Enabling Inclusive Development

Issue VIII
July 2012

Public Finance Quarterly

In this issue

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Dear Readers,

I welcome you to the eighth issue of the *Public Finance Quarterly*, through which we share with you our views and experiences on the developments in the public finance (PF) domain across the globe. With your invaluable inputs, we endeavour to make this medium a more effective and enriching channel for information sharing.

The *Feature article* in this issue examines the efficacy of the Indian public expenditure management (PEM) system at the central government level, in light of the Fiscal Responsibility and Budget Management (FRBM) legislation. We have assessed deviations from the fiscal consolidation path recommended by Central Finance Commissions and FRBM. In line with the findings, we have suggested improvements in PEM by bringing in performance orientation through medium-term planning. We have also suggested strengthening internal controls in the spending ministries or departments by institutionalising risk-based internal audit mechanisms.

The *Pick of the quarter* section analyses various components of the National Food Security Bill, introduced in Parliament in December 2011. The bill provides a statutory framework to entitle target households to certain minimum quantities of food grains per month through a targeted public distribution system. However, the bill has been facing hurdles due to several issues like incomplete coverage of food varieties, beneficiaries and low food entitlements.

Our *Round the corner* section provides news updates in the area of government finances and policies across the globe and key paper releases in the public finance domain during the last quarter along with their reference links. The *Know our work* section showcases our experience in providing technical assistance to the Government of Assam in undertaking reform measures under the ADB-supported Assam Governance and Public Resource Management Sector Development Programme (AGPRMP) (sub-programme II).

I would like to thank all our readers for their consistent response and support. I invite you to contribute and share your experiences in the public finance space with us at *ranen.banerjee@in.pwc.com* or with our editorial team.

Happy reading!

Round the corner

News bytes

Investment tracking system for speedy implementation of major investment projects to be established; government develops format for monitoring projects in private sector and under PPP

Ministry of Finance, India: 26 June 2012

The government of India has decided to establish an investment tracking system to ensure speedy implementation of major investment projects in the country. The Department of Financial Services will monitor and follow up with projects in the private sector. As part of the initiative, a format for monitoring such projects in the private sector and under public private partnership (PPP) has been developed and is available on the department's website www.financialservices.gov.in.

http://finmin.nic.in/press_room/2012/Inv_Track_System_Projects.pdf

Government introduces Public Procurement Bill, 2012, in Parliament

ET Bureau 14 May 2012

The government introduced the Public Procurement Bill 2012 in the Lok Sabha on 14 May 2012. This bill seeks to regulate the award of government contracts worth more than 50 lakh INR to ensure 'transparency, accountability and probity' in state purchases. The procuring entity could be a ministry or department of the central government, any central public sector undertaking or any company in which the government has a stake of more than 50%.

As per the bill, basic norms that the procuring entity shall adhere to include (a) ensuring efficiency, economy and transparency; (b) giving fair and equitable treatment to bidders; (c) promoting competitiveness; (d) ensuring that the quality is consistent with the price of the bid; and (e) preventing corruption. The bill also defines a code of integrity for the procuring entity or Central Purchase Organisation (CPO) as well as the bidders. It prohibits bribery, collusion, misrepresentation, coercion or threat and obstruction in the auditing process of the procurement made.

http://articles.economictimes.indiatimes.com/2012-05-14/news/31712564_1_procurement-process-pranab-mukherjee-check-corruption

Exim Bank of India signs two financial cooperation agreements with other member development banks of BRICS nations

Exim Bank of India: 29 March 2012

Chairman and Managing Director of Exim Bank of India, T C A Ranganathan, signed two multilateral financial cooperation agreements with heads of other member development banks of the BRICS nations on 29 March 2012, in New Delhi, during the BRICS Summit 2012.

The two agreements signed during the occasion are the Master Agreement on Extending Credit Facility in Local Currency and the BRICS Multilateral Letter of Credit Confirmation Facility Agreement. The former is intended to reduce the demand for fully convertible currencies for transactions among BRICS nations, and thereby help reduce transaction costs for intra-BRICS trade. The latter envisages the confirmation of the letter of credit, upon receipt of a request from the exporter, exporter's bank, indemnifying party or the importer's bank.

http://www.eximbankindia.com/press300312.asp

Technical group being set up for revising poverty estimates

Planning Commission, India: 22 March 2012

Minister of State for Planning, Ashwini Kumar, said that the government had decided to set up a technical group to revisit the methodology for estimating poverty in a manner consistent with current realities. The technical group will also have the benefit of Socio-Economic and Caste Census (SECC), 2011 data, based upon a comprehensive census to enable the government to revisit poverty estimates and identify the poor.

http://planningcommission.gov.in/news/press_pov2303.pdf

Revision of list of major and minor heads of accounts of union and states; to be implemented from FY 2013-14

Ministry of Finance, India: 25 January 2012

The Sundaramurti Committee, constituted for revising the list of major and minor heads of accounts of union and states, has submitted its report to the Union Finance Minister. The accounting classification codes have been revised and are to be implemented with effect from FY 2013-14.

The committee has standardised the programme and scheme codes across national and sub-national governments. It has also standardised the coding of all such entities which are recipients of public funds as channels of public delivery. The proposed classification structure provides for capturing expenditure on special thrust areas of government policy objectives, such as development of women, scheduled castes (SC), scheduled tribes (ST), and below poverty line (BPL) population. The object heads that represent the economic character of expenditure have also been revised. The committee has recommended capturing the geographical location of spending. An administrative segment to identify administrative responsibility has also been recommended by the committee to enhance accountability.

http://finmin.nic.in/press_room/2012/sundaramurti_committee_report.pdf

Government of India and World Bank sign 130 million USD agreement to improve livelihoods for 300,000 village households in north-eastern states

Ministry of Finance, India: 20 January 2012

The government of India (GoI) and the World Bank have signed an IDA credit of 130 million USD to finance the GoI's efforts for empowering rural communities in the growth-deficient north-east (NE) region. The North East Rural Livelihoods Project (NERLP) will enhance the livelihoods of the rural poor, especially women, unemployed youth and the severely disadvantaged in eight districts of four participating states, viz. Aizawl and Lunglei in Mizoram; Peren and Tuensang in Nagaland; South, West and 15 Panchayat wards of East District in Sikkim; and West and North Districts in Tripura.

http://finmin.nic.in/press_room/2012/GoI_WB_livelihud_NEState.pdf

Paper releases

Accounting devices and fiscal illusions

International Monetary Fund: March 2012

A government seeking to reduce its deficit, can be tempted to replace genuine spending cuts or tax increases with accounting devices that give the illusion of change without substance or those that make the change appear larger than it actually is. Under ideal accounting standards, this would not be possible, but in real accounting it sometimes is. For example, governments can sometimes sell assets or borrow money and count the proceeds as revenue, or defer unavoidable spending without recognizing a liability. In each case, this year's reported deficit is reduced, but only at the expense of future deficits. As a result, the reported deficit loses some of its accuracy as a fiscal indicator.

