# UNIT 11 FINANCIAL MANAGEMENT

**Structure**



## 11.0 LEARNING OUTCOME

After going through this Unit, you should be able to:

- Understand the scope and significance of financial management
- Explain the concept and preparation of budget
- Examine the process of legislation of budget
- Highlight the important approaches to budgeting
- Appraise the budgetary control systems
- Appreciate the importance of resource mobilisation and management
- Bring out important features of the public debt management; and

- Discuss the role of the Ministry of Finance, the Planning Commission and the Finance Commission in financial management

## 11.1 INTRODUCTION

Finance is the lifeblood of all monetised socio-economic formations. Financial management relates to the system, which generates, regulates, and distributes monetary resources needed for the sustenance and growth of organisations. Financial management is an important component of public systems management. It plays an integrating role amongst the various functions of sales, production, plant utilisation, etc., especially in the case of business enterprise, to generate information relevant for management decision-making. Financial management assumes great significance for every government, as most of its activities have a financial bearing. It is primarily related to the question as to how the limited resources can be utilised to the utmost and to achieve the maximum of national objectives.

In this Unit, we shall attempt to acquaint you with the basic elements of Indian financial management system. The important aspects of resource mobilisation and management are highlighted. Also the different approaches to budgeting shall be analysed. The important concept of budgetary control shall be dealt with. It orients you with important policies and instruments of public debt management. The role of the Ministry of Finance, Finance Commission and Planning Commission in financial management is highlighted.

## 11.2 BUDGET: CONCEPT AND PREPARATION

A budget is a statement that provides a forecast of revenues and expenditures generally for a period of one year. It reflects the activities of the government, and allocation of resources.

The term budget is derived from the French word 'Baguette' which means a small leather bag or pouch. It includes:

a) a review of the revenues collected, expenditures incurred and changes in the composition of the national debt and other matters during the fiscal year which has immediately preceded the time when the budget is presented;

b) an estimate of expenditure during the forthcoming year and the extent to which it is expected to be covered at the existing tax rate; and

c) proposals for such changes of tax remissions or increase as may be required to balance the expenditure.

**Preparation of the Budget**

Preparation of the budget involves considerable efforts on the part of the Ministry of Finance, Government of India. It is sometime in the month of September every year that the Budget division of the Department of Economic Affairs of the Ministry of Finance sends a circular to various ministries/departments, requesting them to prepare estimates of expenditure to be incurred by them in the following year. With the help of their financial advisers, individual ministries/departments formulate their spending plans on the basis of their previous year spending and the new schemes and projects, which they intend to take up. These estimates of expenditure are furnished to the Ministry of Finance during December/ January for screening and integrating into the main budget.

The Finance Ministry, after having scrutinised the estimates, embarks upon the process of compilation and coordination of estimates of expenditure of different ministries/departments. It may prune excessive demands because there are limits to financial resources available to the government. Before the expenditure estimates are finalised, discussions take place between the Secretary (Expenditure), Ministry of Finance, and the financial advisers of the ministries/departments concerned. However the ministry has the final say in regard to all estimates.

The estimates of plan outlay are scrutinised by the Planning Commission.The estimates of revenue are prepared by the Department of Revenue, Ministry of Finance. The department remains equipped with records of yields of various taxes for previous years and on that basis it prepares estimates for the ensuing year. During this period, the Finance Minister remains in close touch with the Secretaries of revenue, expenditure, and economic affairs in the Ministry of Finance. The budget proposals prepared by the Ministry are examined by the Finance Minister and changes are made in them in consultation with the Prime Minister. The President is also shown the budget. Similarly the Finance Minister briefs the cabinet about the budget shortly before it is presented to Parliament.

## 11.3 LEGISLATION OF THE BUDGET

Once the budget is prepared, it has to pass through the following stages in the Parliament a) presentation of the budget by the finance minister in both the houses of Parliament, (b) general discussion on revenue and expenditure proposals, (c) presentation of demands for grants, and (d) voting and passing of the Appropriation and Finance Bills.

### 11.3.1 Presentation of Budget

The budget is presented to Lok Sabha in two parts, namely, Railway Budget, pertaining to Railway finance and the General Budget giving an overall picture of the financial position of the Government of India, excluding Railways.

The Railway Budget is presented to the Lok Sabha by the Railway Minister each year sometime in the third week of February. The General Budget is presented to the Lok Sabha by the Finance Minister on the last working day of February each year. In an election year, budgets may be presented twice-first to secure a Vote on Account for a few months and later in full.

While presenting the budget, the Finance Minister delivers the budget speech and lays on the table, the annual financial statement duly authenticated by him. There is no discussion on the budget at that time. Simultaneously, with the presentation of the budget in the Lok Sabha, a copy thereof is laid on the table of the Rajya Sabha. Immediately after the presentation of the General Budget, the Finance Minister introduces in the Lok Sabha, the Finance Bill to give effect to the tax proposals of the Government of India for the following financial year. The bill contains proposals of the government for levy of new taxes, modifications of the existing tax structure or continuance of the existing tax structure beyond the period approved by Parliament.

No discussion on the budget takes place on the day it is presented to the house. Budgets are discussed in two stages- the general discussion followed by detailed discussion and voting on the demand for grants.

After the presentation of the budget by the Finance Minister, the Speaker may allot time for general discussion on the budget. During the general discussion, the house is at liberty to discuss the budget as a whole or any question or principle involved therein, but no motion can be moved.

After the general discussion of the budget is over, the House is adjourned for a fixed period. During this period, the demands for grants of the ministries/departments are considered by the departmentally related standing committees. These committees are required to present their reports to the House within a specified period and make special report on the demands for grants of each ministry.

The demands for grants are not formally presented or laid on the table of the Lok Sabha. These form part of the budget papers and are distributed to members along with the budget documents. A separate demand is ordinarily made in respect of the grant proposed for each ministry/department. The Finance Minister may however include in one demand, grant proposed for two or more ministries or departments or make a demand in respect of expenditure, which cannot readily be classified under a particular ministry. One ministry/department may present more than one demand.

### 11.3.2 Discussion on Demands for Grants

After the presentation of the budget, the Minister of Parliamentary Affairs holds a meeting of the leaders of parties/ groups in Lok Sabha for the selection of ministries/departments, whose demands for grants might be discussed in the House. On the basis of decisions arrived at this meeting, the government forwards the proposals for the consideration of the Business Advisory Committee. The Business Advisory Committee after considering the proposals allots time and also recommends the order in which the demands might be discussed. After the allotment of time by the Business Advisory Committee, a time-table showing the dates on and the order in which the demands for grants of various ministries would be taken up in the House is published for the information of the members.

