6.1 INTRODUCTION

Larger the size of an activity greater is the need for management. Similarly the Public Expenditure Management (PEM) assumes significance in the context of increasing size of the public expenditure during the twentieth century, in both the developed and developing world. In the initial stages, PEM remained a neglected area as the quantum of public expenditure was moderate and was confined to the provision of small number of pure public goods. However, with the expansion of the government, and its over-reaching arms into a plethora of economic activities, a better management of the public expenditure has become imperative. The developed world was quick to catch up with this concept. For the large part of the developing world the PEM till recently, was a foreign concept, especially in the Latin American and African countries. Fortunately, India has some kind of PEM system in place since independence (though not with this name) and certain things are enshrined in the Constitution itself. Whether the system has worked or not is a different issue and that is a matter for analysis at subsequent stages. In addition to the constitutionally enshrined provisions, India from time to time, has tried to co-opt new PEM practices and techniques, which is also taken up for detailed discussion at a later stage.

In the aftermath of economic reforms, PEM has assumed an added significance in India and elsewhere. As rightly summarised by Lahiri (2000), “Expenditure management through appropriate prioritisation and control is important for any government. The tension between containing the deficit and providing adequate outlays for the relevant heads makes expenditure prioritisation an even more important issue in India. There is need for more schools, hospitals, roads, hydro-electric and multipurpose irrigation projects, etc. on the one hand, and need to conform to fiscal prudence...
on the other. One of the traditional ways of safeguarding fiscal balance is through a strict adherence to appropriate budgetary techniques and procedures". (JBIC, 2001:73)

PEM is an instrument of state policy. It is a part of the system of good governance. There is a difference between 'expenditure policy' which focuses on the questions of 'what is to be done' and 'expenditure management' focusing on the question of 'how it is to be done' (ADB, 1999). “It also needs to be recognised that public expenditure management in principle is an analytical framework that enables the State to diagnose and give prescriptions for remedial measures (for expenditure policy). However PEM is not a panacea for mismanagement of macro economy and poor budget outcomes” (JBIC, 2001:85). More over of late, the wall of distinction between the expenditure policy and expenditure management seems to have thinned, especially after the start of review of Public Investment Programmes (PIPs), and Public Expenditure Reviews (PERs) by World Bank in 1970s and 1980s. Now PEM may also include the policy guidelines and prescriptions for the expenditure policy (thereby also addressing the issue of 'what is to be done' also) as a part of fiscal reforms) sweeping many countries in the world especially since 1980s and 1990s.

Further as aptly noted by the ADB Report on the management of public expenditure (1999), “there is no one-size fit-all PEM theory. Like any other technology from water pumps to agricultural fertilisers to construction, public expenditure technology must be an appropriate technology in terms of local factor endowments, local institutions and real local needs”. The international institutions, particularly Fund-Bank institutions, better take note of this observation before making uniform and comprehensive PEM policy prescriptions to the member countries, irrespective of the local conditions. This fact is shared by the World Bank Report (1991) which acknowledged this much earlier when it observed that the Bank has no general prescriptions for budget reforms (such as the PIP for investment programming), but not followed in practice.
6.2 OBJECTIVES OF PEM

The broad objective of PEM, is the achievement of overall fiscal prudence/discipline, however it also includes the macro-economic stability, in addition to attaining transparency, accountability, financial discipline, efficiency gains, etc. The objectives of PEM can be broadly summarised as in the following table 6.1.

Table 6.1: Objectives of Public Expenditure Management

| Effective Government | - Provision of services to the public within specified time and cost  
|                      | - Achievement of allocative and technical efficiency  
|                      | - Ensuring that Budgetary intent and outcome are congruent  
|                      | - Matching outlays with resources  
|                      | - Provision of management and flexibility to the implementation agencies  
| Responsive Government | - Achievement of macro-economic stability  
|                      | - Responsiveness to changing economic situations  
|                      | - Responsiveness to changing needs of client/consumers  
|                      | - Provision of choice to the client/consumer  
|                      | - Promotion of a utilisation culture in lieu of a spending culture  
| Accountable Government | - Accountability for results  
|                      | - Provision of accurate information on the status of government finances  
|                      | - Decision making process to be transparent  

Source: JBIC (2001)

6.3 PUBLIC EXPENDITURE MANAGEMENT IN INDIA BEFORE NINETIES

The Budget is at the centre of the PEM system in India and elsewhere. Budgets absorb substantial amount of domestic and foreign resources and impact many sectors of the economy and involve various tiers of administration (World Bank, 1991). Keeping this in view, India, from the very beginning, had put in a place a well organised system for budget formulation, budget execution, control and monitoring and

6.3.1 BUDGET FORMULATION

Public expenditure decision making in India is the collective responsibility of a wide range of institutional actors from legislative and executive branches' of the governments (Basu, 1996). In the initial 10-15 years the Planning Commission played a larger role in budget preparation, especially with regard to public expenditure decision making. The Finance Ministry since has taken over the control of the process, probably in consonance with the changing equations and in the light of the visible failure of the planning. The Prime Ministers Office (PMO) has also gained importance in the later years with respect to the budget formulation. Presently the agents involved in the process include the Parliament, Finance Ministry, Planning Commission, different Ministries and the PSUs. Though not directly, some interest groups too are involved (especially since the mid 1970s) in this process and the government resorts to extensive consultations with the RBI, various public bodies, representatives of the academia, industry, workers, NGOs.

Budget or the annual financial statement is placed before the Parliament outlining the anticipated expenditure and receipt for the coming financial year, which generally takes place in the month of February (last week). Prior to that the Budget Division of the Department of Economic Affairs of the Ministry of Finance seeks budget estimates for the next year and revised estimates for the current year from all the Ministries/departments. The information received are compiled and consolidated by the Budget Division and are finalised in consultation with the Department of Expenditure. (The Ministry of Finance has three sub divisions – Department of Economic Affairs with the responsibility of forex control, foreign aid, internal finance, budget, insurance division and advise on economic management; Department of Expenditure with responsibilities of financial rules and regulations, delegation of financial powers, Comptroller of general accounts, state finances, plan budgets etc., and Department of
Revenue with the responsibilities of Union taxation and economic intelligence). The plan expenditure is finalised in consultation with the Planning Commission.

The expenditure and revenue proposals are then placed before the Parliament that are spread over three accounts, viz., Consolidated Fund, Contingency Fund and Public Account. All the expenditures are incurred from the Consolidated Fund and no money can be drawn from the fund without authorisation from the Parliament. Some unforeseen expenditures (pending the authorisation from the Parliament) are met from the Contingency Fund. The Public Account includes all public moneys, received by Government except all revenues, all loans raised through issue of Treasury Bills and ways and means advances and the repayment of loans.

6.3.2 BUDGET APPROVAL

According to Article 113 of the Constitution, the 'Demand for Grants' consisting of estimates of the expenditures from the Consolidated Fund of India is placed before the Parliament along with the Annual Financial Statement, for discussion and approval (by voting). However, some items of expenditure like salaries and allowances of Head of the State, repayments of interest on loans, etc. are not put to vote, and are simply charged on the Consolidated Fund.

