TRANSPARENCY IN BUDGETARY PROCESS

Where does India Stand?

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As a part of its advocacy initiatives for transparency in budgetary process and fiscal accountability, Transparency India has prepared this brief report on International best practices after research through secondary resources, feedback with citizens and activists from diverse backgrounds. Objective of this report to highlight the process-related inadequacies and gaps in budgetary process in India and need for improvement. This, however, is not an exhaustive report, Transparency India will soon publish a comprehensive paper after Union Budget 2018-19, which could be used by legislators and political parties for regular-monitoring, and by civil society groups for budgetary watch and advocacy. We shall, therefore, welcome any views or suggestion for its improvement.

India is not one of the most transparent countries. India scored 48 on 100 in the Open Budget Survey of 2017. It is interesting to see that all the major powers of the world do have better transparency in their budget processes as compared to other countries. It thus becomes clear that for a nation to emerge as a promising democracy, transparency in the system will be a key factor. India amongst its neighboring countries, fares better than all, but Bangladesh. Economically, not as sound as India, Bangladesh has better transparency than India in its system.

Despite its utmost importance, the state budget in India remains one of the most intractable of documents, incomprehensible for ordinary citizens, specialists and non-specialists alike, making it difficult for the citizenry to participate in shaping public policy.

The lack of budget transparency cannot simply be treated only as a serious violation of democratic rules and good governance. It leads to severe economic and financial problems related to the spread of corruption and waste, meaning that public spending is not rejected in the improvement of citizens' lives. Knowledge of the state budget should thus not be limited to experts and specialists.

Its high time now for a citizen's budget for easy understanding of the total budgetary revenue and expenditure statements, the mid-year review pre-budget statement and the audit report to be published on time, not published online or produced only for government use. Public participation in India's budget is not more than news viewer, while oversight by the legislature on actual expenditure is very limited. Budget in India is still more or less exclusive domain of civil servant due to quite complex system and procedure.
BUDGET TRANSPARENCY

A budget is a key document since it provides a structure to the government’s priorities in terms of policies and programs. Bringing transparency into budgets and democratizing the budget process gives citizens a say in policy formulation and resource allocation. Budget transparency refers to the extent and ease with which citizens can access information about and provide feedback on government revenues, allocations, and expenditures. Budget transparency, while not a goal in itself, is a prerequisite for public participation and accountability. A budget that is not transparent, accessible, and accurate cannot be properly analyzed. Its implementation cannot be thoroughly monitored nor its outcomes evaluated. Given the technical nature of budgets and the budget process, transparent budgets require that the information contained in budgets be presented in simplified form and actively disseminated to citizens. Furthermore, such information must be disseminated in a timely manner so that citizens can effectively provide feedback that can influence policy formulation and resource reallocation.

IMPORTANCE OF BUDGET TRANSPARENCY

Budget transparency and oversight over how resources are allocated and spent are powerful disincentives for officials to misuse or misappropriate funds since their actions are more likely to be scrutinized. This leads to less corruption. If budgets are open to the public and effective legislative scrutiny, there is less room for deviation from policy decisions and reversal of budget allocations. There are fewer distortions and the ruling elite is less likely to manipulate the budget. Additionally, budget transparency allows citizens to provide feedback on the quality and adequacy of services and infrastructure provided. This feedback, combined with reduced corruption, results in more efficient use of resources. In many cases, perceptions of high levels of corruption, poor services and infrastructure, and opaqueness of operations lie at the heart of citizens’ distrust of their governments. The gesture of opening up government books of account is likely to lead to more trust in government. Budget transparency is also instrumental in generating higher revenues for governments since citizens are more likely to pay taxes and contribute donations to local schools and health centers if they trust that their money will be well spent. In developing countries, where revenues are often inadequate to pay for needed investments in sustainable poverty reduction and development programs, this is of utmost importance.
Whatever form the relationship between citizens and states takes in the 21st century, it must rest on a foundation of free exchange of information. Both citizen agency and responsive government require the free flow of data about government programs and the funds that are raised and spent on them. Citizens cannot organize and make meaningful demands of the state without such information. Government cannot maintain its credibility or sustain the commitment of citizens to pay taxes and provide feedback on policy preferences without the regular release of budget information.