After the reports of the Standing Committees are presented to the House, the House proceeds to the discussion and voting on demands for grants, ministry-wise. The scope of the discussion at this stage is confined to a matter under the administrative control of the ministry and to each head of demand as is put to the vote of the House. It is open to members to disapprove a policy pursued by a particular ministry or to suggest measures for economy in the administration of that ministry or to focus attention of the ministry to specific local grievances. At this stage, cut motions can be moved to reduce any demand for grant but no amendments to a motion seeking to reduce any demand is permissible. The motions to reduce the amounts of demands for grants are called cut motions. The object of a cut motion is to draw the attention of the house to the matter specified therein. The cut motions are normally tabled by the members of the opposition

**Guillotine**

On the last of the allotted days for the discussion and voting on demands for grants, at the appointed time the Speaker puts every question necessary to dispose of all the outstanding matters in connection with the demands for grants. This is known as guillotine. The guillotine concludes the discussion on demands for grants.

**Vote on Account**

The whole process of budget beginning with the presentation and ending with discussion and voting of demands for grants and passing of appropriation bill and finance bill generally goes beyond the current financial year. Hence, a provision has been made in the Constitution empowering the Lok Sabha to make any grant in advance through a vote on account to enable the government to carry on until the voting of demands for grants and the passing of the Appropriation Bill and Finance Bill.

Normally the vote on account is taken for two months for a sum equivalent to one-sixth of the estimated expenditure for the entire year under various demands for grants.

Vote on account is passed by Lok Sabha after the general discussion on the budget is over and before the discussion of demands for grants is taken up.

**Supplementary and Excess Demands for Grants**

If the amount authorised to be expended for a particular service for the current financial year is found to be insufficient for the purpose of that year, or when a need has arisen during the current financial year for supplementary or additional expenditure upon some new service not contemplated in the budget for that year, the President causes to be laid before both the Houses of Parliament, another statement showing the estimated amount of that expenditure.

If any money has been spent on any service in a financial year in excess of the amount granted for the service for that year, the President causes to be presented to Lok Sabha a demand for such excess. All cases involving such excesses are brought to the notice of Parliament by the Comptroller and Auditor General through his report on the appropriation accounts. The excesses are examined by the Public Accounts Committee, which makes recommendations regarding their regularisation in its report to the House.

The supplementary demands for grants are presented and passed by the House before the end of the financial year, while the demands for excess grants are made after the expenditure has been incurred and after the financial year to which it relates, has expired.

### 11.3.3 Appropriation Bill

After the demands for grants have been passed by the House, a bill to provide for the appropriation out of the Consolidated Fund of India of all moneys required to meet the grants and the expenditure charged on the Consolidated Fund of India is introduced, considered and passed. The introduction of such a bill cannot be opposed. The scope of discussion is limited to matters of public importance or administrative policy implied in the grants covered by the bill and which have not already been raised during the discussion on demands for grants.

No amendment can be proposed to an appropriation bill, which will have the effect of varying the amount or altering the destination of any grant so made or of varying the amount of any expenditure charged on the Consolidated Fund of India.

### 11.3.4 Finance Bill

The Finance Bill is introduced in the Lok Sabha immediately after the general budget is presented to the Lok Sabha by the finance minister. The introduction of this bill also cannot be opposed. The scope of discussion on the this bill is vast and members can discuss any action of the Government of India. The whole administration comes under review.

The Finance Bill seeks to give effect to the financial proposals of the government of India for the next financial year. It also includes a bill to give effect to supplementary financial proposals for any period.

It submits to the jurisdiction of the House all the Acts, with which it deals, i.e., the Income Tax Act, Central Excise and Salt Act etc. and the House can amend all or any such acts to the extent they are dealt with in the bill. The procedure in respect of Finance Bill is the same as in the case of other money bills.

## 11.4 APPROACHES TO BUDGETING

The budget is not only a statement of income and expenditure but is a plan of action for the year ahead that indicates programmes, activities etc. over time. The approach towards budgeting in a traditional sense is changing with emphasis on performance. Some of them include planning and programming budgeting, performance budgeting, zero-based budgeting and outcome-based budgeting. We shall now be discussing the key features of these approaches.

### 11.4.1 Planning Programming and Budgeting System

Planning Programming and Budgeting System (PPBS) is primarily a system to help decision makers allocate resources.

Planning refers to the definition of missions, goals and objectives, the identification and evaluation of alternatives and the choices among the alternatives. Programming refers to the link between planning and budgeting. It involves the documentation of decision on resources required and outputs to be achieved, scheduled over the years involved in the planning period and the accompanying information and documentation systems.

Budgeting refers to the process of translating the decisions in the long-range-planning format to the annual budget format with the more precise measures of inputs, price tags and outputs, which are possible and necessary when one is looking only one year ahead.

This approach to budgeting emphasises the important fact that planning, programming and budgeting are inter-related to each other and together constitute a system. This implies that budgeting cannot stand in isolation. The technique of performance budgeting attempts to assess the effectiveness of each of the programme/activity with reference to output. It therefore involves the development of more refined tools such as work measurement, performance standards, unit cost, etc.

### 11.4.2 Performance Budgeting

According to the concept of performance budgeting, the annual budget is in essence, a work plan specifying the programme targets to be achieved by the agency concerned during the financial year. It emphasises the purposes for which funds are provided. It correlates the physical and financial aspects of each programme and activity, by establishing a proper relationship between outputs and the corresponding inputs.

The main purposes sought to be achieved by performance budgeting are to:

1. Establish a correlation of the physical and financial aspects of every programme and activity.
2. Improve budget formulation, review decision making at all levels of management in government.
3. Facilitate better appreciation and review of legislature.
4. Make possible effective performance audit.
5. Measure progress towards long-term objectives as envisaged in the plan.
6. Integrate budgets and development plans.

**Development of Performance Budgeting in India**

In India, the Estimates Committee of Parliament made a suggestion in 1954 to introduce performance budgeting on the basis of success of the operation of performance budgeting in U.S.A. The Administrative Reforms Committee (ARC) in its report titled " Finance, Accounts and Audit", recommended to the government that starting with the 1969-70 budget, performance budgeting should be introduced in all departments and organisations of the government, which are in direct charge of development programmes.

The recommendations of the ARC for the introduction of performance budgeting were accepted by the Government of India which started introducing it gradually in more and more of its developmental departments with the budget for 1969-70 onwards. The position by now is that almost all the departments of Government of India prepare performance budgets every year and submit them to parliament. On the recommendations of the central government, all the state governments also prepare performance budgets for development departments and submit the documents to the legislature.

