretations would be interested in knowing what do the Budget documents actually look like? Keeping this need in

mind, the sixth section, **What do Union Budget papers look like?**, presents a set of windows that show some of the most relevant papers in the Union Budget of India. These windows also provide pointers that would help a researcher in deciphering the Union Budget papers.

Those of us, who are equally interested in the Budgets of any of the State Governments in India, would find the seventh and eighth sections of this booklet, **Does Union Budget influence the Budgets of States?** and **Can we understand State Budget papers?**, useful. The seventh section explains the flow of resources from the Union Budget to Budgets of the States, which is pertinent to comprehend as increasing centralization of public finance in India has become a major concern for many progressive economists and development policy analysts. This section also discusses the structure of a State Budget. The eighth section briefly discusses how State Budget papers can be deciphered and used for our own analyses/interpretations.

Analysis of government Budgets is something which economists and policy analysts in India have been doing since long. However, the engagement of civil society organisations with this kind of analysis marked a sharp deviation in terms of the purpose of such analysis. The purpose being advocacy for a better deal for the disadvantaged sections (of the country's population) in the Budgets, the civil society organisations in India (as in several other countries across the world) have started analysing Union Budgets and State Budgets through specific lenses, such as a 'gender' lens, a 'child' lens, or a '*Dalit*' lens. Thus, many of our readers may also take a keen interest in figuring out how people are analysing Budgets from such perspectives. Hence, ninth section of this booklet, **Looking at Budgets through a specific lens**, discusses some of the central questions that are being asked in the analyses of Budgets from the perspectives of gender, *Dalits* and *Adivasis*.

The final section of this booklet, **An Epilogue**, locates the Budget in a larger picture of government intervention for socio-economic development, which helps us both in appreciating the importance of analysing government Budgets as well as recognizing the limitations of the same.

### DHARAMPURI!

*Dharampuri* is a very small country. But rich with forests, mountains, rivers, lakes, and a reasonably long seacoast, it has enviable natural beauty. Its diversity of flora and fauna is matched by abundance of mineral resources. The people, in general, are hospitable and jovial. Though material affluence has been elusive for a large section of them, they take pride in their rich cultural heritage.

### GOVERNMENT OF DHARAMPURI

The Government of Dharampuri deals with almost all spheres of the economy and society. It performs diverse functions ranging from defence of the country and maintenance of law and order in the country to promoting economic development and delivering social services like education and healthcare. Clearly, the Government needs a significant amount of financial resources for delivering all these services. It mobilizes these funds from Dharampuri's resources mainly through taxes, fees/ service charges and borrowings. But can the Government collect these funds or spend it the way it likes? It cannot, because, first of all, the country's resources are limited. Besides, the way in which the Government mobilizes its funds and the way it spends both affect the economy and people of the country significantly. Hence, both resource mobilization of the Government as well as its spending have to be well thought out.

Moreover, Dharampuri has a Parliamentary system of Government and it follows a Constitution. The Constitution of the country has made the Government answerable to the Parliament for its actions relating to resource mobilization and spending. Therefore, the Government of Dharampuri prepares a Budget every year. This Budget is quite different from that of a company or a household. It is not meant to be an exercise for balancing the account books for a year. It has far-reaching consequences for the people of the country and the economic activities being carried out in the country. All citizens have a stake in the Budget of Dharampuri Government; and the Constitution of the country has, therefore, made the Government answerable to citizens' representatives (in the Parliament) for the Budget.

## THE BUDGET OF DHARAMPURI GOVERNMENT

The Government prepares a Budget for every financial year/ fiscal year, which in Dharampuri runs from April 1 of a calendar year to March 31 of the next calendar year. Thus, the one-year time period from April 1 of 2007 to March 31 of 2008 is referred to as fiscal year 2007-2008, or 2007-08 in short.

This Budget is prepared in advance, i.e. Budget for a fiscal year is prepared before the start of that fiscal year. What this implies is: Budget for the fiscal year 2007-08 would be prepared before April 1 in 2007. In fact, the Government is required to present it before the Parliament and get the Budget for 2007-08 approved before April 1, 2007.

Every Budget broadly consists of two parts, viz. (i) **Expenditure Budget** and (ii) **Receipts Budget**. The **Expenditure Budget** presents the information on how much the Government intends to spend and on what, in the next fiscal year. The currency in circulation in Dharampuri is called *Mudra*. So the amounts of intended expenditure by the Government are expressed in *Mudra* in the Expenditure Budget. On the other hand, the **Receipts Budget** presents the information on how much the Government intends to collect as its financial resources for meeting its expenditure requirements and from which sources, in the next fiscal year. The amounts of projected receipts of the Government are also expressed in *Mudra*.

Let us now consider Dharampuri Government's Budget for the fiscal year 2007-08, which was presented to the Parliament and approved by the latter before April 1, 2007. Let us first consider the **Expenditure Budget for 2007-08**.

The Expenditure Budget for 2007-08 shows the amounts of money which Dharampuri Government intends to spend on its various functions/ services in the fiscal year 2007-08. There are 20 different functions/ services on which the Government would be spending money and the total spending is projected to be 1000 *Mudras*. Since this is the Expenditure Budget, which has been approved by the Parliament of Dharampuri for 2007-08, the Government cannot spend amounts greater than what is shown in this Budget either in aggregate or on any individual function.

Most of the functions/ services mentioned in this Expenditure Budget are easy to understand, e.g. Defence, Law & Order, Pensions, Agriculture, Irrigation, Education, and Health & Family Welfare etc. All these refer to the various sectors in which

## EXPENDITURE BUDGET for 2007-08

Sl. No.	Government Services/Functions	Amount to be spent in 2007-08 (in Mudras)
1	Interest Payments	150
2	Repayment of Debt (taken in the past)	100
3	Defence	125
4	Law and Order (Police)	50
5	Running of Different Organs of the State	15
6	Pensions	35
7	Agriculture	75
8	Irrigation	05
9	Industry and Minerals	15
10	Employment Generation Programmes	10
11	Transport	25
12	Communications	15
13	Energy (Power)	30
14	Education	175
15	Health & Family Welfare	60
16	Water Supply & Sanitation	30
17	Welfare of Marginalised Sections	20
18	Welfare of Handicapped and Destitute People	10
19	Youth Affairs & Sports	05
20	Grants to Sub-national Governments	50
	<b>Total Expenditure</b>	<b>1000</b>

Government is performing certain functions. However, some of the functions/ services mentioned in the Expenditure Budget need to be explained. These are as given below:

- ◆ **Repayment of Debt-** We have a *debt* when we owe somebody money. When we have a debt we are also charged an *interest*. Repayment of debt, as mentioned in the Expenditure Budget above, needs to be distinguished from interest payments. Repayment of debt refers to repayment of the principal amount of the borrowing. Usually, a Government would have to pay the

interest charges every year. But it need not repay the principal amount of the debt (either the whole amount or a part of it) every year. Hence, in a Government Budget, repayment of debt is distinguished from interest payments.

- ◆ **Interest Payments-** As mentioned above, interest is an extra charge on the original debt. Typically, a Government having a debt would make interest payments from its Budget every year.
- ◆ **Running of Different Organs of the State-** This refers to administration and various other types of state intervention (such as, judiciary, auditing, planning etc.) which are required for the country, but which do not get any fund support from any of the other items of expenditure shown in the Expenditure Budget.
- ◆ **Grants to Sub-national Governments-** The national government delivers many of its services, like, Maintenance of Law & Order, Agriculture, Irrigation, Employment Generation, Education, Health & Family Welfare, etc. through sub-national governments in different regions of the country. In these sectors, the funds meant for expenditure are transferred from the national government to the sub-national governments before the actual expenditure is incurred. But while incurring the actual expenditure, the sub-national governments have to follow the purposes/ guidelines/ conditions laid down by the national government for each of these sectors. What this implies is: if the sub-national governments need to incur any expenditure independent of the purposes/ guidelines/ conditions laid down by the national government, they would not be able to do so. This restriction on the sub-national governments is not at all desirable, as they are in closer contact with the citizens than the national government; hence, they not only need to be able to respond to the unforeseen problems but they should also have the scope for setting up their own priorities for public spending in different sectors. Taking this need into account, the national government provides a certain amount of money to the sub-national governments every year, which the latter can spend at their own discretion. The last item in Expenditure Budget of Dharampuri, Grants to Sub-national Governments, refers to the total amount of such kind of unconditional funds transferred to the sub-national governments.

### **LET'S DEAL WITH SOME JARGON ON EXPENDITURE BUDGET!**

We can see in the Expenditure Budget (on the previous page) that there are four different compartments in which the 20 different functions/ services have been organized. This compartmentalization has some significance. Typically, all kinds



of services provided by the government can be divided into three different categories, viz. **General Services**, **Economic Services** and **Social Services**, depending on the main purpose of the services being delivered.

**General Services:** The first six items in the Expenditure Budget of Dharampuri, i.e. **Interest Payments; Repayment of Debt; Defence; Law and Order (Police); Running of Different Organs of the State; and Pensions**, constitute the General Services delivered by the Dharampuri Government. The term General is meant to distinguish these services from the other two kinds of services, i.e. Economic and Social.

**Economic Services:** In the Expenditure Budget of Dharampuri, the items numbered 7 to 13, i.e. **Agriculture; Irrigation; Industry and Minerals; Employment Generation Programmes; Transport; Communications; and Energy**, constitute the Economic Services delivered by the Government. These services usually lead to income generating activities for the people and promote the expansion of economic activities in the country.

**Social Services:** In the Expenditure Budget of Dharampuri, the items numbered 14 to 19, i.e. **Education; Health & Family Welfare; Water Supply & Sanitation; Welfare of Marginalised Sections; Welfare of Handicapped and Destitute People; and Youth Affairs & Sports**, constitute the Social Services delivered by the Government. The interventions by the Government in these sectors are expected to promote social development. Although better outcomes in the social sector, like better education and better health, also contribute towards economic development, this effect would be indirect and take more time to be realized.

### **A Summary of Dharampuri's Expenditure Budget for 2007-08**

<b>Government Services</b>	<b>Amount to be spent in 2007-08 (in Mudras)</b>	<b>Share in Total Expenditure</b>
General Services	475	47.5 per cent
Economic Services	175	17.5 per cent
Social Services	300	30 per cent
Grants to Sub-national Govts	50	5 per cent
<b>Total Expenditure</b>	<b>1000</b>	

Now, how would a development policy analyst interpret the Expenditure Budget of Dharampuri Government for 2007-08? Let's suppose, she is of the opinion that government interventions in the Economic Services need to be much stronger and wider in order to reduce poverty in Dharampuri and raise the standard of living of its people. But due to inadequate fund support, the government interventions in this sector have been weak and unable to give desired results. Hence, she would assess the 'priority' accorded by the Government to Economic Services in its Budget! As a first step, she may compare the resources allocated for Economic Services with those for other sectors. She might be disappointed to find that funds allocated for Economic Services account for only 17.5 per cent of the total Dharampuri Budget, while that for General Services account for as much as 47.5 per cent of the total Budget.

The analyst may then examine the funds allocated for Agriculture (75 *Mudras*), Irrigation (5 *Mudras*) and Employment Generation Programmes (10 *Mudras*), which together account for 9 per cent of the total Budget. But the funds allocated for Defence (125 *Mudras*) account for 12.5 per cent of the Budget. Hence, she may opine that the Government of Dharampuri should have allocated smaller amount of funds to Defence and more funds to Agriculture, Irrigation and Employment Generation Programmes. Thus, she may suggest that the 'priority' for Agriculture, Irrigation and Employment Generation Programmes should have been higher in the Budget.

Nonetheless, the Government of Dharampuri could have allocated higher amounts of funds for any one or more sectors if it could collect a greater amount of funds through its receipts! Let us now consider the country's **Receipts Budget for 2007-08**.

The **Receipts Budget for 2007-08** shows the amounts of money which Dharampuri Government has projected as its collections of funds through various kinds of receipts in the fiscal year 2007-08. There are 13 different sources through which the Government would be collecting its funds and the total receipt is projected to be 1000 *Mudras*. We must note here that the total receipts have to be at least as much as the total expenditure which the Government intends to incur in 2007-08. For, otherwise, the Government cannot meet its expenditure requirements in 2007-08. However, these total receipts (i.e. 1000 *Mudras*) also include the new borrowing (worth 250 *Mudras*) which the Government would be required to make in 2007-08. We will discuss this aspect in detail a little later.

## RECEIPTS BUDGET for 2007-08

Sl. No.	Source of Government's Receipts	Amount to be collected in 2007-08 (in Mudras)
1	Corporation Tax	150
2	Personal Income Tax	89
3	Wealth Tax	01
4	Customs Duties	95
5	Excise Duties	125
6	Sales Tax	110
7	Service Tax	30
8	Interest receipts	25
9	Fees/ User Charges	35
10	Dividend & Profits from Government Enterprises	40
11	Recoveries of Loans	40
12	Earnings from the sale of Govt. Enterprises	10
13	Debt	250
	<b>Total Receipts</b>	<b>1000</b>

The first seven items in the Receipts Budget are the different types of **taxes** levied by the Dharampuri Government. **Tax** refers to the money collected by the government through payments imposed by legislation. Since the Parliament of Dharampuri has approved the Budget, it has also approved the rates of taxation proposed by the Government for 2007-08. What this means is: the Government has levied the rates of different types of taxes for 2007-08 by enactment of the legislation relating to the tax rates.

However, we need to understand what the different sources in the Receipts Budget refer to. This is attempted in the following:

- ◆ **Corporation Tax**- It is a tax which is levied on the incomes of registered companies and corporations in the country, whether national or foreign. In India, national companies are taxable in the country on the basis of their worldwide income, irrespective of its source and origin. Foreign companies are taxed only on income which arises from operations carried out in India or, in certain cases, on income which is deemed to have arisen in India.

- ◆ **Personal Income Tax**- It is a tax which is levied on the incomes of private individuals. In India, this Personal Income tax is paid to the Central Government.
- ◆ **Wealth Tax**- Wealth tax is levied on the benefits derived from ownership of property. This tax is supposed to be paid year after year on the same property on its market value, whether or not such property yields any income. However, wealth tax has been virtually abolished in India. Productive assets are free from wealth tax without any limit. Productive assets like shares, debentures, bank deposits and investments in mutual funds are exempt from wealth tax. The non-productive assets include jewellery, bullion, motorcars, aircraft, urban land, etc. Foreign nationals are exempt from wealth tax on non-Indian assets.
- ◆ **Customs Duties**- It is a type of tax levied on goods imported into the country as well as on goods exported from the country. In this case, the taxable event is import into or export from the country. Here, import of goods means bringing goods into the country from a place outside the country. And, export of goods means taking goods out of the country to a place outside the country.
- ◆ **Excise Duties**- Excise duty is a type of tax levied on those goods which are manufactured in the country and are meant for home consumption. In this case, the taxable event is 'manufacture' and the charge of excise duty arises as soon as the goods are manufactured. It is a tax on manufacturing, which is paid by the manufacturer. But the manufacturer passes this tax burden on to the customers. Excise duties are often levied at higher rates on goods whose consumption is believed to have adverse effect on public health or the environment etc. (e.g. excise duties on alcoholic drinks, tobacco, and petrol).
- ◆ **Sales Tax**- It is levied on the sale of a commodity, which is produced/ imported and sold for the first time. If the product is sold subsequently without being processed further, it is exempt from sales tax. In India, Sales Tax used to be levied under the authority of both Central Legislation (Central Sales Tax) and State Governments' Legislations (Sales Tax) before the introduction of Value Added Tax (VAT). We shall discuss the concept of Value Added Tax (VAT) in one of the subsequent sections.
- ◆ **Service Tax**- It is a tax levied on services provided by a person and the responsibility of payment of the tax is cast on the service provider. However, this tax can be recovered by the service provider from the service receiver in course of his/ her business transactions.

- ◆ **Interest receipts**- Interest charges received on Loans given by the Government, which have not been repaid by the borrowers yet.
- ◆ **Fees/ User Charges**- Payments collected for some of the services delivered by the Government Departments.
- ◆ **Dividend & Profits from Government Enterprises**- This refers to the monetary gains (of the Government) on the investments made by Government in various public sector companies. This means that for every share owned by the Government, it is paid a portion of the company's earnings.
- ◆ **Recoveries of Loans**- This refers to the Principal amounts of the debts repaid (either in full or in part) by those who had borrowed from Government earlier.
- ◆ **Earnings from Disinvestment**- Disinvestment involves the sale of either whole or a part of the Government's stakes in a public sector company. The government, and not the public sector company, receives money from this disinvestment.
- ◆ **Debt**- Debt in the Receipts Budget for 2007-08 refers to the new Debt (or new borrowing) which is to be incurred by the Government in the fiscal year 2007-08. In case of the Receipts Budget of Dharampuri for 2007-08, all other receipts (i.e. items 1 to 12) taken together provide less than 1000 *Mudras*; hence, the Dharampuri Government has no choice but to incur a debt for meeting its estimated total expenditure requirement of 1000 *Mudras* in 2007-08.

### **LET'S DEAL WITH SOME JARGON ON RECEIPTS!**

**Tax Revenue and Non-Tax Revenue:** The receipts of the Government through different types of taxes are collectively referred to as **Tax Revenue**. In the Receipts Budget for 2007-08, total amount to be collected from items 1 through 7 (the taxes) is 600 *Mudras*, hence the total Tax Revenue of Dharampuri Government in 2007-08 is projected to be 600 *Mudras*. On the other hand, the items 8 through 10 (i.e. Interest receipts, Fees/ User Charges, and Dividend & Profits from Government Enterprises) together constitute the **Non-Tax Revenue** of the Government (which is projected to be 100 *Mudras* in 2007-08). However, the remaining three items (i.e. Recoveries of Loans, Earnings from Disinvestment, and Debt) are distinguished from Revenue receipts and are referred to as Capital receipts. We shall discuss why, in a little while.

**Direct Taxes:** Those taxes for which the tax-burden cannot be shifted or passed on are called Direct Taxes. What this means is: any person, who directly pays this kind of a tax to the Government, bears the burden of that particular tax. Examples of Direct Taxes in the Receipts Budget for 2007-08 are:

- ◆ Corporation Tax
- ◆ Personal Income tax
- ◆ Wealth Tax

**Indirect Taxes:** Those taxes for which the tax-burden can be shifted or passed on are called Indirect Taxes. What this implies is: any person, who directly pays this kind of a tax to the Government, need not bear the burden of that particular tax; he/she can ultimately shift the tax-burden to other persons later through business transactions of goods/ services. Examples of Indirect Taxes in the Receipts Budget for 2007-08 are:

- ◆ Customs Duties
- ◆ Excise Duties
- ◆ Sales Tax
- ◆ Service Tax

Indirect tax on any good or service affects the rich and the poor alike! Unlike indirect taxes, direct taxes (i.e. Corporation Tax, Personal Income Tax, Wealth Tax, etc.) are linked to the tax-payee's ability to pay and hence are considered to be progressive.