Governments must be held to account for raising and spending public funds in order to most effectively meet the needs and priorities of the public, especially the poor and vulnerable. Evidence shows that budget processes that inform and engage the public and civil society in decision making and oversight produce better policies, more accountability, and better outcomes. In order to participate fully, the public needs access to timely, comprehensive, and useful information throughout the budget process. As more responsibility for managing public resources is transferred from the central government to subnational government units, access to information and opportunities for civil society and the public to participate in budgeting at this level are crucial. Particularly in India, where there are many highly populated states and a highly devolved budget; in fact, over half of all India’s public expenditures are through state budgets, including a large share of development expenditures on social and economic services.

Budgets are mainly descriptions of where money is going, rather than what it will deliver. But many budgets now contain some information on the intended uses and desired results of proposed spending.

**A well-functioning budget cycle has four stages:**

1) **formulation**, when the executive branch of the government drafts the budget proposal;
2) **approval**, when the legislative branch debates, amends, and approves the budget proposal;
3) **execution**, when the executive branch implements the policies outlined in the budget; and
4) **oversight**, when the supreme audit institution and legislature assess funds spent for compliance and performance.
As the functioning of the oversight institutions is very crucial in the budget accountability ecosystem, there is a need for stepping-up efforts in this domain. The idea of 'good governance' has gained a lot of momentum in the recent years and 'Budget Transparency' has acquired importance as one of the parameters of 'good governance' across the globe.

Non-transparent systems, though facilitates corrupt practices, but does not necessarily be linearly correlated. South Africa, not one of the less corrupt nations, has one the most transparent and open budgets. Interestingly, China, one of the major powers and most progressive developing nation, is one of the most opaque countries, in terms of openness in their budgetary process, doing worse than countries like Cambodia and Nigeria.

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## BEST TRANSPARENCY PRACTICE & GAPS IN INDIA

