

Zero-Base Budgeting for Government

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In India, the Central Government, and a few Public Enterprises have declared introduction of Zero-Base Budgeting. The present paper examines whether we have the required political, bureaucratic and general social environment for success of ZBB. One success story of Georgia State and one failure story of New Mexico State from USA have been analyzed. This should help our political leaders and administrators to know what to avoid for making ZBB successful in India. The article also enumerates the pre-requisites for the success of ZBB in Government.

The environment in India is not conducive for successful operation of ZBB. The prerequisites for its success are yet to be satisfied. The lessons to be drawn from two US cases are success requires a strong committed leader with a strong will to manage and control, cooperation between bureaucracy and legislature, political consensus for better economics and deep managerial involvement and cooperation between executive and legislative wings. Causes for failure include lack of legislative support and commitment, weak leadership, poor design of budget manual, defective formats and procedures, political conflicts leading to bad politics, poor administration and bad economics.

The success of ZBB hinges on political and administrative reforms and creation of congenial environment in favour of better economics in India.

Introduction

Governments - Local, State and Central - have to prepare their budgets. These are of two types - Plan and Non - plan, Revenue and expenditure, Revenue and Capital account budgets. In India, normally, Govt. budgets continue to be traditional incremental type. However, in some selected cases, Policy and Programme Based Budgets and Performance Budgeting have been experimented. Shri V.P. Singh the then Prime Minister of India had made the announcement of introducing ZBB for Union Government Budgeting. The State Governments of Maharashtra, Madhya Pradesh and Rajasthan also made similar announcements for State Government's Budgeting. A few public enterprises have also announced their decision to introduce this technique.

India is the largest working democracy of the world

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with cabinet form of Government. Roughly half of the population is still illiterate and about 38% of people are still living below poverty line. Responsible voters and responsible leaders, both are difficult to find. India is considered to be a soft state where tough decisions cannot be taken very easily. Good economics. Bureaucracy suffers from red - tapism and decision - aversion. Political authority is also saddled with intrigues, conflicts, lack of stability and individual interest first as against party and nation both. Sectional welfare overtakes general well - being of the nation as a whole. Thus, top management's commitment, involvement and will to manage are woefully lacking, without which ZBB cannot be operated successfully. They are over - obsessed with short - term survival, salvage or fire - fighting operations without any long term planning objectives. Short - term fiscal strategies are calling the shots. There is a general environment of conflict,

disbelief and despondency. Either all are corrupt or others are all corrupt is the general line of argument. Under such a non - congenial environment, ZBB has no application in Government. Survival is the immediate objective rather than development through innovation.

Parliament has hardly any time to scrutinize all the budget proposals. Division on party lines is severe. Only very recently the parliamentary committees have been constituted to review the budget of specific ministries. This is, of course, a very healthy development.

Although everybody in decision - making position talks about cutting wasteful expenditure but wants to preach rather than practice for oneself or one's area of authority. All these pious hopes and exhortations are meant for publicity only and display the hypocrisy of extreme type.

As a nation, we are suffering from falling productivity levels and mounting debt burden. It is not only the value of Indian Rupee which has fallen during the post - independence era, values of Indian life and character of individual have also been lost. In such a grim scenario, mere management tools and techniques like ZBB cannot save us. The malady is so deep - rooted that a major surgical operation of the whole value system of Indian life is urgently called for.

Examples of Politics Dominating Budgeting

The government of India's Fiscal Deficit has increased to 6.5% of G.D.P. against the benchmark of 2.5% of G.D.P. Farmers Bank Loan written off Rs.67000 crores, NAREGA allocation Rs.40000 crores raised to Rs. 90000 crores. Bad economics has become good politics. Public pays for the sin of politicians by bearing a double digit inflation rate prospects.

In the USA the then President Jimmy Carter was

responsible for introduction of ZBB for federal budget in 1976. The motivating forces or reasons were-

- (a) Public mandate to control and cut government expenditure
- (b) Growing assertiveness of the US Congress in controlling government expenditure
- (c) Deep commitment of President himself to ZBB

He advocated ZBB as valuable technique, if not indispensable to control public expenditure and to make bureaucracy responsive to the people. He correctly cautioned that be prepared to work hard but do not expect miracles from ZBB.

In India also, there is an urgent need to weed out wasteful public expenditure. But explicit public mandate is yet to be obtained for this. It is also necessary to make the bureaucracy and politicians, both responsive to the people at large rather than to select groups or segments. India is yet to produce a Jimmy Carter who has deep commitment for ZBB and strong will to manage through taking tough decisions.