### Receipts from Taxes in 2007-08

Sl. No.	Government's Receipts from Taxes	Amount to be collected in 2007-08 (in Mudras)
	<b>Direct Taxes</b>	
1	Corporation Tax	150
2	Personal Income Tax	89
3	Wealth Tax	01
	Direct Taxes (Total)	240
	<b>Indirect Taxes</b>	
4	Customs Duties	95
5	Excise Duties	125
6	Sales Tax	110
7	Service Tax	30
	Indirect Taxes (Total)	360
	<b>TOTAL RECEIPTS FROM TAXES</b>	<b>600</b>

Let us consider some possible reactions of our development policy analyst to the Receipts Budget of Dharampuri Government for 2007-08! She might first of all point out that Direct Taxes would contribute only 240 *Mudras* (40 per cent of total Tax Revenue) while Indirect Taxes would contribute 360 *Mudras* (60 per cent of total Tax Revenue). Hence, she may very well say that the system of taxation imposed by the Government is not progressive. Then she may go deeper into the rates of taxation as well as the legislation with regard to all kinds of taxes. The Dharampuri Government gives various kinds of **tax exemptions/ concessions** in all of its taxes to different persons (and, companies/ service providers/ manufacturers/ importers/ exporters) based on some rationale. For example, the Dharampuri Government has exempted the companies in some types of industries from paying Corporation Tax in order to promote the expansion of such industries. However, the analyst believes that those industries have enjoyed such tax exemptions for long and now it is high time the Government starts taxing their incomes! Thus, the analyst may strongly argue that the Government should have reduced the tax exemptions/ concessions in order to collect a greater amount of Receipts, which in turn would have enabled the Government to allocate greater resources for crucial sectors like Agriculture, Irrigation and Employment Generation Programmes.



Source: McHumor by T. McCracken

Well, that's not all in the Receipts Budget which may disappoint the analyst! She may have gathered that Government Hospitals in Dharampuri are imposing very high Fees/ User Charges even on poor people; hence, in 2007-08, the Government should have acted towards abolishing/ reducing the high User Charges in Government Hospitals. Moreover, the proposal of the Government to sell one of its public sector companies to private players (from which the Government intends to collect 10 *Mudras* in 2007-08) might have negative implications for the hundreds of workers who are dependent on that public sector company. Hence, the analyst would scrutinize the Receipts Budget as seriously as she would examine the Expenditure Budget of Dharampuri Government.

### LET'S DEAL WITH SOME MORE JARGON ON THE BUDGET!

The entire **Expenditure Budget** can be divided into two distinct categories called: **Revenue Expenditure** and **Capital Expenditure**. Before we discuss this further, let us first comprehend the terms assets and liabilities of a government.

A government's **assets** could be financial (e.g. investments, loans/ advances given, equities) or physical (factories, bridges, school buildings, hospital buildings). Almost all financial assets provide future monetary benefits, while some of the physical assets may also provide monetary benefits in future. On the other hand, a government's **liabilities** are by nature financial and they are amounts owed to other parties (e.g. borrowings and advances received by the government).



**Capital Expenditure** is usually meant for increasing the government's assets or reducing its liabilities.

- ◆ It is, however, not necessary that the assets created should be productive or they should even be revenue generating.
- ◆ Once the government decides to spend for the creation of an asset, Capital Expenditure bears all charges for the first construction of the asset, while Revenue Expenditure bears all subsequent charges for its maintenance and all working expenses.

Capital Expenditure of any type is usually not incurred regularly from every Budget. Hence, most kinds of Capital Expenditures are seen as **non-recurring** expenditures.

Some examples of Capital Expenditure:

- ◆ Government spends for building a new Factory (*increase in assets*)
- ◆ Government acquires 10 per cent shares of a company (*increase in assets*)
- ◆ Government gives a Loan to someone (*increase in assets*)
- ◆ Government repays the Principal amount of a debt it had taken from someone (*reduction of a liability*)

**Revenue Expenditure** generally does not have anything to do with creation of assets or reduction of liabilities of the government. Most kinds of Revenue Expenditures are seen as **recurring** expenditures, since the government incurs those expenditures periodically from every Budget.

Some examples of Revenue Expenditure:

- ◆ Government pays the Interest charges due on a loan from International Monetary Fund (*no effect on the size of the original liability of Government*)
- ◆ Government expenditure on Food Subsidy (*no effect on assets/ liabilities*)
- ◆ Government spending on Salary of its employees
- ◆ Government spending on procurement of medicines for its hospitals
- ◆ Government of Dharampuri gives Grants to a sub-national government, which spends it to build Schools (*This would not be reported as a Capital Expenditure in the Budget of the national Government as the national Government would not own the Schools built!*)

In the Expenditure Budget for 2007-08, the last item was 'Grants to Sub-national Governments'. The sub-national governments may use a part of these Grants to build Schools/ Hospitals, etc. But still, those expenditures would not be reported as Capital Expenditure for the national Government since the national Government is not going to own the Schools/ Hospitals built (by the sub-national governments with the Grants).

The entire **Receipts Budget** can be divided into two distinct categories called: **Revenue Receipts** and **Capital Receipts**.

**Capital Receipts:** Capital Receipts of the government lead to a reduction in the assets or an increase in the liabilities of the government. Capital Receipts for government need not come periodically in every Budget.

- ◆ Capital Receipts that lead to a reduction in assets are **Recoveries of Loans** given by the government in the past, and **Earnings from Disinvestment** in government owned enterprises.
- ◆ Capital Receipts through **Debt** lead to an increase in government's liabilities.

**Revenue Receipts:** With this kind of receipts, there is no change in the asset-liability position of the government, i.e. a Revenue Receipt neither reduces the assets of the government nor increases its liabilities. Revenue Receipts consist of proceeds of total Tax and Non-Tax Revenues of the government.

Some examples of Revenue Receipts:

- ◆ Interest receipts for government from loans it had given earlier (*no effect on the size of the original asset of government*)
- ◆ Receipts from Fees/ User Charges imposed by government
- ◆ Dividend & Profits from government owned enterprises (*no effect on the size of the original asset of government*)
- ◆ Revenue earned from the various types of Taxes

Now, we have seen that a **Debt** is a kind of receipt that necessarily leads to an increase of the government's liabilities. Then, why does a government incur a Debt at all? As mentioned earlier, in case of the Receipts Budget of Dharampuri for 2007-08, all other receipts (i.e. items 1 to 12) taken together provide less than 1000 *Mudras*; hence, the Dharampuri Government had no choice but to incur a Debt for meeting its estimated total expenditure requirement of 1000

*Mudras* in 2007-08. Thus, government incurs a Debt only for meeting a gap in its expenditure and receipts. How is this gap seen by the budget makers/ economists/ analysts? This gap is named **Deficit**. Thus, Deficit is a Gap and government takes a Debt to cover that gap.

Economists and policy analysts have coined different names for different types of deficits, which is as explained below:

**Fiscal Deficit:** Fiscal Deficit of the government is the gap between its “Total Expenditure (including Loans net of Repayments)” and its “Total Receipts (excluding new Debt to be taken)”. Thus, Fiscal Deficit indicates the **borrowing to be made** by the government in a particular year for which the Budget is meant.

◆ In case of Dharampuri Budget for 2007-08,

$$\begin{aligned}\text{Fiscal Deficit} &= \text{Total Expenditure} - \text{Total Receipts (excluding new Debt)} \\ &= 1000 - 750 \\ &= 250 \text{ (in } \textit{Mudras}\text{)}\end{aligned}$$

If Total Receipts (excluding new Debt) exceed Total Expenditure of the government, then there would be a **Surplus** for the government, and hence, no need for borrowing.

**Revenue Deficit:** The gap between “Total Revenue Expenditure” of the government and its “Total Revenue Receipts” is called the Revenue Deficit. If Revenue Receipts are higher than total Revenue Expenditure, then the government would have a Revenue Surplus.

◆ In our example of Dharampuri Budget for 2007-08,

$$\begin{aligned}\text{Total Revenue Expenditure} &= 800 \\ \text{Total Revenue Receipts} &= \text{Tax Revenue} + \text{Non-Tax Revenue} = 700 \\ \text{Revenue Deficit} &= 800 - 700 = 100 \text{ (in } \textit{Mudras}\text{)}\end{aligned}$$

Using all these concepts of Revenue Expenditure, Capital Expenditure, Revenue Receipts, Capital Receipts, Deficit and Debt, a technical summary of Dharampuri Budget for 2007-08 can be prepared.

**A Technical Summary of the Dharampuri Budget for 2007-08**  
(Figures are in *Mudras*)

1. EXPENDITURE BUDGET		2. RECEIPTS BUDGET (excluding the Debt to be incurred in 2007-08)	
<b>Revenue Expenditure</b> of which	<b>800</b>	<b>Revenue Receipts</b> of which	<b>700</b>
▪ Interest Payments	150	▪ Tax Revenue	600
▪ Other Revenue Expenditure	650	▪ Non-Tax Revenue	100
<b>Capital Expenditure</b> of which	<b>200</b>	<b>Capital Receipts (excluding new Debt)</b> of which	<b>50</b>
▪ Repayment of Debt (taken in the past)	100	▪ Recoveries of Loans	40
▪ Other Capital Expenditure	100	▪ Other Capital Receipts (excluding new Debt to be incurred in 2007-08)	10
<b>Total Expenditure</b> = Revenue Expenditure + Capital Expenditure	<b>1000</b>	<b>Total Receipts (excluding new Debt)</b> = Revenue Receipts + Capital Receipts (excluding new Debt)	<b>750</b>
3. DEFICIT (in +) / SURPLUS (in -)		4. FINANCING OF THE FISCAL DEFICIT	
<b>Fiscal Deficit</b> = Total Expenditure – Total Receipts (excluding new Debt) = 1000 – 750	<b>250</b>	(a) <b>Total Borrowing from Domestic Sources</b> of which	200
<b>Revenue Deficit</b> = Revenue Expenditure – Revenue Receipts = 800 – 700	<b>100</b>	(i) Borrowing from the Domestic Banking System	150
		(ii) Borrowing from Members of the Public	50
<b>Primary Deficit</b> = Total Expenditure excluding Interest Payments – Total Receipts (excluding new Debt) = Fiscal Deficit – Interest Payments = 250 – 150	<b>100</b>	(b) <b>Total External Borrowing</b>	50
		<b>Debt to be incurred in 2007-08</b> [(a) + (b)]	<b>250</b>
		<b>Printing of Money for financing the Fiscal Deficit</b> (or Monetisation of the Fiscal Deficit)	<b>0</b>

As shown in the technical summary of Dharampuri Budget for 2007-08, there are mainly four blocks in the Budget. The first block, i.e. the first set of figures, presents the information relating to the Government's intended expenditures in 2007-08. The second block presents the information on the Government's projected receipts from all sources excluding debt. These two blocks of figures give us the

gap or the Fiscal Deficit in 2007-08. The third block presents the figures for different types of Deficits. But what is most important here is the Fiscal Deficit, since it shows the total amount of money which the Dharampuri Government will need to borrow in 2007-08. Then, the fourth block shows how the Dharampuri Government intends to borrow this amount in 2007-08. In this case, the Government intends to borrow 200 *Mudras* from the domestic sources and remaining 50 *Mudras* from external sources.

## HOW DOES DHARAMPURI BUDGET COMPARE WITH BUDGETS OF OTHER COUNTRIES?

It would be interesting to see how the Budget of Dharampuri compares with the Budgets of other countries. However, we should first note that other countries present their Budgets in their own currencies, and not in *Mudras*. Secondly, before we start comparing the expenditures or receipts of Dharampuri Government with those of other countries, we should also note that the size of Dharampuri's economy could play a major role in deciding the limits to Dharampuri Government's receipts and hence its expenditures. But still, an international comparison is very important. Hence, we need to find a way out! It would be possible to make an international comparison if we present the Expenditure and Receipts of Dharampuri Government as proportions of the total size of Dharampuri economy and do the same for other countries as well. But, then, how do we measure the size of Dharampuri's economy? We do that by referring to a figure called **Gross Domestic Product** or **GDP** of Dharampuri.

## DHARAMPURI'S GDP

The Gross Domestic Product (GDP) of a country indicates the size of the country's economy. Usually, GDP of a country for any particular year is expressed as a comparison with its value for the previous year. For instance, if we read somewhere that the GDP in 2007-08 will grow by 5 per cent, what it means is the economy will be 5 per cent larger than what it was last year. In other words, if all economic activities being carried out in the country are measured, these measurements give some monetary values, and then the aggregate monetary value for all economic activities is found out, we would get a monetary value for the size of the whole economy. A growth of 5 per cent of the economy over previous year would then imply that the monetary value for the whole economy has increased to 105 *Mudras* if it was 100 *Mudras* last year.

Measuring GDP is complicated, and we need not bother much about it. But in its most simple form, the computation of GDP for a year can be done by adding up what everyone in the country spent that year. To add just one complication to this not so simple explanation: only the expenditures on final goods and services (and not inputs/ intermediate goods and services which are used for the final goods and services) are considered in this computation of GDP, in order to avoid double counting. For instance, suppose a certain farmer sells the entire amount of Wheat produced by him to a factory which makes Bread. Then, in calculation of the GDP, if output of the Bread-making factory has been included, the Wheat produced by the farmer has to be kept outside the GDP figure.

Now, for those who are keen to learn more about the technicalities of GDP:

Gross Domestic Product (GDP) of a country, for any particular year, gives the monetary value of the sum total of final goods and services produced within the territory of the country in that year.

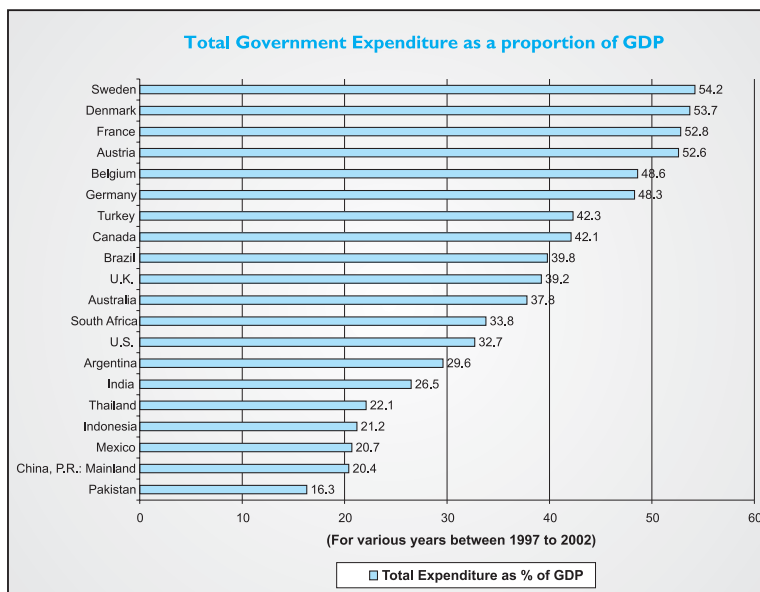
It measures the value of economic activity within the country since it is the sum of the market values, or prices, of all final goods and services produced in the economy during a period of time.

Some of the important aspects of the measurement of GDP are that:

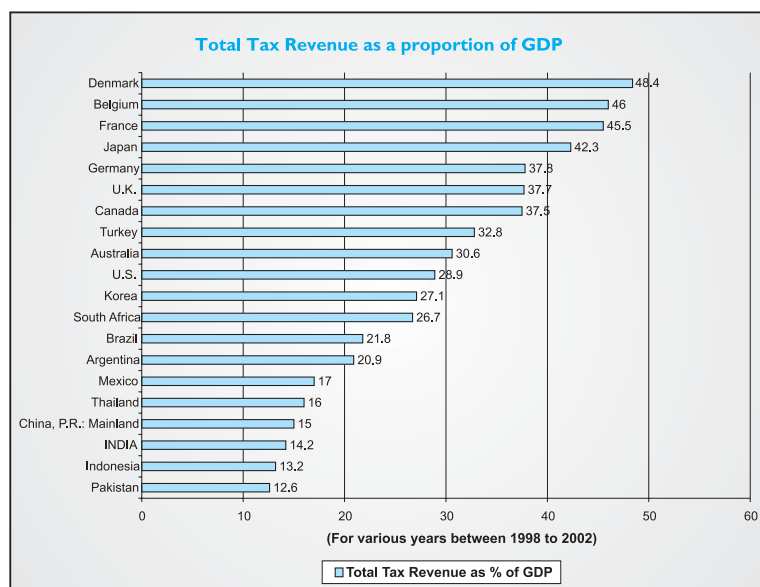
1. GDP expresses the worth of the output of a country in local currency.
2. GDP tries to capture all final goods and services produced within the country.
3. GDP is calculated for a specific period of time, usually a year or a quarter of a year.

These aspects provide a standard basis for comparison of GDP across time as well as different national economies.

Let us come back to the **GDP of Dharampuri**, which for the fiscal year 2007-08 has been estimated to be **5000 Mudras**. So, we can now compare the Expenditure and Receipts of Dharampuri Government for 2007-08 with the GDP of Dharampuri for 2007-08. We find that **Total Expenditure by Dharampuri Government** (i.e. 1000 Mudras) amounts to **20 per cent of the country's GDP**. But this figure would be much higher for many other countries. The Governments of most of the developed countries as well as many developing countries spend a much higher amount of money in comparison to their countries' GDP.



Likewise, the **Total Tax Revenue of Dharampuri Government in 2007-08** (i.e. 600 Mudras) amounts only to **12 per cent** of the country's GDP in 2007-08. Now, the total tax revenue in many countries would be much higher than this figure in comparison to their countries' GDP.



### Public Spending on Education and Health: An International Comparison (2002 – 2004)

Country	Public Expenditure on Education as % of GDP (2002-04)*	Public Expenditure on Health as % of GDP 2003
Norway	7.7	8.6
United States	5.9	6.8
Netherlands	5.3	6.1
France	6	7.7
U.K.	5.5	6.9
Mexico	5.8	2.9
Malaysia	8	2.2
Brazil	4.1	3.4
Thailand	4.2	2
India	3.3	1.2

\* Data refer to the most recent year available during the period specified.

**Source:** UNDP, 2006

Thus, if we compare the Total Tax Revenue and Total Expenditure of Dharampuri Government with those of Governments of other countries, we would find that the scope of interventions by Dharampuri Government is much smaller in comparison to many other countries. This might have serious repercussions for the process of socio-economic development in Dharampuri. For instance, in Dharampuri, government spending on Education (175 *Mudras* in 2007-08) amounts only to 3.5 per cent of the country's GDP, while that on Health & Family Welfare (60 *Mudras* in 2007-08) amounts to a meager 1.2 per cent of the country's GDP. But these figures are significantly higher not only in the developed countries, but also in many developing countries. These low levels of government spending on Education and Health in Dharampuri might have resulted in weak and ineffective government interventions in these important sectors, which in turn could have resulted in low levels of development in the country.



Union Budget is perhaps the most comprehensive platform for the Central Government in India for giving shape to its policy priorities. Be it the adoption progressive socio-economic policies, reforms in taxation, or market driven reforms in the economy, Union Budget has been the most important platform for policy changes in India. In the previous section, we have discussed many of the concepts underlying a Government Budget as well as the jargon used in Budgets. Almost all of that would be applicable for India, in particular for the Union Budget of India. This section essentially tries to answer the question: what do people mean when they refer to the Union Budget/ Budget of the Central Government of India?

### THE UNION BUDGET

The Union Budget, strictly speaking, refers to the ‘Annual Financial Statement’ of the Union/ Central Government which is laid before both the Houses of Parliament. This ‘Annual Financial Statement’ is presented for the new fiscal year, which commences on the 1<sup>st</sup> of April every year. This ‘Statement’ provides information on the Central Government’s estimated expenditures and estimated receipts for the fiscal year.

