

# Establishing a Parliamentary Budget Office: A Priority for India

## Introduction & overview:

This brief aims to inform parliamentarians on the benefits of establishing a Parliamentary Budget Office (PBO) within the parliament. This also highlights their responsibilities in budgeting, and the need for establishing PBO as an effective body. PBO will enable and equip them to perform their multiple roles – representative, legislative, and oversight.

**Parliamentary Budget Office (PBO)** is an independent and impartial body linked directly to parliament. It provides technical and objective analysis of budgets and public finance to parliament and parliamentary committees.

Subsequently, this policy brief intends to recommend and persuade the parliamentarians to take measures to establish a PBO within the parliament.

Budget affects the life of every citizen. Being a socio-economic and political document, it primarily involves a legitimate process of raising the revenue and (an equitable) distribution of public resources amongst various sectors. Budget is the clearest expression of the government's priorities and targets, reflecting its fiscal plans, social and financial commitments.

Is Indian Parliament a budget-making or a budget-approving or a budget-influencing body?

### Three Types of Parliament:

**A budget-approving** parliament lacks the authority or capacity (or both) to amend the executive's budget proposal. Instead, it approves whatever budget the executive presents to it.

**A budget-influencing** parliament has the capacity to amend or reject the executive's budget proposal but lacks sufficient capacity to formulate a budget of its own.

**A budget-making** parliament has both the legal authority and the technical capacity to amend or reject the executive's budget proposal and to substitute a budget of its own.

Source: Norton (1993)

Parliament plays multiple roles in public finance management (PFM): It approves the budget, scrutinizes its implementation and holds government to account for achieving its objectives. Parliamentary control over public finance becomes operative primarily through the approval of the Annual Budget. However, Parliament needs sufficient capability to analyse the highly complex and technical aspects of the budget.

Parliament, as a representative institution of the people, can legitimately ensure that the budget allocates available resources to all sectors equitably. Most importantly, it should provide a platform for public to debate the nation's priorities. The budget is one of the most important tools through which the elected representatives can exercise influence on the economic and social development policies of the country. However, parliamentarians are unable to perform their responsibilities effectively and according to the expectation of their constituents.



“Reforms in India have been pending for many decades. NDA government is committed and unfolding the reform process. Establishing the PBO in the parliament is a legitimate measure to strengthen the reputation of our parliament in budgetary governance.”

- Mr. Venkaiah Naidu,  
Union Cabinet Minister

## Budget-approving Parliament

The Parliament of India is considered to be a budget-approving body. Its involvement in budgetary matters includes several major steps: presenting the budget in the parliament; scrutiny of the budget proposal and demands for grants of various ministries; debate; consideration and approval of the budget. To perform its functions of oversight and legislative or budgetary decision-making, parliament inevitably requires the institutional, technical and analytical competence. However, the budget research capacity is negligible and almost non-existent in Indian Parliament. Consequently, Parliament is unable to perform these key functions effectively.

Some have argued that a “budget approving parliament” does not need a well-functioning PBO. This is very typical and unsound argument. Even when the parliament is a budget approving body, it is unquestionably clear and certain that its members need to be well-informed for a justifiable approving process.

**WEAKNESS:** *less time for Budget discussion; non-availability of analytical information on budget proposal to MPs; Standing Committees are not adequately competent to analyse and scrutinise the demands for grants by the ministries; not all demands for grants discussed in parliament; Finance Committees are yet to be strengthened to meet functional challenges; overdependence on government data & inputs; approval of budget without proper scrutiny and debate; audit reports not sufficiently getting the attention of the parliament.*

The concern is that the Indian Parliament remains weak and lacks the institutional resources, such as a well-equipped parliamentary research services wing, independent parliamentary budget office, etc. These bodies make the parliament an effective counterpart to the executive.

Capability of parliament is an unsettled question of priority. A PBO could provide the essential capacity of substantive information and knowledge support services for the parliamentarians and committees. Such timely, accurate, objective, responsive, and non-partisan information is vital for the productive working of the parliament and its members.

## Purpose of Budgeting

Representative democracy demands more active role of parliament in budgetary governance and budget decision-making. Since independence (1947), the executive (alone)-led budgetary governance has been a failure in India. There are several factors which demonstrate the failed budgetary governance. Despite the high economic growth, India suffers from great income inequality, widespread poverty, high unemployment, high presence of malnourished children, shocking prevalence of preventable diseases such as tuberculosis, top to bottom corruption, underinvestment in key social services such as health and education, etc. These stand as clear account of unequal distribution of the resources.

