

NEED FOR CHANGING INDIA'S FINANCIAL YEAR DISCUSSION NOTE

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1. About the Note

- 1.1 The “Budget System” in India has a history of more than 150 years. It was first introduced on 7th April 1860, two years after the transfer of Indian administration from East-India Company to the British Crown. James Wilson, the first Finance Member of the Council delivered the Budget speech expounding the Indian financial policy as an integral whole for the first time³.
- 1.2 The present financial year in India (1st April to 31st March) was adopted by the Government of India in 1867 principally to align the Indian financial year with that of the British government⁴. Prior to 1867, the financial year in India used to commence on 1st May of the current year to 30th April of the following calendar year.
- 1.3 Since then, the appropriateness of this practice has been questioned at various points of time throughout its 150 year history. As a matter of fact, suggestions to revisit this matter started as early as 1870s – shortly after adopting this practice. A major consideration driving such suggestions was that the financial year timing did not allow the Government to account for the impact of monsoon rains (one of the key factors impacting the overall socio-economic dynamics of the country) while allocating scarce budgetary resources. This limitation significantly impacted the investment planning outputs of the budget.
- 1.4 Other key considerations often cited included factors such as: a) the current financial year led to sub-optimal utilisation of working season; b) that the current financial year cycle was chosen without any reference to national culture and traditions or convenience of legislators; and c) that the financial year is not aligned with international practices and it impacted data collection and dissemination from the perspective of national accounts etc.
- 1.5 Various expert committees/study teams which have analysed this matter have unanimously recommended that the Indian Financial Year should change. By and large these experts opined that changing the financial year is a much needed reform leading to superior advantages for the country. Similarly, stakeholders such as State Governments, industry federations etc. have also voiced their support for changing the financial year at different points of time in the history. However, their opinion has been divided on the date of commencing the alternate financial year.
- 1.6 Interestingly, serious demands for changing the financial year seem to be, at times, preceded by drought years or years when the monsoon rains were bad. The most comprehensive attempt to examine this matter was when the Government of India set up a committee on change in financial year under the chairmanship of Shri L. K. Jha in 1984. This committee was formed after the country experienced major droughts in 1979-80 and 1982-83. Coming to the present context, given that the

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³ Budget Manual 2010 published by Ministry of Finance

⁴ Para 2.2 – Report of the Committee on Change in Financial Year (1985) chaired by Shri L. K. Jha

country saw a serious deficit in monsoon rains consecutively for the last 2 years – 2014 and 2015, a fresh attempt is being made to revisit this aspect.

- 1.7 With the above background, the primary intent of this note is to analyse this matter in greater detail and present various arguments highlighting why the historical legacy of the financial year needs change in the present circumstances. To set the context, the note starts with brief discussions about the historical perspective of this practice. Based on detailed analyses of various relevant aspects, the note examines the need for changing the financial year, outlines likely criticisms for this change and its counter arguments and discusses legal and constitutional provisions relevant to this topic. The last section suggests a possible way forward for the eventual transition to a new financial year. The following structure is followed in this note:
 - a) Section 2: Historical perspective: Indian financial year
 - b) Section 3: Need for changing the Indian financial year
 - c) Section 4: Likely criticisms for change and counter-arguments
 - d) Section 5: Broad framework for choosing new financial year
 - e) Section 6: Legal/Constitutional provisions
 - f) Section 7: Way Forward
- 1.8 To be noted: The Ministry of Finance vide its notification F.No.1(17)-B(AC)/2010 dated 06.07.2016 has constituted an expert committee under the chairmanship of Dr. Shankar Acharya (former Chief Economic Advisor) to examine this matter. In this context, this note does not intend to pre-empt or influence the impartial assessment of this matter by the expert committee. This note is intended, instead, to sensitize the government, general public, think tanks, industry, state governments and other stakeholders about the merit of this matter and stimulate a healthy debate and discussion amongst these stakeholders while the committee undertakes its expert analysis in parallel.

2. Historical Perspective: Indian Financial Year

Introduction and background

- 2.1 The concept of having a financial year / fiscal year has probably originated from the general practice of budgeting annually for government finances. A financial year typically refers to a 1-year period, starting a chosen date till the end of 12 months from the start date, used for estimating and analysing the financial situation of governments. For example, In India, the financial situation of the Central Government is stated through the Union Budget and it reflects the Government finances & accounts for a period starting 1st April of a given year and ending 31st March of the next year. The above period would therefore be considered as the “Financial Year” for the Government of India.
- 2.2 Having said that, there are no uniform global practices/standards for choosing a financial year. For example, governments in countries such as Austria, Brazil, China, Germany, Netherlands, Russia etc. have their financial years starting 1st January and ending 31st December – thus coinciding with the calendar year. Countries such as India, UK, Canada, Singapore etc. have their financial years starting 1st April of a given year and ending 31st March next year – thus spreading it over two calendar years. Countries such as Pakistan, Egypt, New Zealand etc. follow a financial year starting 1st July⁵.

⁵ Source: https://en.wikipedia.org/wiki/Fiscal_year

- 2.3 It is important to distinguish between financial years of Governments and financial years of other entities such as private companies, institutions, business organizations etc. Such entities are also required to prepare accounts estimating and analysing their financial situation for a chosen period of 12 months for taxation and investor reporting purposes. The period thus chosen could be referred as the “Financial Year” for the entity which could be different than that of their Government i.e the Government of the country in which they are incorporated.
- 2.4 The present financial year in India (1st April to 31st March) was adopted by the Government of India in 1867. Prior to 1867⁶, the financial year in India used to commence on 1st May of the current year to 30th April of the following calendar year. The rationale for using 1st May to 30th April as the financial year over the 7-year period (from 1860 to 1866 inclusive of both these years) has not been discussed in the available literature. The financial year, however, was changed to 1st April – 31st March starting 1867 principally to align the Indian financial year with that of the British government⁷.
- 2.5 Since then, the appropriateness of this practice has been questioned and debated at various points of time throughout its 150 year history. The sections below essentially discuss such historical instances borrowing largely from the report of the Committee on Change in Financial year chaired by Shri L.K. Jha⁸ as the key source document.

Pre-Independence

- 2.6 As early as 1865 and shortly before the Indian Government adopted the 1st April – 31st March as its financial year, a Commission of Enquiry into Indian Accounts comprising Foster and Whiffen (the former was the Assistant Paymaster-General and the latter, the Deputy Accountant-General to the War Department in England) suggested that the Indian financial year should commence from 1st January. The then Secretary of State considered this suggestion but however took a decision to adopt the commencement of Indian financial year as 1st April to ensure conformity with that of the British financial year. There have been few more occasions starting 1870 when this practice was questioned. However, the Government did not consider any change necessary and this arrangement was put on the statute book through enactment of the General Clauses Act 1987⁹.
- 2.7 In 1900, the Welby Commission considered this matter and the Government of India, on the basis of suggestion made by the Maharaja of Darbhanga, also

⁶ The “Budget System” in India was first introduced on 7th April 1860, two years after the transfer of Indian administration from East-India Company to the British Crown. James Wilson, the first Finance Member of the Council delivered the Budget speech expounding the Indian financial policy as an integral whole for the first time (Source: Budget Manual 2010 published by Ministry of Finance)

⁷ Para 2.2 – Report of the Committee on Change in Financial Year (1985) chaired by L. K. Jha

⁸ Vide resolution no. F.1(27)-B(AC)/84 dated 1 May 1984, the Government of India constituted a committee (referred to as the “Committee on Change in Financial Year”) chaired by Shri L. K. Jha – a noted economist, and mandated the committee to examine the suitability of various dates for the commencement of the Indian financial year. The committee submitted its report to the then Minister of Finance on 27 April 1985. Chapter 2 of this committee report succinctly details out the history of various occasions- teams – both pre-independence and post-independence.

⁹ Clause 3 of the General Clauses Act, 1897: In this Act, and in all Central Acts and regulations made after the commencement of this Act, unless there is anything repugnant in the subject or context-

(21) “financial year” shall mean the year commencing on the first day of April.

Source: <http://www.advocatekhoj.com/library/bareacts/generalclauses/3.php?Title=General%20Clauses%20Act,%201897&STitle=Definitions>

considered this in 1908. Later, the Royal Commission on Indian Finance and Currency (commonly referred to as the “Chamberlain Commission”) appointed in the year 1913 and that submitted its findings in 1914 also examined this question. The Chamberlain Commission observed that, under the present arrangements, the Budget estimates had to be prepared in ignorance of “*the most important factor on which the results of the year will depend*” and recommended that “It is clear in fact that from the financial point of view the present date is almost the most inconvenient possible for the budget, and the suggestion has therefore been made that the date of the beginning of the financial year should be altered from the 1st April to the 1st November or 1st January. There may be administrative difficulties in carrying this suggestion into effect, but financially, it would be a great improvement. Criticism directed against the inaccuracy of Indian budgeting is not effectively answered by a reference to the difficulties which arise under present conditions”. Further excerpts of their recommendation are given in Annexure 1.

- 2.8 Due to the World War, the Government of India considered this suggestion only in 1921 and that too as a result of a suggestion by Sir Dinshaw Wacha for adopting 1st January as the start of Indian financial year. However, considering the opposition particularly from the Provincial Governments this matter was dropped and the resultant Government decision was stated vide resolution No. 83 F dated 18 January 1923. The extracts of this resolution are enclosed in Annexure 1.

Post - Independence

- 2.9 The matter of Indian Financial year attracted even more examination post-independence. The Constitution of India did not define the Indian financial year explicitly. However, given the applicability of the General Clauses Act 1897 (which defines the financial year starting 1st April) to the Constitution (Article 367(1)), the timing of the Indian financial year needed no change post adoption of the Constitution¹⁰.
- 2.10 In 1954, a non-official resolution was brought up before the Congress Session at Kalyani, at the instance of the Prime Minister, proposing that the financial year commence from 1st July. Among the reasons given for the proposed change were that the Budget was prepared without any idea of the ensuing monsoon and that the period of the Budget session left practically no time for members of the Legislatures to tour their constituencies except during the rainy season. The Government considered this resolution and decided against this proposal in November 1954. The Government, however, stated that the Budget session could be suitably adjusted to provide sufficient time to the Legislators to tour their constituencies and accordingly informed the States as well in December 1954.
- 2.11 This matter was raised again in the National Development Council (NDC) in 1956 where too the consensus was against any change. In 1958, the Estimates Committee¹¹ (Second Lok Sabha) in their 20th Report recommended that the financial year may commence from 1st October. According to the Committee, under such an arrangement, the working season would be almost over by the time the preparation of the next Budget started and the monsoon months could, consequently be utilised for the penultimate and final states of the preparation of

¹⁰The constitutional provisions applicable on this aspect are further elaborated later in this note.