Government budget process is based on incremental approach in India. This leads to jacking - up of proposals, unsystematic expenditure around March 31 every year, spend more get more syndrome' and general tendency to feather - bedding, and 'ask more get more' attitude. Resources allocation decisions are based on personal relations, group and sectional interest rather than on any objective criteria.

No Sunset for Ministries

Size of cabinet is limited to 10% of seats in Parliament or Legislative assemblies. But coalition politics compels to by - pass this ceiling via grant of cabinet ranks or MOS rank for several positions outside the ministry. Cabinet Ministers don't delegate any work to MOS. But MOS post is not abolished. Globalization,

liberalization and privatization policy must have led to abolition of several deptts. and ministries. However, it has not happened.

The whole process of Govt. Budgeting appears to be a fight of parts against the whole. Parts win at the cost of the whole. ZBB, if introduced, will definitely help in making parts consistent with the whole. But however, this fundamental change will be resisted very forcefully by the vested interest groups in politics, business and bureaucracy. Without a basic change in their perception, attitude, conviction and commitment, ZBB cannot be successful in Government budgeting. The whole process of ZBB is not applicable to basic functions of a Government like defence, justice, law and order, external relations, etc. Detailed decision packages for such basic activities (or mandatory activities) need not be prepared. Thus application of ZBB will be selective and not universal in Govt. budgeting.

There may be some programmes which involve fundamental research. Large sums are to be allocated, period of time involved is large and expected results may be quite distant. Space research, research to control cancer and AIDS, research in genetic engineering, etc. are examples of such programmes. Such programmes are a VIP class by themselves and top authority has to take decisions separately.

Government budgeting is a gigantic exercise. Which programmes should be selected for zero - base review and at what frequency should be decided carefully. Universal review every year would not be appropriate. Some thrust areas for zero - base review are always obvious and can be selected on some objective basis. For example, recent policy of delicensing adopted by the Govt. of India must lead to abolition of several existing departments. These must be the obvious candidates for zero - base review. Otherwise officers and employees in erstwhile ministry of industry and

controller of capital issues must be having no work to perform.

However, much depends on will of the top management to take critical decisions and then implement them effectively. There is an inherent difficulty with most of the government programmes that specific or precise objectives cannot be laid down. Over specification of objectives may restrict scope and lead to evasion of responsibility and decision taking under the pretext of 'Am I called to do it?'

There is a general impression that the increase in Govt. expenditure is on account of wasteful expenditure. It is not duly appreciated that scope of government activities has also expanded vastly. Number and nature of government programmes have changed basically during last 60 years. Now when scope of Government intervention in economic matters of citizens is curtailed substantially, it is necessary to dispense with a few government department. Increased govt. expenditure represents wasteful expenditure is an assumption without any empirical evidence. ZBB will highlight how far such statements are true. ZBB itself may not deliver the results. It will show the way. However, much will depend on 'will to manage'.

Budgeting remains merely a paper work unless objective decisions are taken, funds are timely released, inputs are efficiently procured and work is done as per schedule. This specifically applies to capital projects. Cost and time over runs are the bane of Indian Public Administration. 70% cost over runs in plan projects in central sector have been recently reported. About 50% of the World Bank loans/ grants go unutilized for the want of matching shares. The same is true about several Central - State joint projects. ZBB can help Government only when it is accompanied by proper objectives, resources planning and project implementation.

To start a programme and to suspend it or eliminate it will ultimately require legislative sanction. It is the job of a political party in power. ZBB can indicate the need for taking a decision. The final decision may face legal and political tangle. The final benefits in term of savings may not be very significant in short - term. ZBB will provide rational, more logical and marketable basis for approval of proposals. It should be duly appreciated that ZBB is an operating management tool rather than a policy process of top management and legislative function of the parliament. It will simply provide a decision - support by indicating choice logically. However, where a subject falls in concurrent list of Indian constitution, the decision will become more difficult to take. Recent example of GST is before us.

Government budgeting is a gigantic exercise. ZBB will have to be applied selectively. Otherwise it may lead to very heavy overload of paper - work which is bound to lead to untimely demise of ZBB itself. Instead of more evaluations, it is advisable to concentrate on selective and better evaluations. Programme authorization should also be made 3-5 yearly exercise rather than annual ritual at parliamentary level. Expansion of ZBB must be carefully avoided. Overlapping review work by the bureaucracy and the legislative wing should also be avoided.

When Government is facing a serious resources crunch, it acts as a strong motivation for controlling Govt. expenditure. When tax revenue is sought to be increased the public opinion will call for public accountability of fund utilization. Here the role of ZBB will become very obvious. The present incremental budgeting leads to wastage of resources and fuels inflation. Its productivity is low. ZBB aims to solve these basic economic problems faced by the Government. ZBB will provide not only reams of number but logical analysis also which will help parliamentarians in raising relevant issues and debates would become more

informed and final decisions more logical.

