Budget: Good intentions drained by leaks

UTTAM GUPTA

A CLOSE look at the portions of the Finance Minister, Mr P. Chidambaram's speech that capture the "human face" of the 2004-05 Union Budget brings out three points clearly.

First, the Government is thinking really big when it comes to agriculture development and building social infrastructure. Second, achieving the goals in various areas will require monumental investments. Third, the Government's own financial commitment to various programmes/schemes is "negligible".

Let us take a look at some of the major proposals.

There are about a million water bodies, the majority of which have gone into disuse and accumulated silt. To repair, renovate and restore these, the Government will launch a National Water Resources Development Project that will increase their capacity by 100 per cent by 2010-11.

The requirements for restoring the 500,000 water bodies to their original glory may run into thousands of crores of rupees. But the allocation is a meagre Rs 100 crore for starting pilot projects in five districts (one district in each of the country's five broad regions)!

The Government promises to double flow of agricultural credit in the next three years. The regional rural banks (RRBs) and cooperative banks, which deliver credit to farmers, are in financial straits. Their health needs to be restored first. But the Finance Minister has merely paid lip service to them by setting up a "Task Force" for cooperative banks and promising capital infusion to the RRBs subject to certain conditions.

A National Horticulture Mission will be launched to double production from the current 150 million tonnes to 300 million tonnes by 2011-12. A similar target has been set for oilseeds. As regards the action plan in horticulture, the Centre expects States to establish "State-level cooperative societies" on the lines of the Anand model; but in the oilseeds sector, there is no such suggestion.

The Finance Minister proposes to revive the Small Farmers Agri-business Consortium. But, as against huge funds needed, the money with SFAC is a measly Rs 10 crore or so! The Government has expressed its commitment to provide insurance cover to the farming and livestock. For this to be effective, it will have to pump in funds on a gigantic scale to subsidise the premium. However, at the moment, it is only testing the efficacy of alternative modes of providing insurance cover.

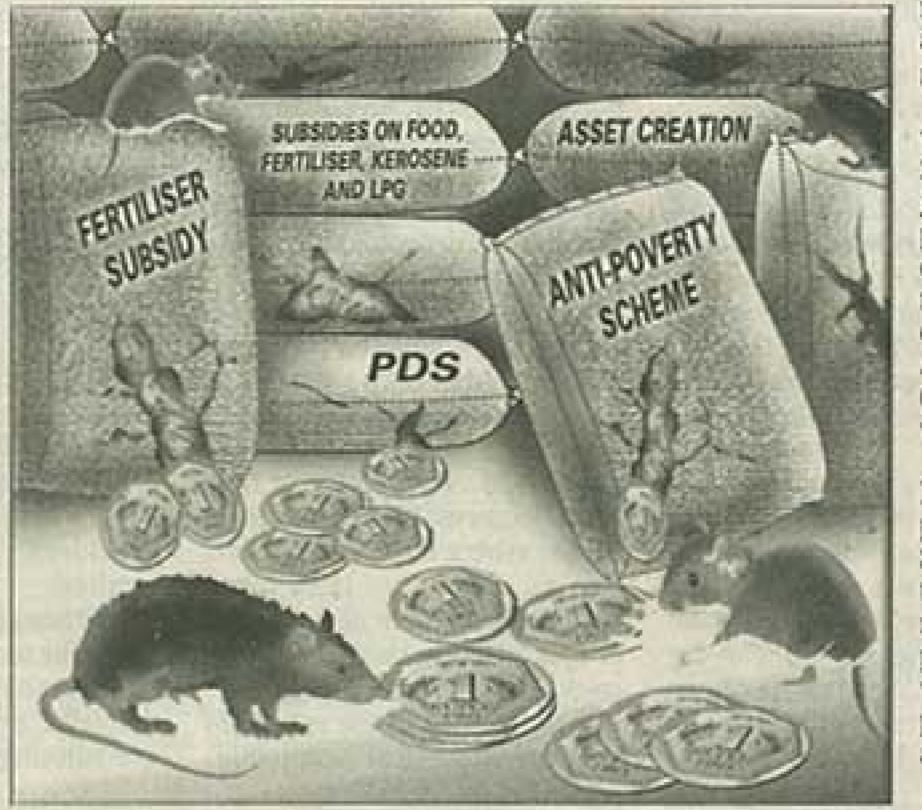
These include:

- insuring the crop (this was launched in 1999-2000 and is being continued in kharif 2004);
- insuring farm income (a pilot scheme launched in 19 districts across 12 States during Rabi 2003-04 is being continued);
- a weather insurance scheme (being run on trial basis in 20 rain gauge stations during kharif 2004).

Other than the programmes/schemes specifically meant for agriculture, the Finance Minister proposes to spend Rs 40,000 crore on building infrastructure — roads, airports, seaports and so on. But he would like this job to be taken up entirely by a consortium of banks and financial institutions.