¹¹ The Estimates committee pointed out in paras 39-40 various difficulties in the present system of commencing the budget year from the 1st of April and suggested that it is desirable that early action to change the Financial year to commence from 1st of October be taken

the Budget. The Government, however, felt that the time was not opportune for this change and hence no action was taken consequently.

2.12 The next major occasion for examination of this matter came as a result of the appointment of the first Administrative Reforms Commission (ARC) in 1966. The Commission's study team on Financial Administration examined this aspect and suggested suitable options for alternate financial year duly considering various perspectives:

- a) From the perspective of Accuracy of the revenue estimates in the budget, the study team suggested that the most suitable date for the commencement of the Indian financial year is 1st January whilst 1st April is the least suitable date;
- b) From the perspective of Accuracy of expenditure estimates in the budget, 1st January would be the most suitable date assuming that severe drought and acute food shortages are regarded as features recurring often. If this assumption is not considered, that is if drought and food shortages are considered rare, then 1st October would be the preferred date;
- c) From the point of view of efficacy of performance, 1st October and 1st July were considered suitable while 1st April was considered least suitable; and lastly
- d) From the point of view of convenience of legislators and administrators, 1st January was considered suitable from the angle of presenting and passing the budget while 1st October was considered suitable from the angle of touring the constituencies.
- e) Overall, the Study Team recommended that if the *status quo* was to be changed, the balance of advantage would lie in favour of 1st October. The excerpts of the key observations of the Study Team are presented in Annexure 1.

2.13 However, vide its letter dated 13 January 1968, the Chairman of the ARC – Shri. K. Hanumanthaiya submitted the 4th Report on Finance, Accounts and Audit recommending 1st November as the preferred date for starting the financial year¹². The Chairman differed from the overall recommendation of the Study Team and noted: “The Financial Year starting from the 1st of April is not based on the customs and needs of our nation. Our economy is still predominantly agricultural and is dependent on the behaviour of the principal monsoon. A realistic financial year should enable a correct assessment of revenue, should also synchronize with a maximum continuous spell of the working season and facilitate an even spread of expenditure. For centuries, people in India have become accustomed to commence their Financial Year on the Diwali day. This practice has its roots in their way of life. The business community and other sectors of society start on the Diwali day with the feeling that they have finished with the old period of activity and have embarked upon a new one. It is, therefore, appropriate that the commencement of the Financial Year should be related to Diwali and, in order to prescribe it in terms of a fixed date, we have recommended that the 1st of November should begin the Financial Year”. The excerpts of the key observations of the ARC are presented in Annexure 1.

2.14 The Government of India placed the above observations before the NDC at its meeting in April 1969. After considering all relevant factors, the NDC was generally of the view that no change be made in the financial year and that it should continue to commence from 1st April. In the light of this view, the Government

¹² Source: Letter of the Chairman – 1st ARC while submitting the 4th report on “Finance, Accounts and Audit”

considered the matter further and decided in May 1969 to maintain the *status quo* and this decision was also placed before the Parliament in July 1969. The matter was again examined in 1977 and 1979 but as there were no new grounds warranting a change, the *status quo* was maintained.

- 2.15 In February 1981, the matter came up again before the NDC, when, however, it was generally agreed that the whole question should be reviewed afresh. Against the backdrop of serious droughts of 1979-80 and 1982-83, the Union Minister of Finance while presenting the Budget for 1983-84 also said the following with regard to the overall financial and economic situation of the country: "A drought year is always a difficult one for the economy. The decline in agricultural production that the drought entails has an effect which goes beyond the rural sector. The drop in the purchasing power of our farmers exerts a deflationary influence on industry. The drought also affects power generation and has an adverse impact on the external payments. It reduces the resource base and at the same time it calls for an increase in relief expenditure. The performance of the Indian economy in the year that is ending has to be viewed against this background".
- 2.16 Thereafter, in August 1983, the Union Finance Minister invited the views of the State Chief Ministers if they think the financial year should change. Almost all the Chief Ministers who replied were in favour of a change in the financial year. However, their views were divided on the precise date of the commencement of financial year. Several Chief Ministers suggested presentation of the Budget after the monsoon in the light of the knowledge of the monsoon and kharif output; many of them suggested synchronisation with the calendar year while others recommended 1st July for facilitating the execution of development works.
- 2.17 Consequently, the Finance Minister constituted a committee under the chair of Shri L. K. Jha vide resolution no. F.1(27)-B(AC)/84 dated 1 May 1984. The Committee comprised of prominent representatives/experts in this domain and included Member, Planning Commission, Secretary (Expenditure), Deputy Governor of the RBI, Deputy CAG, Chairman – Agricultural Prices Commission, Presidents of FICCI and Associated Chambers of Commerce & Industry, Finance Secretaries of 4 states – Maharashtra, UP, Tamil Nadu and Bihar and the Member Secretary.
- 2.18 The Committee submitted its report on 27 April 1985 to the Minister of Finance. By far, this was the most rigorous assessment undertaken on this subject. The Committee adopted a comprehensive methodology inviting views and suggestions from a wide spectrum of stakeholders and institutions – including State Governments, different ministries of the Government, Planning Commission, National Council of Applied Economic Research (NCAER), National Institute of Public Finance and Policy, Commerce and Industry Chambers, Central Statistical Organization etc. as well as the general public.
- 2.19 Based on such wide consultations, the Committee recommended change in the existing financial year and advised adopting 1st January as the preferred date for commencing the financial year. The Committee emphasised that the change in financial year should necessarily be accompanied by implementing a set of administrative and financial reforms for it to be most effective and beneficial.
- 2.20 The following points stated in the report of the Committee are particularly noteworthy (the details of Summary and Conclusions of this report are presented in Annexure 1):

- a) 10.23 Conclusions and recommendations: (i) – “Having regard to the impact of the South-west monsoon on the economy as whole, no less than on the receipts and expenditure of Governments, both at the Centre and in the States, the budgetary exercise should be finalised in October after the South-West monsoon is over. This would enable the presentation of the Budget in November, which would lead to the commencement of the financial year in January. Such a change would have many advantages from the point of view of National Accounts as well”.
 - b) Para 2 – letter to the Minister of Finance by the Chairman of the Committee: “.....It seemed to us that making January-December the financial year would be the most advantageous from this point of view, as it would enable the budget to be presented in November when the size of the *kharif* crop would be known, and a preview of the *rabi* crop would be possible. The choice would also be helpful in the compilation of statistical data for purposes of National Accounts, in line with international practice, and do away with the confusion caused by having to refer to the financial year for some purposes and the calendar year for others”.
- 2.21 The Government of India reviewed the recommendations of the committee but however decided to maintain status-quo on the financial year. On the change in financial year, the Government of India stated the following reasons for maintaining the status-quo¹³:
- a) The advantages arising out of the change would only be marginal in view of the innumerable considerations in the formulation of budget policies;
 - b) Change in the financial year would upset the collection of data and it might take a long time to return to normalcy in this regard; and
 - c) The change would create a large number of problems, as extensive amendments to tax laws and systems, financial procedures relating to expenditure authorization and other matters would become necessary and in that process the administrative machinery would get diverted to the problems of transition instead of concentrating on improving the tax collection machinery.

Summary and Conclusions

- 2.22 It is interesting that the practice of continuing the Indian Financial Year from 1st April – 31st March has been questioned, though unsuccessfully, time and again throughout its 150 years history. There has been a broad consistent approach in this debate over the above period and following salient points/aspects summarise the historical context:
- a) In 1867, 1st April – 31st March was adopted as the financial year of India by the Government to align the same with that of the British Government. “Indian/Local” factors were not taken into account while deciding so.
 - b) The prominent consideration for changing the financial year is the argument that the Government budgets are formed “without any knowledge of South-West or North-East monsoons” which impact the socio-economic character of the country significantly.
 - c) Even from the point of view of other relevant considerations such as optimum utilization of the working season, national culture and traditions, convenience

¹³ Source: Chapter 1, Page 4 – Budget Manual 2010 issued by the Ministry of Finance

of administrators and legislators etc., the existing 1st April – 31st March as the financial year does not fit optimally.

- d) Various expert committees/study teams which have analysed this subject have unanimously recommended that the Indian Financial Year should change. This implies that by and large these committees thought changing the financial year would be a much needed reform leading to superior advantages for the country. However, their opinion is divided on the date of commencing the financial year with views ranging from 1st October, 1st November to 1st January.
- e) The Committee on Change in Financial Year considered views of various State Governments on this matter as well. Most of the states conveyed a broad consensus in favour of change of the financial year with January-December as the preferred financial year.
- f) Administrative difficulty in implementation and lack of unanimity/consensus on the alternative commencement date for the financial year (as no particular date was seen to address all the concerns cited by various stakeholders) remain the most important reasons for maintaining the status-quo.

3. Need for changing the Indian Financial Year

- 3.1 As described in the previous section, the appropriateness of the Indian Financial Year starting 1st April has frequently been questioned and examined time and again. The financial year April – March was adopted to ensure alignment of the Indian financial year with that of the British and that local/national considerations did not really drive the above decision. Historically, the most important local consideration driving such examination is that the Government is not able to account for the impact of monsoon rains while finalizing and presenting the Budget. Considering that the Budget is a critical tool for implementing the socio-economic policies of the government, the current financial year brings its own limitations on the economic and investment planning.
- 3.2 Other important considerations often cited include aspects such as: a) current financial year leads to sub-optimal utilisation of working season - typically believed to spread from October till June (around 9 months) with the period between July-September being the monsoon season; b) difference in agriculture crop period, statistics and data collection periods from the point of view of national accounts; c) convenience of legislators; d) international practices; e) national culture/traditions etc.
- 3.3 Accordingly, this section of the note examines the appropriateness of the Indian Financial year in the context of the above considerations. The following structure is broadly followed for analyses in this section:
 - A. Impact of the financial year on Budget;
 - B. Impact of the financial year to the working season;
 - C. Impact of the financial year with respect to different agriculture crop periods, statistics and data collection periods;
 - D. International practices;
 - E. National Culture/Traditions;
 - F. Convenience of legislators.