Why and how ZBB in Government may fail can best be illustrated by the case of New Mexico State of the U.S.A.

ZBB Failure Case from USA

In New Mexico State, the ZBB failed on account of the following major reasons:

1. Lack of coordination between executive and legislation wings. Both pulled in different directions.
2. Lack of legislative support and commitment to ZBB.
3. Two different sets of budgets had to be prepared by managers. Heavy duplication and overlapping of effort. Lot of avoidable paper work.
4. Main mover of ZBB retired in second year of its implementation.
5. Poor designs of formats and budget manual.
6. ZBB could not be freed from partisan approach of different political parties.

In government also, a carrot and stick approach will have to follow to provide appropriate motivational system to make ZBB effective. It should provide positive motivation to creative public administrators.

Under the existing system, a young and dynamic officer after five year's experience either wants to leave the job or becomes indifferent to his job. ZBB should help remedy this basic malady offering scope for innovations through application of creative faculties.

It may be further noted that President Jimmy Carter of U.S.A. could implement ZBB without any retrenchment. ZBB was used for better allocation or deployment of resources more purposefully rather than to retrench anybody. Peter Pyhrr, the father of ZBB could do it successfully without any additional paper work load. Therefore, it is not difficult to implement

ZBB without retrenchment of staff and increased paperwork if the system is designed and operated intelligently. He could succeed in cutting administrative cost by 50% with the help of ZBB. He did face intense opposition to ZBB from bureaucrats who thrived on confusion, from sectional interest groups that preferred to work in the dark, and from a few Legislative leaders who did not want to see their fiefdoms endangered. With forceful leadership and persuasiveness of key people, almost all accepted ZBB with gratitude. They finally realized that the state resources were being allocated openly, decently and free from political manipulations. A strong commitment, involvement and will to manage balanced with classic approach of human relations could ensure success. It was realized that even in Government, there should be no conflict between this innovative technique and welfare of the deprived and affected people. Good economics could be made good Politics through ZBB. To sum up, if right type of environment can be created and legislative and political commitment, involvement and will to manage can be ensured ZBB may be successfully introduced for government budgeting and planning in India. It may help in solving the problems of low productivity and inflationary spending. It will help in better decision - making at government level and establishment of public accountability of the government and finally lead to maximum welfare of people.

Before we close, it should be specifically noted that ZBB in Government will involve:-

1. Unification of planning, budgeting, and implementation functions. Policy planning rather than mere programme planning. Plan by specialist operating experts rather than mere experts in planning.
2. Justification of not merely non - recurring plan expenditure but also of recurring non - plan expenditure. It is a good move to abolish distinction between plan and non - plan expenditure.
3. Development not merely through resource mobilization in the form of disinvestment, additional taxes and public debt but through innovation and better resource allocation and utilization.
4. Explicit justification of each rupee of expenditure by operating management through decision - packages.
5. Prioritization of various programmes on objective basis of ranking rather than subjective political wire - pulling.
6. Automatic development of contingency plan rather than across the board adhoc - cuts and approvals. Cuts and new approvals both will be based on ranking order.

Its successful implementation will require:

1. Firm commitment, involvement, imagination, Persuasion and will to take tough decisions at Top management - Cabinet and the Prime Minister/ Chief Minister level.
2. Strong position of Prime Minister or Chief Minister - A Prime Minister or Chief Minister whose position itself is dependent on support of several pressure groups in the house and also outside he may not be able to make it successful. Therefore, it is suggested that Prime Minister or Chief Minister be either directly elected by people or by members of parliament/legislative assembly for a period of 5 years. The ministers should also be appointed on the basis of their professional competence to handle key portfolios. Politics and bureaucracy be freed from criminals, corruption and group pressures.
3. Support of public through a clear mandate for ZBB.
4. Cooperation of all political parties. Nobody be declared elected unless more than 50% of the votes are polled. We should have dual party or three party system at national level .
5. Active involvement of bureaucracy with proper training and positive attitude.

6. Effective design of the system.
7. Patience to realize results.
8. Introduction of participative management, management information system and bottom -up budgeting procedure.

Whether in Government or a non - government organization, successful operation of ZBB will require a wholly congenial environment, new mental attitude and management style rather than mere forms, procedures and reams of figures.

Parting Stroke

Meghalaya State has a record of having four Chief Ministers. Three of them had salary and perks of Chief Minister without any role and responsibility of a Chief Minister. Hell with ZBB.