### A Constitutional Obligation

Following the principle of “no taxation without representation”, the Constitution of India has vested the power of Government’s purse with peoples’ representatives in the Parliament. The Constitution of India has made it mandatory for both the Central Government and the State Governments to get their respective Budgets approved by the Legislature. Some of the basic principles of this system of Government’s accountability to the Legislature put forward by the Constitution are: **executive’s initiative in financial matters**; **Legislature’s prerogative over taxation**; and **Legislature’s control over public expenditure**. The specific provisions in the Constitution of India, which incorporate these fundamental principles, include the following: **Article 112** provides that *the President shall, in respect of every financial year, cause to be laid before Parliament, ‘Annual*

*Financial Statement’; Article 265 provides that no tax shall be levied or collected except by authority of law; and Article 266 provides that no expenditure can be incurred except with the authorisation of the Legislature.*

## Central Government’s Accounts

The ‘Annual Financial Statement’, for any fiscal year, shows all receipts and expenditures of the Central Government for that fiscal year in three separate parts, which are:

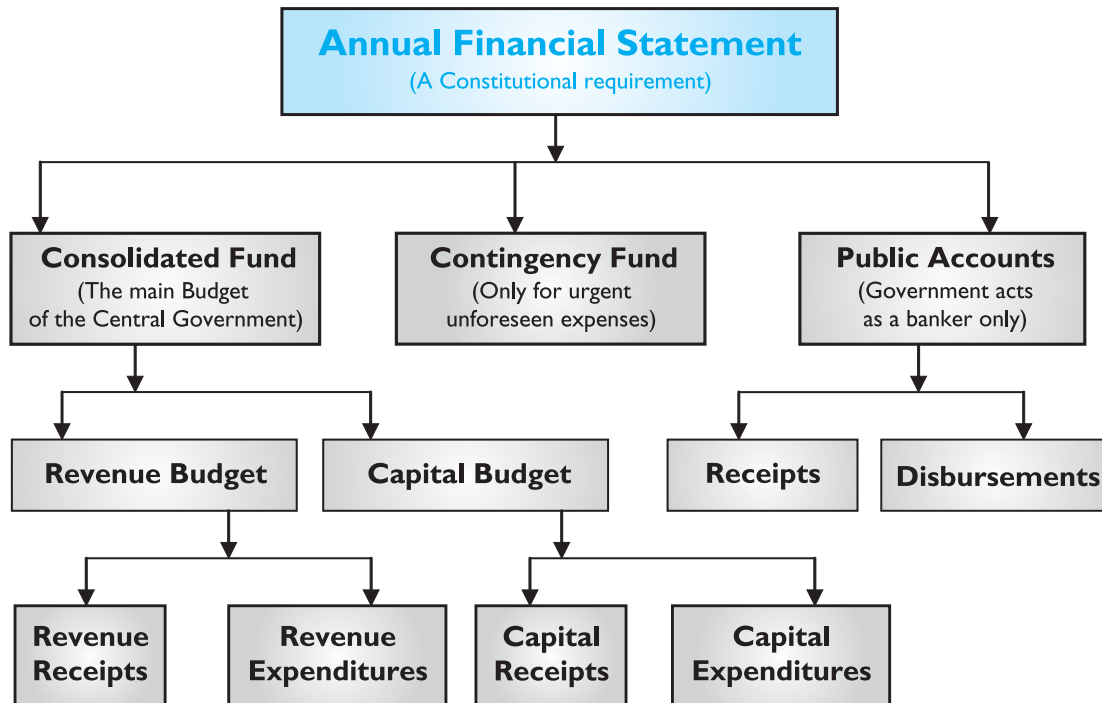
(1) Consolidated Fund, (2) Contingency Fund and (3) Public Account.

**Consolidated Fund:** All revenues received by the Government, all receipts from recoveries of loans given by the Government, and the entire amount of new loans raised by the Government together constitute one pool of money, called the Consolidated Fund. All expenditure of the Government is incurred from this Consolidated Fund. And, the Government **cannot** take out any amount from this Consolidated Fund without authorisation from Parliament. Hence, Consolidated Fund **effectively is the Budget** of the Government.

**Contingency Fund:** This Fund is like an imprest, which enables the Government to incur the **urgent unforeseen** expenditures. Government can spend from the money in Contingency Fund without prior authorisation from Parliament, but it must get such expenditure approved by the Parliament later. Moreover, with approval of the Parliament, the Government needs to withdraw funds from the Consolidated Fund (equivalent to the amount of expenditure from Contingency Fund) and replenish the Contingency Fund. Presently, the corpus of the Contingency Fund authorised by the Parliament is Rs. 500 crore.

**Public Account:** Certain transactions, other than the normal receipts and expenditure of Government which are reported in the Consolidated Fund, enter Government accounts. Government acts more as a banker in case of these other transactions, for instance, the provident funds, small savings collections, other deposits, etc. The money received from such transactions is kept in the Public Account and the related disbursements are also made from there. Funds kept in the Public Account do not belong to Government, and Government needs to pay back this money at some point of time to the persons and authorities who deposited them. Parliamentary authorisation for payments from the Public Account is, therefore, not required.

## Union Budget of India



The figure above shows the accounting structure of the Union Budget of India. As shown here, the **Consolidated Fund** is the main Budget of the Central Government. With regard to the Budget of *Dharamपुरी*, in the previous section, we had observed that the entire Expenditure Budget could be divided into two distinct categories called: Revenue Expenditure and Capital Expenditure; and the entire Receipts Budget could be divided into two distinct categories called: Revenue Receipts and Capital Receipts. However, in the Indian case, the Budget is first divided into two main components as: **Revenue Budget** and **Capital Budget**. This classification also arises from the Constitution of India, which requires that **Budget has to distinguish expenditure on Revenue Account from other expenditure**. Government Budget in India, therefore, is broadly divided into the two parts: (i) Revenue Budget and (ii) Capital Budget.

Revenue Expenditures and Revenue Receipts constitute the **Revenue Budget**, while Capital Expenditures and Capital Receipts constitute the **Capital Budget** of the Government. We may note here that transactions under the Public Account are also shown under Capital Budget in the 'Annual Financial Statement'. However,

the figure shown above does not depict this, because for purposes of assessment of the Budget, transactions in the Public Account need not be taken into consideration.

## PLAN EXPENDITURE & NON-PLAN EXPENDITURE

Before we proceed further, we need to comprehend one more classification of the total government expenditure in India, which is Plan Expenditure and Non-Plan Expenditure.

### Plan Expenditure

India has adopted development planning since the early 1950s. Under the process of development planning, Government prepares **Five Year Plans**, which put forward the goals/ targets for socio-economic development to be achieved by the end of the Plan period (typically, five years) and also suggest a wide range of **programmes/ schemes to achieve those goals**. Once a Five Year Plan has been accepted, Annual Plans are also prepared drawing from the Five Year Plan. An Annual Plan can be seen as a collection of various programmes/ schemes for socio-economic development. The implementation of the programmes/ schemes envisaged in the Plan documents requires financial resources. Hence, the Government makes financial provisions for all such Plan programmes/ schemes every year in its Budget. This kind of government expenditure is known as Plan Expenditure.

- ◆ Thus, Plan Expenditure refers to government expenditure, which is meant for financing the programmes/ schemes framed under the ongoing Five Year Plan or the unfinished programmes/ schemes of the previous Five Year Plans.
- ◆ Until a certain programme/ scheme under a specific Five Year Plan completes its duration, all kinds of expenditures on that are treated as Plan Expenditure, whether the expenditure is on creation of assets and infrastructure or it is for salary of staff implementing the scheme.
- ◆ However, once a Plan programme/ scheme completes its duration, the expenditure towards maintenance of the assets/ infrastructure created (if any) and salary of staffs running the assets/ infrastructure (if any) are not regarded as Plan Expenditure anymore.

## Non-Plan Expenditure

Expenditures of the government, which are not included under Plan Expenditure, are called Non-Plan Expenditure. We may note here that Non-Plan Expenditure should **not** be interpreted as **unplanned** expenditures of the Government. Quite contrary to being unplanned, **Non-Plan Expenditures include some of the important types of government expenditure**, e.g. Interest Payments, Defence expenditure, Subsidies, and Non-Plan Grants to States & UTs. Besides, a large chunk of government expenditure which is incurred for running of different organs of the state (such as, judiciary, police, administration and so on) is included under Non-Plan Expenditure. Moreover, in several of the sectors like, Education and Health, the entire government expenditure on maintenance of the existing government establishments (including schools and hospitals) and salary of existing government staff (excluding the small proportion of staff hired under Plan programmes/ schemes) is regarded as Non-Plan Expenditure.

Thus, Non-Plan Expenditure of the government is meant for supporting all those government services, which function on a regular basis irrespective of the Five Year Plans. Whereas, Plan Expenditure of the government is meant for covering the entire costs, i.e. salaries of new staff hired as well as construction of buildings and procurements, under the interventions envisaged under Five Year Plans.

## REVENUE BUDGET OF CENTRAL GOVERNMENT

As mentioned earlier, Revenue Budget of the Central Government comprises receipts and expenditures of the Government on the Revenue Account; i.e. Revenue Receipts and Revenue Expenditures.

It may be worthwhile to recollect what we had discussed with respect to these terms in the previous section. **Revenue Expenditure** generally does not have anything to do with creation of assets or reduction of liabilities of the government. Most kinds of Revenue Expenditures are seen as recurring expenditures, since the government incurs those expenditures periodically from every Budget. Likewise, with **Revenue Receipts**, there is no change in the asset-liability position of the government, i.e. a Revenue Receipt neither reduces the assets of the government nor increases its liabilities. Revenue Receipts consist of proceeds of total Tax and Non-Tax Revenues of the government.

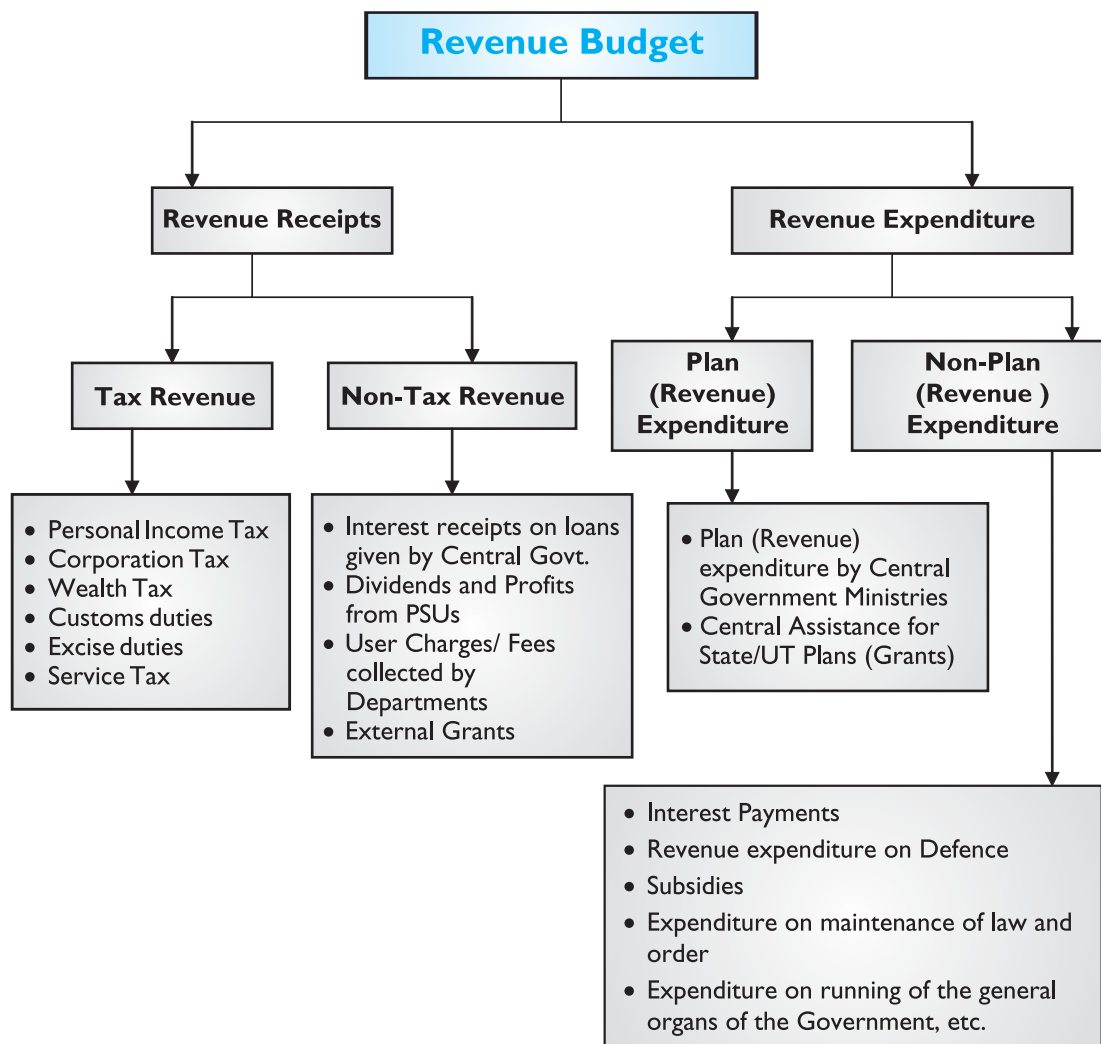
## Taxation

In India, the power to levy taxes and duties has been divided among the Governments at the three tiers, i.e. Central Government, State Governments and Local Bodies. This division follows specific provisions in the Indian Constitution.

- ◆ **Central Government** has been vested with the power to levy: Income Tax (except tax on agricultural income, which the State Governments can levy), Customs duties, Central Excise, Sales Tax and Service Tax.
- ◆ **State Governments** have been vested with the power to levy: Sales Tax (tax on intra-State sale of goods), Stamp Duty (a duty on transfer of property), State Excise (a duty on manufacture of alcohol), Land Revenue (a levy on land used for agricultural/ non-agricultural purposes), Duty on Entertainment and Tax on Professions.
- ◆ **Local Bodies** have been empowered to levy: tax on properties (buildings, etc.), Octroi (a tax on entry of goods for use/consumption within areas of the Local Bodies), Tax on Markets and Tax/User Charges for utilities like water supply, drainage, etc.

The system of Sales Tax levied by State Governments has now been replaced with Value Added Tax (VAT); and Central Sales Tax also would be phased out very soon.

## Revenue Budget of Central Government

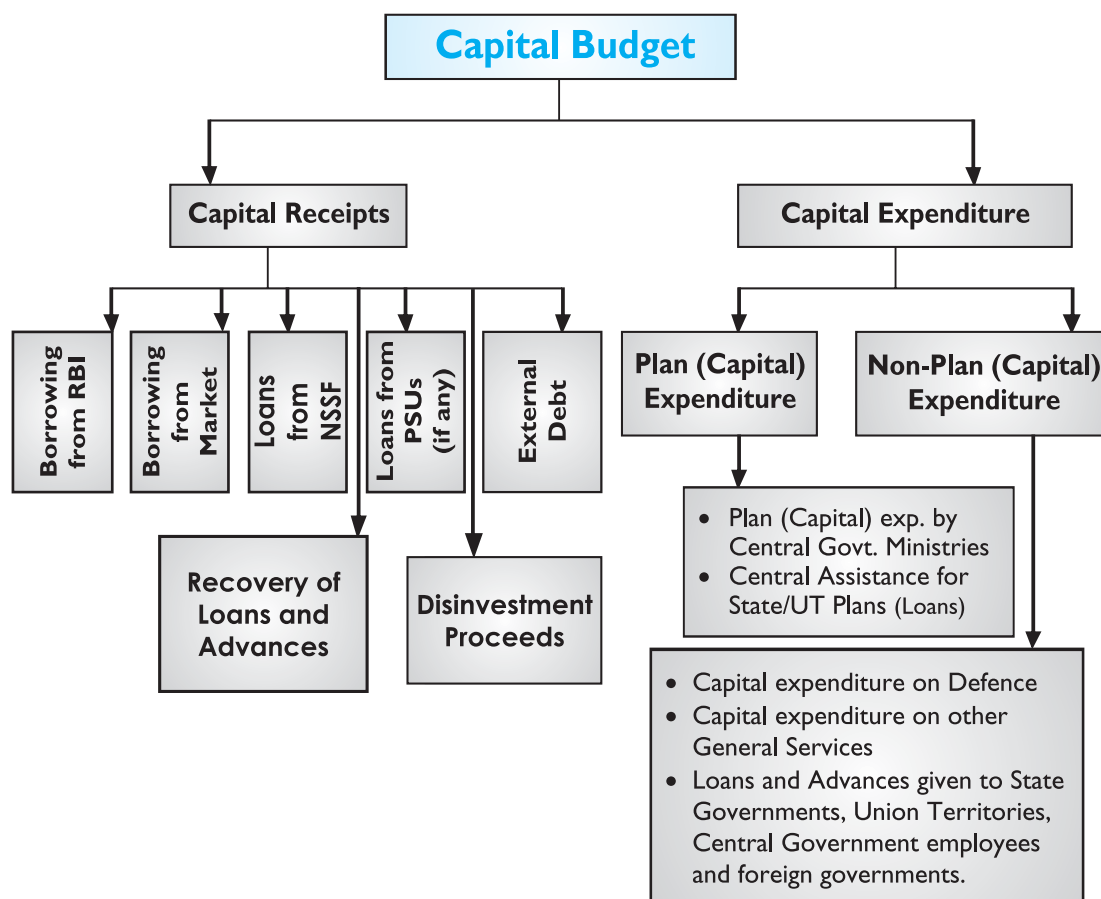


The figure above shows the structure of the Revenue Budget of Central Government. As shown here, Tax and Non-Tax revenues of the Central Government from various sources together constitute its Revenue Receipts. Revenue Expenditure is further classified as Plan (Revenue) Expenditure and Non-Plan (Revenue) Expenditure.

## CAPITAL BUDGET OF CENTRAL GOVERNMENT

Capital Budget of the Central Government comprises receipts and expenditures of the Government on the Capital Account; i.e. Capital Receipts and Capital Expenditures. **Capital Expenditure** of the government is usually meant for increasing the government's assets or reducing its liabilities. Capital Expenditure of any type need not necessarily be incurred regularly from every Budget. Hence, most kinds of Capital Expenditures are seen as **non-recurring** expenditures. **Capital Receipts** of the government lead to a reduction in the assets or an increase in the liabilities of the government. Again, Capital Receipts for government need not necessarily come up periodically in every Budget.

### Capital Budget of Central Government



We must note here that among the various sources of Capital Receipts shown in the figure above, all sources excepting only two are borrowings for the



government, viz. borrowings from Reserve Bank of India (RBI)/ Market/ National Small Savings Fund (NSSF)/ Public Sector Undertakings (PSUs)/ Foreign Agencies. The only two sources of Capital Receipts of the Central Government which are not borrowing are: Recoveries of Loans/ Advances given by the Government in the past, and Proceeds from Disinvestment in PSUs.

Also, just as Revenue expenditure was further classified as Plan and Non-Plan, Capital Expenditure is also classified as Plan (Capital) Expenditure and Non-Plan (Capital) Expenditure.

## GENERAL BUDGET AND RAILWAY BUDGET

The Union Budget, which is being discussed in this section, is also referred to as **General Budget of the Central Government** so as to distinguish it from the Railway Budget of the Central Government. The Budget of the Indian Railways, referred to as the **Railway Budget of the Central Government**, is presented separately before the Parliament and it is also approved by Parliament following a separate process. However, we must note here that **the receipts and expenditures of the Indian Railways do form a part of the Consolidated Fund of India** and the 'Annual Financial Statement' of the Central Government incorporates those figures.

## CLASSIFICATIONS OF TOTAL GOVERNMENT EXPENDITURE

In the government budgeting system being followed in India, Total Government Expenditure is classified in three different ways, which are:

- (i) Revenue Expenditure & Capital Expenditure
- (ii) Plan Expenditure & Non-Plan Expenditure
- (iii) Voted Expenditure & Charged Expenditure.