The use of accounting stratagems cannot be eliminated, but several things can be done to reduce their use or at least bring them quickly to light. Governments can be encouraged to prepare audited financial statements—income statement, cash-flow statement, and balance sheet—according to international accounting standards, and statisticians, who in many countries use accounting data to compile the most important (headline) fiscal indicators.

http://www.imf.org/external/pubs/ft/sdn/2012/sdn1202.pdf

Healthcare financing reforms in India

National Institute of Public Finance and Policy: March 2012

The Indian healthcare system is characterised by low levels of public spending; poor quality in healthcare services, with adverse effects on the population's health status; a lack of focus on preventative healthcare; and dependency of population, particularly the poor, on private healthcare providers and consequently high 'out-of-pocket' spending and immiseration.

Reforms in the health sector will have to address the need for increasing public spending on healthcare, focus on preventative healthcare, ensure greater access to healthcare by the poor and significantly improve the productivity of public spending. Increasing public spending on healthcare in low-income states will require designing specific transfers with matching contributions from the states. Such transfers should be equalising and should not lead to a substitution of the state's expenditures on healthcare from their own resources.

The paper presents that an additional expenditure equivalent to 1% of the GDP would be necessary in the medium term to provide basic healthcare services as per the norms. Finding additional fiscal space will be a major challenge. Calibrating a sustainable fiscal policy will require additional fiscal adjustment of over two percentage points of GDP as set out in the Fiscal Responsibility Act. With competing demands for additional spending for education and food security, supposed to claim an additional 2% of GDP, creation of fiscal space for healthcare spending during the 12th Plan will be challenging.

http://www.nipfp.org.in/newweb/sites/default/files/wp_2012_100.pdf

Fiscal policy in India: Trends and trajectory

Ministry of Finance, India: January 2012

This paper traces the major developments in India's fiscal policy from the early stages of planned development in the 1950s, through the country's balance of payments crisis of 1991, the subsequent economic liberalisation and rapid growth phase, response to the global financial crisis of 2008 and the recent post-crisis moves to return to a path of fiscal consolidation.

India's fiscal policy in the phase of planned development commencing from the 1950s to the economic liberalisation in 1991 was largely characterised by a strategy of using the tax system to transfer private resources to the massive investments in the public sector industries and also to achieve greater income equality. Following the crisis of 1991, the government charted out a path of economic liberalisation. While the fiscal deficit and public debt were initially brought under control, the situation again started to deteriorate in the early 2000s. This induced the adoption of fiscal responsibility legislations at the central and state levels.

The global financial crisis in 2008 forced the government to take sharp counter-cyclical measures to prop up growth in view of the global downturn. The Indian economy weathered the global crisis rather well with growth going down to 5.8% in the second half of 2008-09 and then bouncing back to 8.5% in 2009-10. In view of the recovery, a slow exit from the fiscal stimulus was attempted in a manner whereby fiscal consolidation was achieved without hurting the recovery process.

http://finmin.nic.in/WorkingPaper/FPI_trends_Trajectory.pdf

Feature article

Public expenditure management in India: Experience to date

In an effort to revamp the course of fiscal consolidation and thereby provide for long-term macroeconomic stability, the central government enacted the Fiscal Responsibility and Budget Management legislation in August 2003. Subsequently, all state governments enacted a similar legislation since the 12th Finance Commission linked these initiatives to several incentives.

The legislation puts the responsibility on central and state governments to ensure fiscal prudence towards achieving certain identified objectives. The key objectives stated in the Fiscal Responsibility and Budget Management Act (FRBMA) are presented in Table 1. These are expected to be achieved primarily through sufficient revenue surplus and a limit on fiscal deficit to allow for greater private capital formation, leading to growth and employment.

The Act further seeks to provide for the responsibility of governments to prepare certain statements and present them in the legislature for information on compliance. Table 2 presents selected parameters and their targets for the central government as originally envisaged under the FRBMA.

Table 1: Key objectives set under FRBM Act, 2003

Key Objectives	Remarks
Inter-generational equity in fiscal management	Borrowings for financing deficits are akin to deferred taxation and impose tax liability on the future generation
Long-term macro-economic stability	Excessive borrowings by the government crowds out private investment, fuels inflationary pressures or causes a balance-of-payments crisis.
Removing fiscal impediments to effective monetary policy	High fiscal deficit reduces the flexibility of the Reserve Bank of India to change policy rates when needed.

Table 2: Original FRBM targets for the central government

Parameter	Provisions in FRBM
Gross fiscal deficit (GFD)	To be reduced by 0.3% or more of the GDP at the end of each financial year (FY), beginning with FY 2004-05 as to reduce it to 3% of GDP by March 2008
Revenue deficit (RD)	To be reduced by 0.5% or more of GDP at the end of each financial year, beginning from 2004-05, in order to eliminate RD by 31 March 2008
Contingent liabilities	The central government shall not give guarantees aggregating an amount exceeding 0.5% of GDP in any financial year, beginning 2004-05.
Additional liabilities	Additional liabilities (including external debt at current exchange rate) shall not exceed 9% of GDP for the year 2004-05. In each subsequent year, the limit of 9% of GDP shall be progressively reduced by at least 1% of GDP.

Source: FRBM Rules, 2004

Performance against the recommended fiscal consolidation path

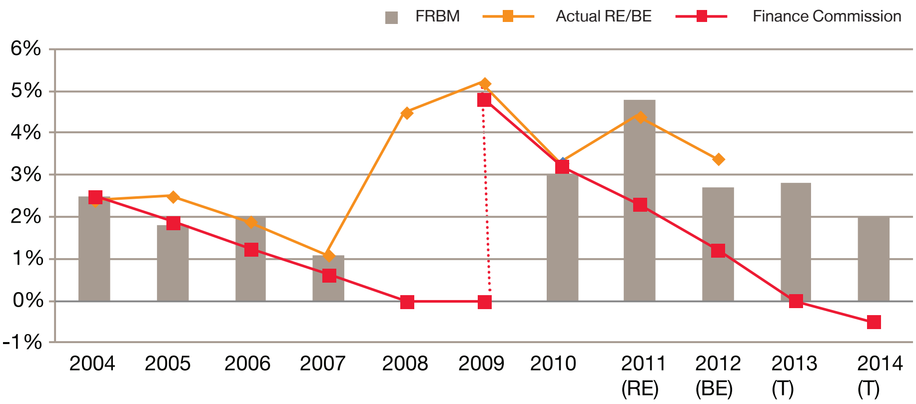
Figure 1, Figure 2 and Figure 3 compare the actual performance of the central government on three key fiscal indicators, viz. revenue deficit, fiscal deficit and outstanding liabilities (adjusted)[1], respectively, against the fiscal consolidation path recommended by 12th Central Finance Commission (CFC), 2005-09; 13th CFC (2010-15), and FRBM Act (Medium-Term Fiscal Policy Statement).

It is observed that the government managed to follow fiscal consolidation path recommended by the Finance Commission and stipulated under FRBM till 2007, mainly due to robust economic growth. However, following the global financial meltdown, FRBM indicators significantly deviated from the finance commission recommendations majorly due to lower revenue receipts and high subsidy bill.