**Elements of Performance Budgeting**

**I. Formulation of objectives**

Since the budget is an annual plan of action, it is necessary to spell out the objectives in concrete and specific terms. The objectives should be formulated in such a way that should help in evolving suitable programmes/activities.

**II. Programme/activity classification**

A functional classification of the budget is necessary under a system of performance budgeting. By functional classification, it is meant that the budget presentation of public expenditure will be in terms of functions, programmes, activities and projects.

**III. Norms/ Standards**

Performance budgeting establishes the correlation between the physical and financial aspects of each programme and activity. It is therefore essential to set physical targets for accomplishment in respect of each programme/activity to enable working of corresponding financial estimates for incorporation in the budget.

Performance budgeting envisages development of suitable work-measurement units, norms, yardsticks and other performance indicators for measuring the physical quantum of work to be done or services to be rendered. Appropriate norms and standards supported by adequate data reduce subjectivity and increase objectivity in the framing of budget estimates.

**IV. Accounting Structure**

In order to operationalise the scheme of performance budgeting, it is essential that the concept is also built into the structure of accounts. It is necessary, therefore, that the budget classification in terms of functions, programmes, activities and projects is supported by a similar classification in accounts.

**V. Decentralised Responsibility Structure**

For the preparation of a performance budget, broad guidelines need to be framed at the top level. These should include directions regarding the objectives to be achieved and the resources availability. Within the framework of these guidelines, detailed budget estimates are to be prepared at various responsibility levels and coordinated upwards.

**VI. Review of Performance**

Measurement of actual performance both in physical and financial terms in relation to the budgeted plan are an important aspect of a performance budget. When information regarding physical accomplishments and finances is put together in terms of various responsibility centres, for a period under consideration, a picture of actual performance in terms of physical accomplishments and its related costs would emerge. The actual performance from the accounting information system can then be compared with the budgeted plan.

To conclude, performance budgeting is a management tool. This can be used in government successfully if norms and standards are developed for all levels of operations.

### 11.4.3 Zero Based Budgeting

Zero Based Budgeting (ZBB) requires that organisations, while preparing their budgets, should not take earlier year's expenditure for granted and therefore should start on a clean slate. It implies that the activities of an organisation should be viewed afresh and priorities among competing claims for allocation of funds settled on the basis of justifications developed by the use of evaluating techniques, like cost benefit analysis.

ZBB aims at eliminating redundant expenditure in organisations. To achieve this, it adopts four approaches.

The first objective, is the elimination of redundant expenditure, which is not serving any clearly stated purpose in an organisation.

Secondly, it attempts to identify and remove duplication of expenditure as over time the same activity may be carried out by a number of agencies of the same organisation.

Thirdly, it involves searching for a better alternatives (For instance solar equipment may be a better alternative to an electric gadget) for incurring expenditure to achieve an established objective.

The fourth objective, is to optimise expenditure by making it productive and efficient. This requires application of performance budgeting.

The Government of India adopted ZBB approach with effect from the budget of 1978-88. The Budget Division of the Ministry of Finance has been requesting the ministries / departments, since the introduction of ZBB, through their budget circular every year for adopting the principles of ZBB for expenditure estimates.

**Steps involved in ZBB**

The methodology employed in ZBB involves:

**I. Identification of Decision Units**

A decision unit is a distinct segment of an organisation for which budget is prepared. It can be a programme, scheme, project or an operation.

**II Formulation and Development of Decision Packages**

According ZBB, the budget of a decision unit has to be prepared in terms of decision packages, which contain the following:

- A description of the function or activity of the decision unit
- The goals and objectives of the various functions/ activities of the unit
- Benefits to be derived from financing the activity/programme
- Relevance of the activity/programme to the overall objectives of the organisation/department in the present context
- The consequences of its non-funding
- The projected/estimated cost of the package

- The yearly phasing of the proposed expenditure/project cost
- Alternative ways of performing the same activity or achieving the same objectives.

**III. Evaluating and ranking decision packages in order of priority**

ZBB requires that the manager-in-charge of the decision unit should rank the decision packages in order of priority. There are various methods followed in ranking decision packages, such as judgement approach, committee system, standardised formula, single criterion approach, etc. The available resources are allocated among the various decision packages, according to prioritisation established in terms of their ranking.

**IV. Preparation of Budget by Allocating Resources to Activities or Decision Packages by Utilising Hierarchical Funding Cut-Off Levels**

ZBB requires that the available fund should be allocated in accordance with the ranking of decision packages as finally settled by the top decision unit in the hierarchy of decision units. In a situation of resource crunch, i.e., if funds available are not adequate to cover all the decision packages, a cut-off level is determined and the decision-packages figuring above are financed and those falling below the cut-off level are not allocated funds.

The cut-off level is moved upwards or downwards in the event of any revision in the availability of funds.

**Problems in the implementation of ZBB**

A major factor contributing to the failure of ZBB has been too much paper work involved in the process. Also the reviews and analysis required to be carried out could not be handled within the normal cycle of budget process spread over a few months.

The second problem in the implementation of ZBB is the non-availability of trained personnel fully aware of the concept, who can make an analysis of expenditure by applying cost-benefit analysis and other techniques.

The third problem is redeployment of resources, like manpower, material, machinery and equipment, which become surplus, when a scheme or activity is found redundant and has therefore to be eliminated. Redeploying manpower is a very difficult and delicate issue.

In brief, ZBB is a useful system for exercising control over expenditure. Its utility can hardly be overemphasised in a situation of resources crunch. Any progressive organisation would find it useful for ensuring effectiveness, efficiency and economy of expenditure.

### 11.4.4 Outcome-based Budgeting

In USA, a recent trend in government budgeting is to link the money spent on each program to its return in terms of impact of each public policy. This type of budgeting links budget with performance measurement system.

For example in Catawba country, North Carolina, local officials used this to enhance their government's system of service delivery. The country in the past few years had experienced limited growth in revenues; yet during this time the call for human services continued to rise. County leadership responded by handling decision making authority to agency administrators challenging them to reduce costs while more effectively meeting citizen demands. Those who achieved 90 per cent of their goals would be able to apply their savings to unrestricted needs. Catawba county administrators embarked on a citizen-driven, outcome-based system of budgeting to ensure that resources were targeted to meet specific community goals. Over time, they not only saved money but also enhanced government responsiveness (Denhardt and Grubb, 2003)

In Indian financial system, in its first-ever budgetary exercise aimed at gauging the quality of implementation,the Finance Minister recently presented an "Outcome Budget"in the Parliament.It is a compilation of the intended and anticipated outcomes as identified by 44 ministries and their respective departments,sought to be achieved through allocations made in the budget for the current financial year(The Hindu,2005).

