Union Budget 2005
- An Analysis

The Finance Minister of India presented the first full year budget of the United Progressive Alliance (UPA) Government on February 28th, 2005. The stated ambitions of the UPA include the promotion of economic growth (especially job creating growth), the initiation of a rural employment guarantee scheme as well as a focus on agriculture and infrastructure and ensuring that there is greater and more efficient fiscal devolution. This article attempts to outline the performance of the budget in delivery against these objectives as well as placing the numbers of the budget in the larger context of the economic policy of the government. It suggests that though there have been definite steps forward in health and education, areas including devolution, transparency and job creation have not got the attention that was promised by the UPA.

One of the positive sides of the budget has been the increase in allocations for both education and health under different programmes of the government. The allocation to the Sarva Shiksha Abhiyan is now to be routed through a non-lapsable fund called the

Prarambhik Shiksha Kosh (PSK). The total allocation for SSA this year is at Rs. 7,156 crores (Rs. 71.6 billion). As the provision of a nutritious cooked meal could help to increase attendance, the allocation for the National Programme of Nutritional Support to Primary Education has almost been doubled to nearly Rs. 3,000 crores (Rs. 30 billion). Both these increases have been made possible through the cess levied on all taxes that will fund these programmes. Additionally, the allocation for the Integrated Child Development Scheme (ICDS) has been increased to Rs. 3,142 crores (Rs. 31.4 billion) which will no doubt help the anganwadi centres and the children in these centres. However, it will be interesting to see the Prarambhik Shiksha Kosh (PSK) funds evolution over a period of time.

Students travelling abroad can now gain exemption from tax for all interest accrued for loans taken. However, this is limited to a few fields like science and management leaving out many others including the humanities, law and the social sciences. It is nonetheless beneficial for some students though it might start a selection of ‘marketable’ courses in preference to other courses that are also needed for the country. SC/ ST students undertaking higher education benefit through a grant of tuition fees and expenses if they gain admission to a specified list of institutions. This will help a few individuals who are unable to fund their studies even after gaining admission to these institutions.

A new programme of the government is the National Rural Health Mission to be launched and funded through a cess on tobacco and products including paan, gutkha and cigarettes. The Department of Health and Family Welfare’s allocation is up to Rs. 10,280 crores (Rs. 103 billion) and is likely to go up considerably as soon as the cess for the NRHM is collected and then disbursed in the year 2006-07. However, a simultaneous development that is likely to make healthcare more expensive is the passage of the Patents Bill. While it is not within the scope of this article to address those issues, the regime of patents that are proposed are likely to make pharmaceutical companies considerably richer while increasing the medical bills of ordinary people.

The Finance Minister outlined a whole programme of change called ‘Bharat Nirman’. While the objectives of the programme are no doubt noble, there is practically no extra money going towards it. When compared with the Rs. 5,500 crore (Rs. 55 billion) allocated for the National Urban Renewal Mission, ‘Bharat Nirman’ remains at best an attempt to build castles in the air.

As stated in Bharat Nirman, one of the objectives of Bharat Nirman was to construct 60 lakh (60,00,000) houses for the poor. There is a total allocation of just over Rs. 2,500 crores (Rs. 25 billion) for both the Indira Awas Yojna and the Valmiki Ambedhkar Awas Yojna which are the two housing schemes of the government. This is only marginally above the previous year’s allocation. However, the allocation to HUDCO is increased by over Rs. 1,000 crores (Rs. 10 billion) to Rs. 6,746 crores (Rs. 67 billion). It is ironic that this
expenditure in the Urban Employment and Poverty Alleviation Ministry is not even given an explanatory note on the purpose of allocating so much money to HUDCO which cannot augur well for a more transparent and accountable system. How much of this allocation will then fund housing (especially low income housing) is a separate question.

One of the flagship programmes of the UPA was the Pradhan Mantri Grameen Jal Samvardhan Yojna which was allocated Rs. 200 crores (Rs. 2 billion) to repair, renovate and restore all the water bodies that are directly linked to agriculture in the budget for 2004-05. Since that promise was made, the actual allocation was just Rs. 5 crores (Rs. 50 million). This year’s budget has subsequently reduced the allocation to zero. The onus for this programme has apparently been shifted to the state governments. Similarly, the promise to increase micro-irrigation gets a funding of just Rs. 400 crores (Rs. 4 billion) (at slightly over Rs. 1000 per acre). How the finance minister plans to create micro-irrigation schemes at that price is really anybody’s guess.