We must note here that

$$\begin{aligned} & \text{Revenue Expenditure} + \text{Capital Expenditure} \\ &= \text{Plan Expenditure} + \text{Non-Plan Expenditure} \\ &= \text{Voted Expenditure} + \text{Charged Expenditure} \\ &= \text{Total Expenditure of the Government} \end{aligned}$$

We have already discussed the concepts relating to Revenue & Capital Expenditures and Plan & Non-Plan Expenditures. **The distinction between Voted and Charged**

expenditures is quite important for the Legislature, i.e. for the Parliament in case of the Union Budget of India. This is because the legislature has a say, i.e. it can vote on, only those expenditures which are regarded as **Voted Expenditures** in the Budget. The Legislature does not have any say over the **Charged Expenditures** in the Budget. Under the Constitution, certain items of expenditure are charged on the Consolidated Fund and are not required to be voted by the Lok Sabha, which include:

- ◆ *The emoluments of the President,*
- ◆ *Salaries and allowances of the Chairman and the Deputy Chairman of the Rajya Sabha and the Speaker and the Deputy Speaker of the Lok Sabha,*
- ◆ *Salaries, allowances and pensions of Judges of the Supreme Court, Comptroller and Auditor General of India and the Central Vigilance Commission,*
- ◆ *Interest on and repayment of loans raised by Government, and*
- ◆ *Payments made to satisfy decrees of Courts.*

The 'Annual Financial Statement' shows the expenditure charged on the Consolidated Fund separately.

## **FUNCTIONAL CLASSIFICATION OF THE BUDGET**

Just as we had seen in case of Expenditure Budget of *Dharampuri* in the previous section, the total expenditure by the Central Government of India (i.e. taking together its Revenue Expenditure and Capital Expenditure) is also classified according to different functions/ services of the government for which the expenditure is meant. This classification is as given below:

- ◆ **General Services:** Government expenditures for the maintenance of law and order, defence of the country, and upkeep of the general organs of the Government, interest payments, etc.
- ◆ **Social and Community Services:** Expenditures on education, health, water supply and sanitation, social security and welfare, welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, housing and urban development, etc.
- ◆ **Economic Services:** Expenditures on various kinds of economic services, such as foreign trade and export promotion, economic development programmes under various Ministries, agriculture and allied services, industry and minerals, rural development, transport and communications, etc.
- ◆ **Others:** Statutory grants-in-aid to States and UTs, ways and means advances, technical and other loans to foreign countries, etc.

## HOW IS THE UNION BUDGET PREPARED?

We may note right at the outset that the budgetary process in India lacks transparency in one of the most crucial stages: while enactment of the Budget by the Legislature and the review of its implementation are transparent, the process of Budget preparation by the Government is rather closed. Hence, this section pays detailed attention to the process of preparation of the Union Budget. It also presents brief accounts of the processes of its enactment and review.

### Budgetary Process in India

The budgetary process in India, like in most other countries, consists of the following four distinct phases.

1. Preparation of the Budget: The formulation of estimates of expenditure and receipts for the ensuing financial year.
2. Enactment of the Budget: Approval of the proposed Budget by the Legislature through the enactment of Finance Bill and Appropriation Bill.
3. Execution of the Budget: Enforcement of the provisions laid out in the Finance Act and Appropriation Act by the government, i.e. collection of receipts and making disbursements for various services as approved by the Legislature.
4. Legislative Review of the Budget Implementation: Audits of government's financial operations on behalf of the Legislature.

### PREPARATION OF THE UNION BUDGET

In the Central Government, there is a **Budget Division** in the Department of Economic Affairs under the **Ministry of Finance**. This Budget Division starts the process of formulation of next financial year's Union Budget in the months of August-September every year. To start the process, the Budget Division issues an '**Annual Budget Circular**' around the last week of August/ first fortnight of September every year. This '**Annual Budget Circular**' contains detailed instructions for the Central Government Ministries/Departments relating to the form and content of the '**Statement of Budget Estimates**' to be prepared by them.

We may note here that the Ministries/Departments are required to provide three different kinds of figures relating to their expenditures/ receipts during this process of budget preparation. These are: **Budget Estimates**, **Revised Estimates** and **Actuals**. Let us consider, for instance, the case of budget preparation in the second half of the calendar year 2007. The Central Government would prepare the Union Budget for 2008-09 during the time period from September 2007 to February 2008. In this case, the approval of the Parliament would be sought for the estimated receipts/ expenditures for 2008-09, which would be called **Budget Estimates**. At the same time, the Central Government, in its Budget for 2008-09, would also present **Revised Estimates** for the ongoing financial year 2007-08. We may note here that the Government would not seek approval of the Parliament on Revised Estimates for 2007-08; but, these Revised Estimates would allow the Government to reallocate its funds among its various Ministries/Departments based on the implementation of the Budget for 2007-08 during the first six months of financial year 2007-08. Finally, the Ministries/Departments would also be reporting their **Actual** receipts/ expenditures for the previous financial year 2006-07. Hence, the Union Budget for 2008-09 would consist of Budget Estimates for 2008-09, (Budget Estimates and) Revised Estimates for 2007-08, and Actuals for 2006-07.

In the **first stage of budget preparation**, the Ministries/Departments are required to provide the following figures in their respective Statements of Budget Estimates:

- ◆ Budget Estimates and Revised Estimates for **Non-Plan Expenditure** for the current financial year,
- ◆ Budget Estimates and Revised Estimates for **Plan Expenditure** for the current financial year, and
- ◆ Budget Estimates for **Non-Plan Expenditure** for the next financial year.

In the **second stage of budget preparation**, the Ministries/Departments would provide the Budget Estimates for Plan Expenditure for the next financial year, only after they have discussed their respective Plan programmes/ schemes with the central **Planning Commission**. The Planning Commission depends on the Finance Ministry to first arrive at the size of the '**Gross Budgetary Support**' which would be provided in the budget for the next Annual Plan of the Central Government. In principle, the size of each Annual Plan should be derived from the approved size of the overall Five Year Plan. However, in practice, the size of the '**Gross Budgetary Support**' for an Annual Plan also depends on the expected availability of funds with the Finance Ministry for the next financial year.

## Role of the FRBM Act, 2003

In the last couple of years, the Finance Ministry has been fervently making a case of reductions of Fiscal Deficit and Revenue Deficit of the Central Government citing the targets set by the **Fiscal Responsibility and Budget Management Act, 2003** and its Rules. Hence, presently, the aspirations of the Planning Commission and Central Government Ministries with regard to spending face the legal hurdle of the Fiscal Responsibility and Budget Management Act, which has made it mandatory for the Central Government to show the **Revenue Deficit as nil** (i.e. Total Revenue Expenditure not exceeding Total Revenue Receipts by even a single rupee) and the **Fiscal Deficit as less than 3 % of the GDP** (i.e. new borrowing of the Government in a financial year not exceeding 3 % of the country's GDP for that year) in the Union Budget for 2009-10 onwards.

Thus, the **Finance Ministry**, in consultation with the Planning Commission, decides the size of the 'Gross Budgetary Support' for the next Annual Plan of the Government. Once the Planning Commission is certain about the size of the total pie available for Plan spending in the next financial year, i.e. the 'Gross Budgetary Support', it starts the process of its sharing among the different Ministries/ Departments keeping in mind the priorities of the prevailing Five Year Plan. In this process, the **Financial Advisers/ Administrative Heads of the Ministries/ Departments** meet concerned officials in the Planning Commission to present their fund requirements in the next fiscal for their ongoing Plan programmes/ schemes as well as the new programmes/ schemes which they wish to undertake. After completing such a process of discussions and reviews for all Ministries/ Departments, the Planning Commission approves the Budget Estimates for Plan Expenditure by different Ministries/Departments in the next fiscal year. The Planning Commission then informs all Ministries/Departments as well as the Finance Ministry about the approved Budget Estimates for Plan Expenditure by the different Ministries/ Departments for the next fiscal year.

During this second stage of budget preparation, the Finance Ministry also holds pre-budget meetings with the Financial Advisers/ Administrative Heads of the different Ministries/Departments to discuss the estimates of Non-Plan Expenditure furnished by the latter, i.e. Revised Estimates for the current fiscal and Budget Estimates for the next fiscal. The Finance Ministry takes into account the actual expenditure incurred (i.e. disbursements made) by the Ministries in the first six months of the current fiscal year as well as the *resource absorption capacity/*

*spending capacity* of the Ministries in the remaining part of the current fiscal year and in the next fiscal year. This process of finalization of Estimates of Non-Plan Expenditure by the different Ministries/Departments is usually completed during the period from last week of October to end of December.

After the completion of the second stage, as mentioned above, the Ministries/Departments prepare their **final Statements of Budget Estimates**, which include the final estimates for the Non-Plan and Plan Expenditures by them for both the current year (Budget Estimates & Revised Estimates) and the next fiscal year (Budget Estimates). These final Statements of Budget Estimates are sent to the Finance Ministry, which needs to incorporate them in its 'Annual Financial Statement' and 'Demands for Grants'.

### Detailed Demands for Grants

Demands for Grants refer to the estimates of expenditure by different Ministries/Departments from the Consolidated Fund of India, which are required to be approved by the Parliament. Usually one **Demand for Grant** is presented in respect of each Department. However, in respect of large Departments more than one Demand is presented. However, we may note here that, the Demands for Grants are presented to the Parliament at two levels. The main Demands for Grants are presented by the Finance Ministry along with the Annual Financial Statement. But, the **Detailed Demands for Grants** are laid on the Table of the Lok Sabha by the concerned Ministries a few days before the discussion of the respective Ministries' Demands.

As its name suggests, the Detailed Demands for Grants provide more disaggregated information than the main Demands for Grants. The maximum disaggregation that can be found in the main Demands for Grants is Plan and Non-Plan expenditures by a Ministry/Department at the level of **Major Heads of Accounts** (which represent different functions delivered by the Government, like, *Medical & Public Health, Social Security & Welfare*, etc). However, the Detailed Demands for Grants for a Ministry provide the figures for Plan and Non-Plan Expenditures by the Ministry on different **Object Heads** (like, *Salary, Dearness Allowance, Travel Allowance*, etc.) under all its programmes/ schemes/ organizations. Moreover, the Detailed Demands for Grants also provide **Actual** expenditure figures for the previous fiscal year, which are not there in the main Demands for Grants.

The Finance Ministry requires all Ministries/Departments to ensure that the figures provided in their Detailed Demands for Grants conform with those provided in the main Demands for Grants.

Also, during the second stage of budget preparation, the revenue-earning Ministries of the Central Government provide the estimates for their Revenue Receipts in the current fiscal year (Revised Estimates) and next fiscal year (Budget Estimates) to the Finance Ministry. Subsequently, in **the third stage of budget preparation**, usually in the month of January, more attention is paid to finalization of the estimated Receipts. With an idea about the total requirement of resources to meet expenditures in the next fiscal year, the Finance Ministry focuses on the Revenue Receipts for the next fiscal. The Budget Division (in Department of Economic Affairs) in the Finance Ministry finalizes the estimated figures of Non-Tax Revenue Receipts for the Government. The **Revenue Department** under Finance Ministry first estimates the Tax Revenue that can be collected in the next fiscal year with the existing tax rates, projected growth of the GDP, tax buoyancy (*which measures how revenue collected from a tax changes when the tax base has changed*) and projected rate of inflation, etc. If the estimated Tax Revenue for next fiscal, based on the existing tax rates, is found insufficient, the Revenue Department focuses on **Additional Resource Mobilization**, through various proposals relating to the Direct Taxes and Indirect Taxes. The proposals relating to Direct Taxes are examined by the **Central Board of Direct Taxes**, while those relating to the Indirect Taxes are examined by the **Central Board of Customs and Excise**. With the help of these offices, the Revenue Secretary to the Central Government finalizes the Revised Estimate for Tax Revenue in the current fiscal and Budget Estimate for Tax Revenue in the next fiscal.

In the **fourth and final stage of budget preparation**, the Finance Minister examines the budget proposals prepared by the Ministry and makes changes in them, if required. The **Finance Minister** consults the Prime Minister, and he also briefs the Union Cabinet, about the Budget during this stage. If there is any conflict between any line Ministry and the Finance Ministry with regard to the Budget, the matter is supposed to be resolved the Cabinet. Although in principle the Union Cabinet can overrule the Finance Minister, in practice it happens very rarely.

During this final stage of budget preparation, the Finance Minister also meets some non-government interest groups, like, those representing the traders and industrialists and representatives of trade unions, etc. However, such meetings have been few and the timing of such meetings also does not appear very appropriate given that the preparation of Union Budget starts as early as in September of the previous year. The process of preparation of the Union Budget remains quite closed, as complete secrecy is maintained by the Government about the tax proposals in the Budget, and a lot of secrecy is maintained even about the

expenditure proposals. People, outside the closed group of budget makers, get to know about the budget proposals only when it is presented to the Parliament.

In the final stage, the Budget Division in the Finance Ministry consolidates all figures to be presented in the Budget and prepares the final budget documents. Also, the National Informatics Centre (NIC) helps the Budget Division in the process of consolidation of the budget data, which has been fully computerized in the Central Government. At the end of this process, the Finance Minister takes the permission of the President for presenting the Union Budget to the Parliament.

## UNION BUDGET IN THE PARLIAMENT

As per the Constitution, Union Budget is to be presented in the **Lok Sabha** on such a day as the President may direct. Conventionally, Union Budget has been presented in Lok Sabha by the Finance Minister on the **last working day of the month of February** every year. The Finance Minister, again by convention only, makes a Speech while introducing the Budget. The 'Annual Financial Statement' is laid on the Table of Rajya Sabha only after the conclusion of Finance Minister's Budget Speech in the Lok Sabha. The budget documents are made available to the Members of Parliament after the Finance Bill has been introduced in Lok Sabha, and the House has been adjourned for the day.

### Union Budget documents presented to the Parliament

The **Annual Financial Statement**, **Demands for Grants**, **Finance Bill**, and **Appropriation Bill** are the **main Union Budget documents**. In addition to these, some **supporting and explanatory documents** are also presented, which include: 'Key to Budget Documents', 'Budget Highlights', 'Budget Speech of the Finance Minister', 'Budget at a Glance', 'Memorandum Explaining the Provisions in the Finance Bill', 'Receipts Budget', 'Expenditure Budget Vol. I', 'Expenditure Budget Vol. II', and 'Implementation of Budget Proposals'. A few other documents are also presented as per the requirements of the FRBM Act, 2003. The **Detailed Demands for Grants** are presented to the Parliament later by the different Ministries a few days in advance of the discussion of the respective Ministries' Demands for Grants.

No discussion on the Budget is held on the day it is presented in the Lok Sabha. Subsequently, it is discussed in the Lok Sabha in two stages: first, a **general discussion**, and secondly, a **detailed discussion and voting on the Demands for Grants**.



- ◆ The **General Discussion on the Budget** is held in both the Houses of Parliament, in which the Legislature reviews and critiques the policies of the Government and the broad outlines of the Budget. Neither any motion is moved in this stage nor does it involve any voting on the Budget. This General Discussion usually lasts for about 4 to 5 days. The discussion on Union Budget in the Rajya Sabha is limited to this first stage, i.e., the General Discussion, only.
- ◆ After the conclusion of General Discussion on the Budget, the House is adjourned for a fixed period. A mechanism has been adopted since 1993-94, under which the Demands for Grants in the Union Budget are examined by the **Standing Committees of the Parliament**, which comprise members of both the Houses. These Standing Committees are required to submit their Reports to the House within a specified period of time.
- ◆ After the presentation of the Standing Committee reports, the Lok Sabha takes up the **Detailed Discussion on the Budget and Voting on the Demands for Grants** for different Ministries separately. Lok Sabha can discuss the 'charged' expenditures but it can vote only on the 'voted' expenditures in the Demands for Grants. The Lok Sabha, with regard to any Demand for Grant, can either accept the Demand or reject the Demand or reduce the amount of Grant sought by the Government under that Demand; but it cannot propose any higher Grant for the Demand. However, the reduction of the Grant under a Demand, which can be achieved only through a **Cut Motion** that is passed by the Lok Sabha, would effectively prove a loss of majority for the political party in power.
- ◆ There are only a few days allotted to the Voting on Demands for Grants, which is not at all sufficient to discuss the 100 plus Demands for Grants in the Union Budget. Hence, on the last of the allotted days (for Voting), the Speaker of Lok Sabha puts all pending Demands to the Vote of the House, a mechanism which is known as '**Guillotine**'.
- ◆ After the completion of Voting on Demands for Grants, the Government introduces the **Appropriation Bill** in Lok Sabha. Enactment of this Appropriation Bill authorizes the Government to spend money from the Consolidated Fund of India.
- ◆ After the passing of the Appropriation Bill, the **Finance Bill** (meant for Parliament's approval of the tax proposals of the Government) is taken up for consideration and passing in the Lok Sabha.

In the recent years, the process of examination of Demands for Grants by the Parliamentary Standing Committees has been undertaken at a later stage, given

the very short time period available in the Budget Session of the Parliament and the fact that several issues not related to the Budget also dominate the Parliament in its Budget Session.

Later, if the Government needs to incur an expenditure, which is above the amount shown in the Demands for Grants, then it presents to the Parliament a Demand for Supplementary Grants. Likewise, if the actual expenditure on any service has exceeded the approved expenditure for that service, the Government presents a Demand for Excess Grants.

## REVIEW OF IMPLEMENTATION OF THE BUDGET

The Legislature undertakes a review of the implementation of the Union Budget through the functioning of various Parliamentary Committees dealing with the financial affairs of the Government. Such Committees include the **Public Accounts Committee**, the **Estimates Committee**, the **Committee on Public Undertakings**, and the **Department Related Standing Committees**.

The office of the **Comptroller and Auditor General (C&AG)** is responsible for auditing Government's accounts, following the implementation of the Budget. The Constitution of India has established the independence of the C & AG in this regard. The office of C&AG undertakes both financial audits and performance audits relating to financial operations of the Government. The reports of these audits, which are very detailed, are tabled in the Parliament, and they are taken into account by the various Parliamentary Committees. These Committees, then, are expected to seek explanations from/ make suggestions to the Government. The different Ministries/Departments of the Central Government are required to take action on the findings/ recommendations contained in the reports of these Committees, and furnish Action Taken Replies/ Notes within six months. Then the Action Taken Sub-Committee of the respective Parliamentary Committee examines action Taken Replies/ Notes, received from the Ministries/Departments. Subsequently, Action Taken Reports of the Committees are presented to the House, and the Replies/Notes received from the Government in respect of recommendations contained in the Committee Reports are also laid before the Legislature in the form of statements.

However, many observers have voiced their concerns about the time-lag involved in this entire process as well as the lack of strong actions being taken in the Government on the findings of audits by the C&AG.

## WHAT DO UNION BUDGET PAPERS LOOK LIKE?

This section presents a set of windows that show some of the most relevant documents in the Union Budget of India. These windows also provide pointers that would help a researcher in deciphering the Union Budget documents.

### THE UNION BUDGET DOCUMENTS

**Budget Speech** The Speech delivered by the Finance Minister while placing the Budget before the Parliament.

**Budget Highlights** Presents the key expenditure and tax proposals made in the Budget.

**Budget at a Glance** Provides a brief overview of almost all aspects of receipts and expenditures contained in the Budget, at aggregate levels.

**Annual Financial Statement** Under Article 112 of the Constitution of India, a statement of estimated receipts and expenditures of the Government of India has to be laid before Parliament in respect of every financial year. This statement, titled Annual Financial Statement, is the main Budget document.

**Finance Bill** Proposals in budget regarding the levy of new taxes, modifications in the existing tax structure or continuance of existing tax rates for further period are presented through the Finance Bill. The Finance Bill is presented to the Parliament immediately after the presentation of the Budget.