After the voting and approval of the 'Demand for grants', the Parliament's approval for the withdrawal from the Consolidated Fund is sought through the 'Appropriation Bill'. The various ministries accordingly draw the money from the Consolidated Fund as covered in the Appropriation Bill (Act). The system also provides for the 'Supplementary Demand for Grant' in case the amount authorised for a particular service turns out to be insufficient or expenditure on new services are not included in the budget. This is to be presented before the Parliament and approved subsequently. Similarly, the excesses or savings, if any, in actual expenditure compared to the sanctioned grants in the Appropriation Bill is also placed before the Parliament for approval as 'Demand for Excess Grants' after being examined by the Public Accounts Committee.
Once approved by the Parliament, the concerned Ministries/Departments enjoy considerable powers for appropriation and re-appropriation of funds within the grant, subject to certain general restrictions.

6.3.3 BUDGET IMPLEMENTATION

After the passage of the 'Appropriation Bill', intimation is sent to the concerned Ministries and Departments. The implementation, monitoring and evaluation are the main tasks of the respective administrative ministries. In each Ministry/Department, there are designated spending authorities – heads of departments, heads of offices, controlling officers, disbursing officers, etc. who have the powers of sanction of expenditure according to the norms and conditions laid down.

The Programme Implementation Wing (PIW) of the Ministry of Statistics and Programme Implementation monitors the progress of implementation of various plan programmes and projects and prepares periodic reports. In case of externally aided projects, this job is done by the Project Management Unit of the Department of Economic Affairs.

6.3.4 BUDGET MONITORING AND CONTROL

All the budgetary releases require prior approval of the Financial Adviser (FA) in accordance with the pre-specified delegated financial power. Each Ministry or Group of small ministries have a FA, who is the “lynchpin of the system of control and monitoring”, and is assisted by specially trained and selected team of officers. They prepare monthly and quarterly reports which are sent to the Controller-General of Accounts in the Ministry of Finance. Ministry of Finance holds discussions with the FAs each year to take stock of the expenditure during the year against the quarterly and monthly targets. Efforts are made to avoid the bunching of expenditure towards the end of the financial year. Since late 1980s, a four-monthly review of budget deficit is also undertaken by the Ministry of Finance.
Monitoring and Information Division created in 1964 (earlier known as Management Division) monitors the project implementation especially under plan heads. This body prepares the completion reports for all the projects of Central Government in collaboration with the Ministry of Finance. The Bureau of Public Enterprises (BPE) established in 1965 under the MOF monitors and reviews the financial and physical performances of the Central PSEs. In 1985, a new Ministry, the 'Ministry of Programme Implementation' was established to monitor project performance. It carries out its activities in consultation with the Planning Commission and concerned ministries.

The constitution of India provides for setting up of Parliamentary Committees to exercise control over the PE and to ensure economic spending of the planned amounts. These include the Estimates Committee, Public Accounts Committee and Committee on Public Enterprises. The objectives of these Parliamentary committees include: keeping vigil on public expenditure and performance, bringing into light inefficiencies in the implementation of programmes. The job of the Estimates Committee is to examine such estimates as referred to it by the Lok Sabha. The main function of the Public Accounts Committee is to ascertain if money granted by the Parliament is spent within the scope of the demand. All reports submitted by the CAG and tabled in the house are referred to PAC for detailed examination and report to the house. The Committee on Public Undertaking examines the reports and accounts of public undertakings and reports of the CAG on these undertakings.

Auditing: Each ministry has an 'internal audit wing'. Controller General of Accounts (CGA) as an apex accounting authority that prepares and consolidates monthly accounts based on accounts furnished by the individual ministries. On top of the there is the Controller and Auditor General of India (CAG) as the supreme audit authority in the country as provided in the constitution. The report of the CAG as noted earlier is laid before the Parliament which in turn is examined by the PAC of the Parliament.
In the 1980s some policy measures and documents stressed the need for measures aimed at improving expenditure control and management. Many official documents such as Long Term Fiscal Policy (LTFP, 1985), Mid Term Appraisal of Seventh Five Year Plan (1988), Report of the Ninth Finance Commission (1989) etc underlined the need for better expenditure management and control. The Central Government departments have been subjected to Zero Base Budgetary (ZBB) approach since 1987-88.

**Evaluation:** The system also has the practice of evaluation of the various projects underway. Program Evaluation Organisation (PEO) of the Planning Commission evaluates plan programmes The Government of India and its ministries often appoint working groups, study teams, government sponsored research institutes and outside agencies to carry out the evaluatory studies.

The following chart (6.1) gives a broad schematic presentation of public expenditure management in India as discussed above.
Chart 6.1: The Broad Schematic Presentation of PEM in India

Planning Commission finalises Annual Plan and communicates to Ministries and Budget Division in MoF.

Consolidation of estimates by budget Division, MoF.

MoF presents budget in Parliament for Discussion and voting.

Compilation of annual audit by CGA submitted to Director of Audit.

Intimation of budget allocation to spending Authorities.

Appropriation Bill communication to spending Ministries/Departments.

Budget Formulation

Budget Division, MoF issues budget circulars to Ministries/Departments, CGA, etc.

Submission of Revenue expenditure estimated by Financial Advisors.

Execution-C.A submits Monthly figures to FA and CGA. MoF holds meetings of FA on expenditures.

CAG submits report to the President of India

President causes the Report to be placed In the Parliament.

Parliamentary Committees PAC/COPU consider and report to President for Appropriation.

Auditing and Control
6.3.5 CRITIQUE OF PRE-NINETIES PUBLIC EXPENDITURE MANAGEMENT

Despite the elaborate arrangement for the public expenditure control and management that existed before the nineties, many loopholes crept into the system. The quality and efficiency of public expenditure took a severe beating, and the fiscal prudence and discipline went hay ware. The constitutionally ordained framework has worked well, but not the ones outside it.

Several of the policy reform measures just did not take off. As a result, the fiscal situation worsened over the years. The PSEs became inherently inefficient, excepting a few. The revenue expenditure, revenue deficit and fiscal deficits recorded unbridled growth resulting in the overall macro-economic imbalance. Rigidities crept into the system making the changes in inter-sectoral allocation of resources very difficult (due to huge committed expenditures). The medium term policy vision was lacking specially for the non-plan non-developmental and unproductive budget items. The ad-hoc, fire-fighting expenditure reduction measures were adopted whenever the crisis became serious (Rao and Rajagopalan, 1990; Rangachari, 2002). Despite the major policy reform pronouncements (like LTFP, ZBB, etc.), the revenue expenditure refused to bow down. As aptly observed by Rangachari (2002), the list of innovations in instruments for expenditure control was impressive, but their actual usage did not result in any significant improvement.

On top of the whole mess the populist measures continued to thrive (from loan melas to liberal Pay Commission Packages). Too many projects due to political interference and pressures led to cost and time overruns (Bagchi and Rao, 1987); Government systematically got into the spiral of ‘more expenditure-more deficit – more debt – more interest payments – more expenditure’. Various pressure groups or ‘distributive coalitions’ perpetuated the subsidies which went on ever increasing spree.
The Process: Despite having one of the better systems of information flow, in terms of volume and range of published statistical data and elaborate institutional set up, the process of budget making, the forecasting of the estimates became inadequate. This, led to the emergence of the phenomenon of ‘Fiscal Marksmanship’, where there emerged wide divergence among the Actuals, Revised and Budget Estimates for most of the revenue, expenditure and deficit items. This got reflected in terms of increasing volumes of the supplementary grants. This clearly seemed indicated the extent of adhocism in budget formulation.

The implementation of ZBB and performance budgeting, were good efforts in the right direction. But, political will was lacking with regard to ZBB and the performance budgeting reports (which were rather too elaborate) were not used at policy formulation level.