A. Impact of the financial year on Budget

- 3.4 This section aims to understand the impact of financial year on the Government Budget. The principal consideration in this point of view is that given the timing of the existing financial year, the Government ends up formulating its Budget without reliable information about monsoon rains that significantly impacts: a) the agriculture sector and the rural economy in particular; and b) the overall economy and budgetary policy in general.
- 3.5 Accordingly, the following questions are being analysed to examine the above consideration further:
- i) What is a Budget and what are its key processes and timelines? (The Budget Process and timelines);
 - ii) Why are monsoon rains important for the agriculture sector? (Impact of monsoons on the agriculture sector);
 - iii) Why agriculture sector matters so much in the overall socio-economic structure of the country? (The place of agriculture sector in the overall socio-economic structure of the country);
 - iv) Consequently, why are monsoon rains crucial for the country and for the Government's budget? (The resultant impact of monsoons on the Government Budget and concluding arguments);

(i) Budget Process and Timelines

- 3.6 To assess the impact of financial year on Budget, it is important first to understand budget process and timelines. The typical budget process, key activities involved in budgeting and resultant timelines are briefly discussed below.
- 3.7 Article 112 of the Constitution mandates the Government of India to lay before the Parliament a statement of the estimated receipts and expenditure of the Government for a financial year. This statement is known as the "Annual Financial Statement" and is popularly referred to as the Union Budget of India or the General Budget. The Union Budget is one of the most important policy tools of the Government and is intended to design for optimal allocation of scarce resources taking into account the social, economic and political priorities. The Budget typically details the disposition's proposals for raising required revenues to expend and invest on various programs and work plans based on the above priorities¹⁴.
- 3.8 Budgeting therefore involves determining for a future time period on what is to be done and achieved, the manner in which it is to be done and the resources required for the same. It requires the broad objectives of the Government to be broken down into detailed work plans for each programme and sub-programme, activity and projects for each unit of the Government organization¹⁵.
- 3.9 The Budget process usually starts in the month of September with the Ministry of Finance issuing the Budget Circular to all Ministries/Departments regarding framing of estimates of receipts and expenditures, time schedules etc. This is followed by Pre-Budget discussions, procuring budgetary estimates from Ministries/ Departments, security, assessment of revenues etc.
- 3.10 By the end of January, typically, budgetary assessments related to revenue and expenditure are finalised. The month of February is typically spent in giving final touches, printing of various documents for inclusion in the Union Budget, taking

¹⁴Chapter 1, Budget Manual 2010 published by Ministry of Finance

¹⁵Chapter 1, Budget Manual 2010 published by Ministry of Finance

approvals and finally on the last working day the Minister of Finance presents the Budget in the Parliament.

- 3.11 A series of discussions and Parliament scrutiny takes place thereafter and the Appropriation Bill and the Finance Bill is typically approved by the Legislature around the 1st week of May.
- 3.12 The typical Budget process, key activities and timelines are presented below:

Table: Budget related key activities and typical timelines

	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan				Feb				March				April				May			
List of Key Activities										W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4	W1	W2	W3	W4
Issue of Budget Circular to all Min/Dept																													
Co-ordination with Min/Dept for receipts budget and scrutiny of estimates including Pre-Budget meetings																													
Communication of Ceilings of expenditure (Plan & Non-Plan RE and Non-Plan BE)																													
Closure of estimations of tax and non-tax revenues																													
Discussions and closure of all receipts and expenditure estimates																													
Printing of Budget Documents																													
PM and Cabinet approval followed by Budget presentation in Parliament																													
Laying of Budget documents in Parliament																													
Passing of Appropriation (Vote on Account) Bill by Parliament																													
Considerations and discussions on Appropriation (Main) Bill and Finance Bill - As per Parliament's Business																													
President's assent to the Appropriation Bill and Finance Bill																													

Source: Chapter 5, Budget Manual 2010 – Ministry of Finance
 (“W” stands for “week”)

3.13 Given the above, the following points are the key take-aways:

- a) The budgetary receipts and estimates are typically finalised around January end.
- b) Despite technological strides in modelling and predicting techniques, there are limitations in having reliable estimates of ensuing South-Western monsoons by January. Hence, Government ends up deciding fiscal allocations and investment plans without reasonable assessment of the coming monsoon rains.
- c) Past performance data on revenue, expenditure, economic situation, weather, performance indicators etc. for 9 months (April – December) of the last financial year are generally taken into account while planning for budgetary allocations.
- d) It takes slightly more than 3 months from the time budgetary estimates are finalised (January) to the point where the Parliament and the President approve the Finance & Appropriation Bill (around May). The new financial year starts during this period, with fresh allocations finally reaching the implementing authorities by May end (i.e about two months into the new financial year).
- e) From the perspective of monsoons, it essentially means that by the time Government authorises fresh allocations, the impact of previous South-West is well over (more than 8 months over) and by the time fresh allocations reach implementing authorities (May/June) – the South West monsoon are just about to set in thereby leaving no immediate space for course-corrections, if needed.

3.14 Reference would be made to the above key take-aways for various analyses later.

(ii) Impact of monsoons on the agriculture sector

3.15 India has broadly two monsoon seasons. The period June-September, referred to as the “South-west monsoon” season, is the principal rainy season for the country accounting for about 75% of the total rainfall that the country receives¹⁶. The South-west monsoon typically sets in over the south-western tip (state of Kerala) by the end of May and progresses inland covering the entire country by July. The south-west monsoon generally starts retreating around September.

3.16 Rainfall season in the country during the period October – December is generally referred to as the “North-east monsoon” or the “Retreating south-west monsoon”. Some of the south-eastern coastal areas, particularly the state of Tamil Nadu, receive their principal rainfall from this monsoon.

3.17 In line with the monsoon rains, India has two broad cultivation seasons: *kharif* (cropping season covering the period July – October) and *rabi* (cropping season from October – March). The South-west monsoon directly impacts the sowing and outputs of the *kharif* crops. It also impacts the outputs of *rabi* crops as a good South-West monsoon facilitates retention of moisture in soil and contributes to other sources of water such as ground water, reservoirs, ponds, wells etc. which are very critical for states that do not receive their principal rainfall from the North-east monsoon.

3.18 While different crops are sown and harvested in their own cropping seasons (for example, rice is generally a *kharif* crop, wheat a *rabi* crop, commercial crops such sugarcane, cotton etc. have their own cropping seasons), *kharif* crops generally accounted for the significant proportion of the total agriculture output few decades back. In the present context, the proportion of output is broadly distributed evenly

¹⁶ Source: <http://www.imdchennai.gov.in/swweb.pdf>

between *kharif* and *rabi* as can be seen from the table below and hence the importance of South-West monsoon is amplified as a deficient monsoon would likely end up impacting both *kharif* and *rabi* outputs.

Table: Production of Food grains in India (2015-16)
(nos. in Million Tons, % indicates share of production in respective season)

Commodity	Million Tons	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 (3 rd AE)
Rice	Kharif	84%	88%	88%	86%	87%	88%
	Rabi	16%	12%	12%	14%	13%	12%
	Total	95.98	105.3	105.24	106.65	105.48	103.36
Wheat	Kharif						
	Rabi	86.87	94.88	93.51	95.85	86.53	94.04
Bajra	Kharif	10.37	10.28	8.74	9.25	9.18	8.25
Maize	Kharif	77%	76%	73%	71%	70%	74%
	Rabi	23%	24%	27%	29%	30%	26%
	Total	21.73	21.76	22.25	24.25	24.17	21.03
Coarse Cereals	Kharif	76%	77%	74%	72%	72%	74%
	Rabi	24%	23%	26%	28%	28%	26%
	Total	43.4	42.02	40.04	43.29	42.86	37.78
Cereals	Kharif	50%	52%	51%	50%	52%	50%
	Rabi	50%	48%	49%	50%	48%	50%
	Total	226.25	242.2	238.79	245.79	234.87	235.17
Total Pulses	Kharif	39%	35%	32%	31%	33%	32%
	Rabi	61%	65%	68%	69%	67%	68%
	Total	18.24	17.09	18.34	19.24	17.15	17.06
Total Foodgrains	Kharif	49%	51%	50%	49%	51%	49%
	Rabi	51%	49%	50%	51%	49%	51%
	Total	244.49	259.28	257.13	265.04	252.02	252.23

Source: 3rd AE of production of Food-grains 2015-16, Directorate of Economics & Statistics, Department of Agriculture, Cooperation & Farmers welfare

- 3.19 The relationship between monsoon and the overall production of agriculture crops is complex as monsoon covers the entire country and crop production thereby becomes a function of geo-spatial distribution of monsoon rains over the entire season. However, a bad monsoon generally hits agriculture sector directly and leads to reduced crop outputs. The table below indicates broad trends of impact of monsoons to key agriculture crop outputs:

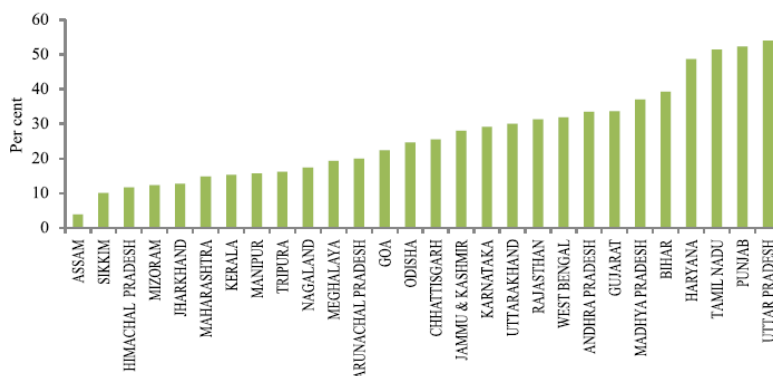
Table: Impact of monsoons to key crop outputs (All India average basis)

Particulars	2013-14	2014-15	2015-16
Monsoon - All India Avg	106%	88%	86%
Rice (Y-o-Y)	1.3%	-1.1%	-2.0%
Wheat (Y-o-Y)	2.5%	-9.7%	8.7%
Total Pulses output (Y-o-Y)	4.9%	-10.9%	-0.5%
Total Foodgrain output (Y-o-Y)	3.1%	-4.9%	0.1%
Agriculture Sector GVA	4.2%	-0.2%	1.1%

Source: Ministry of Finance, MYR 2015-16 and NITI assessment

- 3.20 That monsoons directly impact agriculture output is because of the observation that about 54%¹⁷ of agriculture in the country is still dependent on rainfall. Another important point is that there is wide regional disparity in dependence to monsoons, with some of the states (such as Punjab, Tamil Nadu, UP etc.) leading in their attempts to reduce the dependency on monsoons while majority of the others lagging behind. The state wise percentage distribution of irrigated area to total cropped area is shown below.