**Explanatory Memorandum to the Finance Bill** A memorandum explaining the provisions in the Finance Bill is also made available.

**Receipts Budget** Receipts Budget provides estimated income (receipts) of the Government in detail. Estimates of receipts included in Annual Financial Statement are further analyzed in Receipts Budget. It gives details of Revenue Receipts, Capital Receipts and explains the estimates. Trends of receipts over the years and details of External Assistance received are also included in this document.

**Demands for Grants** Estimates of expenditure from the Consolidated Fund of India, which are required to be approved by the Legislature, are submitted in form of Demands for Grants. The Demands for Grants are presented in the Lok Sabha along with the Budget statements. Usually one Demand for Grant is presented in respect of each Ministry or Department. However, in respect of large Ministries or Departments more than one Demand is presented.

**Expenditure Budget (Vol. I and Vol. II)** Expenditure Budget Volume I shows the proposed revenue and capital expenditures under various Ministries and Departments. The estimates are given under Plan and Non-Plan heads. The expenditure estimates for various Ministries and Departments are given in detail in the Expenditure Budget Volume II. The explanations for expenditures proposed under various programmes/ schemes are also included in this Expenditure Budget Volume II and, wherever needed, brief reasons for the variations in the estimates are also given.

**Implementation of Budget Announcements** This document indicates the status of implementation of the proposals made in the previous year's Union Budget.

Apart from the above mentioned documents, the following documents are now being presented with the Union Budget every year, as the Fiscal Responsibility and Budget Management (FRBM) Act requires the Government to do so.

- ◆ The Macro Economic Framework Statement
- ◆ The Medium Term Fiscal Policy Statement
- ◆ The Fiscal Policy Strategy Statement
- ◆ The Statement under Section 7 of the FRBM Act

## **HOW TO READ THE TECHNICAL DOCUMENTS IN THE UNION BUDGET?**

The expenditure proposals in the Union Budget are classified either on the basis of Departments that will undertake the specific expenditures- for which there are **Demand numbers**, or on the basis of specific services which are delivered through a particular expenditure- for which there are **Major Heads of account**.

### **Demand No.s**

The estimates of expenditure for various Ministries/Departments which need to be voted by the Parliament are submitted in the form of Demands for grants.

When a Ministry/Department is handling a number of different functions, a separate Demand for each of its major functions is submitted. Each Demand for Grant shows the total amount required for a function during the year showing revenue and capital expenditure separately.

The Demands for Grants are presented before the Lok Sabha along with the Budget statement. An important technicality to be noted here is that under Article 113 of the Constitution, no Demand for Grant (for any Ministry/Department) can be submitted except on the recommendation of the President. This means only the Government can present a Demand for Grant and not the private members. It is noteworthy that when a Demand for Grant is presented, the Legislature can object to it, refuse it, reduce it, but cannot increase it.

Examples from Union Budget for 2006-07:

<b>Demand No.</b>	<b>Ministry/Department</b>
1	Department of Agriculture and Cooperation
55	Dept. of Elementary Education and Literacy
56	Dept. of Secondary and Higher Education
93	Ministry of Tribal Affairs

## **MAJOR HEADS**

Major heads are four digit codes, which have been allotted to specific services delivered by the government- following distinct patterns for revenue receipts, revenue expenditures, capital receipts and capital expenditures.

If the first digit of the major head is “0” or “1” the Head of Account will represent Revenue Receipt , “2” or “3” will represent revenue expenditure, “4” or “5” Capital Account, “6” or “7” Loans and Advances, and “8” or “9” Public account .

Examples of Major Heads:

- 0401 Crop Husbandry (Revenue Receipt)
- 2401 Crop Husbandry (Revenue Expenditure)
- 4401 Capital Outlay on Crop Husbandry (Capital Account)

- 6401: Loans for Crop Husbandry (Loan and advances account)
- 2210: Revenue account disbursement for Medical and Public Health
- 4210: Capital account disbursement for Medical and Public Health
- 6210: Loans for Medical and Public Health

## **BUDGET ESTIMATES, REVISED ESTIMATES AND ACTUALS**

In the Union Budget, as also in State Budgets, we find figures of three different kinds, viz. Budget Estimates (BE), Revised Estimates (RE) and Actuals. Budget Estimates (BE) and Revised Estimates (RE) for any financial year are not the actual figures for government's receipts/ expenditures during that financial year; they are only estimates/ projections of government's receipts/ expenditures during that financial year. But, Actuals for a financial year show the actual figures for government's receipts/ expenditures during that financial year.

Take for instance the Union Budget for 2008-09, which would most likely be presented to the Parliament on 28 February 2008. In that Budget, the Central Government will provide only estimates of its receipts/ expenditures during the financial year 2008-09, which would be called **Budget Estimates**. But, by the time of preparation of this Budget for 2008-09, the Central Government should be able to know how much receipts have actually accrued or how much expenditures have actually been incurred by its Ministries during the first six to seven months of the financial year 2007-08. The Government, therefore, would present **Revised Estimates** of receipts/ expenditures for the financial year 2007-08. But, by the time of preparation of Budget for 2008-09, the Central Government would have already got the final figures for receipts/ expenditures during the previous financial year, i.e. 2006-07. The Government, therefore, would present the **Actual** figures of receipts/ expenditures for the financial year 2006-07.

Therefore, in Union Budget for 2006-07, for instance:

- ◆ All figures in Union Budget for 2006-07 pertaining to the approaching fiscal year, i.e. 2006-07, would be Budget Estimates (BE)
- ◆ For the ongoing fiscal year (i.e. 2006-07), figures pertaining to both Budget Estimates (BE) and Revised Estimates (RE) would be available
- ◆ Most of the figures for the previous financial year, i.e. 2005-06, would be Actuals, not estimates.

### Budget Presentation in the Parliament

By convention, the Finance Minister presents the Union Budget usually on the last day of the month of February every year.

### Two Parts of the Budget Speech

**Part A:** In this part, the Finance Minister spells out the main expenditure proposals.

**Part B:** In the second part, the Finance Minister presents mainly the tax proposals.

## Budget Speech (2006-07)

Speech of  
**P. Chidambaram**  
*Minister of Finance*  
February 28, 2006

Mr. Speaker, Sir

It is my privilege to present the Budget for the year 2006-07.

### AN OVERVIEW OF THE ECONOMY

Twenty months ago, when I presented the first Budget of the UPA Government, I asked Honourable Members – and the people of this country – to walk with us on the path of honour and courage. The final report card on the first of the UPA Government is out, and there are reasons to celebrate. According to the Central Statistical Organization (CSO), the growth in 2004-05 was 7.5 per cent, with the manufacturing sector growing at 8.1 per cent. More importantly, at current market prices, gross domestic saving increased to 29.1 per cent of GDP and the rate of gross capital formation increased to 30.1 per cent of GDP.

## Budget Highlights (2006-07)

### FLAGSHIP PROGRAMMES

- ◆ Allocation for eight flagship programmes to increase by 43.2 per cent from Rs.34,927 crore in 2005-06 to Rs.50,015 crore.
- ◆ **North Eastern Region (NER):** In addition 10 per cent of the Plan Budget of each Ministry/ Department to be allocated for schemes and programmes in the North Eastern Region (NER); for the flagship programmes allocation of Rs.4,870 crore in 2006-07; total allocation for NER is Rs.12,041 crore.
- ◆ **Sarva Siksha Abhiyan:** 93 per cent of children in age group 6-14 years are in school, number of children not in school has come down to about one crore; outlay to increase from Rs.7,156 crore to Rs.10,041 crore in 2006-07; 500,000 additional class rooms to be constructed and 150,000 more teachers to be appointed; Rs.8,746 crore to be transferred to the Prarambhik Siksha Kosh from revenues through education cess.
- ◆ **Mid-day Meal Scheme:** 12 crore children now covered; allocation to be enhanced from Rs.3,010 crore to Rs.4,816 crore.

**Aggregate figures** of Receipts, Expenditures and Deficits.

**Actuals**  
Figures for the last fiscal year, known as Actuals or Accounts. These are not estimated figures. These Actual figures, which are most reliable.

**Revised Estimates (RE)**  
Figures for the ongoing fiscal year, of which only one month is left on 28<sup>th</sup> February.

**Budget Estimates (BE)**  
Figures for the next fiscal year, which is approaching, are only estimates. These are called Budget Estimates.

### Budget at a Glance (2006-07)

		(In crore of Rupees)			
		2004-05	2005-06	2005-06	2006-07
		Actuals	Budget Estimates	Revised Estimates	Budget Estimates
<b>1</b>	<b>Revenue Receipts</b>	<b>306013</b>	<b>351200</b>	<b>348474</b>	<b>403465</b>
2	Tax Revenue (net to centre)	224798	273466	274139	327205
3	Non-Tax Revenue	81215	77734	74335	76260
<b>4</b>	<b>Capital Receipts (5+6+7)\$</b>	<b>191669</b>	<b>163144</b>	<b>160231</b>	<b>160526</b>
5	Recoveries of Loans	62043	12000	11700	8000
6	Other Receipts	4424	...	2356	3840
7	Borrowings and other liabilities \$	125202	151144	146175	148686
<b>8</b>	<b>Total Receipts (1+4)\$</b>	<b>497682</b>	<b>514344</b>	<b>508705</b>	<b>563991</b>
<b>9</b>	<b>Non-Plan Expenditure</b>	<b>365406</b>	<b>370847</b>	<b>364914</b>	<b>391263</b>
10	On Revenue Account of which,	296857	330530	326142	344430
11	Interest Payments	126934	133945	130032	139823
12	On Capital Account	68549	40317	38772	46833
<b>13</b>	<b>Plan Expenditure</b>	<b>132276</b>	<b>143497</b>	<b>143791</b>	<b>172728</b>
14	On Revenue Account	87495	115982	114153	143762
15	On Capital Account	44781	27515	29638	28966
<b>16</b>	<b>Total Expenditure (9+13)</b>	<b>497682</b>	<b>514344</b>	<b>508705</b>	<b>563991</b>
17	Revenue Expenditure (10+14)	384351	446512	440295	488192
18	Capital Expenditure (12+15)	113331	67832	68410	75799
<b>19</b>	<b>Revenue Deficit (17-1)</b>	<b>78338</b>	<b>95312</b>	<b>91821</b>	<b>84727</b>
		(2.5)	(2.7)	(2.6)	(2.1)
<b>20</b>	<b>Fiscal Deficit {16-(1+5+6)}</b>	<b>125202</b>	<b>151144</b>	<b>146175</b>	<b>148686</b>
		(4.0)	(4.3)	(4.1)	(3.8)
<b>21</b>	<b>Primary Deficit (20-11)</b>	<b>-1732</b>	<b>17199</b>	<b>16143</b>	<b>8863</b>
		-(0.1)	(0.5)	(0.5)	(0.2)

Deficit figures are also expressed in comparison to the GDP of the country.



Different Sources of Revenue Receipts

**Major Head**  
A 4-digit code for each function/ service of the Government

Figures for the last fiscal year, known as **Actuals** or **Accounts**

Figures for the next fiscal year, which is approaching, are only **Estimates**

**Annual Financial Statement: Revenue Account Receipts (2006-07)**

(In crore of Rupees)

	Major Head	Actuals 2004-05	Budget 2005-06	Revised 2005-06	Budget 2006-07
<b>A</b>	<b>TAX REVENUE</b>				
(a)	<b>Taxes on Income and Expenditure</b>	<b>132024.21</b>	<b>176812.00</b>	<b>167073.00</b>	<b>206419.00</b>
	Corporation Tax	82679.58	110573.00	103573.00	133010.00
	Taxes on Income other than Corporation Tax	49258.48	66239.00	63500.00	73409.00
	Hotel Receipts Tax	1.14	...	...	...
	Interest Tax	49.85	...	...	...
	Other Taxes on Income and Expenditure	35.16	...	...	...
(b)	<b>Taxes on Property and Capital Transactions:</b>	<b>736.95</b>	<b>265.00</b>	<b>3004.00</b>	<b>4265.00</b>
	Estate Duty	0.20	...	...	...
	Taxes on Wealth	145.36	265.00	265.00	265.00
	Gift Tax	1.89	...	...	...
	Securities Transaction Tax	589.50	...	2389.00	3500.00
	Banking Cash Transaction Tax	...	...	350.00	500.00

Major Heads for all kinds of **Revenue Receipts** start with either 0 or 1

Major Heads for all kinds of **Revenue Expenditures** start with either 2 or 3

### Annual Financial Statement: Revenue Account Disbursements (2006-07)

		(In crore of Rupees)			
	Major Head	Actuals 2004-05	Budget 2005-06	Revised 2005-06	Budget 2006-07
<b>A</b>	<b>GENERAL SERVICES</b>	<b>222509.87</b>	<b>236882.69</b>	<b>237232.46</b>	<b>251233.89</b>
(a)	<b>Organs of State</b>	<b>2647.13</b>	<b>1996.31</b>	<b>2097.08</b>	<b>2407.38</b>
	Parliament	233.90	301.45	323.72	345.88
	President, Vice President etc.	19.55	19.61	20.79	24.20
	Council of Ministers	123.27	85.81	102.63	86.16
	Administration of Justice	84.64	276.49	274.85	371.59
	Elections	1161.25	199.85	257.19	441.24
	Audit	1024.52	1113.10	1117.90	1138.31
(b)	<b>Fiscal Services</b>	<b>3673.32</b>	<b>4163.52</b>	<b>4229.02</b>	<b>3444.01</b>
(i)	<b>Tax Collection</b>	<b>2757.86</b>	<b>2986.05</b>	<b>3054.47</b>	<b>3385.16</b>
	Collection of Taxes on Income and Expenditure	2020	1068.58	1100.21	1129.57
	Collection of Estate Duty, Taxes on Wealth and Gift Tax	2031	99.87	99.69	103.07
	Customs	2037	728.50	839.75	874.40
	Union Excise Duties	2038	825.91	942.95	946.48
	Other Taxes and Duties on Commodities and Services	2045	35.00	3.45	0.95

## Annual Financial Statement: Capital Account Receipts (2006-07)

(In crore of Rupees)					
	Major Head	Actuals 2004-05	Budget 2005-06	Revised 2005-06	Budget 2006-07
<b>A</b>	<b>PUBLIC DEBT</b>				
	Internal Debt of Central Government	6001			
	Market Loans	80349.61	139466.99	136003.56	152856.48
	14 day Treasury Bills	316249.47	266000.00	780000.00	780000.00
	91 day Treasury Bills	32744.95	33000.00	33943.00	34000.00
	182 day Treasury Bills	...	13000.00	14588.00	15000.00
	364 day Treasury Bills	26043.53	26000.00	26860.00	26860.00
	Market Stabilisation Scheme	...	138500.00	85635.00	174000.00
	Ways and Means Advances	62080.00	95000.00	1134.00	50000.00
	Securities against small Savings	32675.00	3875.00	1800.00	3875.00
	Others	133292.16	15809.02	15662.97	21562.80
	<b>Total-Internal Debt of Central Government</b>	<b>683434.72</b>	<b>730651.01</b>	<b>1095626.53</b>	<b>1258154.28</b>
	External Debt	6002	21854.47	16384.48	14540.58
	<b>TOTAL PUBLIC DEBT</b>	<b>705289.19</b>	<b>747035.49</b>	<b>1110167.11</b>	<b>1274219.03</b>
<b>B</b>	<b>RECOVERIES OF LOANS AND ADVANCES</b>				
	State Governments	57328.70	10865.96	8891.14	7675.64
	Union Territory Governments	2408.53	178.95	86.14	86.14
	Foreign Governments	145.39	114.68	83.04	123.40
	Other Loans and Advances	4347.19	2365.41	4169.68	1644.82
	Union Territories without Legislature	9.73	...	...	...

## Annual Financial Statement: Capital Account Disbursements (2006-07)

(In crore of Rupees)					
	Major Head	Actuals 2004-05	Budget 2005-06	Revised 2005-06	Budget 2006-07
<b>A</b>	<b>CAPITAL ACCOUNT OF GENERAL SERVICES</b>	<b>34046.90</b>	<b>37716.91</b>	<b>35945.21</b>	<b>40645.18</b>
	Currency, Coinage and Mint	118.38	146.49	-4.00	0.06
	Other Fiscal Services	334.78	670.93	518.20	700.95
	Police	1366.07	2118.99	2014.37	2017.83
	Stationary and Printing	0.08	0.35	0.10	0.20
	Public Works	268.57	395.99	339.94	466.11
	Other Administrative Services	0.53	1.02	0.42	0.03
	Miscellaneous General Services	-35.31	8.00	1.04	2.00
	Defence Services	4076	31993.80	34375.14	37458.00
<b>B</b>	<b>CAPITAL ACCOUNT OF SOCIAL SERVICES</b>	<b>902.46</b>	<b>762.57</b>	<b>811.82</b>	<b>1164.83</b>
	Education, Sports, Art and Culture	4202	38.67	70.95	48.95
	Medical and Public Health	4210	48.74	48.43	48.92
	Water Supply and Sanitation	4215	1.65	...	...
	Housing	4216	304.67	270.41	251.93
	Urban Development	4217	293.26	177.00	314.00
	Information and Publicity	4220	9.54	40.17	25.41

Major Heads for all kinds of **Capital Expenditures** start with either 4 or 5

**Tax proposals** made in the Union Budget take effect on the end of the day on which the Finance Bill is presented to Parliament, **indirect taxes** immediately and **direct taxes** on a date specified in the Finance Bill, pending the passing of the Finance Bill by Parliament (this is done under the Provisional Collection of Taxes Act, 1931)

The Finance Bill can be **introduced only in the Lok Sabha**. After it has been passed by the Lok Sabha, it is sent to the Rajya Sabha for its recommendations. The Rajya Sabha cannot reject, amend, or vote upon the Finance Bill.

## FINANCE BILL

**AS INTRODUCED IN LOK SABHA  
ON 28<sup>TH</sup> FEBRUARY, 2006**

**Bill No. 16 of 2006**

### THE FINANCE BILL, 2006

A  
BILL

*to give effect to the financial proposals of the Central Government for the financial year 2006-07.*

**BE** it enacted by Parliament in the Fifty-seventh Year of the Republic of India as follows:-

#### CHAPTER I

#### PRELIMINARY

1. (1) This Act may be called the Finance Act, 2006.
- (2) Save as otherwise provided in this Act, sections 2 to 57 shall be deemed to have come into force on the 1<sup>st</sup> day of April 2006.

#### CHAPTER II

#### RATES OF INCOME –TAX

2. (1) Subject to the provisions of sub-sections (2) and (3), for the assessment year commencing on the 1<sup>st</sup> day of April, 2006, income-tax shall be charged at the rates specified in Part I of the First Schedule and such tax as reduced by the rebate of income-tax calculated under Chapter VIII-A of the Income-tax Act, 1961 (hereinafter referred to as the Income-tax Act) shall be increased by a surcharge for purposes of the Union calculated in each case in the manner provided therein.

## **Memornadum (2006-07)**

### **FINANCE BILL, 2006 PROVISIONS RELATING TO DIRECT TAXES**

The provisions in Finance Bill, 2006, in the sphere of direct taxes relate to the following matters:-

- (i) Prescribing the rates of income-tax on income liable to tax for the assessment year 2006-07; the rates at which tax will be deductible at source during the financial year 2006-07 from interest (including interest on securities), winnings from lotteries or crossword puzzles, winnings from horse races, card games and other categories of income liable to deduction or collection of tax at source under the income-tax Act; rates for computation of “advance tax”, deduction of income-tax from or payment of tax on ‘salaries’ and charging of income-tax on current incomes in certain cases for the financial year 2006-07.
- (ii) Amendment of the Income-tax Act, inter-alia, to rationalize and simplify the procedures, and widen the tax base.
- (iii) Amendment of the Wealth-tax Act to streamline the assessment procedure.