Implementation: At the implementation level, the monitoring of the progress was confined only to the major plan programmes. Non-plan expenditures were not monitored except for information on the expenditure incurred. For want of timely reports, no mechanism for mid-course correction of even plan-programmes was possible (JBIC, 2001). The budgetary proposals were not subjected to detailed parliamentary scrutiny. For instance, in 1989-90, only 20 of the 75 demands (for grants) forming only about 8 percent of total central government expenditure were discussed in Parliament and the remaining 55 contributing to 92 percent of total expenditure were simply voted without any discussion (Rao and Rajagopalan, 1990). The audit systems was mainly accounts oriented (it continues to be the same even today), with no audit or control over the objectives, tasks, outcomes or performance (JBIC, 2001). There existed no regular mechanism for the evaluation of all the programmes and schemes in a time bound manner. The stake-holders, participants and beneficiaries were not associated at any stage of design, implementation and evaluation of the programmes (ibid).Moreover, the emphasis was on spending per-se
with least focus on the necessity, efficiency, effectiveness and outcomes of public expenditures (Venkataraman, 2002).

6.4 PUBLIC EXPENDITURE MANAGEMENT REFORMS IN NINETIES

As the economic reforms started in a true sense and on a massive scale in 1990s – it was expected that this decade would herald the beginning of the expenditure reforms on a serious note. But it seems our policy makers were not yet prepared for that. Therefore for most part of the nineties, the fiscal reforms were synonymous mostly with the tax reforms. The need for expenditure reform and expenditure reduction received only lip service albeit on a very regular basis, with almost every budget and economic survey repetitively talking about the issue. But nothing really happened on the ground. No major PEM reform policy with medium or long term perspective was pronounced and implemented. However it is somewhat surprising to note that despite the lack of any concrete medium term policy, the total expenditure as percentage of GDP declined for the major part of 1990s (details in Chapter III). There were measures at expenditure reduction every now and then, but by and large, for major part of 1990s, these remained sporadic and arbitrary in nature (Premchand and Chattopadhyay, 2002). The issue was taken up seriously only in the late nineties as witnessed in some of the major steps initiated as reflected in the tabling of ‘Fiscal Responsibility and Budget Management Bill’ in Parliament (December 2000), and its subsequent enactment (2004) and setting up of ‘Expenditure Reforms Commission’ (February, 2000) that was announced in the Budget of 1999-2000. Following paragraphs provide a brief chronology of the major PEM reforms undertaken in the nineties.

6.4.1 BUDGET, 1991-92

The budget 1991-92 – a landmark budget – marked a paradigm shift in the policy making for economic development in India. The proposals contained in the budget were broadly guided by the ‘Stabilisation Policy Package’ adopted in response to the severe BOP and macro-economic crisis faced by the country at that time.
Attainment of the fiscal discipline being the overriding objective, the fiscal deficit as percent of GDP was successfully brought down from a high of 8.3 percent (in 1990-91) by almost 2.5 percent points (the highest ever reduction, as percent of GDP, till date for a single year) to 5.9 percent in 1991-92.

The significant deficit reduction was mainly brought about through the expenditure reduction route (public expenditure came down by percent points from percent of GDP in 1990-91 to 18 percent of GDP in 1991-92. The remainder about half percent of GDP came by way of increasing tax revenue from 2.1 percent to 2.5 percent during the period). The major expenditure reduction measures included –

- abolition of export subsidies
- increase in fertilizer prices (with the view of pruning the fertiliser subsidy bill)
- steps to keep non-plan expenditure (including defence expenditure) in check, etc.

6.4.2 1992-93

The zeal witnessed in the previous year however could not be maintained this year when there was only 0.2 percent point decline in the fiscal deficit and total expenditure declined by a less than 1 percent point as percentage of GDP. (The tax Revenues remained stable at around 2.5 percent of GDP.) This is despite the right noise made by the Economic Survey which considered expenditure reform to be as important as the tax reform (Economic Survey, 1992-93, GOI). The budget 1992-93 thus had a limited focus on expenditure reform which mainly covered –

- Maintenance of budgetary support for the Central Plan at nominal level of the previous year's budget estimates.
- Control of non-plan revenue expenditure
- Decontrol of phosphate and potassic fertilisers to check fertiliser subsidy
- Strengthening of existing expenditure control mechanisms.
The next financial year, i.e., 1993-94 proved again to be a nightmare, when all the fiscal discipline measures were thrown to the winds. The fiscal deficit, for the worse, jumped to 7.4 percent of GDP and with that fiscal reforms received a serious beating.

6.4.3 1994-95

- During 1994-95 the fiscal deficit was reigned in, though it still remained at a high of 6.1 percent of GDP. The budget initiated several steps to control the growth of public expenditure which consisted of:

- Reduction of posts at various levels aimed at optimizing the staff strength
- Cut in the expenditure on consumption of petrol, diesel, telephone, etc. and restrictions on the purchase of vehicles of the ministries/departments
- Steps for the movement towards the regime of proper user charges.

The later part of the nineties witnessed some serious attempts at PEM reform policies.

6.4.4 1997-98

The year saw the first major discussion on expenditure reduction and its management. The Government of India, with a view to bringing in transparency, to ensure wider debate and participation and in an effort to arrive at the consensus on the issue, released a Discussion Paper on subsidies, entitled ‘Government Subsidies in India’.

The year also witnessed another important step towards reform when government discontinued the practice of financing of budgetary deficit through the issue of adhoc treasury bills that was replaced by the system of Ways and Means Advances (WMAs).
6.4.5 1999-2000

The policy momentum initiated the previous years was continued this year and thereafter. The Union Budget 1999-2000 for the first time in the 1990s recognised the need for a medium term policy – when it announced the elimination of revenue deficit and bringing down of fiscal deficit to 2 percent of GDP in four years (it has remained a wishful thinking, even as we are five years into the new millennium.). The Government announced in the budget the setting up of ‘Expenditure Reforms Commission’ to examine the entire gamut of issues of expenditure in an unbiased way, free of any departmental interests. The Budget also constituted the ‘Guarantee Redemption Fund’ to promote transparency and curb the growth of contingent liabilities (Where this Fund exists today, nobody knows!).

A landmark development during this financial year was the introduction of ‘Fiscal Responsibility and Budget Management Bill 2000’ in the Lok Sabha (December 2000). (This has since become an Act after Parliamentary approval in 2003) The legislation proposes to provide for a legal and institutional framework to eliminate revenue deficit and bring down fiscal deficit to ensure sustainability in terms of a stable debt to GDP ratio.

6.4.6 2000-01

The Union Budget for the year sought to introduce a number of measures to check the momentum of built in expenditure growth owing to the large proportion of pre-committed expenditures in the total expenditure. The measures comprised –

- Subjecting all ongoing schemes to zero-based budgeting
- Reviving the norms for the creation of posts and fresh recruitment
- Redeployment of surplus staff and making VRS more effective
- Review of all subsidies in line with the cost based user charges wherever possible
- Review of budgetary support to autonomous institutions and encouragement for generation of internal resources
During the course of the year, the Government took series of measures to control the growth of non-plan non-developmental expenditure, viz.

- Mandatory 10 percent cut in the budgetary allocation for non-plan non-salary expenditure of all Ministries/departments.
- Ban on purchase of vehicles for one year
- Ban on creation of new posts for one year
- Ban on foreign travel to study tours, seminars, etc.