Figure: State-wise net irrigated area to cropped area



Source: Economic Survey 2015-16

- 3.21 While over the years, successive Governments have attempted to blunt the exposure of agriculture sector outputs to monsoons by planning for investments in irrigation, modern production technologies etc., considering the size and expanse of the arable land and the situation of the farming community, it is likely to take significant more time to realize the above. Bad monsoon years have therefore ended up impacting agriculture in a serious manner – a case in point being the last 2 years (2014 and 2015) which saw successive deficient monsoon years. The resultant impact of bad monsoons is that reduced agriculture output hits rural incomes and also leads to short-term demand supply mismatches, food inflation, drought situations etc. thereby creating an adverse stress on the overall agriculture economy in general.
- 3.22 Given the above discussions, it is therefore evident that more than 50% of the Indian agriculture sector is exposed to monsoons and that monsoon rains, particularly the South-West monsoon (being the principal rainy season for the country) directly impact both *kharif* and *rabi* crops and are likely to continue doing so in the medium term.

(iii) The place of agriculture sector in the overall socio-economic structure of the country

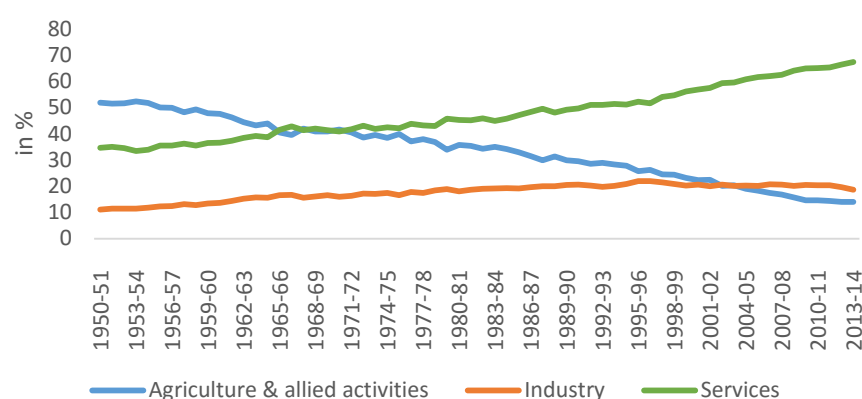
- 3.23 The socio-economic structure of the country has significantly evolved over the last so many decades. While before independence and few decades thereafter, agriculture sector had a dominant influence in the overall economy, the same may not be the case in the present context.
- 3.24 The overall economic structure of the country could be categorized under three broad heads: a) *Agriculture & allied sectors*: comprising economic activities in agriculture sector, forestry and fishing; b) *Industry*: comprising activities in sectors

¹⁷Source: Para 16, Budget Speech 2016-17 of the Union Financial Minister

such as manufacturing, mining, utilities like water, electricity etc.; and c) *Services*: comprising trade, hotels, financial services, communications & IT etc.

- 3.25 The share of agriculture sector in the overall economy has gradually come down over the years. As can be seen from the graph below, in 1950s, agriculture & allied sector accounted for slightly more than 50% of the entire economy of the country. Over the years, the economic structure of the country has steadily shifted from an agriculture based economy to a services driven economy. As a result, in 2012-13, the share of agriculture & allied sector dropped to below 20% in the overall economy. It may be noted here that the sectoral breakup of the above data is also available as per the New Series 2011-12, the older series data has been used for the sake of consistency to examine the historical trends.

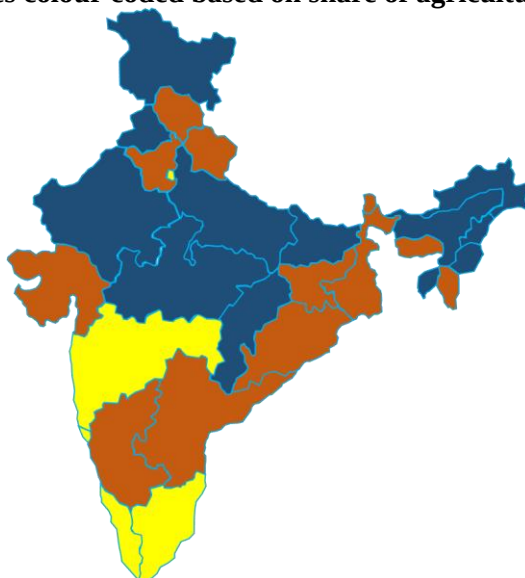
Figure: Sector-wise composition of Indian GDP at factor cost (in constant 2004-05 prices covering the period 1950-2014)



Source: RBI Website – Components of GDP at factor cost (<http://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>)

- 3.26 The broader national trend is also reflected in the GSDP trends for various states. The map below shows the colour coding for states with “Blue Colour” indicating states with agriculture contributing to more than 20% share in their GSDP (2012-13), Orange – States with agriculture contributing to more than 10% but less than 20% share in their GSDP (2012-13) and Yellow – States with agriculture contributing to less than 10% of GSDP (2012-13).

Figure: Map for states colour coded based on share of agriculture sector to the GSDP



Source: NITI Aayog – State-wise GSDP by Industry of Origin (at 2004-05 prices)

- 3.27 As can be seen, majority of the northern states have agriculture sector contributing to more than 20% of GSDPs. It is important to note here that these north Indian states are amongst the most populated states in the country as well.
- 3.28 The graph chart above indicates that from a purely economic perspective, the overall share of agriculture and allied sector in the economy has declined significantly. That agriculture sector no longer commands the same share in the economy currently as it did few years post-independence. However, what it does not capture or explain are the following aspects:
- Agriculture sector continues to dominate the overall socio-economic dynamics of the country;
 - Growth in agriculture has inter-linkages with that of the overall economic growth of the country in general and industrial growth in particular.
- 3.29 It is popular to refer India as an agrarian or an agri-based country. This is not because agriculture is the pre-dominant activity for the Indian economy. It is primarily because a significant majority of the population of the country is directly or indirectly impacted by agriculture.
- 3.30 As per the Census 2011, the Rural : Urban distribution of population is estimated to be 68.84%:31.16%¹⁸. This means that approximately ~ 70% of the total population of the country could be considered as rural. The National Sample Survey Office (NSSO), Ministry of Statistics and Programme Implementation (MoSPI) has recently published a report titled “Key Indicators of Situation of Agricultural Households in India” as part of the NSS 70th round from January 2013-December 2013. Some of the key findings of this survey exercise are indicated in the points below:
- The survey indicates that, on an average, agricultural households represent ~ 58% of the total households in Rural India.

Table: Estimated number of agricultural households, its percentage share in rural households in the major States during the agricultural year July 2012 – June 2013

State	Agricultural households as a % of total rural households
Andhra Pradesh	41.50%
Assam	65.20%
Bihar	50.50%
Chattisgarh	68.30%
Gujarat	66.90%
Haryana	60.70%
Jharkhand	59.50%
Karnataka	54.80%
Kerala	27.30%
Madhya Pradesh	70.80%
Maharashtra	56.70%
Odisha	57.50%
Punjab	51.10%
Rajasthan	78.40%
Tamil Nadu	34.70%

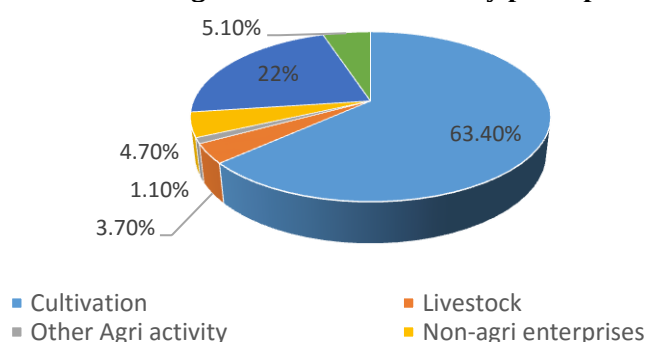
¹⁸ Source: Presentation on provisional population totals – Census 2011

Telangana	51.50%
Uttar Pradesh	74.80%
West Bengal	45.00%
ALL INDIA	57.80%

Source: NSSO Report on Key Indicators of Situation of Agricultural Households in India – Dec 2014

- b) Among various sources from which the above agricultural households received any income during 365 days prior to the date of survey, the source which yielded maximum income was taken as “principal source of income”. Agricultural households were dependent mainly on agriculture and allied activities as about 63.5% of the agricultural households reported cultivation as their principal source of income and about 68.2% reported cultivation, livestock and other agri-related activities as the principal source of income.

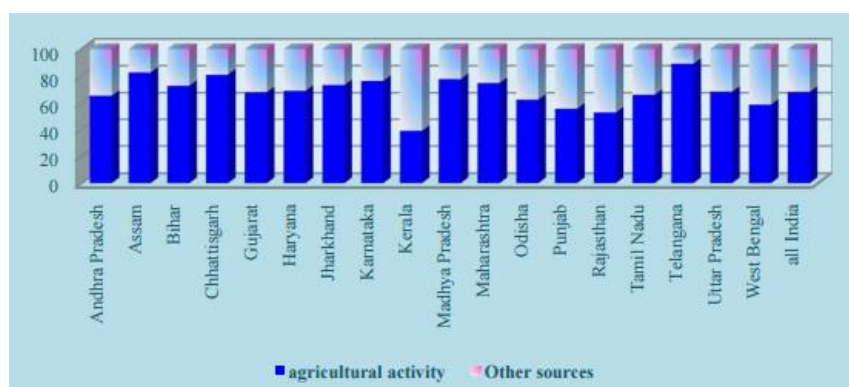
Figure: % distribution of agriculture households by principal source of income



Source: NSSO Report on Key Indicators of Situation of Agricultural Households in India – Dec 2014

- c) The above trend is broadly secular for most of the major states where the survey was conducted by NSSO, except Kerala where 61% of the agricultural households reported to have earned maximum income from sources other than agricultural activities. The graph below shows the state-wise distribution:

Figure: State-wise agriculture households by principal source of income



Source: NSSO Report on Key Indicators of Situation of Agricultural Households in India – Dec 2014

- d) Combining the findings of a) and b) above, it can broadly be concluded that ~ **40%** of the entire rural households in the country rely on agriculture for their principal source of income (63.5%, % of agricultural households reporting cultivation as principal source of income, multiplied by 57.8% i.e % of agricultural households to rural households).