When the dramatic increase of the last budget took place for the defence forces, it was stated that it was to fund long pending capital goods purchases. However, the expenditure this year has been increased by 7.8% this year and again; it is stated to be for capital good purchases. The need for money for the defence forces is not in doubt. However, the repeated omissions and errors pointed out by the Comptroller and Auditor General, especially in defence spending means that there is a greater need for more transparency in defence expenditure without compromising the security of the country.

Another worrying feature of the budget has been the use of special purpose vehicles (SPVs) with or without the levy of a cess. The reason given often is that it will improve performance as budgets get linked with performance. However, one immediate negative outcome of these SPVs including the Rs. 10,000 crore (Rs. 100 billion) fund for

infrastructure take away power from local (and sometimes state) governments and give this to para-statal bodies. In addition, such moves do not do anything to address systematic failures of the system through better governance practices. Even the levy of a cess (instead of an allocation from tax receipts) for education and health reflect an inability of the government and more broadly civil society to prioritise human development, necessitating the use of special instruments that will fund this sector. Similarly the Rs. 5,500 crores (Rs. 55 billion) for the National
Urban Renewal Mission is to be routed through non- elected para-statals or SPVs like the Bangalore Metro and the Mumbai Trans Harbour link. The effects of the lack of transparency in decision making in these projects will only be felt later if they turn out to be financial white elephants.

Another example is the National Highways Development Programme, which is given an allocation for Rs. 9,230 crores (Rs. 92 billion). This programme like many others, uses the SPV route, bypassing the state and the local government, using a fairly heavy top down approach to the development of the road network. While the Highways Development Programme funded through a cess on petrol and diesel gets some money, the largest payer of this cess (the Indian Railways) gets just Rs. 400 crores for the construction of road and rail bridges. The wisdom currently seems to promote road based transport, which is generally used by the people of the higher income groups. Expanding the definition of highways to include high-speed railways would certainly help to improve both access and reach of travel to the lower strata of society.

The Finance Minister has made a promise to increase the financing of the National Rural Employment Guarantee Scheme. However, when one looks through the numbers, there is actually a fall in the allocation for Sampoorna Gramin Rozgar Yojna (SGRY) by nearly Rs. 1,000 crores (Rs. 10 billion). It is compensated by a provision of Rs. 5,400 crores (Rs. 54 billion) allocation for the National Food for Work scheme, but it remains a question whether this allocation is just a method to offload the surplus food stocks at the Food Corporation of India godowns. The experience of Maharastra, which increased employment through a Food for Work Horticulture Programme, has not been used with a small allocation of Rs. 630 crores (Rs. 6 billion) for the National Horticulture Mission.

The budget also makes a few assumptions regarding the readiness of different layers of government to accept and manage funds. Though local governments are gradually getting more funds through devolution and other schemes including the National Rural Employment Guarantee Act, very little is allocated for capacity building. The lack of funding for education and training will ensure that the non-elected programme officer will continue to wield considerable powers while the Gram Panchayat remains fairly toothless. In addition, in the case of poor application of funds, the strident calls for reduction of government is likely to get louder when such a situation could have been anticipated and dealt with earlier.

While the budget makes a lot of noise about the poor and the marginalized, apart from the education and health, there is very little cheer for the development sector. It seems that the finance minister has paid lip service to development while allocating money quite liberally to other areas including urban renewal and infrastructure which are no doubt needed but do not help to create as many jobs as a Rural Employment Guarantee Scheme or provide relief through a Comprehensive Irrigation Scheme. It is essential as some say, to put the money where the mouth is…..

Jacob John, FMSF

Charitable Institutions and Trusts exempted from the Fringe Benefit Tax

The Finance Minister Mr.P.Chidambaram had proposed Fringe Benefit Tax in the Finance Bill 2005 which aimed to tax certain expenses incurred or payments made by the employer for the employees or to the employees in the hands of the employer.

We had circulated a mail to many voluntary organisations about the adverse impact it can have on the functioning of the voluntary organisations if they will be subject to this tax.

We had also shared a copy of the letter by FMSF written to the Finance Minister drawing his attention to the concern of the sector and requesting him to exempt voluntary organisations from the ambit of Fringe Benefit Tax. Many of you had also written to the Finance Minister in the above lines.

We are happy to inform that the Finance Minister has accepted this request of the Voluntary Sector and has announced on May 2, 2005 that the Charitable Institutions and Trusts will be exempt from the Fringe Benefit Tax.