6.4.7 2001-02

The expenditure management featured as one of the major objectives of the budget this year. The budget announced three-fold objectives for the expenditure reforms, viz., strict control of non-productive expenditure, rationalisation of subsidies and improvement in the quality of public expenditure. The specific measures in this direction included:

- Revision of postal rates
- Limiting fresh recruitment limited to 1 percent of the total civilian staff strength (3 percent retire every year and manpower would come down by 2 percent every year)
- Streamlining of surplus pool in the Department of Personnel and offer VRS for the surplus staff
- Suspension of Leave Travel Concession (LTC) for two years
- Enhancement of fee/rent on government accommodation
- Use of information technology to promote efficiency
- In an effort towards down-sizing government, three Secretary/Special Secretary level posts, two joint Secretary level posts in the DEA were abolished. 44 posts of Directors also abolished. 1675 posts abolished in the Currency and Coinage Department, while staff strength in National Savings Organisation was proposed to be brought down to 25 from the strength of 1191.
6.4.8 TENTH FIVE YEAR PLAN (2002-07)

The plan document, with the view of stringent expenditure control and management, listed the following measures:

- All the schemes (Central as well as States) to be subjected to zero-based budgeting and only the efficient and successful ones to be continued.

- Duplication of the schemes to be avoided and all the schemes similar in nature to be converged.

- Explore the possibility of the transfer of centrally sponsored scheme to the States.

- Linking of resource flows to the performance of the projects.

- Procedural changes to speed up decision making process.

6.4.9 EXPENDITURE REFORMS COMMISSION (ERC)

As noted earlier, the ERC was constituted in February 2000 in pursuance of the announcement made in the Union Budget 1999-2000 under the Chairmanship of Mr. K. P. Geethakrishnan. The main terms of reference of the ERC included:

- to make suggestions with reference to convergence and avoid overlapping in functions of different Central Ministries and suggest a road map for reducing the functions, activities and administrative structure of the Central government.

- review the framework for all subsidies (implicit and explicit) and make them transparent and maximize the impact.

- determination of user charges and cost recovery of departmental and commercial entities.

- determination of adequacy of staffing under the Central government.
The ERC was very quick to get into work and its first report came out in July 2000 (i.e., within six months) containing the suggestions for the rationalisation of food subsidies. The second report (September 2000) dealt with the rationalisation of fertiliser subsidies, optimization of government staff strength and specific recommendations for the rationalisation of the functions, activities and structures of the Ministry of Information and Broadcasting and Ministry of Coal.

Subsequently the ERC has come out with ten reports till September 2001, covering the following Ministries/departments with clear-cut suggestions for the rationalisation of staff strength in each Ministries, abolition and amalgamation of departments, within and between the Ministries, etc.

6.4.10 FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT (FRBMA)

Possibly realising the difficulties in achieving the fiscal targets and missing the figures more often than not, both due to economic and political reasons, the government finally decided to take recourse to the legal remedy. The result was the FRBMA—the bill introduced in the December 2000 and which became Act in the 2003. This is the first ever legal recourse taken in the post-independent India aimed at keeping the fiscal house in a healthy shape. Many countries have done it much earlier than India. In fact the Indian legislation is said to largely resemble the New Zealand Act (Venkataraman and Rangachar, 2002) which also takes cue from several other legislations world-wide.

Accordingly to the IMF statistics India is one of the twenty-five high deficit (fiscal deficit) countries in the world (only central government’s), which includes mostly the developing countries except for France and Italy. Interestingly none of the 25 countries, except South Africa, have so far enacted fiscal responsibility legislation (Ibid.), India being only the second to do so. However, many countries of the European Union, USA, Australia, New Zealand, Japan, Indonesia, and Kenya already have such ‘rule based fiscal policy frame work’ in place. The depth and contents of such rules vary from country to country.
The most familiar and famous example of fiscal legislation is the Maastricht Criteria (1991) which mandated that the European Union countries willing to be part of the European Monetary Union (EMU) with single currency ‘Euro’, need to fulfill certain strict fiscal criteria. This included pegging of public deficit at less than 3 percent of GDP and public debt under 60 percent of GDP, both at market prices. The member countries enacted national legislations to fulfill the Maastricht Criteria.

The USA when went into huge budget deficits since the 1980s due to mounting expenditure accompanied by reduction by taxes, responded by ‘The Balanced Budget and Emerging Deficit Control Acts’ of 1985 and 1987, ‘Omnibus Budget Reconciliation Acts’ of 1990 and 1993 and ‘Balanced Budget Act’ of 1997. These various legislations aimed at controlling the discretionary spending, achieving balanced budget (zero deficit) by 2002 and bringing down debt to GDP ratio to 60 percent from about 68 percent in 1995.

The recent fiscal reforms of New Zealand in the aftermath of its famous Fiscal Responsibility Legislation, since June 1994, have attracted international attention to a great extent. Apart from specifying the specific fiscal targets, the Act seeks to bring about transparency and accountability in fiscal policy decisions by specifying the principles of responsible fiscal management and transparency on the key budget parameters and other aggregate fiscal reports. The governments are required to explain the policy rationale behind five selected crucial fiscal indicators repeatedly. The Act further requires the government to publish a set of fiscal updates prior to all elections to prevent governments from withholding information on true fiscal situation and thereby facilitate informed electoral and public debate.

The ‘Budget Honesty Act’ 1998 of Australia and UK’s ‘Code for Fiscal Stability’ have a number of features similar New Zealand’s legislation. Similar legislations also exist in Indonesia (‘Guidelines for state policy’ 1988), South Africa (Public Finance Management Act, 1999), Switzerland, Netherlands, Kenya and few other nations.
Following the enactment of legislations, most of these countries have successfully achieved the fiscal discipline and have turned their long standing budget deficits into surpluses. For instance, in New Zealand the government deficit of 8.8 percent GDP prior to reforms in 1984-85 was turned into surpluses to the tune of 3 percent of GDP and public debt as percentage of GDP was also brought down from 52 percent to 33 percent, courtesy the fiscal legislation.

The Fiscal Responsibility and Budget Management Bill, 2000 introduced on the Parliament, has undergone certain changes going through the scrutiny of Parliamentary Standing Committee, General Public and the Academia. The preamble of the Act itself best summarises the objectives, scope, and reach of the act when it quotes, "An act to provide for the responsibility of the Central government, to ensure inter-generational equity in fiscal management and long term macro-economic stability by achieving sufficient revenue surplus and removing fiscal impediments in the effective conduct of monetary policy and prudent debt management consistent with fiscal sustainability through limits on the Central government borrowings, debt and deficits; greater transparency in fiscal operations of the Central government and conducting fiscal policy in a medium-term framework and for matters connected therewith or incidental there to" (The Fiscal Responsibility and Budget Management Act, 2003; 1)

The broad contours of the final Act are as below.

1. Central government has to lay each financial year before the both the houses of parliament- three important statements viz.,

(a) The Medium Term Fiscal Policy Statement

(b) The Fiscal Policy Strategy Statement

(c) The Macro-Economic Framework Statement
2. The Medium term Fiscal Policy to have a three year rolling target of certain prescribed fiscal indicator along with the underlying assumptions and sustainability.

3. The Fiscal Policy Strategy Statement to include the policies for the ensuing financial year for several aspects or fiscal policy like taxation, expenditure, borrowings etc; the strategic priorities in the fiscal area; the key fiscal measures and rationale for any deviation in fiscal measures and; an evaluation regarding whether the current policies are in conformity with the fiscal management principles.

4. The Macro-economic Framework Statement to contain an assessment of the growth prospects of the economy viz., GDP, revenue and gross fiscal balance, and external sector balance with specification of underlying assumptions.