Although budgets might be seen as contracts between citizens and the state, in a representative system they are better seen as treaties among citizens negotiated through politics. Budget needs to be seen not only from an economic context but also from political and social contexts. An adequate and inclusive role of Parliament/legislatures in public finance management is not sufficiently dealt in the political economy literature in India. The role of parliament/legislatures in budgetary decision-making and oversight is far from satisfactory. A well thought out legislative-executive balance of power in budgetary governance is more meaningful in a representative democracy.



“Budgetary oversight is one of the key functions of parliaments and assemblies in India. Budgets in India can be very complex affairs and it is essential that we empower the members of parliament to be able to deconstruct budgets and raise the level of debate in the Lok Sabha.”

- Dr. Shashi Tharoor, MP

## Establishing a Parliamentary Budget Office

A PBO is an independent, non-partisan budget research and analysis body that caters to the needs of parliamentarians and the parliamentary committees. It exists exclusively to support and assist legislators in their work with Budgets. A PBO is an instrument for addressing bias towards spending and deficits and, more significantly, for enhancing fiscal discipline, promoting transparency and accountability, and generating high-quality public debate on budget policy and public finance. Establishing a PBO will enable parliamentarians to engage more meaningfully in the budget process and its approval.

To meaningfully engage in the budget process rather than simply serving as a rubber stamp, parliaments/legislatures require reliable, unbiased information as well as strong analytical capacity. There is a growing trend among the OECD legislatures and legislatures worldwide to establish specialized budget research units within parliaments. Across the OECD, these bodies vary in terms of size, constituents and core functions, but all help simplify the complexity of the budget process, and improve the budget's credibility and accountability.

Source: OECD (2011)

Across the world, PBOs vary in terms of their design and functions. The basic function of a PBO is to provide technical and objective information to the parliament and parliamentarians. A PBO should normally be careful to avoid being too closely associated with policy development, lest it be drawn into political debate and compromise its independence and impartiality.

In India, none of the state legislatures or the parliament have so far established specific and effective knowledge research or budget research services such as Congressional Research Services (CRS) and the Congressional Budget Office (CBO) in the USA or the similar bodies in the Austria, Italy, Canada, Australia, the Philippines, Korea, Kenya, Afghanistan, Uganda, South Africa, Mexico, Morocco, or in California, Ontario, Scotland, and New South Wales (examples of PBOs at the sub-national level), or in the UK and Sweden (Fiscal Councils), etc.

Establishing a PBO in the Indian Parliament will have a positive impact on its ability to carry out its budgetary oversight and fiscal decision-making function, but it will not be an easy task. It is likely to attract the first opposition from the bureaucracy or the executive. Because, traditionally, any aspect of strengthening the parliament (or the state legislatures) has always been unwelcome and met less consideration from the executive. Strong demand from the public and political will is needed to overcome such opposition. Parliamentarians across political parties will have to take very affirmative measures to establish a PBO.



A potential PBO is different from general parliamentary research services and information wings such as Library and Reference, Research, Documentation and Information Service (LARRDIS) and the Speaker's Research Initiative (SRI). It is also different from the finance committees and the Public Accounts Committee. A PBO is comprised of independent and specialised staff, such as budget analysts, economists, public finance experts, social scientists, etc.

To be successful, the PBO will require the broad support of all the parliamentary political parties. In order to maintain this support, the PBO must be non-partisan, independent and mandated to serve all parliamentarians. Furthermore, the core functions of the PBO including the access to government information, etc. should be codified in law. The output of the PBO, and the methods by which those outputs are prepared, must be transparent, accessible and understandable. PBO should also replicate the values of scholarship, impartiality, timeliness and confidentiality which form part of most parliamentary services.

## Benefits of a Parliamentary Budget Office

As the Parliament in India lacks the capacity to provide technical and objective inputs on budget policy, it weakens its functions as budget oversight and approval body. Establishing the PBO within the parliament is imperative as it can leverage and claim its position in the budgetary governance.