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<th>PRACTICE IN INDIA</th>
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<tr>
<td>1</td>
<td>Length of Discussion</td>
<td>Parliament and/or parliamentary committees get adequate time to analyze the budgetary proposals. In many established democracies, legislatures take 2-3 months to discuss, scrutinize and pass budgetary proposals.</td>
<td>Over the years the time spent discussing the Budget (general discussion as well as discussion on reports of DRSCs on Demands for Grants) has reduced from an average of 123 hours in the 1950s to 41 hours in the last decade. It could be argued that more time is being spent by Committees instead, examining the Budget. However, the purpose of Committees examining Demands for Grants was to allow for more time for deliberation within the House.</td>
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<td>2</td>
<td>Unity in the Parliament</td>
<td>Political parties in the opposition coordinate with each other to ensure that all the main concerns related to budgetary proposals are highlighted effectively and without much duplication of effort.</td>
<td>Opposition parties do coordinate/cooperate with each other on the matters of utmost importance, but there is a clear need for a lot of improvement on this count.</td>
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<td>3</td>
<td>Training of the members</td>
<td>Political parties take initiatives to train their members to understand the budgetary proposals so that they are able to effectively participate in these proceedings. Such initiatives are important in view of the fact that budgetary proposals are often in technical language, and are hard to understand for parliamentarians without relevant background.</td>
<td>It seems that most political parties have yet to recognize the importance of such trainings and briefings for their members to improve their parliamentary performance. It is interesting to see, recently some political Party started training to the MPs on the parliamentary proceedings. This will definitely help them participate more efficiently in the legislative proceedings including Budget.</td>
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<td>4</td>
<td>Participative procedure</td>
<td>Parliamentary committees, political parties and parliamentarians put in place mechanisms to receive suggestions from citizens and civil society groups; and incorporate them in their budgetary debates and discussions in the Parliament.</td>
<td>Despite ministers and MPs are setting trends by their active presence on social media to interact with the citizens, there are no formal platforms or modes, through which opinions on budget can be taken into account.</td>
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<td>5</td>
<td>Members’ initiative</td>
<td>Normally, All parliamentarians, who are present in the house, participate in the proceedings, irrespective of the time they get.</td>
<td>Participation of the parliamentarians is low on an average. Recent studies show that only 60% members participate (considering the ones who speak once even one word in whole session).</td>
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<td>6</td>
<td>Research and analysis</td>
<td>Legislative secretariats have adequate research and analysis capacity to help parliamentarians in preparing for the budget debates.</td>
<td>In the Indian context, although there exists infrastructure and database for research, it is not being used to its fullest potential. Parliament’s Library and Reference, Research, Documentation and Information Service (LARRDIS) currently has a sanctioned strength of 231 staffers but employs 176, about 8% of the total strength of the Lok Sabha secretariat.</td>
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<td>S.NO</td>
<td>ASPECT</td>
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<td>1.</td>
<td>Pre-Budgeting</td>
<td>A document that sets the tone for the next year and the budget. It demonstrates government's strategy and objectives for the next budget by presenting broad estimates and allocation ceilings. Pre-Budget statement affects the estimates of the respective ministries, it becomes essential that this statement is prepared and tabled in time.</td>
<td>In the Indian context, there is no provision of pre-budgeting. There is a consensus now, that India should also publish a Pre-Budget statement.</td>
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<td>2.</td>
<td>Citizen’s Accessibility</td>
<td>The annual budget is normally long and complex and accompanied by a number of detailed supporting documents. Thus, even for technical experts, understanding the budget is a difficult and time-consuming task. Therefore, it is essential that governments be proactive in helping the general public to make sense of the budget. Budgets should not only be available to the public they should also be accessible to the public.</td>
<td>The country’s performance in terms of public participation and budget oversight by the is weak. India is worse in public participation in the budget formulation cycle as against the global average. In terms of publishing a more accessible version, no such document is published for the common man to understand. Further, civil society organisations and national newspapers have been doing it.</td>
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<td>3.</td>
<td>Thematic Reports</td>
<td>The ability to track trends in spending and revenues can provide regular information to policy makers, the press, and the public, if budget plans are going astray. Similarly, the need to develop and operate dependable systems and train staff to provide the data contained in these Reports can promote the availability and accuracy of this data not just for these Reports but for all budget reports.</td>
<td>Such reports are a far cry for Indian budgetary system. In fact, the Annual Financial statement often gives details of less talked about domains, amiss.</td>
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<td>4.</td>
<td>Reviewing half-way</td>
<td>The Mid-Year Review represents an opportunity to comprehensively assess a government’s fiscal performance against the strategy established in the Actual Budget. The Review half-way serves a useful purpose but its importance should be viewed in context. These reviews help assess what is on or off track in terms of programs underspending or overspending relative to the Actual Budget.</td>
<td>Mid-Year or In-Year reports, although a norm in the Indian context, has not been complied with much discipline. India, in 2016, did not publish its Mid-year report, thus lessening the transparency.</td>
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<td>5.</td>
<td>Final Reporting and Audit Report</td>
<td>A Year-End Report presents the government’s discussion of the performance of the budget as executed relative to its original budget and any supplementary budget that may have been issued during the course of the year. It covers what was actually spent and collected relative to what was budgeted.</td>
<td>In India, the audit oversight is relatively more transparent, in terms of the oversight on the budget.</td>
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The term 'Budget' is derived from an old English word 'Bougett' which means a sack or pouch. It was a leather bag from which the British Chancellor of Exchequer extracted his papers to present to the government's financial programme in the Parliament. 'Enactment of budget' means the passage or approval of the budget (i.e. the annual financial statement or the statement of the estimated receipts and expenditure of the Government of India in respect of each financial year) by the Parliament and ratification by the President. This legalizes the receipts and expenditure of the government. This means that the government can neither collect money nor spend money without the enactment of the budget. The term 'budget' has nowhere been used in the Constitution of India, Article 112 dealt with the 'annual financial statement'.

The Budget is a statement of the estimated receipts and expenditure of the Government in a financial year, which begins on 1 April and ends on 31 March of the following year.