5. Reduction of fiscal deficit and elimination of revenue deficit by March 2008 and adequate revenue surplus thereafter.

6. Government to specify by making rules, the annual targets (as percentage GDP) for the reduction of fiscal and revenue deficits, government also to set annual targets for assuming contingent liabilities in the form of quarantines and the total liabilities as percentage of GDP.

7. Prohibition of direct borrowings by the Central government from RBI (after three years from the enactment of the law i.e. after 2006) except by way of ways and means advances to meet temporary excess of cash disbursement over cash receipts during a financial year.

8. The RBI however may subscribe to the primary issues of Central government securities for three financial years beginning April 2003. However RBI may buy and sell central government securities in the secondary market.

9. As a measure of fiscal transparency government to take measures to minimise secrecy in the preparation of the annual financial statement and demand for grants.
10. As a measure to ensure compliance, the Finance Minister is to carry out quarterly review of trends in receipts and expenditures in relation to the budget and place the same before the parliament.

11. As a measure of flexibility the deviation in the in targets is allowed to deal with unforeseen circumstances like national security or natural calamities of national dimension.

(The draft legislation also envisaged pegging of fiscal deficit at about 2 percentage of GDP by 2006 and total liabilities to 50 percent within a decade. The fiscal act is silent on these issues, preferring to leave it to the Finance minister to fix the targets.

The Background to the Act and the Critique: At the time of tabling the bill in the parliament the total liabilities of the Central government stood at about 12,00,000 crores (that is six times its current annual revenue), with Rs. 100,000 crores added every year with annual interest and go of Rs 100,000 crores. The interest payments as noted earlier constituted one third of the total expenditure and half of the total revenue. The consistent revenue deficit for more than 20 years and long history or high fiscal deficits left the legacy of huge public debt and interest burden (Sudarshanan, 2001). With the borrowed funds accounting for one third of total expenditure (only 2/3 coming from its own sources) and thereby 1/3 of onus falling on the future generation, the issue of inter generational equity had to be addressed (Ibid).

The fiscal mess had deleterious impact on the rest of the economy in several ways like-high current expenditure and lesser capital expenditure, lower availability of the funds to private sector and higher interest rate levels. These had adverse impact on growth prospects. In this background the FRBMA aims to achieve sustainable fiscal situation conducive to macro-economic stability and growth. The Act seeks to provide a legal and strong institutional mechanism for the purpose.

While the broad intent of the Act is welcome, the specific details are subject to criticism. The fixing of quantitative targets (for revenue and fiscal deficits, and total liabilities) is criticised for not being in tune with the fiscal management principles
The achievement these ambitious targets (which some experts like Chelliah term as too drastic) requires quite an exercise on the part of the govt. That is government needs to cut the expenditure, raise the taxes, shed the habit of adding the new items of expenditure, restrain the borrowings from the market and RBI etc. But as our analysis has shown the total expenditure to GDP though declined in the large part of the nineties has almost plateaued.

(in fact showing upward turn by the turn of the millennium). The large part of the expenditure is 'committed' in nature (like interest payments, salaries and pensions, defence etc). Hence not much help can be expected from expenditure front. If any, it has come from the capital expenditure front, which seems to be a soft target again. The problem could be further accentuated by the declining tax GDP ratio. Therefore how will the deficit reduction would come about? As noted by many experts (like Chelliah, Rangachari) "the bill is totally silent on the means of achieving these targets. How the deficit is reduced is as important as how much it is reduced. In other words, qualitative aspect of the exercise is as important as the quantitative targets" (Sudarshanan, 2001: 161-62). The act does not provide any detailed plan of action for the purpose.

The act contains several significant steps like medium term fiscal policy statement and three year rolling targets for fiscal indicators; fiscal policy strategy; prohibition of the borrowings from the RBI; measures for fiscal transparency and enforcement of compliance. These measures would go a long way in achieving fiscal prudence. Hence, it is noted that these and other measures in the Act are necessary that not sufficient for the fiscal rehabilitation in the country (Venkataraman and Rangachari, 2002). This would also require host of other measures "like wage policy for government employees ; pay commissions if at all constituted and Finance commission to take into account in their recommendations, the quantitative targets for reduction envisaged in the bill (act); etc" (Ibid: 124).

The measures are fine on the paper, but the bold and ambitions targets and time-frame which the Act sets require strong political support and will. The pulls and pressures of coalition polity may lead to frequent revision of the targets. Therefore it
is suggested that to effectively enforce the compliance of the provision of the bill an independent 'Fiscal Authority' (as in Australia) be set up. However the draft bill itself eschewed such as idea. It is also further noted that unless the state governments also take up similar measures, the central Act alone may not be of much help in setting the whole fiscal house in order. Moreover, the Act "will not be a substitute for critical reviews by the legislature and its committees, a vigilant public opinion and audit function"(Ibid: 124). Nevertheless, the act makes an important beginning by drawing up formidable agenda to correct the fiscal disorder at the centre.

6.5 WORLD BANK ASSESSMENT OF INDIA’S PEM FRAME WORK

The evolution of Indian PEM in the nineties is influenced not just by domestic considerations. The Indian fiscal situation evinced great interest abroad, especially among the international institutions and several suggestions have come forth. One such comprehensive assessment of the Indian PEM system has come from the World Bank. The following few paragraphs contain the details of World Bank’s assessment of India’s PEM system.

The World Bank Study (2000) on India-evaluates the PEM system in India, as ‘average’ among developing countries on Governance (which however is well below industrial countries). India gets fairly good ranking with respect to budgetary process and equity of revenues and expenditure. But in terms of management of public finances it ranks much lower. In fact in terms of fiscal deficit, India ranked- among the worst 10 percent of countries in the world.

This evaluation was carried out within the framework as contained in the ‘World Bank Handbook on Public Expenditure Management (1998) that in turn is borne out World Bank’s Public Expenditure Reviews (PERs) carried about by it in 1980s and the early part of 1990s. The World Bank Report (2000) ranks India on a scale of 1 to 10, the each stage of budget and financial management policies (1 as inadequate, 5 as adequate, and 10 as excellent). These are summarised in the table 6.2 given below. Also given, for the sake of comparison, an alternative evaluation done by group Indian experts.
### Table 6.2 Summary Evaluation of Budget and Financial Management Policies in India

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>World Bank Evaluation</th>
<th>Alternate Evaluation by Indian Experts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Budget</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Comprehensive</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Based on reliable data estimates</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Has Medium term perspective</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Linked to macro economic policy</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>Links planning and resource allocation</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Capital and recurrent expenditure well integrated</td>
<td>2</td>
</tr>
<tr>
<td>7</td>
<td>Links between policy and resources are transparent</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>Trade-offs within spending constraints</td>
<td>2</td>
</tr>
<tr>
<td>9</td>
<td>Effectively controls spending aggregate</td>
<td>1</td>
</tr>
<tr>
<td>10</td>
<td>Is implemented as initially authorised</td>
<td>5</td>
</tr>
<tr>
<td>11</td>
<td>Is adopted on timely basis</td>
<td>3</td>
</tr>
<tr>
<td>12</td>
<td>Controls items of expenditure</td>
<td>3</td>
</tr>
<tr>
<td>13</td>
<td>Provides incentives for efficiency</td>
<td>1</td>
</tr>
<tr>
<td>14</td>
<td>Uses performance measures</td>
<td>1</td>
</tr>
<tr>
<td>II Financial Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Based on accounting standards</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Efficient cash management</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Timely disbursement of budgeted funds</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Accountability for expenditure</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Internal control systems</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>Audit of expenditures(professional, timely reporting)</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Budget Accounting is consistent</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Procurement is transparent and competitive</td>
<td>7</td>
</tr>
</tbody>
</table>