### There are key benefits to establishing a PBO:

- ✓ It ensures technical, objective and independent expertise to the parliament and parliamentarians to exercise their budgetary functions.
- ✓ It can improve government transparency and accountability, thereby bringing fiscal discipline on the public spending.
- ✓ It addresses deficit bias commonly affecting fiscal policy and discipline.
- ✓ It can raise quality public debate on the scrutiny of fiscal and economic policy and enhance the credibility of the budget process.
- ✓ It will reduce information asymmetries.
- ✓ It will help simplify the budget documents and can ensure timely information is available to all members in the parliament.
- ✓ It will ensure availability and accessibility of the information to the public as well and can promote citizens participation in the budget process.
- ✓ It provides institutional capacity to carry out the legislative and oversight functions of the parliament/legislatures.

## Functions and Mandate of a Parliamentary Budget Office

The functions of PBOs vary from country to country. Some have a very wide range of tasks and responsibilities; others play a more limited role. The roles and mandate of a PBO can be decided by avoiding the potential conflict with the executive branches of the government. Most PBOs have four core functions: independent and objective economic forecasts; baseline estimate survey; analysing the executive's budget proposal; and providing medium to long term analysis. A role in costing is also typical for many PBOs. Many PBOs evaluate how much it will cost to implement government policies and provide effective policy costing. Some PBOs also provide policy options and recommendations to the legislature.

All budgets generally start with an economic forecast. PBO can present its own forecast which ought to be an independent and realistic assessment of the economy. However, the parliament can decide whether a PBO formulates its own forecast, duplicating the work of the bureaucracy, or merely validates the government's forecast, providing an objective analysis on the official forecast. There are both such categories; for example, the Congressional Budget Office in the US and National Assembly Budget Office in South Korea both independently produces their own economic forecast, while the Canadian PBO provides an independent assessment on the government's forecast.

A PBO can perform many other tasks depending on their resources and the requirements of parliamentarians and committees. These may include general economic analysis, tax analysis, long-term analysis, options for spending cuts, outlining a budgetary framework that reflects the priorities for the government, bespoke policy briefs, among others.



“The Parliamentary Budget Office is an excellent channel for implementing recommendations stemming from policy analysis and lawmaking, in addition to setting national priorities and enacting good governance. This would further raise the quality of debate and scrutinize legislation, leading to greater discipline in public spending.”

- Mr. Baijayant Jay Panda, MP

## Examples of Parliamentary Budget Offices

The number of countries that have established PBOs is growing throughout the world. PBOs are now being established across both presidential and parliamentary systems. Traditionally, independent budgetary units are more common in developed countries, but many developing countries are now establishing such offices. For example: Benin, Ghana, Kenya, South Africa, Morocco, the Philippines, Uganda, Liberia, Nigeria, Thailand, and Vietnam. In Canada, the United States, and Australia, PBOs have also been established in some sub-national or state legislatures.

**Parliamentary Budget Office in Uganda:** Uganda established a PBO in 2001. It is mandated to provide objective and timely analysis to parliament's Budget Committee and the parliament more widely, with the objective of improving the quality of parliamentary engagement with the budget process and financial management. Prior to the establishment of the PBO, parliament did not have any active role in the budget formulation process.

The PBO issues several reports. This includes local revenue analysis, foreign inflows analysis (PBO monitors and reports both multilateral and bilateral organisations and the parliament is able to question or even request government to renegotiate loan provisions that are found to be unfavourable), expenditure reports on each ministry, quarterly budget performance report, yearly economic indicator report, and a report recording all of parliament's recommendations to the government. The PBO also verifies the accuracy of the certificate of financial implications which accompanies every bill and advises on the implications for the budget of the financial year.

### **Congressional Budget Office (CBO) in the**

**United States:** The CBO is the most well-known and well functioning budget office. The CBO was established in 1974 by a statute that also created new House and Senate budget committees to oversee the budget process. The executive is required by the statute to provide the CBO with the information it needs to perform its duties and functions. CBO employs around 250 staffs, and is composed primarily of economists and public policy analysts. CBO's mandate includes:

- Providing Congress with objective, non-partisan and timely analysis to aid economic and budgetary decisions on the wide array of programs covered by the federal budget. It also provides information and estimates required for the Congressional budget process.
- Assisting the House and Senate budget committees and the Congress, by preparing reports and analysis.
- Providing annual report on the economic and budget outlook.
- Providing economic forecast and an independent re-estimate of the President's budget proposals.
- Assisting budget committees and the Congress with enforcement of the budget resolution.
- Analysing the spending and revenue effects of specific legislative proposals and estimating the costs of pending legislation.
- The CBO analyses specific policy and programme issues related to the budget.