## 11.5 BUDGETARY CONTROL

Effective financial management needs control systems to ensure that amounts are spent properly on activities specified for. The financial management of a country is the responsibility of legislature, executive, and machinery entrusted with accounts and audit and Parliamentary Committees. The budgetary control is exercised to ensure that the money voted by the Parliament/Legislature have been utilised for the purpose and manner in which it was passed by the Parliament. This budgetary control in India is exercised by the Comptroller and Auditor General of India (C&AG), Controller General of Accounts and Parliamentary Finance Committees. Since Parliament/Legislature has an important role in effective financial management, to enable it exercise budgetary control, these financial committees have been set up in India. We shall be discussing these aspects in this section.

### 11.5.1 Auditing of Accounts

In October 1976, an organisation named Controller-General of Accounts (CGA) was set up to administer matters pertaining to the departmentalisation of accounts of the Union Government. This organisation, which works as part of the Ministry of Finance performs, inter-alia, the following main functions:

a) Prescribing the form of accounts relating to the Union and State Governments

b) Laying down accounting procedures

c) Overseeing the maintenance of adequate standards of accounting by Central Accounts Offices

d) Consolidation of the monthly and annual accounts of the Government of India; and

e) The administration of rules under Article 283 of the Constitution relating to the custody of the Consolidated Fund of India, the Contingency Fund, and the Public Account.

The CGA prepares a condensed form of the Appropriation Accounts and the Finance Accounts of the Union Government.

The preparation of accounts by CGA is not enough. It is necessary to verify the accuracy and completeness of the accounts and to ensure that the expenditure incurred has been sanctioned by the Parliament and that it has taken place in conformity with the rules sanctioned by the Parliament. Thus, the Comptroller and Auditor General of India (C&AG), audits the accounts prepared by CGA. The audited accounts are placed on the table of both the Houses of Parliament along with the C&AG report. The C&AG is responsible for auditing all expenditure of the Central and State Governments and submitting his audit reports to the President or the Governor for being placed before the appropriate legislature. The report of the C&AG amounts to the issuance of a ‘certificate’. The ‘observations’ of the C&AG summarise the objections and irregularities in relation to voted and charged expenditures in the budget.

Article 149 of the Constitution prescribes duties and powers of the C&AG. Under Article 150, the C&AG is required to prescribe the format in which the accounts of the union and the states are to be kept. Similarly, Article 151 requires the C&AG to present reports relating to the accounts of the union and the states.

The C&AG performs such duties and exercises such powers in relation to the accounts of the union and states as may be prescribed by the Parliament. In exercise of this power, the Parliament enacted the Comptroller and Auditor-General’s (Duties, Powers, and Conditions of Service) Act, 1971, which after amendment in 1976 relieved him of his duty to prepare the accounts of the union. The other important provisions relating to his duties are as follows:

a) To audit and report on all expenditure from the Consolidated Fund of India and of each state as to whether such expenditure has been in accordance with the law,

b) To audit and report on all expenditure from the Contingency Fund and the Public Account of the union and of the states, and

c) To audit and report on all trading, manufacturing, and profit and loss accounts kept by any department of the union or a state.

Constitutional provisions have safeguarded the independence and freedom of the Comptroller and Auditor-General and have placed him beyond political influences. Though appointed by the President, C&AG may be removed on an address from both the House of Parliament on grounds of ‘proved misbehaviour’ or ‘incapacity’. His / her salary and conditions of service are statutory, i.e. as laid down by the Parliament by law and are not liable to variations to his/her disadvantage during his/her term office.

Thus, the audit department scrutinises, independently and fearlessly, the expenditure incurred by the governments and seeks to ensure that expenditure is not irregularly and wastefully incurred. In this manner, it assists the legislature in exercising financial control over the executive.

### 11.5.2 Parliamentary Control over the Budget

The Parliament exercises control over both receipts and expenditure of the central government. By passing finance and appropriation bills, the Parliament authorises the government to collect revenues and spend money. However, the authority of the Parliament is not limited only to sanctioning appropriations. Rather, it has the means to ensure that the appropriations have been applied towards the purposes approved and within the limits imposed. For the sake of this completeness of legislative control, the Parliament constitutes its three financial committees, viz., the Public Accounts Committee, the Estimates Committee, and the Committee on Public Undertakings.

**Public Accounts Committee**

After the report of the Comptroller and Auditor General is laid before the Parliament, it is examined by the Public Accounts Committee. It is a parliamentary committee with a non-official chairman appointed by the Speaker from amongst the members elected to the Committee. The committee consists of 22 members: 15 members elected by the Lok Sabha and 7 members from the Rajya Sabha, every year. To ensure that each party/ group is represented on the committee, the election is held on the basis of proportional representation system by means of single transferable vote. The term of office of the members of the committee is one year.

Being an all party committee, it scrutinises the accounts and audit reports prepared by the C&AG to satisfy that

a) the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose for which they have been applied or charged,

b) the expenditure conforms to the authority which governs it; and

c) every re-appropriation has been made in this behalf under the rules framed by a competent authority.

The committee also examines two reports of the C&AG on revenue receipts: one relating to direct taxes, and other pertaining to the indirect taxes. While scrutinising these reports, it examines cases involving under-assessments, tax evasion, and also identifies loopholes in tax laws and procedures, and makes recommendations to plug leakages of revenue.

Though normally the committee confines itself to matters contained in audit reports, it can of its own accord enquiry into irregularities which may be brought to its notice or which become of wider public interest. The committee, however, does not examine the accounts relating to such public undertakings as are allotted to the Committee on Public Undertakings.

Since the work of the committee is normally confined to the various matters referred to in the audit reports and appropriations accounts, its functions start only after these reports and accounts are laid on the table of the House. In view of the time constraint, the committee selects important paragraphs from these reports for examination during its term of office. A number of working groups are constituted by the chairman from amongst the members of the committee for detailed examination of the subjects selected by the committee and for considering procedural matters. A sub-committee is also constituted for scrutiny of the action taken by the government on the recommendations contained in the previous reports of the committee.

The committee calls for advance information from the ministries/ departments with regard to subjects selected by it for examination. It may also undertake on-the-spot study tours of various departments connected with the subjects taken up for examination. For this purpose, members of the committee are divided into study groups and each study tour is undertaken with the specific approval of the Speaker.