Thus, India fares very poor in most of the aspects (except a few), especially with respect to budgetary aspects. Financial management standards fare well. These lacunae are not the unknown facts to us, but we seem to have been lethargic and lacking the will and consistency required for tackling these issues. The World Bank also has assessed the public financial management in terms of output and outcomes, as summarised in the following table 6.3.
Table 6.3: Public Financial Management in India: Outputs and Outcomes

<table>
<thead>
<tr>
<th>(i) Aggregate Fiscal Disciplines</th>
<th>PFM Outputs</th>
<th>PFM Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional arrangements</strong></td>
<td>- Medium term expenditure framework? NO</td>
<td>- Revenue/Expenditure target achieved? NO</td>
</tr>
<tr>
<td></td>
<td>- Hard Budget Constraint? NO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Comprehensive Budget? LARGELY</td>
<td></td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>- Ex post reconciliation of the expenditures? YES</td>
<td>- Limited agency overspending? NO</td>
</tr>
<tr>
<td></td>
<td>- Sanctions for agency over-or under spending? NO</td>
<td></td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>- Publication of budget and fiscal results? YES, PARTLY</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(ii) Strategic Prioritization</th>
<th>PFM Outputs</th>
<th>PFM Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional arrangements</strong></td>
<td>- Budgetary planning consultative with stakeholders? PARTLY</td>
<td>Expenditure matched to Strategic goals? NO</td>
</tr>
<tr>
<td></td>
<td>- Strategic targets linked to allocations?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Line agency allocation discretion? No</td>
<td></td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>- Outcome reported? SOME</td>
<td>Clear responsibility for mismatch? NO</td>
</tr>
<tr>
<td></td>
<td>- Ex post evaluation of results? LIMITED  (INSTEAD, EXANTE CONTROL)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Sanctions applied? NO</td>
<td></td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>- Adequate Stakeholder voice mechanisms? NO</td>
<td>Outcome responsibility for mismatch? NO</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(iii) Operational Effectiveness and Efficiency</th>
<th>PFM Outputs</th>
<th>PFM Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional aspects and arrangements</strong></td>
<td>- Relative line agency autonomy? NO</td>
<td>Efficient service delivery? NO</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>- Internal and External Audit? YES</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Personal policies performance based? NO</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Service delivery standards? SOME</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Customer satisfaction surveys? FEW</td>
<td></td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>- Programme performance published? SOME</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Client voice mechanism? FEW</td>
<td></td>
</tr>
</tbody>
</table>

Source: ibid 263
6.6 THE CRITIQUE OF 1990s PEM POLICIES AND SUGGESTIONS


The following few paragraphs draw extensively from the World Bank Publication (1998), Premchand’s Work (2000), and also from some of the Indian studies.

6.6.1 AT THE POLICY LEVEL

Numerous policy reforms have been initiated in India in 1990s. But many of these were in the nature of adhoc and only knee-jerk reactions to the prevalent crisis. Once the crisis got over, it was back to square one/ business as usual. As a result, even after about one and half decades of economic reforms, fiscal discipline still remains to be an area hogging the attention and time of the policy makers. Obviously a ‘Medium term expenditure policy frame work’ is the need of the day. “Many governments in the west routinely prepare a fiscal strategy for the medium term, long term and for the immediate fiscal year” (Premchand, 2000:220). The fiscal strategy specifies the targets to be achieved over time. The budgets are prepared for periods longer than the one year referred to as Multi-Year Budgeting (MYB). For example, in Sweden and Germany, the departments’ budgets are approved for a period of three years, and each year the exercise is repeated on a rolling basis for the next three years. In some states of USA, budgets are projected for five years and in certain cases for the next ten years (Ibid). However this multi-year budgeting may not be feasible in the Indian context as
this requires some political and economic policy acceptability and some constitutional amendments too. However, the spirit of this MYB may well be taken into consideration. In this context the introduction of multi-year budgetary process as recommended by the Eleventh Finance Commission and World Bank (2000) is worth considering. Such policy could include the elaborate recommendations made by the ERC. The FRBMA keeps a definite step in this direction.

Once a comprehensive medium term policy is in place (containing all aspects of expenditure reform and management), a high powered reform management body to over see its implementation and its timely review needs to be set up. The ERC set up in February 2000 may be assigned this work to over see the implementation (JBIC, 2001). It may be recalled here that ‘Commission on Public Expenditure’, the first of its kind in independent India, was set up in 1979, but was wound up in 1980 before it could submit its report. ERC need not be wound up after it completes all the reports, it may be continued as a permanent body with the objectives specified above.

But the medium term policy has to go much beyond setting (and achieving) some physical targets. It should also incorporate various aspects of efficiency, economy and effectiveness of public expenditure management. A holistic approach to this aspect is what is required. As Premchand (2000) notes “increasingly the traditional distinction between plans and budgets is somewhat blurred as budgets are made within a medium term fiscal strategy” (pp21). However, as noted earlier this requires better estimating and forecasting methodologies and techniques.

The poverty alleviation and raising the standard of living is the ultimate objective of the policy in India and elsewhere. The fulfillment of these objectives require higher economic growth on a sustained basis i.e., growth with macroeconomic stability. This in turn is closely intertwined with the extent of prudence in the fiscal policy, of which expenditure policy is a prominent part. Hence the formulation of any PEM policy cannot be done in isolation with disregard to its possible consequences for the other macroeconomic variables in the rest of the economy. Therefore the
linkage between the budget and economy need to be explicitly recognised and noted, especially with the rapid globalisation and opening up of the national economies. This, calls for a comprehensive and holistic approach to various stages of policy formulation and execution.

Hence the expenditure policy should be consistent with the overall macro economic policy framework, which together should be working at the fulfillment of the common set of objectives (JBIC, 2001). The policy should work in tandem with the wage policy (Pay Commissions, etc), Employment Policy, Monetary and other aspects of Fiscal Policy, Finance and Planning Commission's policy views and recommendations (Venkataraman and Rangachari, 2002).

The pilferage of too many plan schemes has led to the overlapping of schemes, fragmented allocations, too thin spread of resources and too many agencies implementing these schemes (ERC, VIII Report, 2001). This is not an India specific phenomenon as a World Bank study (1991) notes that resources are spread too thin by over too many projects, stretching out implementation and delaying benefits. And as rightly sounded by Finance Minister Mr. P Chidambaram in his budget speech, 2004-05, probably taking the cue from the recommendations of the ERC, it makes lot of sense to group these programmes (specially those which are under the state list and so called centrally sponsored heads) into four or five broad categories and give considerable freedom and flexibility to the states in the formation as well as implementation of the schemes (ERC 2001). This applies to public investment programmes (PIPs) as well (WB, 1991). In addition to the plan and non plan schemes/projects and the periodic review of all items of expenditure (whether plan or non plan, developmental or non-developmental, revenue or capital) is also called for. This is actually done in several countries. In Sweden, for instance it is obligatory for each department to be comprehensively reviewed once in every three years. There is no loss of face in admitting failures, adds Premchand (2000), the government may be forced to admit at a later stage, with a considerable loss in its credibility, what it does not admit today (ibid). This process also helps in bringing the accountability, so that the three Es (Economy, Efficiency, and Effectiveness) can be postured and productivity of government spending can be enhanced.
The proposal to have a budget procedure with 'revenue budgeting and policy' before setting the expenditure budgeting (WB, 2000) is worth looking into. This involves the setting of the expenditure proposals only after taking due care of the revenue considerations that is the so called ‘Tax and Spend’ approach. Introduction of the Zero Based Budgeting as announced by the FM must be strictly adhered to. Strictly defined expenditure and public debt caps may be applied using the relevant constitutional provisions, namely Article 292 of the Constitution (Bagchi, 1991). The stake holders and beneficiaries should be involved also at the policy making process, not just at the monitoring and implementation level. The periodic review of the policy should take place. For this timely feed back by way of evaluation studies be made available. Review of all expenditure classifications (other than revenue and capital), doing away with the dichotomy between plan and non-plan may also be seriously considered (WB, 2000; ERC, 2001).