The National Common Minimum Programme (CMP) has proposed increase in spending on education from the current 3 per cent of GDP to 6 per cent. While that would require additional resources of Rs 80,000 crore, the Finance Minister has imposed a 2 per cent cess on all direct and indirect taxes that will yield about Rs 5,000 crore. Even this meagre amount will not be available for education. This is because it forms part of the Rs 10,000-crore overall allocation made for various schemes mentioned in the CMP. The break-up of this will be decided only after Planning Commission completes a review.

The Government remains committed to the National Employment Guarantee scheme, as mentioned in the CMP. Under the scheme, it will provide work for 100 days in a year to one member of each poor family in the rural, semi-urban areas in a public work. The expenditure on the wage component of the scheme alone will be about Rs 1,90,000 crore (for an estimated 19 crore poor families, at Rs 100 per person). There is no provision in Budget to accommodate even a fraction of this requirement.



The Finance Minister has reiterated the commitment in the CMP to provide healthcare for all. For the proposed increase in expenditure on health from existing the 1 per cent to 3 per cent of GDP, the Government will need an additional Rs 50,000 crore. Where are the funds for this?

Clearly, the Government is talking big. But it does not have the wherewithal to walk the talk. Should we then conclude that the "human face" of the reforms will remain only on paper? Will the millions of poor and unemployed, particularly in agriculture, remain in a state of deprivation and backwardness? This bleak scenario could change only if the Government brings to centrestage and addresses squarely an issue that Rajiv Gandhi had raised by way of an off-the-cuff remark and has been the subject of research by economists (including some who are part of the official set up).

Rajiv Gandhi had stated that out of every rupee allocated for welfare schemes, only 15 paise reaches the intended beneficiaries. This has been confirmed by research studies. Based on his study of PDS, Dr Kirit Parekh, Member, Planning Commission, says that of every rupee meant to go to the poor through ration items, only 20 paise reaches them.

In his paper on poverty alleviation during the Tenth Plan, Mr N. C. Saxena former Secretary, Planning Commission, writes that Rs 60 out of Rs 100 in wage scheme is reserved for wages and the rest for asset creation. Of the Rs 60 meant for poor workers, only Rs 10-15 goes to them. Mr Saxena further reveals that under the scheme for rural housing, the Government provides a subsidy of Rs 20,000 per beneficiary. Of this, 25-40 per cent is appropriated by the middleman. The implications of the above revelations are mind-boggling.

Consider the food subsidy, on which the Government spends Rs 25,000 crore (actual for 2003-04). If just 20 per cent of this reaches the poor, this means that Rs 20,000 crore is wasted or appropriated by middlemen. The problem has existed right from inception of the PDS. Add up all leakages over the years (plus interest), and the sum lost would run to several lakh crores.

The Government spends about Rs 40,000 crore every year on anti-poverty schemes. Applying Mr Saxena's numbers, 60 per cent of this, or Rs 24,000 crore, is on payment of wages. Assuming only 15 per cent (Rs 10 out of the minimum wage of Rs 60) of this reaches the poor, the extent of misappropriation works out to Rs 20,400 crore.

Then, there is the leakage of funds from the allocation for asset creation — Rs 16,000 crore. Apply the same ratio as for wages — 15 per cent — and this could be another Rs 13,600 crore. So, the total leakage there could be of the order of Rs 34,000 crore. Add up the leakages over the years (plus interest), and the amount would touch several lakh crores.

The Government spends about Rs 12,000 crore on fertiliser subsidy (revised estimate for 2003-04). Studies by economists have established that a major portion of this goes to subsidise the inefficiency/profits of fertiliser manufacturers. Mr Yashwant Sinha had prominently highlighted this in his Budget speech for 2000-01.

According to an estimate, the share of subsidy appropriated by the fertiliser producers is about two-thirds of the total, or Rs 8,000 crore per annum. The fertiliser subsidy has been in vogue for the last 25 years. The cumulative payments to the manufacturers (plus interest) over the entire period would add up, again, to several lakh crores.

There are a host of other areas where the leakages/misappropriation of funds are unprecedented. All put together, we can see millions of crores on the radar screen. While there is little that the Government can do to recover what was lost in the past, it can certainly act firmly now to prevent leakages in the future.

All subsidies — food, fertiliser, kerosene, LPG, etc. — take away about Rs 45,000 crore. It is well known that bulk of this money is either not meant for the poor or does not reach them. The Government should abolish these subsidies and use the funds for the tasks listed in the CMP.

The funds already being spent on welfare schemes should be properly utilised. Imagine, if there is no leakage from the Rs 40,000 crore currently being spent, then, the Government may not really need extra funds (tax-payers can be spared the 2 per cent education cess) to support additional commitments.

With the funds channelled into productive uses, agriculture and other rural occupations will become profitable, leading to a substantial surge in private investment as well. Needless to say, this would require removal of all controls by doing away with all archaic laws and creation of integrated markets for all agricultural products.

We can then see a multiplier effect that will not only lift the poor out of misery but also give the economy a big boost and thus help achieve the target of 8 per cent GDP growth.

That seems to be the only way the Government can generate the mountain of resources required for meeting the commitments made in the CMP and in the Budget.

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