One of the important functions of the committee is to find out whether any money has been spent on a service in excess of the amount granted by the House for the purpose. If so, the committee examines the same with reference to the facts of each case, and the circumstances leading to such excess expenditure. Such excess expenditures are brought up before the House by the government for regularisation in the manner prescribed in Article 115 of the Constitution. Similarly, the findings of the Committee on a subject are contained in its report, which is presented by the chairman of the committee to the Lok Sabha so that the irregularities noticed are discussed and remedial steps taken thereof. A copy of the report is also laid on the table of the Rajya Sabha. After presentation to the Lok Sabha, the report is forwarded to the Ministry/ Department concerned which is required to take action on the findings/recommendations contained in the report and furnish action taken replies thereon within six months. Action taken notes received from the Ministries/Departments are examined by the Action Taken Sub-Committee. The action taken reports of the Committee are presented to the House. Furthermore, reports received from the government in respect of recommendations contained in the Action Taken Reports are also laid on the table of the House in the form of statements.

**Estimates Committee**

To suggest economy and efficiency in public expenditure, the Lok Sabha constitutes the Estimates Committee every year. The first such committee was constituted in the year 1950. The members of the committee are elected every year from amongst the members of the Lok Sabha according to the principle of proportional representation by means of single transferable vote. Initially the committee consisted of 25 members but from the year 1956-57, the membership was raised to 30 to facilitate the constitution of sub-committees and study groups for taking up intensive examination of various estimates. The Chairman of the committee is appointed by the Speaker from amongst the members of the Lok Sabha elected to the Committee. The term of office of the members of the committee is one year.

The purpose of the Estimates Committee is to ensure that public expenditure is incurred in a judicious manner and that the objectives underlying the plans and schemes are effectively achieved. In a sense, it is a mechanism to extend parliamentary control over government expenditure beyond the granting of appropriations. Thus the committee examines in detail, the estimates presented to the House, makes appraisals of the plans and programmes, and reviews the performance of public expenditure in various fields. In view of these objectives, it has to discharge the following responsibilities:

a) Report what economies, improvements in organisational efficiency, or administrative reforms consistent with the policy underlying the estimates, may be effected

b) Suggest alternative policies in order to bring about efficiency and economy in administration

c) Examine whether the money is well laid out within the limits of the policy implied in the estimates; and

d) Suggest the form in which the estimate shall be presented to the Parliament.

The public undertakings allotted to the Committee on Public Undertakings are outside the purview of the Estimates Committee.

The scrutiny by the committee of the estimates for the various ministries/departments is a continuing exercise throughout the financial year and the committee reports to the House as its scrutiny proceeds. It is not incumbent on the committee to examine the entire estimates of the union government in its term of one year. Therefore, it takes up only selected subjects for examination which are of current importance or which it may consider necessary to bring to the notice of the House. The subjects selected by the committee are widely publicised in newspapers, and experts and the general public are invited to send memoranda to the committee giving their views and suggestions on these subjects.

A number of study groups are constituted by the chairman from amongst the members of the committee for detailed scrutiny of the subjects selected by the committee. The committee calls for preliminary material from ministries/departments concerned in regard to the subjects selected by it for scrutiny and it also undertakes on-the-spot study tours, with specific approval of the Speaker, of various institutions/organisations connected with the subjects taken up for examination. The findings of the committee on a subject are contained in its report, which is presented by the chairman to the Lok Sabha. After presentation to the Lok Sabha, the report is forwarded to the ministry/department concerned which is required to take action on the recommendations contained in the report and furnish Action Taken Replies within six months. The Action Taken Notes received from the ministries/departments are examined by the Action Taken Study Group. The Action Taken Reports of the Committee are, in turn, presented to the House. Replies received from the government in respect of the recommendations contained in the Action Taken Reports are laid on the table of the Lok Sabha in the form of statements.

**Committee on Public Undertakings**

In the wake of Industrial Policy Resolution of 1948 and the subsequent five year plans, public sector in India has grown tremendously. Industries of basic and strategic importance and of public utility are mostly under the ownership and control of the government. Unlike Railways and Posts and Telegraphs, which are departmental undertakings, most of the public sector undertakings are statutory corporations or government companies enjoying autonomy and flexibility in their day-to-day operations. This freedom from the usual red tapism of government procedures is necessary to ensure their smooth and efficient working in a business-like manner.

Soon after the commencement of the Constitution in 1950, there grew a demand for a separate parliamentary committee to review the working of public undertakings, which were being financed from out of the Consolidated Fund of India. After a long debate, the Committee was ultimately set up in 1964. The Committee on Public Undertakings consists of 22 members: 15 elected by the Lok Sabha and 7 by Rajya Sabha from amongst their members according to the principle of proportional representation by means of single transferable vote. The chairman of the committee is appointed by the Speaker from amongst the members of the Lok Sabha elected to the committee. The term of office of the members of the committee is one year.

This committee is charged with the task of scrutinising the reports and accounts of public undertakings, the reports of the CAG on such undertakings, and to suggest economies, improvements in organisation/management and production that could be effected in various undertakings. Keeping in mind issues of current interest regarding public sector, the committee selects for detailed examination such undertakings as it may deem fit. It pays particular attention to those undertakings, which come under a cloud in the audit reports of the CAG. The committee may also examine such subjects or matters of major government policy as distinct from business or commercial functions of public undertakings.

A number of study groups are constituted by the chairman from amongst members of the committee for carrying out detailed examination of various subjects selected by the committee. It calls for preliminary material from the ministries/ public undertakings regarding the working of public undertakings selected for examination. The committee may also call for memoranda on the subject under examination from non-official organisations, individuals' etc. who are knowledgeable in the subject under examination by the committee. It may also undertake on-the-spot study tours of various public undertakings connected with the subjects taken up for examination.

The findings of the committee on a subject are contained in its report, which is presented by the Chairman to the Lok Sabha. A copy of the report is also laid on the table of the Rajya Sabha. After presentation to the Lok Sabha, the report is forwarded to the ministry/department concerned which is required to take action on the recommendations contained in the report and furnish Action Taken Replies thereon within six months. These replies are examined by the Action Taken Sub-Committee, and the Action Taken Reports of the Committee are presented to the House.The replies received from government in respect of recommendations contained in the Action Taken Reports are also laid on the table of the house in the form of statements.

## 11.6 RESOURCE MOBILISATION AND MANAGEMENT

Financial management of the government can be viewed in two main components, namely, budgeting and financial control. India has faced persistent fiscal problems for over a decade. The revenue expenditure of government has lagged below revenue receipts of government, resulting in large fiscal deficits. Large revenue deficits have been a recurring feature year after year. Despite energetic efforts by a series of governments, the revenue deficit worsened from 3.3 per cent of GDP in 1990-91 to 4.4 per cent of GDP in 2002-03.