## Receipts Budget (2006-07)

### PART A

#### REVENUE RECEIPTS

The statement below summarises, by broad categories, the estimates of revenue receipts for 2006-07. The estimates include the effect of Budget proposals. Further details by sections and heads of account, together with brief notes explaining the variation between the Budget and Revised Estimates, 2005-06 and between the latter and the Budget Estimates for 2006-07, are given in the notes that follow this Statement.

In accordance with the constitution (Eightieth Amendment) Act, 2000, which has been given retrospective effect from 1.4.1998, all taxes referred to in the Union List, except the duties and taxes referred to in Articles 268 and 269, respectively, surcharge on taxes and duties referred to in Article 271 and any cess levied for specific purpose under any law made by Parliament, shall be levied and collected by the Government of India and shall be distributed between the Union and the States in such manner as may be prescribed by the President on the recommendations of the Finance Commission.

For the period 2005-2010, the manner of distribution between the Centre and the States has been prescribed in Presidential Orders issued after considering the recommendations of the Twelfth Finance Commission.

(In crore of Rupees)

	Budget 2005-06	Revised 2005-06	Budget 2006-07
<b>I Tax Revenue</b>			
Corporation Tax	11573	103573	133010
Taxes on Income	66239	66239	77409
Wealth Tax	265	265	265
Customs	53182	64215	77066
Union Excise Duties	121533	112000	119000
Service Tax	17500	23000	34500
Taxes of Union Territories	733	849	903

Major Heads indicating the services for which a Scheme is meant

Total Budget for the Dept., with a Plan & Non-Plan break up

Demand No. for the specific Department in 2006-07

Expenditure Budget Vol. II gives RE for the ongoing fiscal year, but not Actuals for previous fiscal year. Only the "Detailed Demands for Grants" of the Ministries show Actual expenditure figures for their schemes

### Expenditure Budget- Vol. II (2006-07)

Notes on Demands for Grants, 2006-2007

**MINISTRY OF HUMAN RESOURCE DEVELOPMENT**  
DEMAND NO. 55  
**Department of Elementary Education and Literacy**

A. The Budget allocations, net of recoveries, are given below:

(In crore of Rupees)

Major Head	Budget 2005-2006			Revised 2005-2006			Budget 2006-2007		
	Plan	Non Plan	Total	Plan	Non Plan	Total	Plan	Non Plan	Total
Revenue	12531.76	4.77	12536.53	12531.86	4.65	12536.33	17128.0	4.71	17132.71
Capital	...	...	...	...	...	...	...	...	...
<b>Total</b>	<b>12531.76</b>	<b>4.77</b>	<b>12536.53</b>	<b>12531.86</b>	<b>4.65</b>	<b>12536.33</b>	<b>17128.0</b>	<b>4.71</b>	<b>17132.71</b>
1 Secretariat-Social Services	2251	...	...	...	...	...	...	...	...
<b>General Education</b>									
<b>Elementary Education</b>									
2 Strengthening of Teachers Training Institutions	2202	1.00	1.00	1.00	...	1.00	1.00	...	1.00
	2251	0.30	0.30	0.30	...	0.30	0.30	...	0.30
	3601	169.70	169.70	172.70	...	172.70	154.70	...	154.70
	3602	9.00	9.00	6.00	...	6.00	6.00	...	6.00
	Total	180.00	180.00	180.00	...	180.00	162.00	...	162.00
3 Shiksha Karmi Project in Rajasthan	2202	6.50	6.50	6.50	...	6.50	...	...	...
4 Mahila Samakhya	2202	29.85	29.85	23.85	...	23.85	29.85	...	29.85
	2251	0.15	0.15	0.15	...	0.15	0.15	...	0.15
	Total	30.00	30.00	24.00	...	24.00	30.00	...	30.00
5 National Bal Bhawan, New Delhi	2202	4.50	7.03	4.50	2.53	7.03	5.40	2.61	8.01
6 District Primary Education Programme (EAP)	2202	597.91	597.91	597.91	...	597.91	197.91	...	197.91
	2251	2.09	2.09	2.09	...	2.09	2.09	...	2.09
	Total	600.00	600.00	600.00	...	600.00	200.00	...	200.00

Name of a specific programme/ scheme

Total Allocation for the programme/ scheme



## DOES UNION BUDGET INFLUENCE THE BUDGETS OF STATES?

Yes, Union Budget does influence the Budgets of States and, this influence is quite significant. In this section, we shall discuss how some specific types of funds flow from the Union Budget into the Budgets of States, and, thus, determine the magnitudes of State Budgets. This section presents a very brief account of the fiscal architecture that has evolved in India and the institutions which play important roles in this system. This section also presents a brief account of the structure of a State Budget.

### THE FISCAL ARCHITECTURE

The Constitution of India provides a clear division of the roles and responsibilities of the Central Government and State Governments, which has translated into a division of expenditure responsibilities and taxation powers between the two. We have noted earlier, in the section on Union Budget of India, that State Governments have been vested with the powers to levy certain types of taxes and duties, which include: *Sales Tax* (tax on intra-State sale of goods), *State Excise* (a duty on manufacture of alcohol), *Stamp Duty* (a duty on transfer of property), *Land Revenue* (a levy on land used for agricultural/ non-agricultural purposes), *Duty on Entertainment* and *Tax on Professions*. Every State Government mobilizes its **Own Revenues** from all such sources. (We may note here that the system of Sales Tax in States has been replaced with Value Added Tax in most of the States starting from 1<sup>st</sup> of April 2005.)

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

to every State Government so as to enable the State Governments to meet their expenditure requirements.

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

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

### The Finance Commission

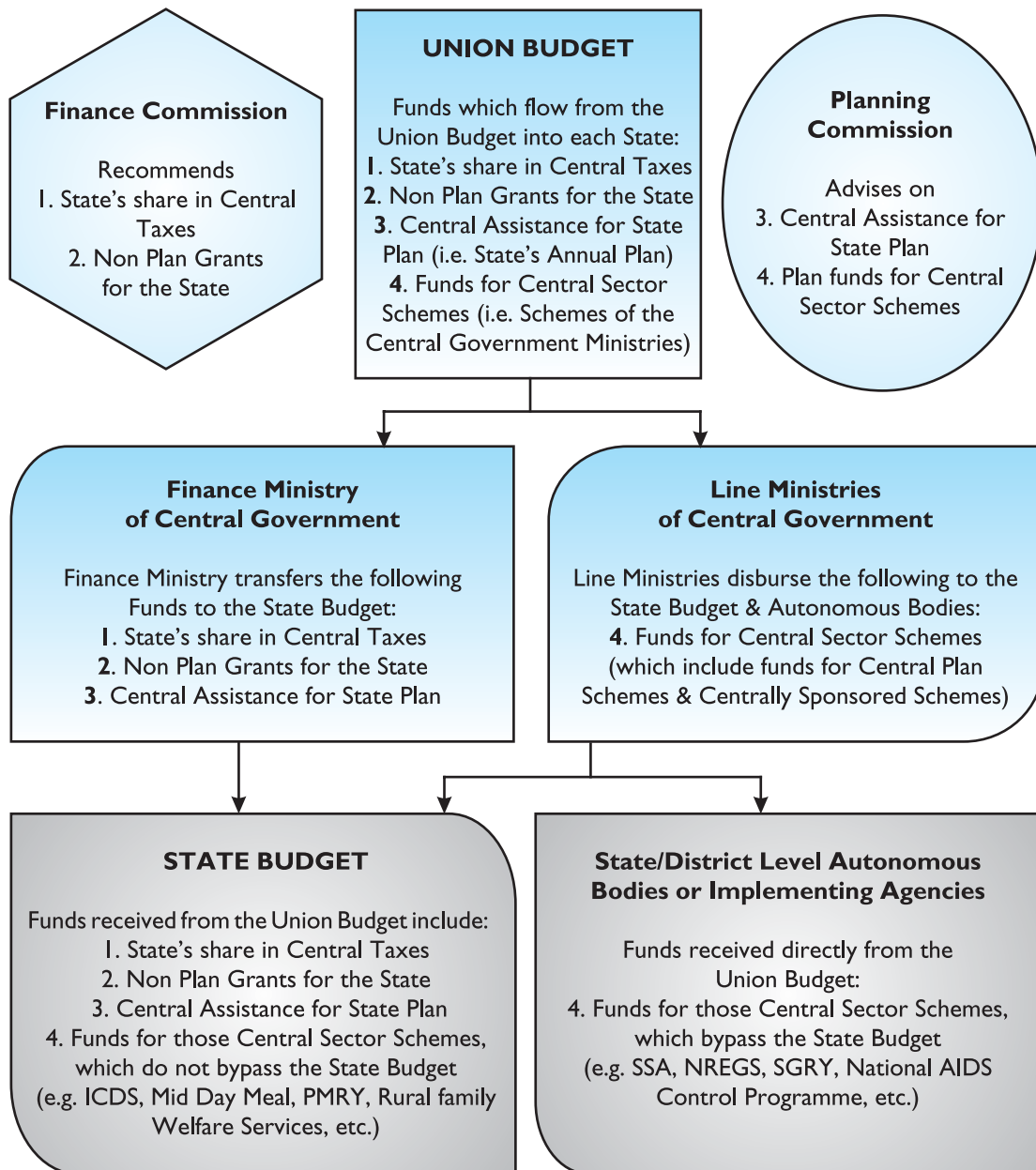
- ◆ Articles 270, 273, 275 and 280 of the Constitution of India provide for the formation of a Finance Commission (at the interval of every five years) to recommend to the President certain measures relating to the distribution of financial resources between the Centre and the States. Hence, the President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

## The Planning Commission

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

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

## Flow of Funds from Union Budget to a State Budget & Autonomous Bodies in the State



As shown in the figure above, Budget of a State gets certain 'untied' financial resources from the Union Budget, viz. - a Share in Tax Revenue of the Central

Government, Non Plan Grants (for meeting Non-Plan expenditure requirements), and Central Assistance for State Plan.

At the same time, all Central Sector Schemes designed by the Central Ministries are also implemented in the States. Hence, ultimately, the expenditure on such schemes is carried out by the State Government only. However, as depicted in the figure above, in case of some of the Central Sector Schemes, the funds disbursed by the Central Ministries do not go through the State Treasury/ State Budget, rather they are directly transferred to the Bank Accounts of some Autonomous Bodies/ Societies in the State which implement the concerned Schemes (e.g. **State Implementing Society** for *Sarva Shiksha Abhiyan*, **District Rural Development Agency** for *National Rural Employment Guarantee Scheme*, **State Health & Family Welfare Society** for *Polio Immunization*, etc.). In case of other Central Sector Schemes (like ICDS, Mid Day Meal, Prime Minister's Rozgar Yojana, Rural family Welfare Services, etc), the funds disbursed by the nodal Central Ministries go through the State Budget and they get spent subsequently through the State Treasury system.

Hence, the magnitude of funds allocated in the Union Budget for the heads-State's share in Central Taxes, Non Plan Grants for the State, Central Assistance for State Plan, and also the funds allocated for Central Sector Schemes, determine to a significant extent the total expenditure that can be incurred from the State Budget. The fiscal year/ financial year for the States is same as that for the Centre. However, in case of many States, the State Budget is finalized only after the Union Budget is presented, since a large chunk of funds for the State would be transfers from the Union Budget.

## THE BUDGET OF A STATE GOVERNMENT

The structure of State Government Accounts is quite similar to what we have seen for the Central Government, mainly because the provisions of the Constitution with regard to the State Government Budgets are quite similar to those for the Union Budget. For the States also, the Constitution provides that no expenditure can be incurred from the Consolidated Fund of a State without the authority of Appropriation Act, and to obtain this authorisation from State Legislature, a statement of anticipated receipts and expenditure for each financial year needs to be laid before the State Legislature.

The State Government's financial transactions are also reported in three separate Accounts, viz.

- ◆ **Consolidated Fund of the State** (from which the State Government cannot withdraw any amount without authorization from State Legislature),
- ◆ **Contingency Fund** (a pool of funds to be accessed only for urgent unforeseen expenditures), and
- ◆ **Public Account** (deposits and advances where the State Government has a liability to repay).

The classification of expenditures from the State Budget is exactly similar to that for expenditures from the Union Budget. However, the **Receipts Budget** in case of a State is somewhat different from that of the Central Government. The **different sources of funds for a State Budget** are the following:

- ◆ State's Own Tax and Non-Tax Revenue
- ◆ State's Share in Central Taxes
- ◆ Non-plan grants from Central Government
- ◆ Central Assistance for State Plan and
- ◆ Borrowings.

## Value Added Tax (VAT)

In April 2005, Value Added Tax (VAT) was introduced in all but eight States in India. It replaced the earlier existing Sales Tax system in those States. Sales Tax used to be levied on the intra-State sale of a good, which was produced/ imported and being sold for the first time. It involved levy of the tax only at a single point. In contrast to that, Value Added Tax (VAT) involves the levy of tax at multiple points of sale with set off provisions being available for tax paid at an earlier stage.

VAT is a multi-stage tax, intended to tax every stage of sale of a good where some value has been added to the raw materials; but taxpayers do receive credit for tax already paid on the raw materials in earlier stages.

Value Added Tax (VAT) is based on the value addition to the goods, and the related VAT liability of a dealer is calculated by deducting **input tax credit** from tax collected on sales during the payment period (say, a month).

### For example,

- ◆ Suppose, input worth Rs. 1,00,000/- is purchased within a month,
- ◆ Sales are worth Rs. 2,00,000/- in that month, and
- ◆ 'Input tax rate' and 'output tax rate' are 4% and 10% respectively;

then **input tax credit/set-off** and **calculation of VAT** would be as shown below:

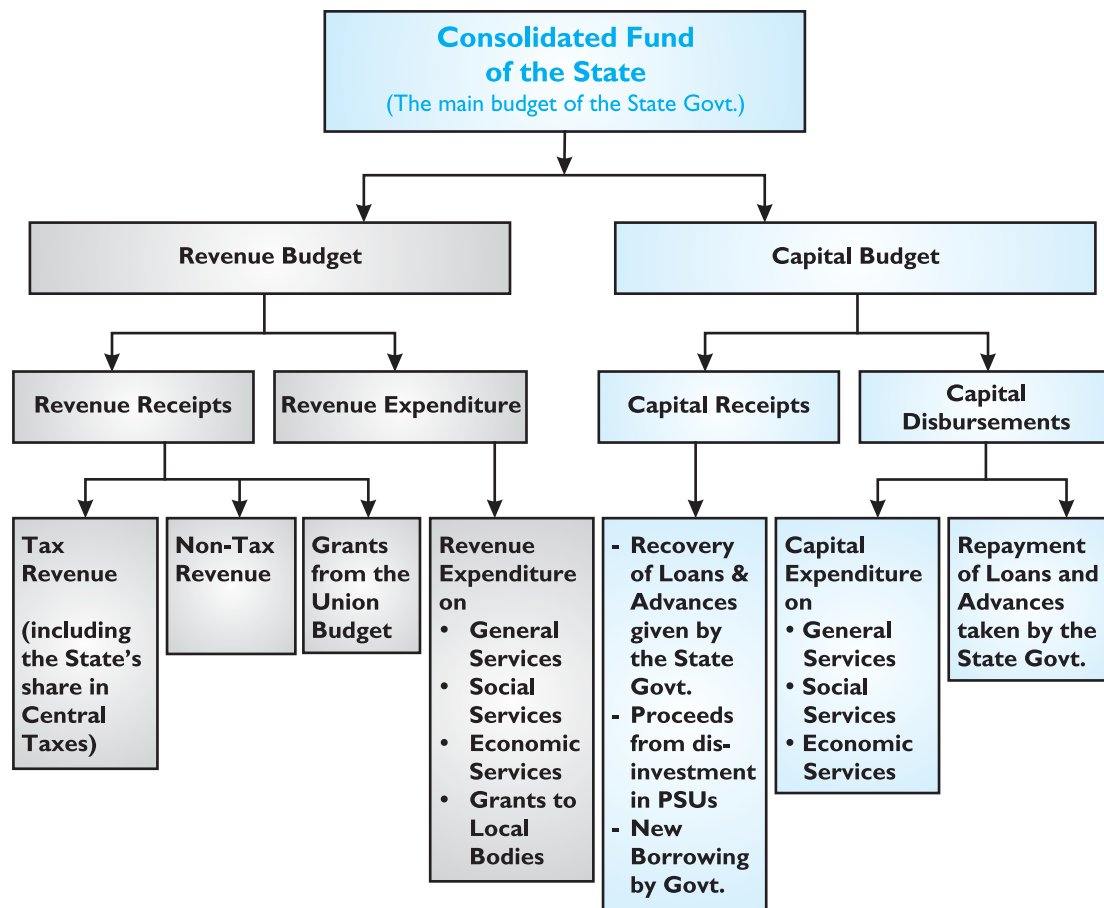
- |  |                |
|--|----------------|
| (a) Input purchased within the month:  | Rs. 1,00,000/- |
| (b) Output sold in the month:  | Rs. 2,00,000/- |
| (c) Input tax paid (at a rate of 4 %):   | Rs. 4,000/-    |
| (d) Output tax payable (at a rate of 10 %):  | Rs. 20,000/-   |
| (e) <b>VAT payable for the month</b><br><b>after set-off/input tax credit [(d) - (c)]:</b> | Rs. 16,000/-   |

It was argued that, VAT would be without the problem of double taxation, which had been prevalent in the earlier existing Sales Tax structure. The **Empowered Committee of State Finance Ministers** had opined with regard to adoption of VAT that – in the (earlier existing) Sales Tax structure, there were problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. For instance, in the (earlier) structure of Sales Tax, inputs were first taxed before a commodity was produced, and then output was taxed again after the commodity had been produced already with a load of input tax. This caused an unfair double taxation with cascading effects. In the VAT, a set-off is given for input tax as well as tax paid on previous purchases. In the (earlier existing) Sales Tax structure, there was also a multiplicity of taxes in several States, such as turnover tax, surcharge on sales tax, additional surcharge, etc. With introduction of VAT, these other taxes have been abolished. In addition, Central sales tax is also going to be phased out.

(Example and the argument of the Empowered Committee of State Finance Ministers in favour of adoption of VAT have been taken from the following source:

**A White Paper On State-Level Value Added Tax By The Empowered Committee of State Finance Ministers** [Constituted By the Ministry of Finance, Government of India on the Basis of Resolution Adopted in the Conference of the Chief Ministers on November 16, 1999] New Delhi January 17, 2005.)

## The Budget of a State Government



As shown in the figure above, a State Budget is also divided into two broad components: the Revenue Budget and the Capital Budget. The distinction followed between these two accounts in case of State Budgets is exactly the same as that for the Union Budget. Likewise, the functional classification of expenditure from the State Budget is also similar to that for Union Budget - the different kinds of services delivered by the State Government, for which fund provisions are made in the State Budget, are divided into General Services, Economic Services, Social Services and Others (grants-in-aid for Panchayats and Municipalities). Moreover, the entire budgetary process followed in the States also resembles closely with the budgetary process of the Central Government.



## CAN WE DECIPHER STATE BUDGET PAPERS?

This section focuses on how we can make sense of the State Budget papers, in particular the information presented in the State Budgets with regard to expenditure. Many civil society organisations across the country have started looking at State Budget documents for generating relevant information for policy advocacy. The discussion presented in this section would be useful for all such readers who are interested in tracking expenditure related information from the State Budget papers.