- 3.31 The above findings are further corroborated in the Economic Survey 2015-16 in terms of workforce employment. As per the Economic Survey, the agriculture sector on an overall basis accounts for about 48.9% of the total workforce employment in the country¹⁹. The table below shows the breakup of employment situation indicating that this share is significantly more in Rural India as majority of the working population in Rural India is directly dependent on Primary sector – comprising agriculture and allied activities.

Table: Employment situation in India – Per 1000 situation of usually employed by broad groups of Industry (%age of employment for Primary Sector*)

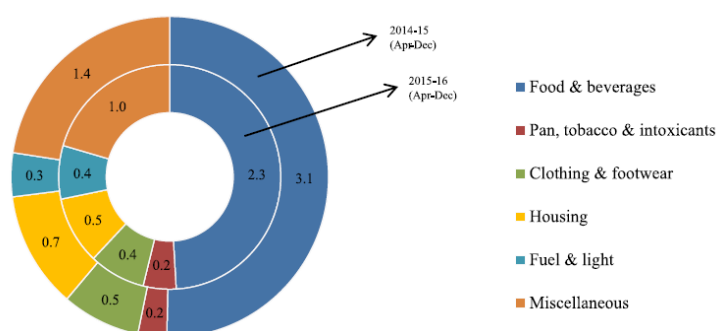
in %	Rural		Urban	
NSS Survey Period	Male	Female	Male	Female
July 2011-June 2012	59%	75%	6%	11%

Source: RBI Database (<http://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics>)

*Primary Sector comprises agriculture and allied activities

- 3.32 The above points indicate that: a) Significant majority of the rural households in the country derive their principal income from agriculture sector and b) Agriculture sector accounts for the significant workforce employment in the country. Another important impact of agriculture sector, in daily lives of almost everyone (rural and urban population) as well as for the overall economy, is through its impact on headline inflation as explained below.
- 3.33 While various factors (base effect, global commodity pricing trends, domestic supply trends etc.) contribute to inflation, given the fact that bad monsoons lead to lower agriculture output and hence such supply constraints do have a direct role in pushing inflation. As per the Economic Survey 2015-16²⁰, food and beverages has a weight of about 46% in CPI (combined) which is now being taken as the measure of headline inflation by the RBI to anchor its monetary policy. The Survey also notes that lately the headline inflation has been ticking upwards owing to “build up in food group inflation” and that “There is a strong correlation between stability in agricultural production and food security. Volatility in agricultural production impacts food supplies and can result in spikes in food prices, which adversely affect the lowest income groups of the population²¹”. The point contribution of various groups to CPI is indicated in the figure below.

Figure: Point Contribution to CPI (Combined Inflation)



Source: Economic Survey 2015-16

- 3.34 Considering the above arguments, it would therefore be reasonable to conclude that the importance of agriculture sector from the overall socio-economic perspective

¹⁹ Source: Para 5.18, the Economic Survey 2015-16

²⁰ Para 5.3: Economic Survey 2015-16

²¹ Para 5.77: Economic Survey 2015-16

clearly overshadows that from a purely economic perspective in the country. This sector directly or indirectly impacts almost everyone in the country.

- 3.35 Now, coming back to the second point highlighted earlier, some attempts have been made in the past to examine the inter-linkage of agriculture growth with that of the overall economic growth of the country in general and industrial growth in particular.
- 3.36 Dr. C. Rangarajan had published a research report on “Agricultural Growth and Industrial Performance in India” in 1982 on this matter. Dr. Rangarajan’s study points out that agriculture influences industry in many ways - it generates demand for industrial products, it provides raw materials needed by agriculture-based industry, it fosters direct rural demand for consumer goods and creates indirect demand for basic and capital goods. A rise in agricultural production leads to a rise in rural incomes, which leads to increased demand for industrial consumption goods; a rise in rural income also generates more household savings and investment. The Government also saves scarce financial resources because it spends less on public relief measures than it would in times of crops failures. Dr. Rangarajan in his research concludes that a 1% increase in agricultural output increases industrial production by about 0.5% and thus national income by a little more than 0.7%²².
- 3.37 Besides the above research findings, the Report of the Committee on Change in Financial Year (1985) chaired by Shri L. K. Jha also supports Dr. Rangarajan’s arguments by referring to two more research inputs provided to them by FICCI and the National Council of Applied Economic Research (NCAER). The key findings of the FICCI report²³ are produced below for general reference:
- The output of consumer goods industry in any calendar year is dependent on:
 - Agricultural production, with time lag of 6 months, and
 - Non-agricultural real income, with time lag of 9 months
 - For a given level of non-agricultural real income, every 10% rise (or fall) in agricultural production increases (or decreases) the output of consumer goods industry by 3.2%.
 - Fluctuations and growth of agricultural output can have a significant impact on industrial growth, though the dynamics of industrial growth is more complex. The total effect (both direct and indirect) of a 10% rise (or fall) in agricultural output is to increase (or decrease) the output of all industries by 7.03%.
- 3.38 Similarly, the NCAER study related to 1982-83 (a bad agricultural year) and 1983-84 (a good year) concluded that in the bad agricultural year, the GDP was lower by 2.03% in nominal terms, the decline in real terms being 4.95%.²⁴
- 3.39 Now, considering that the above research studies are dated and therefore the quantitative outputs of those studies may have changed in today’s context. So, it’s likely that Dr. Rangarajan’s findings that 1% increase in agricultural output increases industrial production by about 0.5% and thus national income by a little more than 0.7% may be different for today’s economic context. But what clearly

²² Source: Para 4.6 - Report of the Committee on Change in Financial Year (1985) chaired by L. K. Jha

²³ Source: Para 4.7 - Report of the Committee on Change in Financial Year (1985) chaired by L. K. Jha

²⁴ Source: Para 4.8 - Report of the Committee on Change in Financial Year (1985) chaired by L. K. Jha

holds true still is that the fundamental drivers in these research studies, the arguments that good agriculture output increases rural incomes and therefore generates consumption and investment demand still holds true.

- 3.40 The link that agriculture growth leads to: a) increased inputs for agro-based industries (sugarcane, tea, food processing etc.), b) increased rural income leading to increased demand of consumption items such as consumer electronics, FMCG, utilities, transportation, storage etc and increased savings and c) increased demand for input industries such as fertilizers, farm machinery, are still relevant.
- 3.41 Another important point that indicates the link of agriculture growth with that of industrial growth and economic growth is through its link with inflation (CPI combined). As discussed above, lower agriculture outputs pushes food inflation thereby creating upward pressure on the CPI combined. This situation constraints RBI, given its inflation targeting approach, and hence reduces the monetary policy space to implement lower interest rates. This situation in-turn denies industry opportunities to save interest servicing costs which is a significant cost for majority of companies in capital intensive sectors.
- 3.42 From political perspective, given such pervasive influence of agriculture over a significant majority of people particularly for the rural population, it attracts considerable political attention and duly so. Situation of agriculture sector and that of farmers and people whose lives are directly or indirectly dependent on agriculture is monitored closely by political class across parties. It is therefore imperative for politicians to ensure adequate attention is paid to this sector as political fortunes are often linked to the rural situation. The above arguments clearly indicate the agriculture sector occupies prime space in the overall social, economic and political scheme of the country.

(iv) Impact of monsoons on Government Budget and concluding arguments

- 3.43 Having presented various important arguments in the above paragraphs, the following general conclusions are highlighted to examine the impact of monsoons on Government Budget:
 - a) Indian population primarily resides in Rural India and a significant majority of the country's rural population derives its principal source of income from agriculture;
 - b) In terms of workforce employment, agriculture sector accounts for about 50% of the entire workforce in the country with the rural workforce majorly employed in this sector;
 - c) While agriculture sector's economic share has declined over the years, good agriculture output increases rural incomes and therefore generates consumption and investment thereby impacting other sectors of the economy as well. Research establishing the quantitative relationship between the above elements however is not available for the recent years;
 - d) Agriculture sector outputs also directly impact inflation (CPI combined) which RBI refers to while formulating its monetary policy. Lower agriculture output pushes food inflation thereby reducing the monetary policy space to implement lower interest rates. This situation in-turn denies industry opportunities to save interest servicing costs which is a significant cost for majority of companies in capital intensive sectors.

- e) The Indian agriculture sector is not insulated from monsoons and that monsoon rains, particularly the South-West monsoon directly impacts the agriculture sector output (both *kharif* and *rabi* crops) and therefore continue to impact lives of almost the entire population of the country directly or indirectly;
 - f) The current financial year and the Budgetary process and timelines puts the Government in a situation where it ends up deciding the fiscal allocations and investment plans without reasonable estimates of monsoon rains for the coming financial year.
- 3.44 Now, to assess the impact of monsoons on Government's budget it is important to first understand broad objectives of the Budget and its key contents. From a content perspective, a Budget typically contains projected estimates of revenues and expenditures of the Government for the coming financial year as well as the performance in terms of revenues, expenditure, outputs etc. for the last financial year(s). Having said that, Budget is not intended to be a mere statement of revenue and expenditure estimations but is actually one of the most important policy tools of the Government to design for optimal allocation of scarce resources taking into account the social, economic and political priorities.
- 3.45 With the above context, to understand the impact of monsoons on Government Budget it is therefore important to analyse the impact that monsoons have both on the content (i.e the estimates of revenues and expenditures) as well the broader objective of the Budget (i.e a policy tool to optimally address the socio-economic and political priorities of the country)
- 3.46 Starting with the impact on content first, an attempt to examine linkage of Government receipts and expenditures with monsoon rains has been done. On the revenue side, the overall revenue receipts are a complex function of various aspects such as performance of various economic activities, efficiency of tax collections, inflation, changes in taxation rates and duties etc. In 1950s, when agriculture sector accounted for more than 50% of the share in economy, it would have been a bit easy to establish the quantitative impact of bad monsoons to Government's revenues. In the present circumstances, the economy has diversified significantly. It is therefore difficult to delineate the impact of monsoons on the revenue receipts in a meaningful manner.
- 3.47 Similarly, on the expenditure side, uncertainty in monsoon rains would result in unexpected expenditure on drought (or floods in case monsoon is heavy), higher subsidies, possibly higher deficit financing etc. However, the Government's expenditure policies have evolved as well over a period of time. For example, to address unforeseen expenditures in a financial year due to monsoons (drought/flood relief measures), the Government has proposed constitution of Disaster Relief Funds²⁵. Similarly, process efficiencies through measures such as DBT for food subsidies have a potential to blunt the impact of increase in subsidies or other variables.
- 3.48 It is therefore difficult to rigorously quantify the impact of bad monsoons on the Budget in terms of revenue and expenditure estimates and this aspect would require deeper research and analysis which the newly constituted committee referred earlier may possibly undertake.