Policy flexibility is essential, but there should not be too many and too frequent changes. The incumbent Finance Minister, Mr. P. Chidambaram has already proposed an amendment to the FRBMA to postpone the target year for the elimination of revenue deficit by a year to 2008-09, instead of 2007-08 (Union Budget 2004-05, GOI) and such tendencies are to be avoided, lest it may become a habit.

6.6.2 TRANSPERENCY AND ACCOUNTABILITY

Transparency and Accountability are key to any effective PEM and this needs to be adopted at different levels,—policy formulation, implementation, review etc. To ensure transparency the budgetary data must be made available to the general public. Significant developments in this direction have taken place in India during nineties. The freer availability of the information alone is not sufficient, the issue of its timeliness and regular reporting are also critical. Often there is wide divergence between the Budget Estimates, Revenue Estimates and the Actuals, which comes into light after much time lag thereby it, skips the public scrutiny. Such events of ‘Fiscal Marksmanship’ are wide and galore in the Indian budgets. Hence, there is an urgent need for “building strong macroeconomic analysis and economic forecasting ability” (World Bank, 1991:10). If governments cannot do this, this can be contracted out to
the private agencies. This should be possible if contracting out of even the revenue collection activities to private agencies is possible, (as in Indonesia) that has witnessed dramatic success with regard to customs collection.

There should be clear accountability for the discrepancy. The reforms in auditing and accounting would go a long way in fixing the accountability. India has an efficient and well developed auditing and accounting system, with CAG at the top. But these reports are not often subject to close scrutiny so as to incorporate the necessary changes in the subsequent policy formulations, except for politically sensitive ones. There should be a system for fixing the accountability. This requires innovative institutional reforms as was attempted in New Zealand, which created new methods for ensuring accountability, where for instance department heads became Chief Executives on five year contracts accountable for their performance (output based contracts) with the authority to hire and fire. The ministries also retain the responsibility for outcomes. In fact the extent of transparency and accountability in New Zealand is so elaborate that as noted earlier, the ‘Pre Election Economic and Fiscal Update’ is required to be published immediately before an election to prevent governments from withholding the information on the true fiscal position and also to provide for an informed public debate and choice. Fixing the accountability and providing a system of incentives (and disincentives) would do lot of good to the efficiency aspect. Some countries provide incentives in terms of ‘fiscal dividend’, wherein the gains accruing from improved efficiency are divided between the government and the department (concerned) or the spending agency. The department/agency head also may be held accountable for adhering to the targets fixed or indicated, delivering of goods and services and also for the resource use. This would impart much discipline into the system. While, the departmental head may be given good amount of autonomy to execute the responsibilities, the appropriate system of checks and balances is to be kept in place to avoid misappropriation of powers and funds bestowed.

The achievement of fiscal transparency is dealt in detail by the ‘IMF Code of Good Practices of Fiscal Transparency’ that is summarised in table 6.4 below:

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Table 6.4 Requirements Of A Minimum Standard Of Fiscal Transparency

Clarity of Roles and Responsibilities

- General Government should be defined as in the *System of National Accounts* (SNA), 1993) or the IMF Manual on Government Finance Statistics (GFS, 1986)
- Government equity holding should be identified
- Extra-budgetary activities should be subject to Government review and priority setting as part of the budget process.
- Significant quasi-fiscal activities of the central bank, Public Financial Institutions (PFIs), and Non-Financial Public Enterprises (NFPEs) should be identified.
- A budget law or administrative framework, covering budgetary as well as extra-budgetary activities and specifying fiscal management responsibilities should be in place.
- Taxation should be under the authority of law and the administrative application of tax laws should be subject to procedural safeguards.

Public Availability of Information

- Extra-budgetary activities should be covered in budget documents and accounting reports.
- Original and revised budget estimates for the two years preceding the budget should be included in budget documents.
- Budget documents should include statements of the main Central Government contingent liabilities and tax expenditures, and a statement of significant quasi-fiscal activities of the Central Bank, PFIs, and NFPEs.
- The level and composition of Central government debt should be reported annually with a lag of no more than six months.
- A statement of fiscal reporting practices should be published.
- Advance release of data calendars should be announced for the year ahead showing no later than release dates for annual reports and a range of dates for more frequent reports.

Open Budget Preparation, Execution and Reporting.

- A fiscal and economic outlook paper should be presented with the budget including a statement if fiscal policy objectives and priorities, a summary of economic prospects and a qualitative assessment of fiscal sustainability.
- A statement should be made of the medium-term macro economic framework for the budget, including the macro economic forecasts on which the budget is based. Key forecasting assumption should also be reported.
• A statement of fiscal risks should be presented with the budget documents, covering the impact of variations in assumptions on fiscal forecasts, contingent liabilities and the other main uncertainties about the costs of certain programs.

• All general government activities should be covered by the budget and accounts classification. Transactions should be recorded on a gross basis and a classification by economic, functional and administrative categories should be derived.

• The classification system should identify administrative responsibility in the condition and use of public funds.

• The overall balance should be reported in budget documents, with an analytical table showing its derivation from budget estimates.

• A statement of accounting standards should be presented with the budget.

• GDDS standards for periodicity and timeliness of Central Government reports (each quarter within a quarter) should be followed.

• Final Central Government accounts should reflect high standards of coverage and reliability should be reconciled with budget appropriations, and should be audited by an independent external auditor. Audited accounts should be prepared within 12 months of the end of the fiscal year.

• Independent Assurances of Integrity.

• Mechanisms should be in place to ensure that external audit findings are reported to the legislature and that remedial action is taken.

• Standards of external audit practice should be consistent with international standards.

• Working methods and assumptions used in producing macro economic forecasts should be made publicly available.

Source: IMF Code of Good Practices of Fiscal Transparency to be adopted by member countries on voluntary basis.

6.7 PUBLIC EXPENDITURE CONTROL AND ITS METHODS

Public expenditure control is an important aspect of PEM. In fact initial stages with mounting deficits and fiscal disorders the PEM becomes synonymous with public expenditure control. Public expenditure control can take place, as suggested by various committees/studies, by various ways viz.
- Fixing physical targets – annually and for medium term
- Legal frame work to achieve the target (like- FRMBA)
- Curtailment of non-productive expenditure, like subsidy, defence, etc.
- Effective Public Debt Management
- Disinvestment / Privatisation of PSUs
- Private participation in the provision of semi-pure public goods
- PE targeting
- Social Security and Tax reforms

The central problem in expenditure control according to Plowden Committee (1961) and as quoted by Premchand (2000:226) is that of how to bring the growth of public expenditure under better control, and how to contain it within such limits as the government may think it desirable. The ‘financial approach’ is process oriented and therefore alone may not be sufficient. This requires periodic policy reviews (may it be subsidy, defence, staff strength etc). Under the new PEM philosophy, the emphasis is on the outputs, accountability, decentralisation, adequate internal controls, that are being extended to the whole gamut of governments operation rather than be restricted only to the plan outlays (as was done earlier) (Ibid).