The analysis of the numbers leads us to make the following observations:

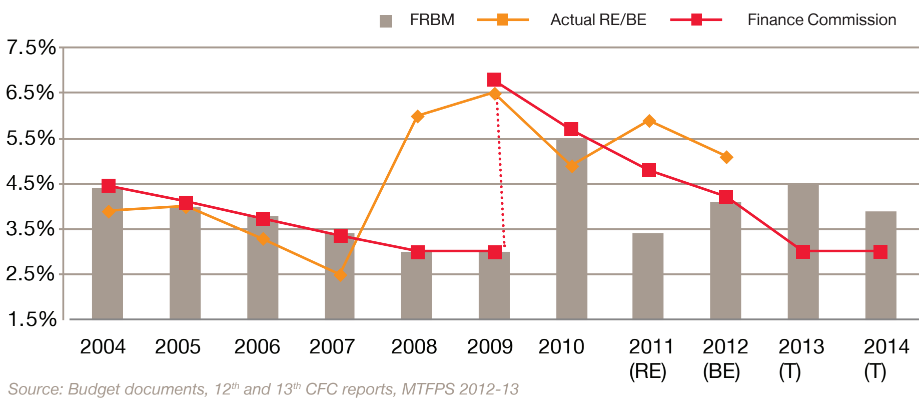
- Prior to global financial meltdown (2004-07), GoI managed to be on track with the fiscal consolidation path as mandated under FRBM Act, by bringing down fiscal deficit to 2.5% in 2007[3]. This was much below the target of 3% to be achieved by 2009. This can be attributed to the following factors:
  - High GDP growth rate (on an average 8.83%) leading to high direct tax collection
  - Low inflation and interest rate
  - Robust manufacturing and service sector growth contributing high indirect tax collections
  - Revenue expenditure recorded lower average annual growth rate of 10.6%
- With the onset of the global financial meltdown in 2008, the government adopted an expansionary fiscal policy in order to mitigate the adverse impacts of economic slowdown. In 2008, total expenditure increased by 24% as against 13% increase in total receipts. Consequently, fiscal deficit increased from 2.5% in 2007 to 6% in 2008. Similarly, revenue deficit increased from 1.1% in 2007 to 4.5% in 2008. Outstanding liabilities (adjusted) increased from 43.9% in 2007 to 46.2% in 2008.

Figure 1: Revenue deficit performance (actual/RE/BE) as against the targets specified under FRBM and CFC recommendations over 2004-14[2]



Source: Budget documents, 12th and 13th CFC reports, MTFPS 2012-13

Figure 2: Fiscal deficit performance (actual/RE/BE) as against the targets specified under FRBMA and CFC recommendations over 2004-14



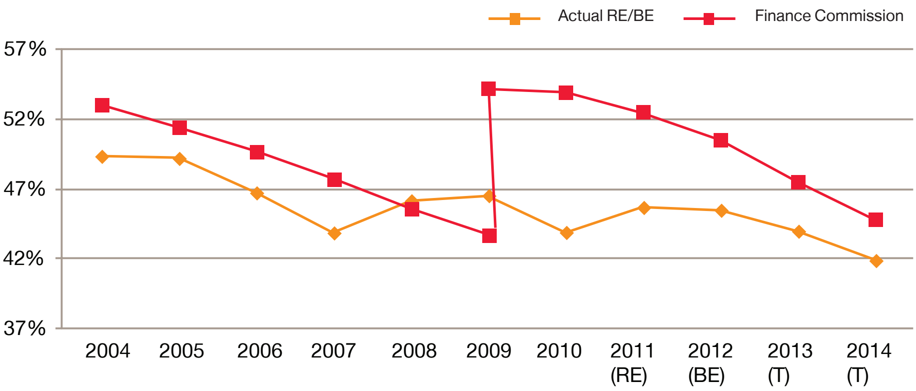
Source: Budget documents, 12th and 13th CFC reports, MTFPS 2012-13

1. Outstanding Liabilities (adjusted) does not include liabilities from National Small Saving Fund (NSSF) loans to states and the Market Stabilisation Scheme (MSS). Given that NSSF is maintained in the public account of the central government, loans to state government through this fund are shown as liability to central government. However, loans given to state governments through purchasing government securities are used for financing fiscal deficits. It should be treated as outstanding debt in states' account alone. Funds appropriated under MSS are kept with the RBI as cash and are not available for current expenditure. Hence, these two items needs to be deducted to get a clear picture of total outstanding liabilities used for financing fiscal deficit.

2. In this paper, 2012 figures are budget estimates while 2013 and 2014 are based on medium-term rolling targets set under MTFPS, Union Budget 2012. * T = Targets under MTFPS, BE = Budget estimates, RE = Revised Estimates

3. In this paper, year t refers to a fiscal year starting at t and ending at t+1.

Figure 3: Performance on outstanding debt (actual/RE/BE) against the recommendations of the 12th CFC and the 13th CFC over 2004-14[4]



Source: Budget documents, 12th and 13th CFC reports, MTFPS 2012-13

- This forced a significant deviation from the fiscal consolidation path suggested by the 12th CFC and those mandated under the FRBM Act. Given that there was an urgent need for increased public spending, GoI revised its fiscal deficit and revenue deficit targets for 2010 to 5.5% from 3% and to 3% from 0%, respectively, as stipulated under the Medium-Term Fiscal Policy Statements (MTFPS) 2009 and 2008. Further, the 13th CFC, after accommodating initial fiscal imbalances needed for economic recovery, revised the fiscal consolidation path (reflected by kink in the diagram) by extending the goalpost from 2009 to 2013-14. As per the revised fiscal consolidation path, the revenue deficit needs to be eliminated and fiscal deficit needs to be brought down to 3% by March 2014.
- Since the onset of the global financial meltdown (except for 2010), the government has not been able to keep its fiscal balances in line with the recommendations of the 13th CFC (as reflected by performance on fiscal deficit, revenue deficit and outstanding liabilities as % of GDP). In 2011, fiscal deficit reached 5.9% as against the target of 4.8% recommended by the 13th CFC. Similarly, revenue deficit reached 4.4% as against the target of 2.3%.
- It should be noted that as per GDP data available under the Economic Survey 2011-12 and projection under the MTFPS, the revised nominal average GDP growth rate for the period 2010-14 (16%) is higher than that projected by the 13th CFC (13%) for the same period. High GDP growth rate will lead to improved economic activity which provides potential for improving fiscal balances through increased revenue receipts based on higher tax collection, dividends and profits. This implies that the fiscal consolidation path should have been advanced due to higher-than-projected GDP growth rate. However, as per the MTFPS 2012-13, fiscal deficit (for example) is expected to be 3.9% in 2014 which is higher than recommended by the 13th CFC (3%).
- Comparing the 13th CFC's projections of subsidy for 2009-11 vis-à-vis actual subsidy bill reveals that actual burden of subsidy has invariably remained higher than the projections (Figure 4). In fact, subsidy bill increased from 2.19% to 2.43% in 2011. Despite the ambitious target of reducing subsidy bill to below 2% (1.87%) in 2012 and further to 1.6% in 2014, subsidies as a percentage of GDP are higher than those proposed by the 13th CFC.
- Further, following the global financial meltdown, tax revenue (net) as % of GDP remained below the projections of the 13th CFC (Figure 5). Also non-tax revenue as a percentage of GDP underperformed in relation to targets set by the 13th CFC, except for 2010 (mainly due to 3G spectrum auction receipts)[5]. Lower tax and non-tax revenue collection combined with high subsidy bill significantly contributed to the diversion of fiscal balances from the fiscal consolidation path recommended by the CFC.