²⁵Source: OM issued by Ministry of Home Affairs No. 33-5/2015-NDM-I dated 30 July 2015

- 3.49 However, from the perspective of the overall Budget objectives, the current financial year does arguably impact the responsiveness of the Government towards bad monsoons considering that Budget is an important tool of the Government to effectively address the socio-economic requirements of the country. A bad monsoon, even though may not impact the overall economy significantly, but it clearly does impact the daily lives of significant majority of the population.
- 3.50 The inherent limitation with the current financial year and therefore with the Government's Budget is that by the time Government authorises fresh allocations, the impact of previous South-West is well over (more than 8 months over) and by the time allocations reach implementing authorities (May/June) – the South West monsoon are just about to set in thereby making the Budgetary policy measures more “reactive” rather than “proactive”.
- 3.51 This limitation in terms of Government's response can be seen from the table below. The Government having assessed the agriculture situation in the light of consecutive bad monsoon years - 2014 & 2015, allocated significantly more resources in the year 2016-17.

Table: Budgetary Allocation to sectors

Sector Totals	2014-15	2015-16 (RE)	2016-17 (BE)
Agriculture & Irrigation	31497	25998	54212
Y-o-Y Change		-17%	109%
Monsoon (South West)	Below Avg	Below Avg	Likely above avg

Source: Annex No. III-A to Part A, Page 36, The Budget Speech 2016-17

- 3.52 It may be noted here that this is not a commentary on the appropriateness of allocations, but the point being made is that reliable information of monsoon would surely facilitate re-orientation of the budgetary exercise. The principles and priorities for investment planning and consequent allocations to various departments during the Budget planning stage itself would reorient to take into account the impact of monsoons if the financial year changes from the current one. This is critically important considering that re-orientation of budgetary planning, taking into account impact of monsoons, could potentially improve the quality and efficacy of interventions targeted particularly towards the rural population. Such sustained interventions could accelerate and facilitate Rural Transformation in the medium to longer term - one of the highest stated priorities of the Government.
- 3.53 The Committee on Change in Financial Year chaired by Shri L. K. Jha has also commented on the impact of monsoons on Government's Budget. The following important observations of the committee are to be noted in this matter:
- Para 4.16: The conclusion that we come to is that, while a poor monsoon does affect the Budget estimates for that year as prepared before the monsoon, its precise quantification is by no means easy because of the problem of isolating the effect of this factor from others. We would, therefore, rather look at the subject in a wider context. A Budget is not just a statement of estimated receipts and expenditure but is an economic tool for achieving the socio-economic objectives of the Government. To the extent that the economy gets disturbed by a poor monsoon, its impact on the Budget in some way or the other is inevitable.
 - Para 4.18: Any financial year, no matter when it begins or ends, will be affected by the behaviour of the South-West monsoon in the preceding financial year, as

well as the one which falls within the financial year itself.....In other words, if the post-monsoon period in the financial year was made as short as possible, the major part of the financial year would be subject to the effects of the monsoon in the preceding year, the impact of which could be adequately taken into account in the budget preparation, while the impact of the uncertain monsoon yet to arrive would be restricted to the minimum.

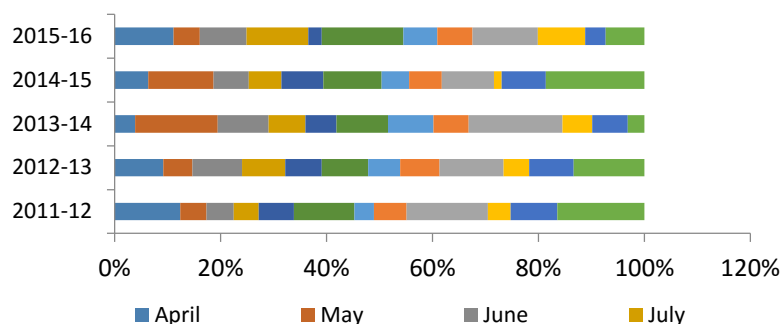
- 3.54 Given the above arguments, it is evident that the current financial year seriously limits the Government's ability to account for uncertain monsoons thereby impacting the quality and efficacy of policy interventions targeted particularly towards the rural population. A change in financial year will therefore be a crucial structural reform to re-orient the Government's Budgetary interventions and resource allocations. This measure has the potential to facilitate and possibly accelerate Rural Transformation in the medium to longer term.

B. Impact of the financial year to the working season

- 3.55 The working season in India is typically considered as the period starting October stretching over to the next 8 or 9 months (i.e June/July). The period from June/July – September is generally the period of South West monsoon rains which slows construction/development related activities. There could be regional variations to this working season for example, in hilly states, winters may also impact development activities and in states such as Tamil Nadu, rains from the North East monsoon may impact the same. But by and large, for majority, the period from October – June/July could be broadly considered as the working season wherein maximum development and construction activities take place.
- 3.56 The concern that has often been expressed is that the current financial year leads to sub-optimal utilization of the working season on account of the following:
- For ongoing development works, allocation lapses at the end of the financial year i.e 31st March;
 - Usually, the Appropriation (Main) Bill is approved by the 1st week of May and hence fresh sanctions/allocations reach the executing authorities sometime by end of May or first week of June;
 - This process essentially creates a time-lag of about a quarter from the date the allocations lapse (March end) to the date when fresh sanctions are communicated (end May/June first week).
 - This time lag impacts the ongoing developmental works being undertaken by executing agencies in an undesirable manner;
 - Thereafter, South-West monsoon sets-in by July and hence the above works gets further interrupted for the next 3 months till about September;
 - All-in-all the financial year leads to suboptimal utilization of the first 2 quarters thereby impacting the working season in the financial year.
- 3.57 With the above context, this section attempts to examine the impact of the financial year to the working season.
- 3.58 Firstly, the relevance of this issue in the present context is examined. Taking the total expenditure incurred by the Central Government as a proxy to measure work undertaken month-wise, it is observed that there is a broad secular trend for month-wise expenditure. As can be seen from the figures below, generally, the Central

government has been able to expend around 50% of the total expenditure (both revenue and capital expenditures) incurred in a financial year by September end (first half). The capital expenditure trends are indicated below:

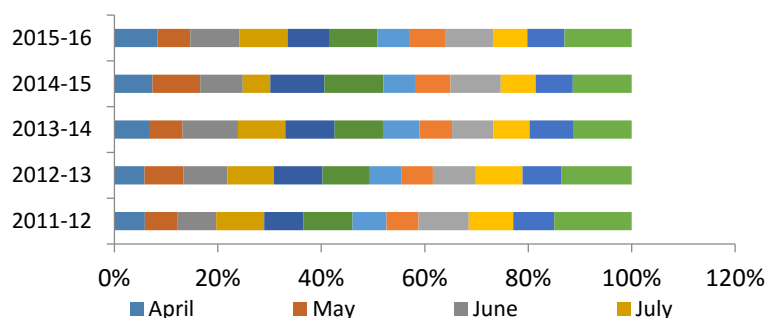
Figure: Month-wise Actual Capital Expenditure by Central Government on net basis (Plan & Non-Plan)



Source: Review of Union Government Accounts, O/o CGA; Figures of 2015-16 are provisional and unaudited. Figures for the remaining 4 years are at par with audited figures

3.59 The revenue expenditure trends incurred by the Central Government are indicated below:

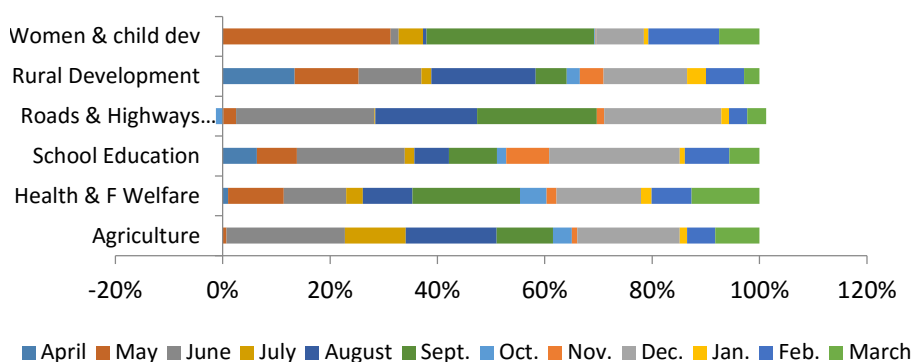
Figure: Month-wise Actual Revenue Expenditure by Central Government on net basis (Plan & Non-Plan)



Source: Review of Union Government Accounts, O/o CGA; Figures of 2015-16 are provisional and unaudited. Figures for the remaining 4 years are at par with audited figures

3.60 Similarly, analysis of month-wise expenditure (on net basis), for the year 2014-15, of Grants under which major schemes are operated indicates that while there are variations in expenditure for various months, there is no clear evidence of major seasonal disruptions in the overall development works.

Figure: Month-wise expenditure on net basis of grants under which major schemes are operated (for the year 2014-15)



Source: Review of Union Government Accounts, O/o CGA, Major schemes include, Agriculture: PMFBY, RKY; Health & F Welfare: NHM; School Education: SSA, Mid-day meal scheme etc.

- 3.61 The above analyses indicate that it may be difficult to conclude that development activities or other activities slow down during the first two quarters because of the various issues explained above. While, few decades back, the timing of the financial year could have actually led to sub-optimal utilization of the working season, the above issue may not be that relevant in the present context.
- 3.62 Theoretically, there could be limitations to the above conclusion. For example, it is likely that the capital expenditure incurred in the month of September could either be for developmental activities undertaken much prior to that month or could be an advance payment for a work to be undertaken later. Still, considering that this logic could be true for any month, it would be difficult to necessarily conclude that developmental works seriously slow down during the first two quarters of the financial year.
- 3.63 That said, it is still a fact that monsoon does slow down construction related activities for instance construction of capital assets such as roads, irrigation projects, housing, buildings etc. And it will continue to do so in future irrespective of the financial year. But as the national economy is diversified to a large extent (meaning while construction/development sectors slows down, agriculture sector picks up activity) and that while construction slows down during monsoon it does not get suspended completely, the overall impact of monsoon on economic activities becomes difficult to delineate. This aspect probably explains part of the observations made in the graphs above.
- 3.64 Another important aspect is that the Government has, over the years, undertaken procedural improvements (like guidelines to avoid “March Rush”) and does regular monitoring to realize a secular pattern in expenditures to the extent possible. The Financial Advisors of executing departments generally have a broad idea of the allocations proposed under Vote-on-Account and the Appropriation (Main) and therefore they can take necessary actions to ensure that executing agencies plan their work without being completely blind towards the final sanctions. So time-lags on account of budgetary procedures, to the extent there are and could not be captured in the graphs above, could still be addressed by procedural and governance measures.
- 3.65 In conclusion, from the perspective of working season, it may be difficult to say with certainty that the existing financial year leads to sub-optimal utilization of working season in the current scheme of things. It would also be reasonable to conclude that, in case the procedural and expenditure monitoring measures are continued, it may not be difficult for the Government to effect a change in financial year from the working season perspective.