In order to reduce the pressure on the governments, the ‘public-private partnerships’ may be explored in the provision of public and quasi-public government and services. The ‘contracting out’ to the private parties, even the traditionally pure government activities, may also be explored with an open mind and an objective manner. The governments hitherto tended to adopt the command style of expenditure management. As the portfolio of expenditures is changing, the command style is yielding place to contractual arrangements.

Hence the PEM and public expenditure control have several facets and therefore requires a multi-dimensional approach. The following table (Table 6.5) gives the different dimensions of PEM.
Table 6.5 Dimensions of Public Expenditure Management

<table>
<thead>
<tr>
<th>Categories of Objectives</th>
<th>Broad Content</th>
<th>Techniques Utilized for Achieving objectives</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic and financial macro-economic stability</td>
<td>Determination of aggregate spending, size of deficit/surplus and its financing or utilisation</td>
<td>Specification of overall macroeconomic policies and design of fiscal policy involves the application of macroeconomic financial planning techniques; techniques of medium-term planning are also extensively utilised</td>
<td>This provides the annual policy framework and a link with monetary policy. The determination of aggregate spending could involve a two-tier approach – one for the appropriations which may be on an obligation or accrual basis, and a cash-based approach to total spending</td>
</tr>
<tr>
<td>Effective budgeting</td>
<td>Matching outlays with resources; determining intensity of allocation of resources among functions and within functions, among programs and activities</td>
<td>Rolling expenditure planning: prioritization: planning-programming-budgeting; fundamental expenditure reviews; zero-base budgeting; target-base budgeting; below-base budgeting; line-item review; development plans; output budgeting system; accrual-based budgeting system.</td>
<td>Techniques shown in column 3 are generally applied independently of each other. In any event, there are several features that are common to these techniques. The actual techniques used in a year depend very much on the economic setting and the goals of fiscal policy. In most developing countries, a combination of line-item reviews and development plans, and adhoc budget-cutting measurements are in operation.</td>
</tr>
<tr>
<td>Management aspects</td>
<td>Budget outcome to be congruent with estimate.</td>
<td>System of time-slice-based release of budget authority; cash management techniques; intra year reporting and monitoring; development of online systems to track day-to-day developments; provision of year-end flexibility.</td>
<td>The management aspects specified here work within the overall policy framework indicated above</td>
</tr>
<tr>
<td><strong>Efficiency gains</strong></td>
<td>Achieving economy and efficiency in expenditure</td>
<td>Specification of cost standards; specification of fiscal dividend; performance budget system; activity-based costing system; improved competitive tendering procedures.</td>
<td>The intent is to secure efficient implementation of programs and projects, and delivery of services.</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------------------------------</td>
<td>-----------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Program and Project Management:</strong></td>
<td>Managers to have operational flexibility to fulfill objectives within specified budgetary resources.</td>
<td>Performance budgeting; management contracts; new management philosophy; value-for-money audit; evaluation</td>
<td>These techniques may be applied in tasks oriented agencies.</td>
</tr>
<tr>
<td><strong>Financial disclosure</strong></td>
<td>Provision of accurate information on the status of government</td>
<td>Accrual-based accounting; decision-related information; specification of accounting standards.</td>
<td>Governments have a responsibility to provide unbiased information at regular intervals.</td>
</tr>
<tr>
<td><strong>Public interest requirements,</strong> Transparency</td>
<td>Clear decision-making procedures.</td>
<td>Improved budget documentation that shows the objectives and features of programs and projects; preparation of annual reports of agencies; dissemination of key financial information; complete annual accounts.</td>
<td>In general, transparency has often been viewed as limited to the requirements of the legislature; it has, however, broader requirements vis-à-vis the public. The emphasis on transparency and accountability could contribute to the pursuit of defence mechanisms in the executive wing. This could be overcome in the log-run through the rigorous implementation of standards for transparency and accountability.</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>Provision of goods and services within specified quality, cost and time schedules.</td>
<td>Performance budgeting system; accountability and performance-oriented service contracts; annual review or evaluation; value-for-money audit.</td>
<td>Accountability is not merely for the money spent, but for results; the emphasis is not merely to be critical of the existing systems and procedures but to facilitate the evolution of alternative systems of delivery of goods and services.</td>
</tr>
<tr>
<td>Client orientation</td>
<td>Government systems and procedures should be designed to serve the needs of the client groups.</td>
<td>Internal evaluation; group surveys of clientele views.</td>
<td>The public is the final judge of the quality and quantity of services provided by the government either directly or indirectly. The operational procedures should be so designed as to facilitate interaction with the public.</td>
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<td>Political aspects; Political acceptability</td>
<td>Community’s approval for all the above facets is vital for the implementation of policies.</td>
<td>Legislative approval; market approval; donor approval (where foreign aid is an important part of the budget); broad support from other layers of government. Serving on the tender or contract committee; serving in the evaluation machinery; and serving in the advisory and related policy councils.</td>
<td>Government financial management has a significant impact on the community. Its voices come in a variety of forms and should not be viewed as being limited to the legislature only. In several ways, this is an area that remains to be developed fully. Association of citizens to look at issues that transcend the financial aspects, and those associated with the street-level bureaucracy, has distinct advantages in paving the way for social control of public finances.</td>
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<td>Citizen participation</td>
<td>To provide opportunities to the community to participate in certain spheres of economic management.</td>
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6.8 CONCLUSION

Hence PEM has several dimensions. In a broader sense, the traditional distinction between the public expenditure policy (that focuses on what is to be done) and PEM (that deals how it is to be done) is almost blurred. PEM now includes several prescriptions for the nature of public expenditure policy too.

India from the beginning itself has several PEM practices in place. Many of them are contained in the constitution. Several other PEM measures have been co-opted from time to time. Indian PEM system evinced greater interest on the part of many experts, including several international institutions which have carried out periodic assessment of our PEM system. The message from several assessments is that the constitutionally ordained provisions have worked fairly well, not the ones outside it. This happened as most of the measures were in response to the prevalent crisis and issue was conveniently forgotten once the crisis got over. Clearly a 'medium term vision' focusing both on the qualitative and quantitative aspects, financial and non-financial side was lacking. Also found wanting was the need for legal teeth in the light of both economic and political impediments in taking a reform measure to the logical end.

Finally the things have started falling into place. This manifested in the form of certain concrete steps seriously taken up at the end of the last millennium. These mainly included the provisions as contained in the FRBMA, a medium term policy statement and three year rolling targets for important fiscal indicators; fiscal policy strategy statement; setting the targets for fiscal deficit reduction and elimination of revenue deficit, prohibiting the borrowings from the RBI; measures for fiscal transparency. The Act marks a definite step in providing the much needed legal and institutional mechanism for fiscal stability. This however requires a political will to take the measures to the logical end. The Act nevertheless marks an important milestone in India's public expenditure management and would go a long way in setting fiscal house in order. However, it is to be recognised that PEM is a process. It does not stop with the Fiscal Responsibility Act. There is a dire need to provide a built in flexibility to the system of managing public expenditure to face the emerging situations.