In the government budgeting system followed in India, a complex system of budget codes/ budget heads is used for reporting disbursements and receipts in the Union and State Budgets. This system was last revised by the Comptroller & Auditor General of India in 1987. All State Governments and the Union Government are required to follow this system of budget heads, which is similar across all States up to a large degree of disaggregation, though not completely similar across different States.

### CLASSIFICATIONS OF EXPENDITURE FROM A STATE BUDGET

We may recall here that the expenditures from the Union Budget could be classified in any of the following ways - **Plan Expenditure & Non-Plan Expenditure**, or **Revenue Expenditure & Capital Expenditure**, or **Voted Expenditure & Charged Expenditure**. In case of a State Budget too, we can classify the expenditures in a similar manner.

However, with regard to Plan Expenditures from the State Budget, there is a further classification which is quite pertinent to understand. The Plan Expenditures from a State Budget are government expenditures meant for programmes/ schemes which have been undertaken because of the ongoing Five Year Plan. But there are three different kinds of Plan Schemes, which are implemented in any State, viz. State Plan Schemes, Central Plan Schemes and Centrally Sponsored Schemes.

- ◆ **State Plan Schemes** - The funds for State Plan Schemes are provided only by the State Government, with no direct contribution from the Centre.

- ◆ **Central Plan Schemes** - The entire amount of funds for a Central Plan Scheme is provided by the Central Government from the Union Budget. The State Government implements the Scheme, but it does not provide any Plan funds for such a Scheme from its Budget.
- ◆ **Centrally Sponsored Schemes** - In case of a Centrally Sponsored Scheme, the Central Government provides a part of the funds and the State Government provides a matching grant for the Scheme. The ratio of contributions by the Centre and a State is pre-decided through negotiations between the two.

Thus, any expenditure from a State Budget can be classified under one of the following categories: Non-Plan expenditure, expenditure on State Plan, expenditure on a Central Plan Scheme, or expenditure on a Centrally Sponsored Scheme.

We may also note here that every State Budget provides figures of three types - Budget Estimates, Revised Estimates and Actuals, just as the Union Budget does. For example, a State Budget for 2007-08 would provide: **Actuals/ Accounts** (of receipts/ expenditures) for 2005-06 (i.e. the previous financial year), **Revised Estimates** for 2006-07 (i.e. the current financial year) and **Budget Estimates** for 2007-08 (i.e. the ensuing financial year).

## STATE BUDGET PAPERS

The State Budget comprises a set of publications on the State Government's estimated receipts and expenditures. The following is a list of the documents which comprise the State Budget papers in Madhya Pradesh.

- ◆ Vol. I - Annual Financial Statement
- ◆ Vol. II - Detailed Estimates of Revenue Receipts and Public Account
- ◆ Vol. III - Schedule of Demands for Grants and Appropriations (Summary)
- ◆ Vol. IV - Statement showing heads of account in which provision for different demands have been included and list of new expenditure
- ◆ Vol. V - Statement of guarantees given by the State Government and allotment of government land on concessional terms
- ◆ Vol. VI - Explanatory Memorandum of Finance Secretary on Budget
- ◆ Vol. VII - Grant-wise Detailed Estimates of Expenditure

In addition to these, some State Governments also bring out a non-technical summary of the Budget, called Budget at a Glance/ Outline of the Budget/ Budget Summary. In some of the States, the Directorate of Economics and Statistics compiles such a summary document after the presentation of the Budget in State Legislature.

In the list of documents mentioned above, the seventh, *Grant-wise Detailed Estimates of Expenditure* is also called *Detailed Demands for Grants*. In a State Budget, at least one *Demand/ Demand for Grant* is proposed for each Department. Every State Budget has numerous *Demands for Grants*. For instance, the State Budget of Madhya Pradesh for 2006-07 had around 90 Demands for Grants.

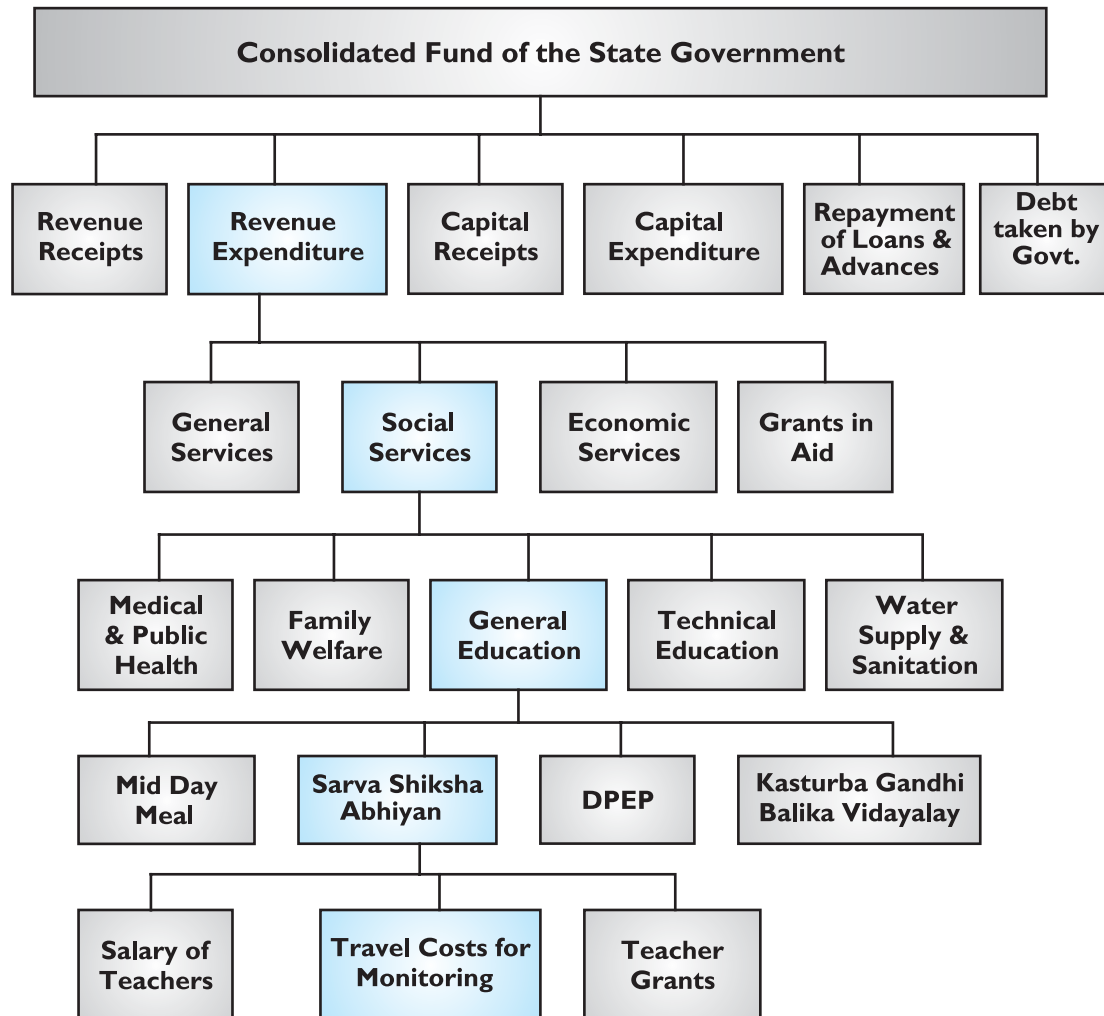
For the purpose of tracking government expenditures from the State Budget at a disaggregated level, or at the level of programmes/ schemes under different Departments, the *Detailed Demands for Grants* are most relevant.

## **TRACKING EXPENDITURES FROM THE DETAILED DEMANDS FOR GRANTS**

Information on government expenditures is organized in the State Budgets in a rather complex structure. Let us consider the example depicted in the figure given below.

The primary unit of expenditure, which is considered in the figure, is expenditure incurred by the State Government on “Travel Costs for Monitoring” under the scheme ‘Sarva Shiksha Abhiyan’. **Let us see how this expenditure would be reported in the State Budget.** In the first step, it would be treated under **Revenue Expenditures** from the Budget, since the expenditure on “Monitoring” does not have any effect on assets or liabilities of the Government. In the second step, it would be reported under **Social Services**, since this expenditure concerns with education which is under Social Services. Then, at the third level, this expenditure would be considered under the function **General Education**, since ‘Sarva Shiksha Abhiyan’ is a scheme for Elementary Education which comes under General Education. In the fourth step, this expenditure would be treated as a part of expenditures on **Elementary Education**. In the fifth step, this would be reported under the scheme ‘Sarva Shiksha Abhiyan’ along with several other objects of expenditure.

## Organisation of Information on Expenditures in Detailed Demands for Grants



For reporting the expenditure figures in the Detailed Demands for Grants, a **Six-Tier Budget Head system** is being followed in India. The six tiers of this Budget Head system are as given below:

1. **Major Head** of account (each Major Head represents a specific function/ service delivered by the Union and State Governments)

2. **Sub-Major Head** (for some Major Heads, there are Sub-Major Heads, and each Sub-Major Head represents a sub-sector under the function)
3. **Minor Head** (under each Sub-major Head; a Minor Head represents a programme)
4. **Sub (Minor) Head** (under each Minor Head; a Sub Head represents a scheme)
5. **Detailed Head** (under each Sub Head; Detailed Heads represent main components of a scheme)
6. **Object Head** (under each Detailed Head; Object Heads represent specific items of expenditure).

### Format of the Detailed Demands for Grants

<p>Major Head – Sub Major Head – Minor Head</p> <p><b>Demand No.:</b> Department in the State Government</p> <p><b>Major Head:</b> Function of the Government</p> <p><b>Sub Major Head:</b> A Sub-sector within the Function</p> <p><b>Minor Head:</b> A Programme within the Sub-sector</p> <p><b>Sub (Minor) Head:</b> A Scheme within the Programme</p> <p style="text-align: right;"><i>(Rupees in Thousands)</i></p>									
Actuals for 2005-06		Budget Estimates for 2006-07		Revised Estimates for 2006-07		<b>Detailed Head:</b> A Component of the Scheme		Budget Estimates for 2007-08	
Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	<b>Object Head:</b>	Object of Exp.	Plan	Non-Plan

## Example of an Object of Expenditure

<b>2210 - 01 - 200</b>  <b>15-</b> Department of Health & family Welfare (Demand No. – for the Department) <b>2210-</b> Revenue Expenditure on <i>Medical and Public Health</i> (Major Head – for the function) <b>01-</b> Urban Health Services – Allopathic (Sub Major Head – for the sub-sector) <b>200-</b> Other Health Services (Minor Head - for the programme) <b>01-</b> Centrally Sponsored Schemes (Sub-Minor Head - for the scheme)  <div style="text-align: right;"><i>(Rupees in Thousands)</i></div>									
Actuals for 2005-06		Budget Estimates for 2006-07		Revised Estimates for 2006-07		<b>01-</b> Supply of Anti T.B. Medicines (Detailed Head - for the component of scheme)		Budget Estimates for 2007-08	
Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	<b>39-</b>	Medicines & Chemicals (Object of Expenditure)	Plan	Non-Plan

(In the above example, the final Object of Expenditure would be identified by the Budget Head 2210-01-200-01- 01-39.)

With regard to Major Heads of account, we may note the following:

- Revenue Receipts: Major Heads start only with 0 or 1
- Revenue Expenditures: Major Heads from 2011 to 3999
- Capital Expenditures: Major Heads from 4011 to 5999
- Loans & Advances: Major Heads from 6011 to 7999
- Capital Receipts (other than debt): only one Major Head 4000
- Public Debt: Major Heads 6001 to 6010

Example of a Function 'Medical & Public Health':

- ◆ Major Head **0210**: Revenue Receipts of the Govt. under *Medical & Public Health*
- ◆ Major Head **2210**: Revenue Expenditure by the Govt. on *Medical & Public Health*
- ◆ Major Head **4210**: Capital Outlay by the Govt. on *Medical & Public Health*
- ◆ Major Head **6210**: Loans given by the Govt. for *Medical & Public Health*

These Major Heads of account are uniformly followed by the Central Government and all State Governments. In fact the Budgets Heads up to the level of Minor Heads are uniform across all States.

## LOOKING AT BUDGETS THROUGH A SPECIFIC LENS

As we had observed earlier, analysis of government budgets is something which economists and policy analysts in India have been doing since long. But, the analysis of budgets by civil society organisations in the country started only in the 1990s. The most important characteristic of this civil society budget work in India, like in other developing countries (e.g. South Africa, Bangladesh, Uganda etc.), has been that it is 'applied' analysis, rather than being 'theoretical'. Secondly, this 'applied' analysis of government budgets has been rooted in a 'rights based approach', in which the 'rights' of different disadvantaged sections of population (such as women, children, *Dalits*, *Adivasis*, disabled, etc.) is strongly emphasized. This section throws some light on how government budgets in India can be assessed from the perspective of a disadvantaged section of the population. The discussion focuses on some of the central questions that are being asked in the analyses of budgets from the perspectives of Gender, *Dalits* and *Adivasis*.

In Union Budget and State Budget papers, tracking the government expenditure on different functions/ services, like, *Medical & Public Health*, *General Education*, *Technical Education*, *Agriculture & Allied Activities*, *Defence*, etc. is rather straight forward. This is because the 'Annual Financial Statement' (in the Budget papers) presents the aggregate expenditure/ allocation figures separately for all such functions, under Revenue and Capital Accounts. Hence, tracking the figures for government expenditures on different sectors is not difficult. However, if we want to find out the expenditures/ allocations by a State Government on the development of a particular section of population; the task becomes quite difficult. The root cause of this difficulty is that the information on expenditures/ allocations in the Budget papers is organized (as was shown in the previous Section) according to the functions/ sectors, then sub-sectors and so on. The format of the Budget papers does not provide much scope for precisely segregating expenditures/ allocations for different sections of population.

But, before we proceed further, we should also ask: does it make sense to find out government expenditure which is targeted for a certain section of the population? After all, government expenditure on all important sectors, like, *Medical & Public Health*, *Education*, and *Agriculture & Allied Activities*, etc. is believed to be



necessary for accelerating socio-economic development of an entire region, i.e. the whole population, which in turn would also benefit the disadvantaged sections of the population. While this is true, it is also a fact that in India the development outcomes of the disadvantaged sections are lagging far behind the development outcomes pertaining to the total population, which raises the need for bothering about public expenditure targeted for the disadvantaged sections. Moreover, the Planning Commission and the Government of India have also recognized the need for making a distinction between ‘**incidental**’ benefits for a certain disadvantaged group and ‘**direct**’ policy-driven benefits for the group from public expenditure. This recognition has led to the adoption of **Plan strategies** like, the **Special Component Plan for Scheduled Castes (SCP for SCs)**, the **Tribal Sub-Plan for Scheduled Tribes (TSP)** and **Women’s Component Plan (WCP)**. Hence, it makes a lot of sense to find out what part of total expenditure by a government/ which kinds of government expenditures are meant for providing direct policy-driven benefits, and not just incidental benefits, to a certain disadvantaged section of the population. This would require us to look closely at the various **programmes/ schemes under the different Ministries/Departments** of a Government.

### **ASSESSING A STATE BUDGET THROUGH THE LENS OF THE DISADVANTAGED**

In the assessment of a government budget, the assessment of receipts/ resource mobilisation by the government should also be undertaken. Because, the impact of resource mobilisation policies of the government for the disadvantaged sections of population would be different for the different sources of revenue. For instance, the impact of a greater emphasis by the government on Indirect Taxes (which affect the rich and the poor alike) would be quite different from that on Direct Taxes (which are linked to the payee’s ability to pay). Likewise, if the government is relying heavily on Non-Tax Revenue from user charges/ fees for healthcare services or educational services, its impact would be quite different for different sections of the population. However, in India, not much progress has yet been made in the analysis of Receipts Budgets from the perspective of disadvantaged groups. In the present section also, we shall restrict our attention only to the analysis of Expenditure Budgets of the States and Central Government, which has gained a lot of ground over the last decade.

### **ASSESSING STATE BUDGETS THROUGH THE GENDER LENS**

**Gender Budgeting** refers to a method of looking at the budgetary policies and budget allocations/ expenditures from the gender lens. Gender Budget, with regard

to the government at any level, does not refer to a separate budget for women; rather it is an analytical tool which scrutinizes the usual government budget to reveal its gender-differentiated impact and, **in the Indian context, advocate for greater priorities for addressing the gender-based disadvantages faced by women.** Since gender-based differences and discriminations are built into the entire social-economic-political fabric of our society, a 'gender-neutral' government budget is bound to reach and benefit the men more than the women unless concerted efforts are made to correct gender-based discriminations. Moreover, a 'gender-neutral' government budget could even reinforce, instead of reducing, the gender-based disadvantages faced by women. Thus, a 'gender-neutral' government budget is in fact 'gender-blind'.

### Some Questions in Gender Budgeting Analysis

When a State Budget is analysed from the gender lens, several questions relating to the gender-differentiated impact of the Budget may be asked. However, the following could be some relevant questions in this regard:

- (1) What is the priority for women in the State Budget (i.e. in total expenditure of the State Government)?
- (2) How do the schemes, which are intended to benefit women, actually reach women?
- (3) How do the schemes, which are intended to benefit women, address the gender-based disadvantages of women?

The third question requires us to examine whether the government programmes/ schemes, which are intended to benefit women, actually reduce the gender-based disadvantages of women or they end up reinforcing such disadvantages. The latter could be possible because some of the programmes/ schemes, funded by the Budget, may provide resources for addressing those needs of women which are in accepted gender roles for women. As a result, in the short run, when the division of labour between men and women (following the accepted gender roles for women) is given, such programmes/ schemes benefit women; but in the long run, the gender stereotypes might get reinforced.

The second question, listed above, requires us to examine how many women (as compared to men), and women from which sections of the society, did actually benefit from a government programme/ scheme. That is, an *ex post* examination

of the beneficiaries of a scheme (after its implementation) would be needed to answer questions of this kind. However, undertaking this kind of investigation for many schemes would require a huge amount of time and other resources. Hence, to begin with, this second question can be addressed only with respect to some selected schemes in a State Budget.

The first question, listed above, has been the most commonly asked question in the analyses of State Budgets from the gender lens. Let us pay a little more attention to this question. In order to find out **what is the priority given to women in the State Budget (i.e. in total expenditure by the State Government)**, we need to find out which are the different programmes/ schemes/ items of expenditure in the State Budget in which either whole or a part of the services/ benefits are 'earmarked' for women.

We may recall here that, **Non-Plan Expenditure** by the States is meant for supporting all such government services which function irrespective of the Five Year Plans. The Non-Plan Expenditures by the States (as also by the Centre) cannot easily be targeted/ earmarked for a particular section of the population. Exceptions to this would be the Non-Plan Expenditures for those government institutions/ services which are meant specifically for a particular section (e.g. government shelter homes for destitute women, government homes for children in conflict with law, hostels for girl students belonging to Scheduled Caste community, etc.). Except for such few items of Non-Plan Expenditure, in case of most items of Non-Plan Expenditure, it would be difficult for the government to ' earmark' funds and services/ benefits for a certain section/ community. However, this difficulty does not arise in case of **Plan Expenditures**, which are by nature new and targeted interventions for socio-economic development. Hence, certain Plan strategies have been devised for ' earmarking' funds and benefits for some of the disadvantaged sections of the population.

**Women's Component Plan (WCP)** is such a **Plan strategy** devised for channelising government funds in Plan programmes/ schemes specifically for women beneficiaries. The strategy of Women's Component Plan (WCP), which was started in the Ninth Five Year Plan (1997-2002), requires earmarking a specific quantum of funds/benefits for women in the schemes run by all Ministries/Departments that are perceived to be 'women-related'. Under WCP, both Central as well as State Governments are required to ensure that "not less than 30 % of the funds/ benefits are earmarked for women under the various schemes of the 'women-related' Ministries/Departments".