C. Impact on the financial year with respect to different agriculture crop periods, statistics and data collection periods

- 3.66 The National Accounts Statistics (NAS) refers to a gamut of data collected and disseminated with different periodicities (yearly, quarterly, monthly etc.) and for different levels of the federal system of the country (centre, states etc.). Such statistics include data accounts of macroeconomic indicators such as GDP, GVA,

consumption, GNP, per-capital income, agriculture crop production and so on. These statistics are compiled by the Central Statistical Organization (CSO) with reference to the recommendations and guidelines of the United Nations System of National Accounts (UN-SNA)²⁶.

- 3.67 It is intuitive to assume that these statistical data would be collected and produced in a synchronized fashion with the existing financial year. Meaning, for example, data which is represented yearly, the start date and end date for such 12 month period would coincide with the financial year. While this is true for majority of the data series', there are some exceptions. With this background, the two major aspects that this section aims to examine are: a) whether the existing financial year (April – March) limits the quality/efficacy of the national accounts system in any manner; and b) in case a change of financial year is considered would there be any serious implications from the perspective of data collection and production.
- 3.68 Starting with the first aspect listed under item a), it is understood that out of 35 important basic statistical series, around 11 are compiled on calendar year basis and 22 are based on financial year²⁷. The data for agriculture pertains to the crop year/agriculture year which is typically taken as July – June (and not the financial year) given the seasonality in crop production in the country. Statistics related to co-operative societies is also collected on agriculture year basis. There is further diversity within agriculture sector particularly for non-food grain commodities. For example, crop year for cotton is generally taken as September – August, that of sugar-cane as November – October, for tea, coffee and tobacco the relevant years start in January, October and March respectively. But since the period July – June suits the food grain production cycle (both rabi and kharif crop is sown and harvested within this period), the July-June period is considered as the agriculture year/crop year²⁸.
- 3.69 The CSO has commented on the above aspect and broadly CSO acknowledges the difficulties in synchronizing statistics of all sectors with the existing financial year. However, the CSO does not think that this particular issue poses any serious limitations to the quality/efficacy of the data for the purposes of statistical reporting in the national accounts. The following observation of the CSO as published in the “National Accounts & Statistics – Source and Methods 2012” is noteworthy: “The above method of compiling quarterly agriculture production estimates assumes that the entire production of a particular state/season/crop occurs in the harvesting period. By adopting this method, the total estimated agriculture production during the four quarters of a financial year (April to March) will be different from the one relating to the agriculture year (July to June). However, for annual national accounting purposes, the CSO has been adopting the total crop production in an agriculture year as that in the financial year. The two estimates of annual crop production differ to the extent of the difference in production during April-June of the two successive years. Therefore, in order to ensure consistency between the quarterly GDP estimates and the annual GDP estimates, the agriculture production estimates in the four quarters of a financial year are adjusted on a prorata basis to that of the total production in the agriculture year”²⁹. The inference being that

²⁶Source: http://mospi.nic.in/Mospi_New/upload/nas_13.html#_Toc515424911

²⁷Source: Para 6.2, Committee on change in financial year chaired by Shri L. K. Jha

²⁸Source: Para 6.2, Committee on change in financial year chaired by Shri L. K. Jha

²⁹Source: Para 29.9, http://sdp.gov.in/writereaddata/sources_method_2012.pdf

consistency and quality of statistics do not get compromised on account of different data collection periods.

3.70 The second aspect listed under item b) above was dealt in greater detail by the Committee on Change in Financial Year chaired by Shri L. K. Jha. The following important observations of the Committee imply that there would be no serious difficulties in data collection and production in case the financial year is changed:

- a) Para 6.9: The CSO has told us that the UN Statistical Office and the various UN Organizations were in favour of presentation of statistics on calendar year basis as they followed the calendar year for presentation of international statistics in all their statistical publications. Further, according to the CSO, change to calendar year would not result in any major disruption; on the other hand it may be a neater arrangement, especially since it would make for more uniformity in the periods of the various statistical series.
- b) Para 6.12:Considering, therefore, the extent of approximation, which is adopted even now and which seems inevitable in future also, it should not be difficult, we feel, to evolve a procedure by which the crop statistics are also collected as to be suitable for presentation, for purpose of National Accounts, on calendar year basis, especially if the latter be considered to be more suitable to be the financial year on other grounds also.

3.71 Considering the above, it can be argued that, in principle, it may be difficult to completely eliminate the differences in data collection periods for various statistical series which are part of the national accounts. However, such differences are not likely to impose a serious limitation to the data quality or consistency. Additionally, it is clearly possible for the CSO to align the existing statistical period with that of the existing UN reporting standards – which being the calendar year and that it seems preferable as well.

D. International Practices

3.72 It has already been pointed out earlier that different Governments use different dates as start of their financial years and that generally a “global standard” financial year for Governments does not seem to exist. With this brief, the key intent of this section is to highlight key trends in international practices in the context of financial year.

3.73 While examining international practices, it is worthwhile to list the following variants of financial year: a) Financial Year for Government: this refers to the financial year used by the Government (federal/state) to prepare their budgets, accounts, financial statements etc.; b) Financial Year for business entities: this refers to the financial year used by a business entity to prepare their budgets, accounts, financial statements etc.; c) Tax Year: this refers to the financial year mandated by law/regulations over which individuals or business entities are required to report their financial accounts and pay applicable taxes.

3.74 As has been mentioned earlier, different Governments use different dates as start of their financial years to suit their conditions/convenience. Based on secondary research³⁰, quick analysis was undertaken to explore if there are key trends in international practices of choosing a particular financial year. Based on the above analysis, the following broad trends could be established:

³⁰Source: <https://www.cia.gov/library/publications/the-world-factbook/fields/2080.html>

- a) In general, almost all the Governments use start date of a quarter as start date of their financial year (very few exceptions being Iran etc.). Meaning almost all the Governments start their financial years on one of the following dates – 1 October, 1 January, 1 April and 1 July³¹.
- b) In terms of numbers, a significant majority of Governments across the globe have adopted the calendar year (Jan-Dec) as their financial years. In terms of geographical spread, this includes generally most of the European countries (exceptions being countries like UK), Asian countries (exceptions like Japan, Thailand, Pakistan, India) and South American countries. US Federal Government uses Oct-Sep as its financial year³². A brief snapshot of select countries and their financial years is enclosed in Annexure 2.
- c) Governments in most South-Asian countries, which broadly have tropical/equatorial climate, such as Indonesia, Philippines, Malaysia, Vietnam etc. prefer Jan-Dec as their financial year. Some exceptions here include countries like Singapore and Thailand³³.
- d) Within BRICS, Indian and South African Governments follow April-March financial year, while other Governments use the calendar year as their financial year³⁴.
- e) Few countries have changed their financial years in the past to suit their requirements. Notable examples include US, Pakistan, Srilanka etc.
- f) Tax Year coincides with the calendar year in almost all the countries but with few exceptions. This is true even for those countries (like US, Singapore) where the Government's financial year is different than the Tax year³⁵. This implies that a significant majority of multinational business entities based out of Europe and US use the calendar year as their financial years. A brief analysis of top 50 American companies in Fortune 500 list indicates that bulk of these companies use the calendar year as their fiscal year. Details of this analysis are enclosed in Annexure 3.
- g) In countries where businesses have flexibility to choose a financial year (not necessarily coinciding with their Government's financial year), few business entities may also like to take into account seasonal cycles. For example, some retail oriented entities may like to prefer Jan-Dec as their financial year while agriculture focused entities may like to opt for the agriculture crop season as their financial year³⁶.

3.75 Accordingly, it would therefore be reasonable to conclude that the calendar year is the most widely accepted and preferred choice of financial year – across Governments for budgets and business entities (national, multi-national etc.) and individuals for tax accounting and financial reporting disclosures.

E. National/ Local traditions and culture

³¹Source: <https://www.cia.gov/library/publications/the-world-factbook/fields/2080.html>

³²Source: <https://www.cia.gov/library/publications/the-world-factbook/fields/2080.html>

³³Source: <https://www.cia.gov/library/publications/the-world-factbook/fields/2080.html>

³⁴Source: <https://www.cia.gov/library/publications/the-world-factbook/fields/2080.html>

³⁵Source: https://en.wikipedia.org/wiki/Fiscal_year#Tax_year

³⁶Source: https://en.wikipedia.org/wiki/Fiscal_year#Tax_year

- 3.76 It has already been mentioned earlier that the British chose April-March as the financial year of the Indian Government to align with their own financial year. In this perspective, this section aims to explore the fit of the existing financial year with respect to national/local traditions and culture and explore alternative dates that could be more suitable.
- 3.77 To start, it is important to understand why British had their financial year as April – March in the first place. While the precise reasoning for this is not very clear, research indicates that their choice was linked to the historical “New Year” tradition and legacy of the English.
- 3.78 Britain followed the Julian calendar till about 1750s. As per the Julian calendar, the British New Year started on March 25 - “Lady Day”, in commemoration of the angel Gabriel’s announcement to the Virgin Mary that she would become the mother of Jesus Christ. Therefore the British financial year had a reference to their cultural tradition of celebrating the New Year on the “Lady Day”. Now, the Julian calendar worked well for centuries, but because it did not align exactly with the solar calendar (the time it takes for the Earth to move round the sun), over time problems developed. To correct this, the Pope Gregory XIII instituted a change (to the “Gregorian Calendar”) which was adopted by Europe around 1580s and was adopted by Britain as well much later around 1752. The British made further adjustments gradually over a period of time to mitigate for the differences between the Julian and Gregorian calendars leading to leading to start of their tax year as April 6 and the Government’s fiscal year as April 1³⁷.
- 3.79 The decision of Indian financial year was driven by the British historical legacy of their new year rather than by Indian National/Local traditions. The first Administrative Reforms Commission (ARC) has particularly noted that considering “national traditions” while choosing financial year could result in considerable psychological advantage. The following comments mentioned in Para 24 of the Report of the first ARC on Finance, Accounts and Audit are to be taken note of:“.....Each nation has its own tradition based upon its civilisation, customs and habits. These traditions are evolved over centuries and they continue to remain in force in view of their inherent vitality. In India, whether in the agricultural or in the commercial field, the traditional dividing line between the close of one period of activity and commencement of the next is the Diwali. An accounting year for government transactions conforming to this dividing line will result in considerable psychological advantage. Diwali or some date near about that date can, therefore, be taken as the starting point of the financial year. As the date selected must also be a fixed one in terms of the international calendar, the 1st of November can conveniently be adopted for this purpose”.
- 3.80 Considering that India has significant diversity in terms of cultural and traditional practices, a range of options for the financial could emerge. If “New Year” in India is considered as the principle for choosing the financial year, then Phalguna-purnima (February/March), first day of Shukla-paksha in Chaitra (March/April), April 13/14/15, the first day of Chaitra (March/April) the second day of Chaitra could be possible options³⁸. It may however be noted here that, in the modern context, the calendar year is more popular as the New Year for the largest section

³⁷Source: <http://www.independent.co.uk/money/why-the-uk-tax-year-begins-on-april-6-it-s-a-very-strange-tale-a6970801.html>

³⁸Source: <http://www.financialexpress.com/fe-columnist/column-change-the-fiscal-year/68117/>

of the society particularly the young population. Therefore, in this regard, the calendar year could have reference to modern practices of the youth of the country.