### **The Parliamentary Budget Officer in**

**Canada:** The PBO was created in 2006. PBO is mandated to provide independent and objective analysis to parliament on the state of the nation's finances, the government's estimates, and trends in the Canadian economy. The PBO's functions and duties include:

- Research and analysis conducted on request from committees and parliamentarians, including on the estimates.
- Regular analytical products, such as factsheets, briefing notes, working papers, and in-depth economic and fiscal reports.
- Independent research on economic issues initiated from within the PBO.
- Collaborates with external experts and prioritises increasing budget transparency and conducting analysis that may impact on the government's finances or the Canadian economy.

### **Parliamentary Budget Office in New South Wales (Australian Sub-national PBO):**

The Parliamentary Budget Officer was established in 2010. The mandate of the PBO is to cost election policies and proposals which a parliamentary leader and independent members of parliament submit during the run-up to a general election. The PBO is required to publish a list of policies and their budget impact for the current financial year and the following three years. PBO will try to ensure that all election promises are cost-estimated accurately and quickly so that NSW voters can exercise their responsibilities in an informed manner. The PBO is mandated to provide parliamentarians with technical briefings on financial, fiscal and economic matters.



**Legislative Analyst's Office (LAO) in California, USA:** The LAO was established in 1941 to restore the balance of power that had been shifting to the executive. It serves as the legislators' *eyes and ears* to ensure that the executive branch implements the policy in cost efficient and effective manner. The LAO carries out this legislative oversight function by reviewing and analysing the operations and finances of state government. It also makes recommendations to the legislature as to how the state can operate more effectively.

The services provided by the LAO are available to all committees and members of the legislature. The LAO performs specific oversight functions on behalf of the legislature, ensuring that legislative policy is implemented efficiently and cost-effectively. Both Houses fund the LAO on an equal basis and it has strength of 56 staff.

Responsibilities of the LAO:

- Produce detailed review and analysis of the Budget Bill
- Review the individual departments and recommendations for legislative actions.
- Provide a companion document with perspectives and issues and an overview of the state's fiscal condition.
- Forecast the state revenues and expenditures
- Identify some major policy issues confronting the legislature.

**National Assembly Parliamentary Budget Office in Kenya:** The Kenyan PBO is a non-partisan professional office of the National Assembly whose primary function is to provide timely and objective information and analysis concerning the national budget and economy. The PBO reports to the Parliamentary Service Commission through the director and the Clerk of the National Assembly. The tasks of the PBO are to support MPs in overseeing the national budget; provide budget related information to committees; conduct analytical studies requested by the parliament on the budget; liaise with Treasury and other organisations with interest in budget matters.

**Parliamentary Budget Office in Afghanistan:** The PBO was established in 2007. It provides technical and specialised research on the fiscal, economic and expenditure issues. The office has autonomy to conduct fiscal and budgetary research studies without political interference. The PBO provides effective support to the MPs.

## Conclusion

The goal of the PBO is to render budgets more transparent and accountable. PBO can help parliamentarians understand the complex nature of the budgeting and provide parliament and committees with the capacity to contribute to the budget process. Parliamentary scrutiny of public finance is a very important aspect for holding the government(s) accountable to the people. However, the Indian parliament, as well as the legislatures in the states, are institutionally very fragile and ineffective in fulfilling their oversight and scrutiny functions. There is a legitimate democratic need in this country to strengthen the capacity of the parliament and its members. An unprecedented change has taken place in the way citizens view the government's stewardship of taxpayer resources. This change demands new and emerging global standards and best practices to promote financial and budgetary transparency in place.

Parliamentarians have a legitimate role in establishing the PBO in the parliament. As the representatives of the people, they can help improve the budget policies by providing inputs on public needs and priorities. Similarly, a PBO can help ensure parliamentarians informed well enough to perform their budgetary and oversight responsibilities effectively.

The Parliament, with its long-standing traditions of non-partisan legislative services to MPs in India, will find more favourable consensus amongst all parties for the proposal to establish a PBO. However, establishing the PBO in India will require unremitting political will and public support.

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