Thus, the State Governments are required to show flows to WCP from the budget outlays for their State Plan schemes in all 'women-related' sectors. This information is usually given in the Annual Plan documents of the States. Hence, the information on flows to WCP can be used to find out the shares in the total outlays for various State Plan schemes which are 'earmarked' for women. It may be useful to see an example here. The Table, given below, presents the fund flows to WCP (in the State Plan schemes of Rajasthan) proposed by the State Government of Rajasthan for the 11<sup>th</sup> Five Year Plan period (2007-08 to 2011-12).

However, the State Governments do not show any flows to the WCP from the budget outlays meant for Central Plan Schemes and Centrally Sponsored Schemes, which are Schemes designed by the Central Government Ministries. We shall discuss more about this later with reference to the Union Budget.

### Women's Component Plan (WCP) proposed by Govt. of Rajasthan

#### Draft Eleventh Five Year Plan (2007-12) and Annual Plan 2007-08 – Financial Outlays: Proposals for WC

(Rs. in Crore)

S. No.	Functions/ Services	Eleventh Plan (2007-12) – Proposed Outlays (at 2006-07 prices)			
		Eleventh Plan (2007-12)		Annual Plan 2007-08	
		Total Outlay	of which flow to WC	Total Outlay	of which flow to WC
1	Agriculture Department – Education Training to Girls/Women	513.5	8	67.65	0.97
2	Rural Development –Special Programme for Women Dept.	65	65	8.5139	8.5139
3	Assistance of Women Cooperatives	100	1.2	9	0.25
4	Industries Dept.-House Hold	3	3	0.6	0.6
5	Khadi & Village Industry – Special Programme for Women Dev.	1.8	1.8	0.25	0.25
6	Elementary Education	1715	771.75	318.17	143.18
7	D.P.E.P.	0.0001	0	0.0001	0
8	Improve transition from Elementary to Secondary education for Girls in Rajasthan (EAP)	529.92	238.464	0.1	0.045

(Rs. in Crore)

S. No.	Functions/ Services	Eleventh Plan (2007-12) - Proposed Outlays (at 2006-07 prices)			
		Eleventh Plan (2007-12)		Annual Plan 2007-08	
		Total Outlay	of which flow to WC	Total Outlay	of which flow to WC
9	Secondary Education	500	174.29	27.5	11.7113
10	College Education	115.45	23.4235	13.7	2.2025
11	M.L.S. University, Udaipur	3.6	0.36	0.25	0.025
12	Sanskrit Education	17.5	5	1.1	0.4809
13	Dir. of Technical Education (Polytechnics)	111	2.75	19.4	4.95
14	M.L.V. Tech. Inst. Bhilwara	1.01	0.0252	0.14	0.035
15	Engineering College, Kota	9.5	0.15	0.5	0.15
16	MP Agriculture University, Udaipur	7.1	1.42	0.45	0.09
17	Engineering College, Ajmer	10	2.5	0.74	0.185
18	Engineering College, Bikaner	9.5	1.62	0.45	0.085
19	Tech. University, Kota	20	0.15	0.45	0.1125
20	Mobile Surgical Department – Surgical Camp	2.75	1.1	0.4	0.16
21	Craftsman Training	95.5	23.875	16.5	4.125
22	<b>Social Welfare</b>				
	A Construction of Mahila Sadan Building (Swayam Sidha)	5	5	1	1
	B Modernization and Renovation of Mentally Retarded Women Home	0.0001	0.0001	0.0001	0.0001
	C Running of Mahila/ Balika Sadan Homes	0	0	0.0001	0.0001
	D Running of Swayam Sidha Yojana	1	1	0.2	0.2
	<b>Total Social Welfare</b>	6.0001	6.0001	1.2002	1.2002
23	TAD Maharashtra Pattern	560	131.9742	80	19.4833
24	Special Central Assistance	164.23	50.3253	32.846	10.2713
25	Article 275(1)	110	0.385	22	0.385
26	Nutrition	910.7501	583.619	150.1501	96.65
	<b>Grand Total</b>	5582.11	2098.181	772.0603	306.1109

Source: Government of Rajasthan (2007), Draft Eleventh Five Year Plan (2007-12)

## ASSESSING STATE BUDGETS THROUGH THE LENS OF DALITS AND ADIVASIS

In case of assessment of a State Budget through the lens of Dalits or Adivasis too, we need to look closely at the different programmes/ schemes implemented by the different Departments in the State Government. In this case also, items of Non-Plan Expenditure in the State Budget, which ‘earmark’ funds/ benefits for the Dalits or Adivasis, would be few; which would mostly be Non-Plan Expenditures on government institutions meant specifically for Dalits or Adivasis. However, for Plan Expenditures from the State Budget, Plan strategies for ‘earmarking’ funds/ benefits for these disadvantaged communities were adopted long back in the Sixth Five Year Plan.

The concept of having a **Special Component Plan** for Scheduled Castes (SCP for SCs) and a **Tribal Sub-Plan** (TSP) was introduced in 1979. The strategies of SCP and TSP are meant to ensure that outlays and benefits from the general sectors of the Plan flow to Dalits and Adivasis **at least in proportion to their shares in total population**, both in physical and financial terms. These are umbrella programmes under which various schemes implemented by the Government should be dovetailed for addressing different needs of the Dalits and Adivasis.

In fact, the present Prime Minister, in the 51<sup>st</sup> National Development Council Meeting held on 27 June 2005, had emphasized that “SCP and TSP should be an integral part of Annual Plans as well as Five Year Plans, making provisions therein non-divertible and non-lapsable with the clear objective of bridging the gap in socio-economic conditions of the SCs and STs within a period of 10 years”. The Planning Commission has set up a dedicated “Special Component Plan (SCP) and Tribal Sub Plan (TSP)” Unit.

The Planning Commission has issued several guidelines to the Central Government and State Governments with regard to implementation of these strategies of SCP and TSP. Some of the relevant guidelines, in this regard, are the following:

- ◆ Only those schemes should be included under SCP/ TSP that ensure **direct benefits** to individuals or families belonging to SCs/ STs.
- ◆ Funds should be earmarked for SCP/ TSP from the Central Government Ministry’s/Department’s Plan outlay **at least** in the proportion of SC/ ST population to the total population of the country.
- ◆ Special Component Plan and Tribal Sub-Plan funds should be **non-divertible** and **non-lapsable**.

- ◆ The funds earmarked for SCP/ TSP should be placed under separate budget head/ sub-head for each Ministry/Department for implementing SCP and TSP. In this context, we may note that in the ‘Detailed Demands for Grants’ (in State and Union Budgets), Tribal Sub Plan (with code 796) and Special Component Plan (with code 789) can be opened as Minor Heads below the functional Major Head/ Sub Major Head wherever necessary.
- ◆ Outlays for area-oriented schemes directly benefiting Scheduled Castes hamlets/ villages having a majority of Scheduled Castes population/ tribal hamlets and villages shall be included in SCP and TSP.
- ◆ Wage component, especially under rural employment schemes, should **not** be included under SCP/ TSP.
- ◆ Non-earmarking of funds under SCP and TSP may result in non-approval of Plans of the States/UTs.

### **Maharashtra Model for SCP**

The Ministry of Social Justice & Empowerment of the Central Government has advised the States to follow the Maharashtra Model in respect of SCP for SCs. Maharashtra has been following a budgetary mechanism, in which Special Component Plan funds are earmarked under the ‘Demand for Grant’ of the *Scheduled Castes Welfare Department* of the State. After the State Legislature passes the ‘Demand for Grant’, the amount is utilized by the *Scheduled Castes Welfare Department* with the help of other Line Departments. This approach, according to the Central Government’s Ministry of Social Justice & Empowerment, helps in ensuring provision of resources adequately under SCP, checking any diversion and avoiding any duplication of administrative machinery.

Thus, the State Governments are required to show **flows to SCP and TSP from the budget outlays for their State Plan schemes** in all sectors. This information is usually given in the Annual Plan documents of the States. Moreover, many State Governments show the funds earmarked for SCP and TSP separately under Minor Heads 789 and 796, respectively, in the ‘Detailed Demands for Grants’ in the State Budgets. Hence, **the information on flows to SCP and TSP can be used to find out the shares in the total outlays for various State Plan programmes/ schemes which are ‘earmarked’ for Dalits and Adivasis.**

For example, the Tables, given below, show the fund flows to SCP (now renamed as Scheduled Caste Sub-Plan or SCSP) and TSP in the State Plan schemes of Rajasthan, as proposed by the State Government of Rajasthan for the 11<sup>th</sup> Five Year Plan period (2007-08 to 2011-12).

**Scheduled Caste Sub-Plan (SCSP) proposed by Govt. of Rajasthan**  
**Draft Eleventh Five Year Plan (2007-12) and Annual Plan 2007-08 –**  
**Financial Outlays: Proposals for SCSP**

(Rs. in Crore)

S. No.	Functions/ Services	Eleventh Plan (2007-12) – Proposed Outlays (at 2006-07 prices)			
		Eleventh Plan (2007-12)		Annual Plan 2007-08	
		Total Outlay	of which flow to SCSP	Total Outlay	of which flow to SCSP
1	AGRICULTURE & ALLIED SERVICES	1269	204	270	38
2	RURAL DEVELOPMENT	4348	619	694	88
3	SPECIAL AREA PROGRAMME	206	35	40	7
4	IRRIGATION & FLOOD CONTROL	7302	1030	998	132
5	POWER DEVELOPMENT	25222	4338	5321	914
6	INDUSTRIES & MINERALS	959	31	164	4
7	TRANSPORT	4609	691	816	105
8	SCIENTIFIC SERVICES & RESEARCH	30	0	3	0
9	SOCIAL & COMMUNITY SERVICES	19382	3421	3010	492
10	ECONOMIC SERVICES	719	23	202	23
11	GENERAL SERVICES	4377	0	51	0
	<b>Grant Total</b>	<b>68422</b>	<b>10393</b>	<b>11569</b>	<b>1802</b>

**Source:** Government of Rajasthan (2007), *Draft Eleventh Five Year Plan (2007-12)*



## Tribal Sub-Plan (TSP) proposed by Govt. of Rajasthan

### Draft Eleventh Five Year Plan (2007-12) and Annual Plan 2007-08 – Financial Outlays: Proposals for TSP

(Rs. in Crore)

S. No.	Functions/ Services	Eleventh Plan (2007-12) – Proposed Outlays (at 2006-07 prices)			
		Eleventh Plan (2007-12)		Annual Plan 2007-08	
		Total Outlay	of which flow to TSP	Total Outlay	of which flow to TSP
1	AGRICULTURE & ALLIED SERVICES	1269	137	270	32
2	RURAL DEVELOPMENT	4348	998	694	150
3	SPECIAL AREA PROGRAMME	206	7	40	3
4	IRRIGATION & FLOOD CONTROL	7302	729	998	91
5	POWER DEVELOPMENT	25222	3152	5321	668
6	INDUSTRIES & MINERALS	959	61	164	10
7	TRANSPORT	4609	513	816	92
8	SCIENTIFIC SERVICES & RESEARCH	30	2	3	0
9	SOCIAL & COMMUNITY SERVICES	19382	2701	3010	383
10	ECONOMIC SERVICES	719	43	202	23
11	GENERAL SERVICES	4377	251	51	0
	<b>Grant Total</b>	<b>68422</b>	<b>8594</b>	<b>11569</b>	<b>1453</b>

**Source:** Government of Rajasthan (2007), *Draft Eleventh Five Year Plan (2007-12)*

## ASSESSING UNION BUDGET THROUGH THE LENS OF THE DISADVANTAGED

In the Union Budget, the Expenditure Budget Vol. I presents a **Gender Budgeting Statement** (a practice being followed since Union Budget for 2004-05). This **Gender Budgeting Statement** is divided into two parts: Part A and Part B. Part A of the Statement compiles the budget outlays for all women-specific schemes/ items of

expenditure in the Union Budget. Part B presents a compilation of all those composite expenditure schemes/ items (i.e. those schemes which are meant for both women and men) in the Union Budget in which **at least 30 %** funds are being channelised for the benefit of women. This Part also shows the magnitudes of budget outlays, which, according to the concerned Ministry/Department, are meant for the benefit of women.

Likewise, the Expenditure Budget Vol. I also presents a ***Statement on Funds/ Benefits for Scheduled Castes and Scheduled Tribes***. This Statement too is divided into two parts: Part A and Part B. Part A of the Statement compiles the budget outlays for all schemes/ items of expenditure in the Union Budget, in which 100 % of the budget outlays are meant for the benefit of Scheduled Castes and Scheduled Tribes. Part B presents a compilation of all those schemes/ items of expenditure in the Union Budget in which **at least 20 %** funds are being channelised for the benefit of Scheduled Castes and Scheduled Tribes. This Part also shows the magnitudes of budget outlays, which, according to the concerned Ministry/ Department, are meant for the benefit of Scheduled Castes and Scheduled Tribes.

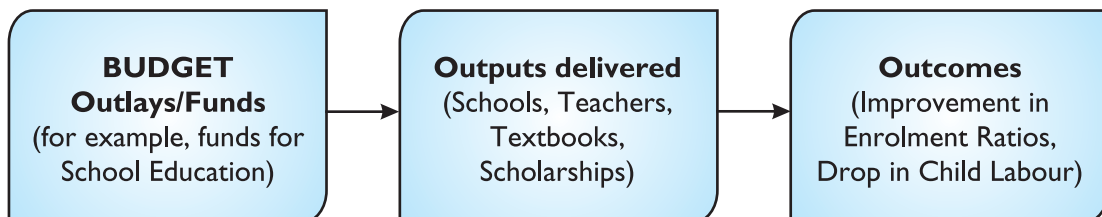
However, these Statements (in Expenditure Budget Vol. I of the Union Budget) have invited several criticisms. With regard to the ***Gender Budgeting Statement***, it has been pointed out that several of the assumptions used are misleading/ patriarchal. For instance, prior to the ***Gender Budgeting Statement for 2007-08 Union Budget***, the ***Gender Budgeting Statements*** in earlier Union Budgets used to report most child-specific schemes as meant entirely (i.e. 100 %) for the benefit of women.

Likewise, the ***Statement on Funds/Benefits for Scheduled Castes and Scheduled Tribes*** does not show the relevant budget outlays separately for Dalits and Adivasis. Moreover, it has been pointed out that several of the schemes/ items of expenditure shown in this Statement have only notional/ incidental benefits for Dalits and Adivasis and not any direct benefits.

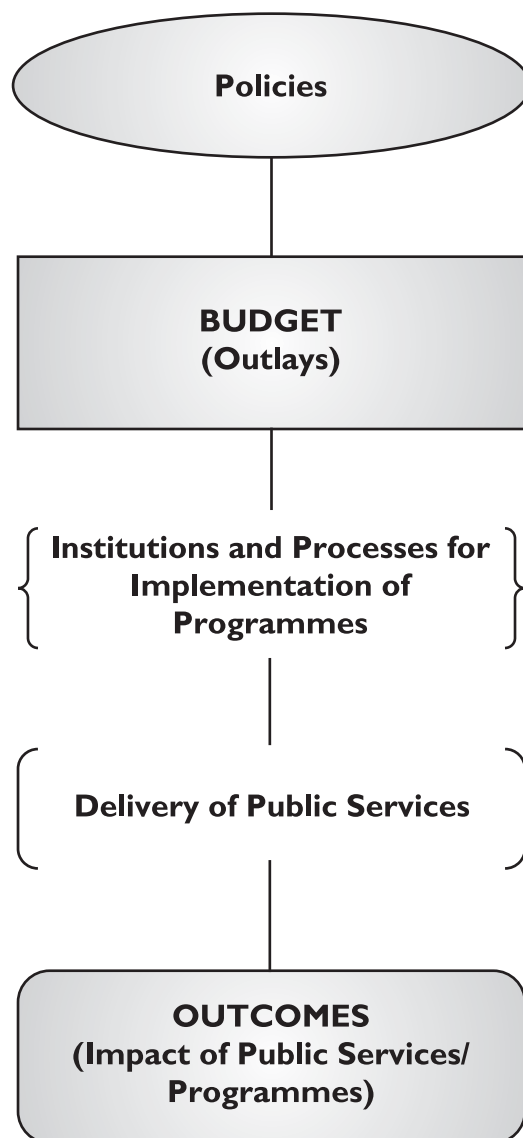
As we had observed earlier, the information on flows of funds for WCP, SCP and TSP, provided by the State Governments cover only the State Plan Schemes, and not the Central Plan Schemes or Centrally Sponsored Schemes. But, presently, Central Plan Schemes and Centrally Sponsored Schemes account for a major share of total Plan expenditure in the States. Hence, a lot more attention needs to be paid to the availability and reliability of relevant information on budget outlays for the benefit of women/ Dalits/ Adivasis in the Union Budget papers.

By now, we have got a fair amount of idea about what kind of information is contained in the Budgets of both the Central Government and State Governments. This information, with regard to the Expenditure Budget, pertains mainly to the fund outlays/ allocations/ expenditures. However, the budget outlays or funds are meant for different services/ programmes/ schemes which pursue certain goals/objectives of the government. These goals/objectives are typically expressed in terms of improvement in outcomes.

As shown in the flow chart given below, in the first step **outlays** are provided in a Budget; then **outputs** are delivered with help of those budget outlays; and finally those outputs/ services delivered by the government are expected to give us better **outcomes**.



However, the expectations with regard to the outcomes from public expenditure do not get fulfilled always. In fact, in the Indian context, many observers point out that the outcomes from public expenditure are much inferior to what is expected. The Union Budget and State Budget documents provide information mainly about the budget outlays and expenditures. But **with information on outlays alone, we cannot find out why the outcomes in a certain sector/ for a certain community are poor**. In fact, we need to be clear about what inferences can be derived from the Budget documents and what inferences cannot. The figure shown below locates the Budget in a larger picture of government intervention for socio-economic development, which would help us both in appreciating the importance of analysing Government Budgets as well as recognizing the limitations of looking at Government Budgets alone. [The figure, given below, is a slightly modified version of a similar figure in Vennekens-Poane, Alex (2003), IDASA Budget Information Service, South Africa.]



The figure, shown above, depicts the process in which public policy tries to achieve better outcomes in the society through the Budget. Based on Budget papers alone, we can assess the **policy priorities of the government**. If the government announces a certain policy, but the outlays made in the government's Budget do not reflect any priorities for the policy announced; then we can clearly say that the specific policy of the government is only on paper. The government must provide adequate resources in its Budget in order to implement its policies.

One example here could be the case of government policies for “Protection of Children in Difficult Circumstances” in India. All assessments of Union and State Budgets from the perspective of children have highlighted that Budgets have provided meager resources for “Protection of Children in Difficult Circumstances”.

However, if the resources provided in the Budget as also the final expenditures for a particular sector/ sub-sector show an appreciable rise over the years, and yet there is no improvement in the outcomes in that sector/ sub-sector, then we must bother about the intermediate steps, i.e. about the possible bottlenecks in the institutions and processes relating to the implementation of government programmes and also the outputs/ public services delivered through such programmes. Thus, in order to get a complete picture of government intervention for a sector/ sub-sector, we need to bother not only about the Budgets but also about the subsequent stages of programme implementation and actual delivery of public services. Nonetheless, in the context of a developing country like India, provision of adequate public resources for socio-economic development programmes is a necessity, without which even sound institutions and sound processes of programme implementation cannot give us the desired outcomes.



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