A government that has a revenue deficit is taking debt in order to finance current (revenue) expenses. This recurrent bond issuance has led to a substantial build-up of debt and interest payments have risen in enormous proportions. In 2000-01 and 2001-02, more than half of the revenue receipts of the government were used up in merely paying interest on the accumulated debt. In the 2004-05 budget presented on 8 July, 2004, an enormous sum of Rs.129,500 crore was required to merely pay interest on this accumulated debt. If India had prudent fiscal policies, this expenditure could have found alternative uses.

Various efforts have been made by the government during the recent past to reduce fiscal deficit. While presenting the Budget for 1999-2000, the then Minister for Finance had observed that the high rate of growth of non-developmental expenditure by government is a growing and critical source of concern. It was further observed that the most effective and lasting solution to this problem is to begin the process of downsizing the government. While proposing certain initiatives in this regard, he had also indicated that in order to carry out the process of downsizing in a systematic way towards reducing the role and the administrative structure of the government, an Expenditure Reforms Commission, would be constituted. Accordingly, the Government of India had set up an Expenditure Reforms Commission (ERC) under the chairmanship of K.P. Geethakrishnan The terms of reference of the Expenditure Reforms Commission were as follows :

- Keeping in view the evolving role of government, the need to foster convergence and avoiding overlap in the functions of different central government ministries, departments and attached organisations and the role of the state governments, suggest a road map for reducing the functions, activities and administrative structure of the central government
- Review the framework of all subsidies, both explicit and implicit, examine the economic rationale for their continuance and make recommendations for making subsidies transparent and suggest measures for maximising their impact on the target population at minimum cost; review the framework for determination of user charges of departmental and commercial entities and suggest an effective strategy for cost recovery through user charges
- Review the adequacy of staffing under central government ministries, attached offices and institutions and suggest measures for rationalising the staff and cadres of different services. In this context also, review the existing arrangements for re-deployment and re-training of surplus staff to ensure that any additional manpower for new areas of government activities are met by re-deployment

- Review the procedure for setting up of government funded autonomous institutions and their pattern of funding and suggest measures for effecting improvement and reducing budgetary support for their activities; and
- Consider any other relevant issue concerning expenditure management in government and make suitable recommendations.

The Expenditure Reforms Commission (ERC) has submitted two reports so far. The first report deals with food subsidy and the second report is in two parts dealing with rationalising fertiliser subsidy, optimising government staff strength and rationalisation of the functions, activities and structures in the ministries of Coal and Information and Broadcasting. The recommendations of the first report have been implemented and the second report is under the examination of the concerned ministries/departments.

With a view to furthering tax reforms so as to bring about greater compliance of tax rules and increase tax revenue, the government set up two task forces in September 2002, under the chairmanship of Vijay L Kelkar. The Task Force on Direct Taxes was required to submit a consultation paper to the government containing the recommendations including those on improvement in tax-payer services and procedures for strengthening enforcement. Similarly, the Task force on Indirect Taxes was required to recommend on simplification, reduction in the cost of compliance of customs and central excise duties, automation of tax administration, simplification of statutory returns, records, procedures for time bound disposal of matters and different aspects of legal provisions to facilitate tax payers and to improve tax compliance. The Task Forces submitted their final reports in December 2002.

The Parliament passed the Fiscal Responsibility and Budgetary Management Act (FRBM), 2003, which required that the revenue deficit should be eliminated by 2007-08.An amendment to this Act which is part of the Finance Bill laid in Parliament on 8 July 2004, proposes to shift this date to 2008-09. Under the amended Act, from 2008-09 onwards, government would continue to be able to issue bonds, within limits, but only to finance capital expenditure which creates assets. Resorting to debt would not be permitted in order to finance recurring (revenue) expenditure. Rules under the FRBM Act additionally require that the revenue deficit must come down by 0.5 percentage points of GDP every year, that the fiscal deficit must come down by 0.3 percentage points of GDP every year and that the fiscal deficit in 2008-09 must be below 3 percentage of GDP. A Task Force on Implementation of the Fiscal Responsibility and Budget Management Act (FRBM) was set up which was required to outline the strategy of policy measures to achieve the targets by 2008-09 as proposed in the amendment to the FRBM Act in the finance bill. The Task Force submitted its report in July 2004.

## 11.7 PUBLIC DEBT MANAGEMENT

Public debt management is the process of establishing and executing a strategy for managing the government's debt to raise the required amount of funding, pursue its cost/risk objectives and meet any other public debt management goals the government may have set, such as developing and maintaining an efficient and liquid market for government securities.

India operates under a fiscal regime, with the Constitution of India specifying the fiscal responsibilities for the central and state governments through the three lists; the union list, the state list and the concurrent list. The combined central and state governments' liabilities stood at 72.9 per cent of GDP at the end of March 2001 and were estimated to be about 76 per cent at the end of March 2002. The continuing high level of public debt leads to increasing interest payments, which in turn necessitates higher market borrowings and puts pressure on the fiscal deficit.

Reorientation of the debt management strategy began under the overall process of financial sector reforms that were started in the early 1990s. The first initiative in the reforms process was to allow market-determined rates in the primary issuance market for government securities through auctions in 1992.The reserve requirements were brought down. The Statutory Liquidity Ratio (SLR), which requires banks to invest a certain percentage of their liabilities in government securities was brought down from a peak of 38.5 per cent in 1990 to 25 per cent in 1997. The Cash Reserve Ratio(CRR), which requires banks to keep a certain proportion of their liabilities in the form of cash with the Reserve Bank of India (RBI) was also brought down from a high of 25 per cent in 1992 to 5 per cent in June 2002.

Debt management strategy in India began to focus on the one hand on the interest rate and refinancing risks inherent in managing public debt and on the other hand on monetary policy objectives so that the debt management policy would be consistent the objectives of the monetary policy. This strategy in turn required the authorities to develop the institutional, infrastructure, legal and regulatory framework for the government securities market.

**Coordination with monetary and fiscal policies**

The Reserve bank of India acts as the government's debt manager for marketable internal debt. Since the RBI is also responsible for monetary management, there is a need for coordination between the monetary and debt management policies, especially in view of the large market borrowing programme to be completed at market related rates.

During the first stages of market development, especially for countries such as India with large net market borrowing (3 to 4 per cent of GDP in the recent period), having the central bank responsible for both debt management and monetary management, has the advantage of appropriate policy coordination. During the early period, however as the markets develop, the economy opens up for capital flows and the private sector starts contributing more to the economic activity, there is a need for independent monetary management and separation of the debt management function from the central bank. Amendments to the RBI Act have been proposed to remove the mandatory nature of public debt management by the RBI and allow the government to entrust the public debt management function to any agent.

