

# Making the Indian Budget

## How Open and Participatory?

*Open and participatory budget making is imperative for good governance; yet by international standards India fares badly on this count. This article analyses the process of budget preparation and suggests how it can be made more transparent and participatory.*

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The general budget for 2007-08 was presented on February 28. The entire exercise of budget-making and its documents were shrouded in complete secrecy till 11 am on that day, when the public was relieved from the meandering guesswork of the media.

The budget embodies the socio-political and economic policy priorities and fiscal targets of the government. Since the government cannot spend or raise public money without the authorisation of Parliament i.e., in principle, people's sanction, people have a right to know how the public resources are being raised and spent; and there is also need for their increased involvement in shaping the budget proposals. There has been a growing interest in budget work and analysis by civil society groups all over the world.

According to the International Budget Project<sup>1</sup> (IBP), participatory budgeting is the process by which citizens deliberate and negotiate over the distribution of public resources. Participatory budgeting will create opportunities for engaging, educating and empowering citizens, which can equip and advance a more vibrant civil society.

Openness or transparency is an indispensable principle of public finance management and it is a prerequisite for answerability. Traditionally, civil society organisations have been excluded from the budget making process in India. Information considered necessary by civil society budget groups is definitely at a higher level than the information that is needed for the citizens to use their voting right in general elections. Influencing the budget making process not only through the power of citizens' vote in general election, but also through the power of their voice between elections, is crucial. Therefore, availability and accessibility of the information, sufficient for a potential

and informed participation by citizen groups in budget decision-making, is warranted.

According to Open Budget Index,<sup>2</sup> a recent study by the IBP, India provides citizens with "some information" on the central government's budget and financial activities, while some countries, such as France, the US, South Africa, New Zealand, the UK, and Slovenia, provide "extensive information" to their citizens. The dismal picture that the IBP study presents is that India's budget provides only limited information to the public and Parliament. What is more unacceptable is that the pre-budget statement is prepared but not made available to the public; nor is there a practice of presenting it and gaining the approval of Parliament. In the case of crucial documents like the mid-year review and the year-end report, India's position is that these can contain and provide only partial information to its citizens. The study emphasises that there is enough scope for further improvement in availability and accessibility of the budget information to ensure an informed participation by the citizenry.

A few civil society organisations in India at the national and state levels have been focusing on budget work with a pro-people perspective. Some of them have come up with very significant and innovative work in their areas. Developing Initiatives for Social and Human Action (DISHA) is perhaps the pioneer organisation in India working on budget analysis with perspectives for marginalised sections of people. There are other organisations like the Public Affairs Centre, Centre for Budget and Policy Studies, Samarthan Centre for Budget Studies, Centre for Budget and Governance Accountability (NCAS programme), Social Watch Tamil Nadu, and Budget Analysis Rajasthan Centre, which work on budget analysis mainly with the viewpoint of the social sector and

other sectoral issues. Most of their work is centred on post-budget analysis of allocation for the social sector and its implications. Budget groups' low involvement in shaping or influencing budget decision-making is said to be because of the closed budget formulation process of the government.

### Exclusive Affair

Budget making is more or less an exclusive affair of the executive. The budget making team is not accessible to civil society groups. The government does not consult people's organisations except to some ostensible extent with trade unions. But consultations take place with industry or trade associations to ensure their interests. Some budget works organisations have begun to use the recently enacted Right to Information Act to receive very detailed and pertinent information regarding the budget process. However, there remains little participation by civil society in the budget making process. A clear-cut legal framework for establishing the practice of participation and transparency is urgently required.

The finance ministry does not follow the practice of releasing a document like a pre-budget report or statement. Civil society budget groups should demand complete disclosure regarding the parameters in which the executive will form its budget proposal. More focused work of transparency in the budget process along with other budget related work will enable citizens' groups to have a more participatory role in the budget making. The budget groups confess that despite all their efforts, they have been unable to meet the finance minister. But corporates and industrialists have unhindered access to the finance minister. The irony is that, besides the existing structurally inherent inaccessibility to the budget process, budget groups have also not developed the necessary tools and entry points to reach out to the available policy-making spaces. Non-profit organisations also need to build their capacities and know-how to engage with the broad gamut of policy- and decision-makers.

The Constitution provides the essential features of the financial procedures that are followed in India.<sup>3</sup> The Lok Sabha has pre-eminence in financial matters. But functionally, Parliament's role is definitely diminishing. Parliament's role in policy-making needs to be restored and strengthened. It has now become common for the

budget to be not properly discussed and voted in Parliament.

Parliamentary control and scrutiny of the public expenditure can be exercised in two ways – control and scrutiny before the appropriation of money, and control after appropriation. Control before appropriation is typically carried out through debates, cut motions, etc. These debates are very short and peripheral, and never very effective due to the lack of time allotted to such important financial business. Parliamentary control through discussion or cut motions is functionally not effective.

The presentation of the budget is followed by general discussion in Parliament on various aspects of the budget. Once the general discussion is over, the house is adjourned for a fixed period. During this period, the demands for grants of all ministries/departments are considered by the relevant standing committees. The committees are required to submit their reports to the house within a specified period. Once the session of the house resumes, demands for grants are presented along with the reports of the standing committees. The house proceeds to discuss and vote on the grants. At this stage cut motions can be moved [Malhotra 2001].