The move to create a strong Lokpal, public service guarantee system, electoral reforms to debar charge sheeted persons from contesting elections and granting right to reject, right to recall to voters, social audit of public schemes like MNAREGA, RTI activism are steps in right direction which will improve chances of success of ZBB in governments in India. CAG reports and Supreme court's intervention in mega corruption cases and consequent pressure on government to act are welcome indicators. Reforms in public accounting, auditing and budgeting are also in the offing which may create conducive environment for ZBB and ZBR in Government in India. Cut in wasteful public expenditure will be urgently needed to control inflationary pressures. Fiscal deficit of 5.2% and more of GDP is very high and it has to be brought down to 3.5% level. For this, ZBB will be useful tool. Successful tackling of black money and illegal deposits in tax havens, effective implementation of DTC and GST will boost tax revenue which will help in achieving high growth (10%+) with low degrees of inflation.

Departure of Jimmy Carter from the U S Presidency had no doubt affected progress of ZBB in the U S federal budget. It has however been successfully implemented in some city councils of the USA for their budgets. Recent case of ZBB implementation in Philippines for 2011-12 budget is reproduced below which may guide our Government.

ZBB for Govt. in Philippines

While delivering the speech the President of Philippines Benigno S. Aquino III revealed the advantages about ZBB saying that main principle of this budget is that the taxes paid by the people will be spent for the people. All the departments evaluated existing government programs and projects to see if the program objectives/ outcomes are being achieved.

He further highlighted that:

This is the essence of the zero-based budgeting approach which we applied both for the remainder of the 2010 and in formulating the 2011 budget - to ascertain the continued relevance of ongoing programs, prioritize key projects, and justify the need for funding.

They also redesigned the programs and projects that did not perform well over the years and that proved prone to leakages, based on audit reports and other studies.

He also stressed that it is not possible to continue with business as usual. There was a need to evaluate not just whether the right things were being done but equally important, whether these were being done right.

As a result of the zero-based approach, they terminated and cut programs, such as the Department of Education's Food for School Program, which can be better administered by the DSWD by means of the proper targeting and identification of beneficiaries. They also discontinued Department of Agriculture's Input

Subsidies, which was found to benefit the rich instead of the poor.

They also resorted to conditional release of funds in the case of programs such as the Department of Education's Textbooks, Teacher Deployment and School Building Construction and the Technical Education and Skills Development Authority (TESDA), Training for Work Scholarship, pending resolution of bottlenecks in project identification and implementation, and program improvements. Savings from these programs were channeled to other programs that were performing well, such as the DSWD's Conditional Cash Transfer program, the DepEd's scholarship program (Educational Service Contracting), and the National Health Insurance Program (NHIP).

They also rationalized spending of government owned and/or controlled corporations, such as the National Food Authority (NFA) to stop the bleeding of government funds due to inefficiencies.

The "buy high/store long/sell low" policy of the NFA for local and imported rice was resulting in huge financial losses for the state. Since 2003, the NFA was the top subsidized GOCC of the NG to partially cover its losses from trading and to fund the rice import tariff.

To rectify the situation, several reforms were undertaken - reducing the rice importation, limiting the selling of low-priced rice to the poorest of the poor, and pushing for a Congressional amendment of the NFA Charter to make possible the separation of its proprietary function from its regulatory and buffer-stocking functions.

With zero-based budgeting, it can be assured that the people's money is put where it ought to be.

Now the multi- billion dollar question is are we really

ready to spend people's money for their optimum benefit? Do we have political and administrative courage to eliminate wastage and corruption in public spending?

Are we ready to discontinue public spending on subsidies which don't reach the people for whom it is meant? If yes, go for ZBB in government with full determination and national consensus.

References and Notes

1. Khandelwal N.M. (2003): Role of Top Management in ZBB, the Chartered Accountant, New Delhi, Dec.
2. Gujarat Samachar has recently carried an article revealing that policy of LPG since 1991 in India has led to corruption running in to 70 lakh crores rupees. Late Rajeev Gandhi asserted that only 25 paise per rupee of public expenditure reaches villagers. Now Rahul Gandhi has put it to 15 paise only.
3. Lack of interest in our MPs' and MLA's in debates on minimum 10% attendance is not there leading to adjournment of House on critical fiscal issues. Indian Parliament consists of 315 members who are very rich, about 1/3 are with criminal records and 17 ministers are foreign degree holders or leading lawyers who have hardly any interest in common man. Effective working days of parliament are declining sharply and corruption has become a matter of pride.
4. Large number of MP and MLA are with criminal record. A few of them have become ministers and chief Ministers (Jharkhand) also. Businessmen are more corrupt than bureaucrats and ministers. (Financial Express 31.01.2010)
5. T.V. News of Dec - 31, 2010.