**Risk Management Framework**

As regards management of external debt, the Indian government has adopted a cautious and step-by-step approach toward capital account convertibility. It has initially liberalised non-debt creating financial flows followed by liberalisation of long –term debt flows. There is partial liberalisation of external commercial borrowing, but only for the medium term and long-term maturities. There is a tight control on short-term external debt and a close watch on the size of the current account deficit. In fact, the Government of India (GOI) does not borrow from external commercial sources and there is no short-term external debt on the government account. There is a high share of concessional debt, amounting to nearly 80 per cent of sovereign external debt at the end of March2002.The maturity pattern of government debt is also concentrated toward the long end of the debt portfolio.

As regards internal debt, there is a natural incentive to focus on long-term sustainability of interest rates. There has been a conscious attempt to avoid issuance of floating rate and short-term debt and foreign currency –denominated debt.

**Cash Management**

In a landmark development in 1994, the GOI entered into an agreement with the RBI to phase out the system of automatic monetisation of budget deficits within three years. Accordingly, the system of financing the government through creation of adhoc treasury bills was abolished effective April1 1997. Under a new arrangement, a scheme of Ways and Means Advances (WMAs) was introduced to help the GOI to address the temporary mismatches in its cash flows. According to this scheme, a limit was fixed for WMAs, so that when the government reaches 75 per cent of the limit, the RBI could enter the market on behalf of the government to raise funds. This arrangement means that the government has to fund its budget requirements at market related rates.

The RBI also provides WMAs to the states. Once the limits are reached, the accounts go into overdraft, and they are limited not only in size to the WMA limit, but also not allowed to continue beyond 12 working days. Beyond this point, payments are stopped on behalf of the respective state government.

**Legal Ceilings on government debt**

The central government introduced the Fiscal Responsibility and Budget Management Bill (2000) in Parliament. The bill aims at ensuring inter- generational equity in fiscal management and long-term macroeconomic stability. This would be accomplished by achieving sufficient revenue surplus; eliminating fiscal deficit; removing impediments in the effective conduct of monetary policy and prudential debt management through limits on central government borrowings, debt and deficits and establishing greater transparency in fiscal operations. The specific target for debt management in this regard is to ensure that the total liabilities of the central government does not exceed 50 per cent of GDP. Simultaneously the central government will not borrow from the RBI in the form of subscription to primary issues by the RBI.

**Developing the markets for government securities**

Since the early 1990s, the RBI has been focusing on the development of the government securities market through development of primary and secondary markets. In 1996, the structure of Primary Dealers (PDs) was introduced to ensure development of underwriting and market making capabilities for government securities outside the RBI .The banks are allowed to undertake trade in government securities though member brokers of the National Stock exchange, the Bombay Stock Exchange and Over-the-Counter Exchange of India. After irregularities in the securities market that involved fraudulent links between the brokers and banks, banks were advised by the RBI not to trade more than 5 per cent of their transactions through a single broker.

## 11.8 ROLE OF THE MINISTRY OF FINANCE, FINANCE COMMISSION AND PLANNING COMMISSION IN FINANCIAL MANAGEMENT

The Finance Ministry has a significant role to play in the government's financial management policies. The important departments under the Finance Ministry are the, the Department of Economic Affairs, the Department of Expenditure, and the Department of Revenue.

**Department of Economic Affairs (DEA)**

The Department of Economic Affairs is the nodal agency of the union government to formulate and monitor country's economic policies and programmes having a bearing on internal and external aspects of economic management. One of the principal responsibilities of this Department is the preparation of the Union Budget every year (excluding the Railway Budget, which is prepared by the railway Ministry).

**The Department of Expenditure**

The Expenditure Department has the following divisions viz., the establishment division, the plan finance I and II divisions, the finance commission division, the pay research unit, the staff inspection unit, the cost account branch, the National Institute of Financial Management, the central pension accounting office, the office of chief controller of accounts and the miscellaneous department branch.

**a. Establishment Division**

The Establishment Division plays a crucial role in the administration of various financial rules and regulations including service conditions of all central government employees.

**b. Plan Finance I**

Plan Finance-I Division handles matters relating to overall financial position and plan outlays of States. The Division is closely associated with Planning Commission in assessment of financial resources for five year plans and annual plans of states.

**c. Plan Finance Division II**

Plan Finance-II Division deals with matters relating to the Central Plan. These cover the estimates of resources for central plan including Internal and Extra Budgetary Resources, Plan outlays of different Ministries/Departments of the Central Government, appraisal of Plan projects/schemes before they are submitted to Public Investment Board (PIB)/Expenditure Finance Committee (EFC) etc.

**d. Finance Commission Division**

The Finance Commission Division of the Department of Expenditure is concerned with the implementation of the recommendations of the Finance Commission. It provides the status of the implementation of the accepted recommendations of Expenditure Finance Commission from time to time and any other data on state finances when required.

**e. Pay Research Unit**

The Pay Research Unit is mainly responsible for collection, compilation and analysis of data on actual expenditure incurred on pay and various types of allowances as well as data pertaining to the strength of the central government civilian employees and Employees of Union Territory Administration.

**f. Staff Inspection Unit**

The Staff Inspection Unit was set up with the object of effecting economies in manpower consistent with administrative efficiency and evolving performance standards and work norms in government offices and institutions wholly or substantially dependent on government grants. Its officers also serve as core member on the committees appointed to scrutinise manpower requirements of scientific and technical organisations.

**g. Cost Accounts Branch**

Cost Accounts Branch (CAB) is a specialised pricing office of the central government within the Ministry of Finance, Department of Expenditure. CAB renders professional assistance to different mnistries on the matters of determination of fair cost of production/selling prices of various industrial products, consumer products, services, etc. CAB also renders expert professional advice to different ministries/departments on matters of tariff fixation, advise on the specific reference emanating from the implementation of Central Excise Act, 1944, issues relating to introduction of Commercial, Financial, Cost and Management Accounting, conducting system studies, analytical studies, etc.

**h. National Institute of Financial Management (NIFM)**

NIFM is a center for excellence encouraging learning, teaching and research in the area of financial management

**i. Central Pension Accounting Office**

The Central Pension Accounting Office (CPAO) was set up as an administrative unit of the Ministry of Finance, Department of Expenditure under the Controller General of Accounts. This office is administering the 'Scheme for Payment of Pension to Central Government Civil Pensioners by Authorised Banks'.