4. FRBM targets set for outstanding liabilities prior to 2010 included liabilities from National Small Saving Fund (NSSF) loans to States, Market Stabilisation Scheme (MSS), hence not highlighted above.
5. Budget Speech 2011-12 *http://indiabudget.nic.in/budget2011-2012/ub2011-12/bs/bs.pdf*

With necessary policy measures, the fiscal deficit is projected to decline to 4.5% of GDP in 2013-14 and 3.9% of GDP in 2014-15. Similarly, the effective revenue deficit[6] is projected to decline from 1.8% of GDP in 2012-13 (BE) to 1% of GDP in 2013-14. Further, this fiscal roadmap is expected to result in a rise in capital expenditure, including grants for creation of capital assets during 2010-11 to 2014-15 (Figure 6).

Although the fiscal deficit projected under FRBM is higher than the 13th CFC projections, the outstanding debt as a percentage of GDP projected under FRBM is lower than that projected by the 13th CFC for 2013-14. This is due to significantly higher GDP projections under FRBM as compared to 13th CFC projections[7].

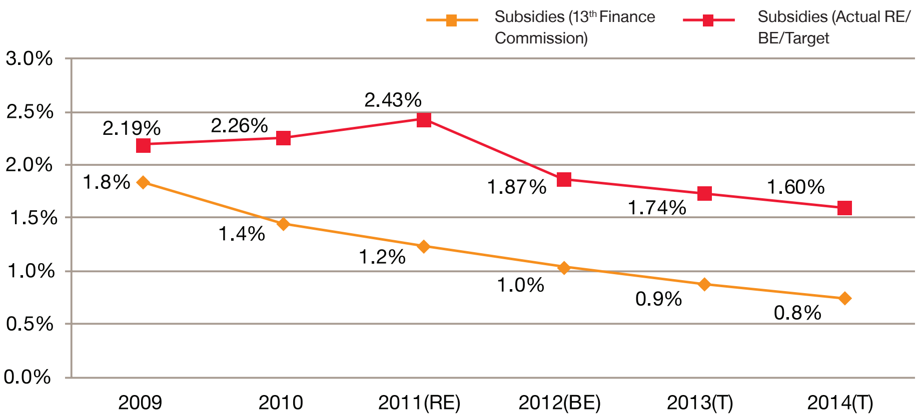
Performance against expenditure priorities

In this section, we have shown that over time government expenditure priorities have shifted towards infrastructure development and inclusive growth through high social spending. We found that actual revenue expenditure has exceeded budgeted allocations while actual capital expenditure has been lower than budgeted during 2006-11, which may constrain sustainable growth. However, the government has taken steps to link expenditure with outputs and outcomes and has undertaken planning and budgeting through medium-term budget frameworks recommended by the 13th CFC.

6. In the past, all grants, both of capital and revenue nature, from the centre to the states were booked under revenue expenditure. As revenue expenditure shows resources consumed in the current fiscal year and not for assets creation, capital creation grants were necessary to be deducted from revenue deficit. In line with the recommendations of the expert committee on efficient management of public expenditure, 'adjusted revenue deficit' or 'effective revenue deficit' as the target fiscal indicator has been introduced in the Union Budget 2012 so as to focus on the consumptive element of revenue deficit. Effective revenue deficit is the difference between revenue deficit and grants for creation of capital assets.

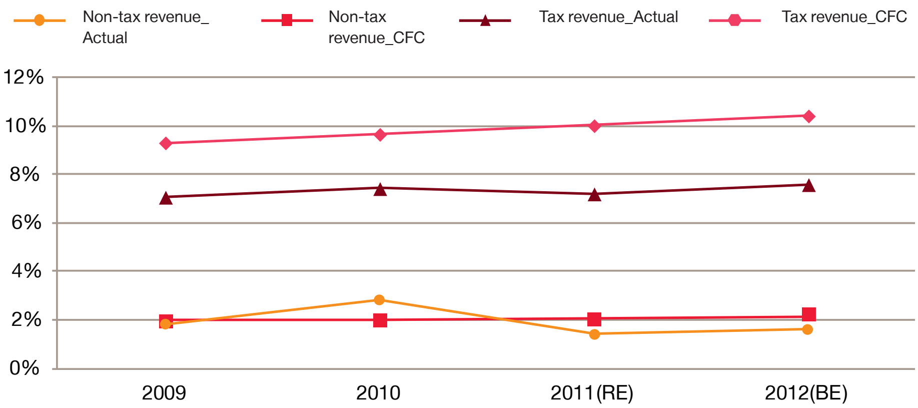
7. It should be noted that FRBM projections are made in 2012 while the 13th CFC projections were formulated in 2009.

Figure 4: Subsidy as % of GDP recommended by the 13th CFC and actual/RE/BE/Target



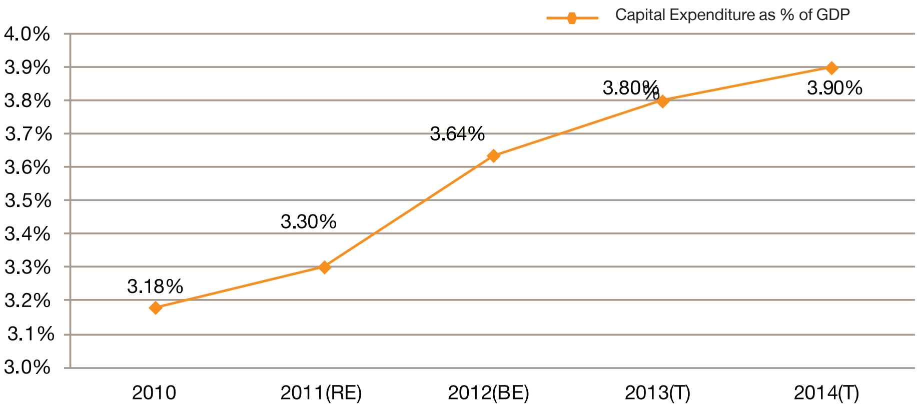
Source: Budget documents, 12th and 13th CFC reports, MTFPS 2012-13

Figure 5: Tax revenue and non-tax revenue as % of GDP: actual and CFC recommendations over 2009-12



Source: Budget documents, 12th and 13th CFC reports

Figure 6: Capital expenditure including grants for creation of capital assets as a % of GDP, 2010-14



Source: MTFPS, 2012 and Budget at a glance 2012

With 2012-13, India has entered into the first year of 12th Five Year Plan (FYP). This FYP aims at 'faster, sustainable and more inclusive growth'. In line with these priorities, following five objectives have been identified in the budget speech of 2012-13:

- Focus on domestic demand driven growth recovery.
- Create conditions for rapid revival of high growth in private investment.
- Address supply bottlenecks in agriculture, energy and transport sectors, particularly in coal, power, national highways, railways and civil aviation.
- Intervene decisively to address the problem of malnutrition, especially in the 200 high-burden districts.
- Expedite coordinated implementation of decisions being taken to improve delivery systems, governance and transparency, and address the problem of black money and corruption in public life.