In addition to the estimates of receipts and expenditure, the budget contains certain other elements Overall, the budget contains the following:

1. Estimates of revenue and capital receipts;
2. Ways and means to raise the revenue:
3. Estimates of expenditure:
4. Details of the actual receipts and expenditure of the closing financial year and the reasons for any deficit or surplus in that year; and
5. Economic and financial policy of the coming year, that is, taxation proposals, prospects of revenue, spending programme and introduction of new schemes/projects.

In August 2016, the Union Government decided to merge the railway budget into the general budget.
The budget goes through the following six stages in the Parliament:

- **Presentation of budget**
- **General discussion:** It is a British legacy, few days after its presentation. It takes place in both the houses of Parliament and lasts usually for three to four days
- **Scrutiny by departmental committees:** Since 1993 to improve parliamentary financial control over the ministries much more detailed close, in-depth and comprehensive. After the general discussion on the budget is over, the Houses are adjourned for about three to four weeks. During this gap period, the 17 departmental standing committees of the Parliament examine and discuss in detail the demands for grants of the concerned ministries and prepare reports on them to the Houses of Parliament for consideration.
- **Voting on demands for grants:** In the light of the reports of the departmental standing committees, the Lok Sabha takes up voting of demands for grants, ministry wise. A demand becomes a grand after it has been duly voted (the Rajya Sabha has no power of voting the demands). The voting is confined to the votable part of the budget-the expenditure charged on the Consolidated Fund of India is not submitted to the vote (it can only be discussed). While the General Budget has more than 125 demands. During this stage, the members of Parliament can discuss the details of the budget. They can also move motions to reduce any demand for grant. Such motions are called as 'cut motions' which are of three kinds: Disapproval of Policy Cut Motion, Economy Cut Motion and Token Cut Motion.
- **Passing of Appropriation Bill:** The Constitution states that “no money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law.” Accordingly, an Appropriation Bill is introduced to provide for the appropriation out of the Consolidated Fund of India all money required to meet: (I) the grants voted by the Lok Sabha. (ii)The expenditure charged on the Consolidated Fund of India. And The Appropriation Bill becomes the Appropriation Act after it is assented to by the President.
- **Passing of Finance Bill** under Rule 219 of the Lok Sabha, the 'Finance Bill' means the Bill ordinarily introduced in each year to give effect to the financial proposals of the Government of India for the next following financial year, and includes a bill to give effect to supplementary financial proposals for any
**Consolidated Fund of India (Article 266):** Fund to which all receipts are credited and all payments are debited (Revenues received by the Government of India)

**Public Account of India (Article 266):** All other public moneys (other than those which are credited to the Consolidated Fund of India) received by or on behalf of the Government of India shall be credited to the Public Account of India.

**Contingency Fund of India (Article 267):** The Parliament enacted the Contingency Fund of India Act in 1950. This fund is placed at the disposal of the President, and he can make advances out of it to meet unforeseen expenditure pending its authorization by the Parliament. The fund is held by the Finance secretary on behalf of the President. Like the Public Account of India, it is also operated by executive action.
Transparency International India

Transparency International India (TII) is a leading non political, independent, non-governmental anti-corruption organisation of India. TII has extensive expertise and understanding of issues of corruption in India.

From villages in rural India to the corridors of power in Delhi, TII gives voice to the victims and witnesses of corruption. We work in constructive manner in the interest of the country together with Union and State governments, like minded civil society organizations, corporate, academia, media and common citizens. The main aim is to reduce corruption, bribery, create deterrence for abuse of power, promote good governance and the rule of law.

We raise awareness about corruption; advocate legal and policy reforms at national and state levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in India.

Vision
To create a corruption-free India, so that the poor do not lose their voice to corruption.

Mission
To lead and support a committed effort to improve transparency and accountability by eradicating corruption through widening of knowledge and catalyzing action.

Priority Areas
Good Governance, Research, Capacity Building, Communication and Advocacy, Participatory Monitoring, Engaging with Government, Private Sector and NGO.