### **No Institutional Capacity**

Budget discussions in Parliament are often confined to a few members. Many members do not easily comprehend the very many technical and budgetary terms, figures and implications in the budget proposal. Many of them, with little knowledge about the financial business in the house, have to support their party positions and whips. At most, they confine themselves to ventilating local grievances, which have indeed no or little bearing on public finance under discussion. Our Parliament lacks the institutional capacity to do budget research and provide sound analytical briefings and notes to the members.<sup>4</sup>

Though variations in certain respects exist, departmentally related standing committees are microcosms of Parliament. Deliberations of these committees are not a closed process, though there are some who think otherwise. The public can put up submissions or memorandums that can be heard before the committees. The committees need to enlarge these practices while discussing the demands for grants so that people's concerns can be accommodated in the reports to Parliament.

In principle, Parliament is the supreme body in matters of money, but there are many flaws in the system. Cut motions are very useful in censuring the performance of a ministry. But they are treated as no-confidence motions in the government and governments therefore ensure they are defeated. Standing committees have to consider the demands for grants and report to the house. But as a rule, the report is not supposed to suggest anything of the nature of cut motions [Malhotra 2001].

The opposition parties are not interested in putting up many cut motions or using other available measures as a token of dissenting from the policies underlined in the demands for grants by the various ministries. Parliamentary parties do not have the necessary skill to equip their MPs to effectively participate in the deliberations over the demands for grants in the standing committees.

Various measures need to be implemented in order to make parliamentary scrutiny really effective. Various aspects of the budget referred to the committees including the roles of finance related committees of the Parliament need to be revamped with structural reform measures. The consultative committee of Parliament attached to the finance ministry should unavoidably be given pre-budget consultative status.

The present practices of parliamentary control of public finance reduce the effective role of a democratic institution. This is also markedly a post-budget formulation exercise of Parliament. A priori scrutiny or ex ante involvement of Parliament in deciding fiscal strictures and shaping the budget proposal is not possible with the present system. Parliament's powers to amend or modify the budget are very

restricted. Parliament may reduce or reject it, but it does not have the power to alter it in any substantial manner, a confidence convention of Westminster type Parliaments [Wehner 2004].<sup>5</sup> A democratic Parliament should reconsider the prevailing system and establish new practices of transparency and participation in budget making.

Indeed, Parliament should have a significant role in the budget making process. As noted above, the pre-budget statement and other key documents should be presented before Parliament and discussed and referred to the committees. More appropriately, in the winter session, which precedes the budget session, at least two or three days can be assigned to pre-budget business.

### **Negative Myths**

There are some negative myths about parliamentary involvement in the budget making process. For instance, there is the myth that a closed budget process is essential, because the information involved is said to be very highly sensitive in terms of its impact on the economy and markets. In fact, there is little concrete evidence to prove this. But secrecy and a closed budget process provide space for corruption, inefficiency and speculation [Wehner 2004].<sup>6</sup>

The finance ministry also has to have consultations on more broad lines with the public, including civil society organisations. This time, the finance minister had a pre-budget consultation with the parliamentarians belonging to his party. The question then arises: does the finance minister represent only the Congress Party, or all the citizens of this country? Other political parties also did not make any meaningful

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attempt to have a pre-budget consultation or put up a memorandum before the finance minister, expressing the aspirations and demands of their constituents. Even in a coalition regime, allies seem to have remained non-influential with no bargaining space in the budget making process. Some of them only do a post-mortem. **EPW**

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## Notes

[The views expressed here are personal and not meant to represent the opinions of the organisation with which the author is associated.]

- 1 The International Budget Project, Washington DC, was formed within the Centre on Budget and Policy Priorities in 1997, to nurture the growth of civil society to analyse and influence government budget processes, institutions and outcomes.
- 2 In 2006, civil society organisations from 59 countries around the world unveiled the OBI. This is the first index to rate countries on how open their budget books are to their citizens. The full report is available at [www.openbudgetindex.org](http://www.openbudgetindex.org).
- 3 Articles 112, 113, 265 and 266 of the Constitution of India. The term "Annual Financial Statement" is used in the Constitution for the budget.
- 4 Some legislatures have their own budget research capacity: the Congressional Budget Office (CBO) in the US has about 245 highly trained staff; the Congressional Planning and Budget Office of the Philippines has about 50 trained staff. Some other African and Scandinavian countries also have trained staff and economists attached to their legislatures [Wehner 2004].
- 5 Power to amend or modify the budget varies between presidential and parliamentary systems. In the presidential system, powers of legislatures in the budget process are critical and decisive. The Westminster (parliamentary) system allows Parliament very little power to shape the budget other than to cut items. But, noticeably, the Westminster model has changed greatly in recent decades, and there is substantial level of transparency and participation ahead of tabling of the budget [Davey 2000, Lok Sabha 1998].
- 6 See studies by Warren Krafchik of IBP, full text available at [www.mekonginfo.org](http://www.mekonginfo.org).

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