A review of budget speeches of 2001-04, 2004-08 and 2008-11 reflects clear shift in the developmental emphasis of GoI on certain issues. These are presented in Table 3.

As highlighted in Table 3, from 2008-09 onwards, GoI has prioritised investment in infrastructure sector[8] for sustainable development. This is reflected by a rise in public investment in infrastructure from 4.23% of GDP in 2007 to nearly 5.07% in 2011.

Emphasis on development of health and education has remained a stated priority throughout 2001-11, which is reflected in the rising expenditure trend on these services. Public spending on education as a percentage of GDP increased from 0.38% in 2003 to 0.59% in 2011 and is expected to reach 0.61% in 2012 (Figure 7). This is mainly due to the following factors: (i) launch of central schemes like Sarva Shiksha Abhiyan in 2004 aiming at universalisation of elementary education in a time-bound manner and (ii) enactment of 86th amendment to the Constitution of India, thereby making

Table 3: Government's stated priorities

2001-02 to 2003-04	2004-05 to 2007-08	2008-09 to 2010-11
• Poverty eradication through health, housing, education and employment • Infrastructure development • Agriculture: food economy and rural development • Irrigation • Manufacturing sector enhancement • Structural reforms and regenerate industrial growth	• Faster and more inclusive growth • Focus on agriculture • Fertiliser subsidies • Power-sector capacity augmentation • Augmenting infrastructure • Micro-finance • Efficient fiscal devolution • Basic education and employment guarantee	• Improve delivery mechanism • Institutional reforms • Improve accountability • Inflation management Improve regulatory standards and administrative practices. • Continued emphasis on infrastructure development

Source: Budget Speech, Government of India, various years

8. Infrastructure refers to electricity, roads and bridges, telecommunications, railways, irrigation, water supply and sanitation, ports, airports, storage, and oil and gas pipelines. Source: Investment in Infrastructure during 11th FYP, Planning Commission of India, 201

free and compulsory education a fundamental right for children in the 6-14 years age group.

Similarly, public expenditure on health as a percentage of GDP increased from 0.089% in 2003 to 0.13% in 2012 (Figure 7). This has been mainly due to the National Rural Health Mission, which seeks to provide effective healthcare to rural population with special focus on 18 states having weak public health indicators and/or weak infrastructure.

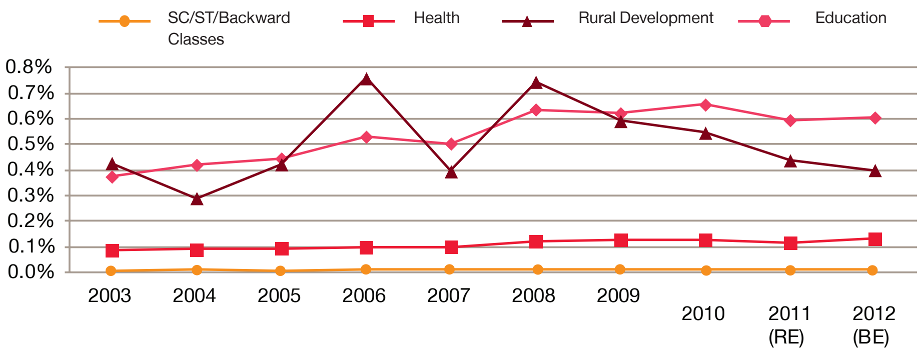
It should be noted that expenditure on rural development as a percentage of GDP varied significantly during 2003-2008, after which it declined consistently till 2012. Despite the launch of major schemes such as Mahatma Gandhi National Rural Employment Generation Act, public spending on rural development as a percentage of GDP declined since 2008-09 from 0.75% to 0.4% in 2012. Further, public spending on uplifting SC, ST and other backward classes as a percentage of GDP remained constant at 0.01% throughout 2003-12.

These significant increases in outlays on developmental and social schemes have, in turn, brought forth following issues related to technical efficiency:

- Transforming outlays into outcomes
- Streamlining schemes
- Bringing down the number of plan schemes to reflect focused priorities of government

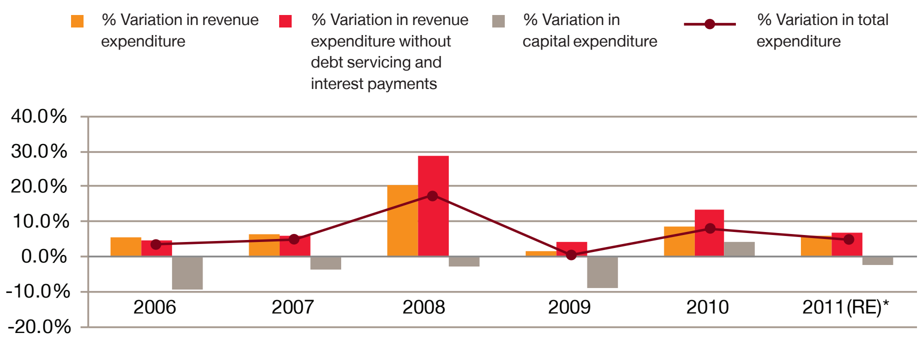
Technical efficiency is reflected through budget management and one of the key parameters to judge technical efficiency is 'budget outturn'. In the past six years, total actual expenditure was 6.5% above the budgeted expenditure on an average (highest in 2008-09 at 17.7% due to the global financial meltdown). Figure 8 provides a comparison of budget estimates vis-à-vis actual expenditure incurred by the central government. The variation in expenditure or budget outturn is estimated as follows:

Figure 7: Public expenditure on social sectors as a percentage of GDP, 2003-12



Source: Budget documents 2003-12 (sectors spending), Economic Survey (GDP at market prices)

Figure 8: Gap between budgeted and actual revenue and capital expenditure, 2006-11



Source: Budget documents of various years * Revised Estimates

$$\frac{\textit{Actual Expenditure} - \textit{Budgeted Expenditure}}{\textit{Budgeted Expenditure}} \times 100$$

To moderate the impact of over-spending revenue expenditure on accumulating arrears and fiscal deficit, the Indian government has been compromising on capital expenditure which is detrimental for sustainable development.

The other parameters of technical efficiency relating to outputs and outcomes of expenditure had not been focussed upon by the government. However, in recent budget speeches, there is an emphasis on outputs and outcomes and better linkage between planning and budgeting through medium-term budget frameworks recommended by 13th CFC.

Conclusion

In medium-term, sustaining a high growth trajectory, making development more inclusive and improving governance practices remain the top three priorities. These are expected to continue engaging Indian policy planners in coming times. The government needs to ensure that along with private consumption, revival in private investment (annual growth rate has gone down from 38% in 2007 to 13% in 2010)[9] is sustained and matches pre-crisis growth rates. This requires a stronger fiscal consolidation path to help enlarge the resource space for private enterprise and address some policy constraints.