**j. Controller General of Accounts (CGA)**

The Controller General of Accounts is the apex accounting authority of the central government and exercises the powers of the President under Article 150 of the Constitution for prescribing the forms of accounts of the union and state governments on the advice of the Comptroller & Auditor General of India. The chief controller of accounts is in overall charge of the accounting organisation of the ministry.

**k. Miscellaneous Departments Branch**

The branch functions as an Associated Finance Unit to the Departments, viz., Prime Minister Office, Supreme Court of India, Ministry of Parliamentary Affairs and Secretariats of the Lok Sabha and the Rajya Sabha, Cabinet, President and Vice President. It deals with all financial matters including the annual budget of these Departments.

**Department of Revenue**

The Department of Revenue functions under the overall administrative direction and control of the Secretary (Revenue). It exercises control in respect of matters relating to all the Direct and Indirect Taxes through two statutory Boards, namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Customs and Central Excise. Each Board is headed by a Chairman who is also ex-officio Special Secretary to the Government of India. Matters relating to the levy and collection of all the Direct Taxes are looked after by CBDT, whereas those relating to levy and collection of customs and central excise duties and service tax fall within the purview of Central Board of Customs and Central Excise.

**Role of the Finance Commission**

Recognising the fact that the financial resources of the states may prove inadequate for undertaking welfare, maintenance and development activities, the framers of the Indian Constitution did make elaborate arrangements relating to flow of funds from the centre to the states. The disequilibrium between proliferating functional responsibilities of the states and their own resources is corrected by central transfers effected through the following three main channels.

1. Statutory transfers through the Finance Commission.
2. Plan transfers through the Planning Commission.
3. Discretionary transfers for centrally sponsored schemes, relief from natural calamities, and relief and rehabilitation of displaced persons.

Transfers routed through the finance commission pertain to sharing of central taxes and grants-in-aid of revenues to the states.

Finance Commission is a unique feature of the Indian Constitution. Its first task, is to evolve a scheme of transfer of financial resources from the centre to the states so as to ensure financial equilibrium at the two levels of government during the period of its award. Secondly, it is to design formulae to allocate resources so transferred among the states. The tasks of a Finance Commission are by no means easy, as it has to judge the conflicting claims, needs and resources of the centre and the states and to evolve a scheme of transfers which would balance the needs and resources of the two layers of the government.

The procedure adopted by the Finance Commission to fulfill its duties is as follows: On the basis of the trends in the finances of the central and state governments, it prepares estimates of revenue and expenditure for the period of its award .It then decides the total amount of transfers from the centre to the states so as to maintain the desired equilibrium in the finances of the two tiers of the government. Thereafter, the total amount of transfers is broken down into devolution and grants-in-aid among the states. Transfer of resources from the center to the states is designed to correct vertical imbalances while the distribution of resources among the states aims at correcting horizontal imbalances.

Twelve Finance Commissions have been constituted since the commencement of the Constitution.

**Role of the Planning Commission**

Article 282 provides that the centre or a state may make grants for any public purpose. With the establishment of the Planning commission in 1950, the Central Government invoked Article 282 for making grants to states for plan purposes. Grants given under Article 282 are a subject matter of controversy. These grants were intended by the Constitution makers to meet unforeseen emergencies like droughts, famines and other natural calamities and were not envisaged as part of normal centre-state financial relations. These grants meant for emergency purposes were kept outside the purview of the Finance Commission which otherwise was entrusted with all the major questions of centre-state financial relations.

It has been felt that over the years, the Planning Commission has attained enormous powers in the matters of allocation of resources to the state governments resulting in the restriction of the role of the Finance Commission to non-plan expenditure of state budgets.

## 11.9 CONCLUSION

Financial management requires appropriate mechanisms for resource mobilisation and management. Budgeting and financial management are the key activities of public systems management. The budgetary processes reflect the priorities, goals of organisation with provision of appropriate levels of funding at various levels. Also effective financial management calls for developing effective control mechanisms to ensure proper utilisation of money. Budget and financial management systems act as key tools of planning, execution of public programs, besides accountability and control mechanisms. They are needed for establishing and ensuring transparency in the public systems management. The government’s debt management strategy is quite comprehensive incorporating appropriate risk management framework, and cash management. The Finance Ministry, Planning Commission and Finance Commission have a key role in government’s financial management.

## 11.10 KEY CONCEPTS

**Capital Expenditure**

It is the expenditure incurred in acquiring fixed assets and is of a non-recurring nature.

**Capital Receipts**

These receipts of the government create liability or reduce financial assets. The main components are borrowings of different kinds and repayment of loans and advances by other parties.

**Consolidated Fund of India**

This is the the fund into which all revenues received by the government, all loans raised by the government and all moneys received by the government in repayment of loans are paid. No amount can be withdrawn from this fund without authorisation from the Parliament.

**Contingency Fund**

This fund is placed at the disposal of the government to meet unforeseen expenditures, which cannot be delayed. Parliamentary approval is not required at the time of withdrawal, which is obtained subsequently, and the amount is replenished.

**Currency Convertibility**

- **External Convertibility**

  It is a situation where convertibility is enjoyed solely by non-residents.

- **Internal Convertibility**

  Under it conversion of a currency is permitted only for the residents of the country.

**Fiscal Deficit**

It is the difference between revenue receipts plus certain capital receipts (which are not borrowings and accrue finally to the government) and total expenditure including loans net of repayments. In other words, fiscal deficit means net borrowings of all kinds by a government.

**Fiscal Policy**

It refers to the use of a government's taxation and expenditure policies to influence the level of economic activities at the macroeconomic level.

**Monetary Policy**

It refers to the expansion or contraction of money and credit policy in an economy.

**Open Market Operations**

The Central Bank can enter the money market for the purpose of purchase or sale of government securities on its own account. Every open market purchase by the Central Bank increases primary money by an equal amount while every sale decreases it.

**Partial Convertibility**

If conversion of a currency is applicable only in terms of certain other currencies or only for certain transactions (mostly on current account of balance of payments) or only for a few institutions or persons, it is considered to have only partial convertibility.

**Revenue Deficit**

It refers to the excess of revenue expenditure over revenue receipts.

**Revenue Expenditure**

All those expenditures of an organisation which do not result in the creation of physical or financial assets are treated as revenue expenditures.

**Revenue Receipts**

The finances obtained in the normal course of business are called revenue receipts, e.g., sale proceeds, interest on deposits and dividends on investment.

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## 11.12 ACTIVITIES

1. Examine the highlights of the current year's Budget.
2. Based on newspaper reports, attempt to follow the various stages of the legislation of budget in the Parliament and record your observations.