In medium-term, it is expected that the government will undertake austerity measures to not use debt receipts for financing non-plan expenditure (particularly non-plan revenue expenditure). The ultimate objective is to bring down debt/GDP and interest payment/net tax revenue ratios to sustainable levels and use borrowed funds productively. At the same time, India certainly needs efficient programmes to wipe out poverty and meet needs of primary health and education. Resources committed without precise outcomes and without accountability might get deflected and wasted. A few suggested measures for improved public expenditure management include the following:

- Bringing in performance orientation through medium-term planning with embedded targets for efficient performance for the allocated levels of budget
- Strengthening internal controls in spending ministries or departments through institutionalisation of risk-based internal audit mechanisms
- Reforming follow-up process on audit and bring more accountability for public expenditure.

9. Press note on quick estimates of national income, consumption expenditure, and capital formation, 2010-11, government of India, January 2012.

Pick of the quarter

The National Food Security Bill

The Indian government introduced the National Food Security Bill in the Lok Sabha on 22 December 2011. The bill aims to provide food and nutritional security to certain groups by providing adequate quality food at affordable prices. The bill has not been passed by the both houses of the Parliament, as yet. It has been referred to the Parliamentary Standing Committee which will submit its report after incorporating views of all stakeholders. In this paper, we attempt to analyse the various components of the bill.

During the last decade, India experienced high GDP growth rate catapulting it to the status of 'emerging economies of the world'. However, this has not translated into healthy living of its general populace, as evident by the various national health indicators. As per the Food and Agricultural Organisation (FAO) estimates (2009), India is home to more than a quarter of the world's under-nourished population.

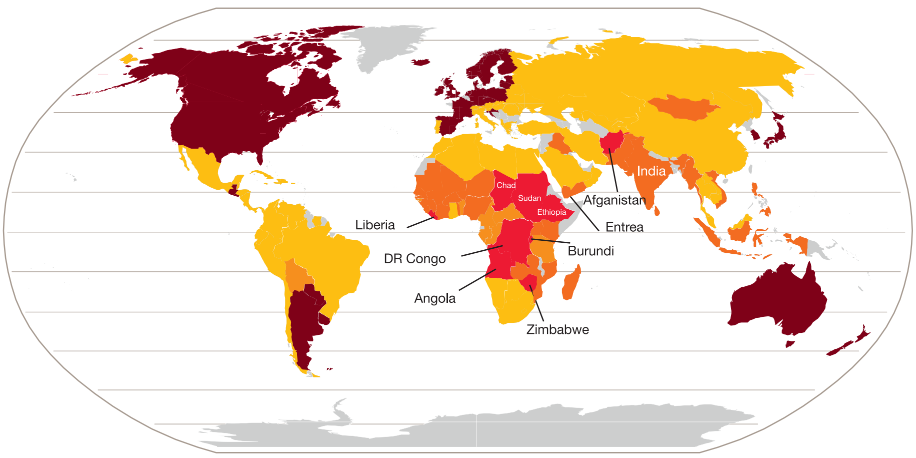
A global comparison of food security (reflected in Figure 9) clearly indicates that India is one of the worst performing countries after Sub-Saharan African countries in providing quality food to its population.

Table 4: Select food security indicators, India

Parameter	Indicator	2006-08
Food deprivation	Proportion of undernourishment	19%
	Food deficit of undernourished population	240 kcal/person/day
Inequality in access to food and income	Gini coefficient of income-2005	0.37[10]
	Gini coefficient of dietary energy consumption	0.15
Child nutritional status	Stunting (<-2 sd)[11] (%) 2005-06	48
	Overweight (+2 sd) (%)	1.9
Adult nutritional status	Underweight (%) 2005-06	33.7 (males), 35.6 (females)
	Obesity 2005-06	1.3 (males), 2.8 (females)
Health and sanitation	Life expectancy at birth	63(females), 66(females)
	Under-five mortality-2009	66 per 1,000 births
	Infant mortality rate(0-1 year) 2009	50 per 1,000 births

Source: The Food and Agriculture Organisation, 2009

Figure 9: The Food Security Risk Index, 2010[12]



Source: Maplecroft, 2010

Extreme risk High risk Medium risk Low risk No Data

10. The value of gini coefficient ranges from 0 to 1 with most unequal distribution of income denoted by '1' and perfect equal distribution of Income by '0'.
11. Standard deviation (sd)
12. The index for each country is computed based on the 12 indicators including nutritional and health status of populations, cereal production and imports, GDP per capita, natural disasters, conflict and the effectiveness of the government.

Concept of food security

Food security as a concept emerged in the discussions of international food problems during the global food crisis in mid-1970s. Initially, the focus was on the availability and stability of food supplies. However, it was observed that simply ensuring availability of food in adequate supplies does not lead to drastic reduction in malnutrition and poverty. Hence, the FAO in the World Food Summit 1996 redefined food security as 'physical and economic access to all people at all times, to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life'.

Based on this definition, there are four main dimensions associated with the concept of food security, namely physical availability, economic and physical access to food, its utilisation and stability of these three dimensions over time. Any legislation targeted towards ensuring food security must be able to fulfil these four dimensions[13]:

- ***Physical availability***
  The foremost condition for food security is to ensure adequate food is procured to meet population needs, either through domestic production or imports.
- ***Economic and physical access***
  In addition to supply-side constraint, there are constraints such as income level, expenditure pattern, market structure and most importantly prices that may prevent adequate access to food. These factors also result in inadequate food access for some sections of the society regardless of the food-stock.
- ***Food utilisation***
  Food consumption will reduce malnutrition only when there is sufficient intake of energy and nutrition. This depends on good care and feeding practices, food preparation, health education, diet diversity, intra-household distribution of food and other practices.
- ***Stability of three dimensions***
  To ensure food security, it is required that all the three dimensions are satisfied on a regular basis, which in turn depends on various economic (unemployment, rising food prices, etc.), political and climatic factors.

Food security in India has a very long history, ranging from the Bengal Famine in 1943 to Green Revolution in 1960s, White Revolution (Operation Flood) in 1970s and 1980s and efforts to usher in a second green revolution to reenergise the foodgrain sector in the recent past. All these policy initiatives were focussed on augmenting the agricultural production and ensuring adequate availability of food for different segments. However, in 2011, the Indian government tabled a bill in the Parliament to provide a statutory framework to entitle target households to certain minimum quantities of foodgrains per month through selected public distribution system (PDS).

13. An Introduction to the Basic Concepts of Food Security, Food Security Information for Action Practical Guides, FAO

The National Food Security Bill

The Draft National Food Security Bill (NFSB), September 2011 states its objectives as "to provide for food and nutritional security, in human lifecycle approach, by ensuring access to adequate quantity of quality food at affordable prices, for people to live a life with dignity and for matters connected therewith or incidental thereto."

Additionally, the bill also calls for establishment of the state and central food security commissions equipped with requisite staff responsible for reviewing and monitoring the implementation of the Act. These institutions will inquire into cases of violations of entitlements provided under the Act, issue guidelines to state and central government to effectively implement food and nutrition-related schemes and improve access to entitlements and prepare annual reports on implementation of the Act.

The bill also prescribes obligations of the central, state government and the local authorities to implement the Act. For meeting foodgrain entitlements prescribed under the Act for each segment, the central government is obliged to procure, store, transport and supply adequate foodgrains to the depots in each state. In case of shortage, the central government is required to allocate sufficient funds to state governments for meeting the entitlements to various segments prescribed under the Act.

Table 5: Salient features of the National Food Security Bill, 2011

Dimension		Description
Right to food		• Every individual belonging to priority household group is entitled to receive 7 kg of foodgrain per person, per month from the state government, under the targeted PDS. • Every individual belonging to general household group is entitled to receive 3 kg of foodgrain per person, per month from the state government under the targeted PD S.
Identification of priority and general households		• Priority household individual will be charged not exceeding 3 INR, 2 INR and 1 INR for rice, wheat and coarse grains. • General household individuals will be charged not exceeding 50% of the minimum support price (MSP) for wheat, coarse grains and the derived MSP for rice.
Adult nutritional status		• The bill does not state any criteria for identification. However, it calls for the central government from time-to-time to prescribe guidelines for identification of priority and general households including exclusion criteria. • After the identification of state-wise priority and general households, the state government is obliged to update this list regularly.
Health and sanitation	***Rural***	• Up to 75% of the total population, with at least 46% population belonging to priority households.
	Urban	• Up to 50% of the total population, with at least 28% belonging to priority households.
Grievance redressal mechanism		• A district grievance redressal officer with required staff will be appointed by the state government for each district to enforce various entitlements under the Act, investigate and redress grievances, in the manner prescribed by the central government.
Pregnant women entitlement		• Every pregnant woman and lactating mother is entitled to a free meal during the pregnancy and six months after the birth of the child from the local anganwadi to meet nutritional standards specified under the Act.
Children nutritional support		• Children in the age group of six months to six years are entitled to age appropriate meal, free of charge, through the local anganwadi (provided that for children below six months, exclusive breast feeding will be promoted). • Children in the age group six to 14 years are entitled to one mid-day meal, free of charge, every day except on school holidays in schools run by local bodies, government and government-aided schools up to the class VIII.
Proper targeting of beneficiaries		• Emphasis on 'Aadhaar' for unique identification, with biometric information of entitled beneficiaries. • The eldest women to be head of the household for ration cards.

Besides, state governments are responsible for monitoring and implementing central schemes according to the guidelines issued by the central government and their own schemes for ensuring food security to the targeted beneficiaries in their state. Further, they are obliged to take delivery at designated depots at the price prescribed under the Act and ensure actual delivery of entitled benefits. In case the state government fails to fulfil food entitlements prescribed in the Act despite the adequate delivery of foodgrains from the central government, they will have to bear the cost of food security allowance. Also, the state governments are required to enhance infrastructure, human capital and institutional structure in licensing of fair price shops for effective implementation of the Act.

The bill does not specify the areas of responsibilities for local authorities in detail. However, the bill states that local authority, municipality, panchayati raj institutions and urban local bodies shall be responsible for the proper implementation of this Act in their respective areas.

Dimension	Description
Fair price shops effectiveness	• Preference toward public institutions or public bodies such as gram panchayats, self-help groups, co-operatives in licensing of fair price shops. • Women to be responsible for management of fair price shops. • All stakeholders should strive to implement information and communication technologies including end-to-end computerisation to ensure transparent recording of transactions at all levels and prevent diversion.
Effectiveness in procurement, storage and movement	All stakeholders should strive for the following: • Incentivising decentralised procurement including procurement of coarse grains • Diversifying procurement operations geographically • Augmenting adequate decentralised modern and scientific storage • Giving top priority to movement of foodgrains • Providing sufficient number of rakes, including expanding the line capacity of railways to facilitate food grain movement from surplus to consuming regions.

Source: The Draft National Food Security Bill, September 2011

Related issues

The broad structure of the National Food Security Bill is based on the National Advisory Council (NAC)'s basic framework on national food security submitted in October 2010. However, there are certain aspects of the bill that requires a closer scrutiny.

Table 6: Issues related to the bill

Dimension	Description
Incomplete food coverage	The bill provides for distribution of wheat, rice and coarse grains at 3 INR, 2 INR and 1 INR per kg. However, it is silent on the distribution of pulses and oil which are important for nutritional security of the population.
Central government being the supreme authority	The bill gives unlimited powers to the central government on the various aspects of food security in the country including the following: • Cost sharing between the centre and state on scheme serving food security • Entitlements to special groups • Food security allowance and the manner in which it is to be provided • State-wise distribution of foodgrains • Guidelines to identify priority and general households • Rules for district grievance redressal officer • Qualifications, method and terms and conditions of the appointment and powers of the district grievance redressal officer • Designing reforms strategies in PDS • Method of appointment and terms and conditions of various critical posts in the National Food Security Commission • Prices and the manner in which funds shall be provided to state governments
Maternity benefit	The bill as against the NAC framework does not provide monetary support of 1,000 INR per month to pregnant women for six months.
Incomplete coverage of beneficiaries	As against 90% population coverage proposed under the NAC NFSB bill, 2010, the bill proposes to cover only 75% of the population. The proposed National Food Security Bill rests on division of the population into three groups ('priority', 'general' and 'excluded'). However, it does not provide any clarity on how these groups will be identified. The lack of a sound methodology to identify priority households, exclusion errors are likely to be large.
Low food entitlements	As per the NSSO 66th round (July 2009- June 2010), monthly per capita consumption of wheat and rice was 10.24 kg and 8.6 kg in rural and urban areas respectively. In this scenario, the bill has reduced monthly per capita entitlement of foodgrain from 4 kg (NAC bill) to 3 kg for general households transferring substantial burden of food inflation on needy households.
Absence of food utilisation measures	One of the criteria of food security is food utilisation including practices to ensure maximum nutrient intake and retention in the body from food taken. It includes good care and feeding practices, food preparation, health education, etc. The bill does not have provisions to ensure food utilisation such as skilled breastfeeding counselling, optimal infant and young child feeding, out-of-school children nutritional needs, starvation support to pregnant and nursing women, special support to malnourished children and their families, etc.

Global experience

As of 2011, more than 160 countries (including India) have ratified to the International Covenant on Economic, Social and Cultural Rights, 1996 which calls for parties to commit for working towards granting of economic, social and cultural rights to individuals. These rights include the right to an adequate standard of living which consist of the right to food. During the recent years, several countries have passed legislation relating to the right to food to its citizens by making it as social human right in the constitution.

On the food supply and distribution part, countries have been moving towards market-based system (e.g., China) supported by government intervention to provide affordable food to the citizens in high food prices situation.

Way forward

While the current bill marks a right step in ensuring and legalising availability of food for economically weaker segment of the nation, there are some areas where appropriate interventions can further strengthen design and implementation of the bill. These include the following:

- Enhancing the coverage of the food basket from just wheat, rice and coarse grains to pulses and oil to meet nutritional requirement of the vulnerable households.
- Developing a robust methodology for identifying priority households. Given the geographical and income diversity across states, it is difficult to compute realistic unified national criteria which can be applied across all states and districts. Since the state governments are more cognisant of the local factors, they may be given more powers to identify priority and general households. Full-fledged implementation of the 'Aadhaar' scheme can support the identification of priority and beneficiary population.
- Given that the per capita per day food availability has gone down from 203.7 gms (rice) and 160 gms (wheat) in 2000 to 188.4 gms (rice) and 154.7 gms (wheat) in 2009 , it is important to take measures for enhancing food production. Since land is fixed, specific provisions encouraging investment in technology in irrigation, power, fertilizers, seeds and post harvest technology, stable procurement, detailed procurement, storage and movement related interventions should be explored.
- Creating a stable procurement regime and undertaking PDS reforms are other important considerations for ensuring availability of foodgrains. The Expert Committee on NFSB has recommended comprehensive computerisation of the PDS and introduction of smart cards for the beneficiaries as measures to improve distribution of foodgrains.
- Extensive data dissemination for effective monitoring framework to support required policy changes needs to be dwelt upon.

Table 7: Cross-country comparison of the food security dimension

Parameter	Brazil	Mexico	Indonesia	China
Right to food	Constitutional Human Right, 2010	Constitutional Right, 2011	Right to food recognised in its food law	Signatory to the treaty ICESCR
Proportion of undernourishment[14] (2008)%	6	5	13	10
Cash transfers	Conditional cash transfer system exists along with subsidised grains	Conditional cash payment along with subsidised foodgrains	Cash transfers along with subsidised foodgrains for targeted population	Cash transfers has replaced subsidised grains
Food supply availability	The government procures at a guaranteed price from select farmers without a bidding process and supplies to community associations, day care centres, hospitals etc.	-	The National Food Logistics Agency is reorganised into a public corporation 'Perum BULOG' responsible for procurement and supply of safe, quality, stable and affordable major foodgrains	A market-based food supply system exists with the government intervening in case of rise in food prices. Also, each province is mandated to procure a quota grain through various incentives to ensure self-sufficiency.

14. Source: World Development Indicators, 2011

PwC updates

Know our work

Assam Governance and Public Resource Management Sector Development Programme (Subprogramme II)

The Asian Development Bank (ADB) supported the Subprogramme II of the Assam Governance and Public Resource Management Sector Development Programme conceptualised as a back-to-back targeted intervention for strengthening and deepening the reform process initiated under Subprogramme I. The reforms envisaged under Subprogram II were under the following four key areas:

- Strengthening of revenue administration through capacity development and implementation of ICT systems
- Improving expenditure management through implementation of a new pension system and improving estimation methodology for operation and maintenance (O&M) expenditure
- Developing an efficient debt management system to reduce borrowing and debt servicing cost
- Exploring further rationalisation of Public Sector Enterprises (PSEs) and PSE closure relating to compensation and labour rehabilitation

The reforms included a mix of policy level adaptations on the part of the Government of Assam (GoA) and actual implementation of certain key initiatives at the field level. We were involved in providing technical assistance for supporting the reforms. Some of the supported key areas included the following:

- Prepared an action plan to implement the tax information management system(TIMS)
- Prepared a framework based on best practice for the auctioning of country liquor shops
- Supported the GoA in preparing guidelines for outcome-based budgeting
- Prepared a strategy document for sustainable O&M expenditure
- Prepared budgetary estimates for Public Works Department (PWD) (Roads), PWD (Buildings) and Department of Health and Family Welfare(DoHFW) based on such strategy document
- Successful rolled-out and implemented new pension system
- Prepared a debt management policy and manual for the GoA (besides creating a training policy for its debt management unit)
- Provided programme management support with computerisation of land records in 21 districts of the state(i.e., excluding all districts except autonomous councils)
- Supported the GoA to implement pilot sub-registrar's office linked to objective valuation methodology
- Provided closure guidelines on PSE, supporting PSE restructuring through review of the best practices prevalent in India
- Provided guidelines on the valuation of assets

Know our people

Anjan Kumar Roy

Anjan Roy is an advisor with the Public Finance practice of the Government Reforms and Infrastructure Development (GRID) Group at PwC India. He is a fellow of the Institute of Chartered Accountants of India and has industry as well as consulting experience spanning over three decades.

After having started his career with reputed multinational companies where he held senior positions in accounting, financial management and internal audit, Anjan later moved over to consulting through an international project of PwC involving replacement of accounting systems and computerisation in Tanzania, East Africa. He has worked on numerous projects in India as well as South and South East Asia.

His key area of work has been in government financial reforms including institutional strengthening of government entities, public corporations and urban local bodies. He also has extensive experience in the infrastructure sector on conceptualising, structuring and rendering implementation assistance on projects on urban and industrial development. Recently, he has been the CEO of an advisory JV company between Srei Infrastructure Finance and the West Bengal government.

He has been involved in providing thought leadership and technical support in delivery of a large number of donor funded engagements. Some of his recent projects include the following:

- ADB Project Preparatory Technical Assistance (PPTA) on Meghalaya Public Resource Management Development Programme where he was involved in suggesting a public enterprises reform strategy
- ADB PPTA for Himachal Pradesh Urban Development Programme where he is involved as an accounting expert engaged in the study of ULB finances and designing a roadmap for conversion from cash basis to accrual accounting in the state
- Institutional development project in Meghalaya where he is engaged in accounting reforms at Shillong Municipal Board
- PPTA in an eastern state on reform of state finances where he is involved in improvement of public expenditure management practices

Besides, he is also engaged in conducting fiduciary risk assessments on state programmes in the education sector such as the Rashtriya Madhyamik Shiksha Abhiyan and the Sarva Shiksha Abhiyan as well as due diligence studies of national level institutions such as the National Skills Development Corporation on behalf of DFID.

Anjan has a keen interest in travelling, reading and music.

About Us

The Public Finance practice of the Government Reforms and Infrastructure Development (GRID) SBU of PwC India has been working closely with clients in the public sector and at all levels of the government as well as key donors such as Department for International Development (DFID), Asian Development Bank (ADB) and the World Bank.

A large team of full-time dedicated professionals and associates provide services in public expenditure management, revenue administration, budgetary policy development, financial restructuring, performance improvement, institutional strengthening and capacity-building, accounting and financial management systems and human resource development.

We have been providing advisory services to governments, multilateral and private sector clients in the area of public finance. The work has broadly included budget reform, revenue augmentation strategies, automation or computerisation and debt management. Most of these projects included training and capacity-building of government counterparts working with the public finance team on specific modules. In addition, the team has gained traction in the public expenditure and financial accountability (PEFA) and fiduciary risk assessment (FRA) areas with assignments across South Asia.

FRA visit to one of the vocational training centres of the Federation 'Hamaari Drishti' in Gaya district of Bihar supported under the Mahila Samakhya Scheme.

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AK-356 July 2012 PF Newsletter.indd
Designed by: PwC Brand & Communications, India