- 3.81 If linkage to “harvest festivals” -December 21/22, Onam (August/September) and Pongal/Makar Sankranti (January 14/15) could be other set of possibilities³⁹. A date closer to Diwali as suggested by ARC seems another good option given that Diwali is a pan-India festival celebrated across the country and amongst Indian nationals outside the country as well. So in that sense, the above options could have reference to January/March/April/October/November etc.
- 3.82 With such diverse possibilities, it is difficult to suggest the most acceptable financial year start date/month from the perspective of national/local traditions and culture. Also, it is not the intention to suggest changing the current financial year simply based on this aspect. The broader point still being that any alternate option for the Indian financial year may preferably have some reference to local/national traditions and culture. And the same is in line with the suggestions made by the ARC as mentioned above.

F. Convenience of legislators

- 3.83 It was felt earlier that the timing of the Budget session practically requires the MPs/Legislators to tour their constituencies in the rainy season - which often is inconvenient. In this context, this section aims to assess the suitability of the existing financial year with respect to the following point of views: a) convenience of legislators for touring their constituencies; b) convenience in presenting and passing the budget.
- 3.84 Starting with point a) above, the Budget session typically extends from 3rd week of Feb – 2nd week of May (including the Parliamentary recess). MPs and Legislators earlier had expressed concerns that they get time to visit their constituencies to continue their work supervisions and meet people around June/July which is often inconvenient due to monsoon rains. While the above concern did impact the MPs and Legislators few decades back, it is likely that the above concerns may have been mitigated to some extent in the current context.
- 3.85 The overall infrastructure and connectivity within the country has significantly improved in the last two decades. Options of all-weather surface (road/rail) or air-connectivity now extend to majority of towns/cities/villages etc. Investments in rural infrastructure through schemes such as PMGSY have provided all-weather connectivity to many areas which were earlier difficult to access during rains or bad weather. IT and Telecommunication connectivity has also improved. MPs and Legislators can now visit or access most areas in their constituencies round the year (with few exceptions⁴⁰) though the general convenience could still be fair weather (Oct – June).
- 3.86 Coming to the point b), the table below illustrates the typical timings of Parliament sessions that were held over the last 5 years:

Table: Typical timings of Parliament sessions

Budget Session	Monsoon Session	Winter Session
3 rd week Feb – 3 rd week May	July/Aug to Aug/Sep generally for about 3-4	2 nd /3 rd week Nov – 2 nd /3 rd week Dec generally for

³⁹Source: <http://www.financialexpress.com/fe-columnist/column-change-the-fiscal-year/68117/>

⁴⁰Exceptions may include temporary inaccessibility to areas which receive heavy rains during monsoons or which are snow bound during winters or temporary inconvenience during monsoons due to flight cancellations, diversions, road blockages etc

	weeks as per business	about 3-4 weeks as per business
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Source: Secondary research

- 3.87 From a weather perspective, it is difficult to point out noteworthy weather related inconvenience for the current Budget Session (Feb-May) as most of the government offices are now equipped with modern all-weather facilities to facilitate conduct of business for legislators and administrators in a comfortable manner even during the summer season.
- 3.88 The above points indicate that the current financial year timing does not bring any particular inconvenience to the legislators. Continuing the above arguments, it could also be concluded that by and large the Parliament sessions could be tweaked appropriately in case the Government opts for change in financial year. Such changes to the session timings may not cause significant discomfort the MPs and legislatures with the possible inconvenient timings being Parliamentary sessions during the Diwali week when majority are engaged in festivities.

G. Summary and Conclusions

- 3.89 The above sections detailed the need for changing the current financial year from various perspectives/considerations. As argued, the timing of the current financial year puts the Government in a situation that it is unable to account the monsoon situation while formulating the budgetary investments and allocations. Considering that Budget is an important tool of the Government to optimally address the socio-economic requirements of the country, the above limitation effectively ends up impacting the responsiveness of the Government towards uncertain monsoons.
- 3.90 A change in financial year, in a manner that monsoon information could be reasonably considered, could thus facilitate re-orientation of the budgetary planning exercise. Such a measure could potentially improve the quality and efficacy of interventions targeted particularly towards the rural population and such sustained interventions would facilitate and possibly accelerate Rural Transformation in the medium to longer term, which is one of the highest stated priorities of the Government.
- 3.91 From the above perspective, it is evidently clear that the current financial year be changed and that wider debate and consultations on this issue be seriously considered as this matter affects a whole range of stakeholders. The key findings of assessment from other perspectives are summarized below:
- On the impact of financial year to the working season, it may be difficult to say with certainty that the existing financial year leads to sub-optimal utilization of working season in the current scheme of things. Further, given the procedural and expenditure monitoring measures undertaken by the Government, it will be convenient to effect a change in financial year as well from the above perspective.
 - On the impact of financial year to data collection periods, the CSO prefers changing the financial year to calendar year. This change is preferred to align the Indian statistical series with that of the UN reporting standards and would make for more uniformity in the periods of the various statistical series.

- c) In terms of international practices, while there are no uniform “global standards” for adopting financial year, the calendar year is the most widely accepted and preferred choice of financial year – across Governments for budgets and business entities (national, multi-national etc.) and individuals for tax accounting and financial reporting disclosures.
 - d) In terms of national/local traditions and culture, considering the wide regional diversity in the country, it is difficult to suggest the most acceptable financial year from this perspective. However, any alternate option for the Indian financial year may preferably have some reference to local/national traditions and culture.
 - e) In terms of convenience of legislators, the current financial year timing does not bring any particular inconvenience to the legislators and by and large the Parliament sessions could also be tweaked appropriately in case the Government opts for change in financial year.
- 3.92 In conclusion, it is suggested that the legacy practice of the current financial year should change considering that such change could structurally reform the Budgetary process. This is critically important considering that re-orientation of budgetary planning, taking into account impact of monsoons, could potentially improve the quality and efficacy of interventions targeted particularly towards the rural population.
- 3.93 It is also hoped that the recent constitution of expert committee under the chairmanship of Dr. Shankar Acharya indicates that the Government is keen to take a fresh look at the merit of this issue. The findings of this note and the recommendations of the expert committee (likely to be submitted around December 2016) could be used as an opportunity to take fresh views of various stakeholders, institutions, state governments, general public etc. on this matter.

4. Likely criticisms and their counter arguments

- 4.1 As has been highlighted in the section detailing the historical perspective of this issue, the practice of continuing the Indian Financial Year from 1st April – 31st March has been questioned, though unsuccessfully, time and again throughout its 150 years history. There has been a broad consistency in the merits for changing the financial year and arguments for maintaining the status quo in this debate.
- 4.2 The committee on change in financial year chaired by Shri L. K. Jha examined this matter in probably the most comprehensive manner in the recent past. The committee finally recommended changing the financial year to the calendar year. Government of India examined their recommendations and outlined the following arguments for maintaining the status-quo⁴¹:
- a) The advantages arising out of the change would only be marginal in view of the innumerable considerations in the formulation of budget policies;
 - b) Change in the financial year would upset the collection of data and it might take a long time to return to normalcy in this regard; and
 - c) The change would create a large number of problems, as extensive amendments to tax laws and systems, financial procedures relating to expenditure

⁴¹ Source: Chapter 1, Page 4 – Budget Manual 2010 issued by the Ministry of Finance

authorization and other matters would become necessary and in that process the administrative machinery would get diverted to the problems of transition instead of concentrating on improving the tax collection machinery.

- 4.3 With the above context, the intent of this section is to present counter arguments to the arguments listed above.
- 4.4 Starting with item a), the underlying principle stated under this item seems “*Why fix something which ain't broken*”. True that the existing system has worked fine along its history of more than 150 years. But the essential point that is being missed above is that a change of financial year is an opportunity to structurally reform the system. Such a change could potentially re-orient the budget formulation exercise thereby leading to superior performance outputs.
- 4.5 Getting into this aspect a bit deeper, Budget policies are formulated taking into account a number of considerations. These considerations typically involve complex balancing of various factors such as: a) fiscal space (receipts, committed expenditures, deficit targets etc.); b) performance of various departments/ministries over last financial year(s); c) political imperatives; d) social and economic imperatives and so on. It is difficult, arguably therefore, to delineate the benefits that can be derived by merely changing the financial year as most of these considerations would anyway continue to be relevant even if the financial year is changed.
- 4.6 That said, to substantiate the point that changing the financial year could potentially lead to re-orienting the budget formulation exercise even though the same considerations continue to apply, the following important observations made in this note earlier are re-iterated:
 - a) ~ 40% of the entire rural households in the country rely on agriculture for their principal source of income;
 - b) ~ 50% of the entire workforce is accounted for by the agriculture sector;
 - c) More than ~50% of agriculture in the country is still dependent on monsoon rainfall (with South-West monsoon contributing to about 75% of the entire rainfall in the country);
 - d) Outputs of *kharif* crop and to a large extent *rabi* crop as well are directly impacted by monsoon rains;
 - e) Agriculture sector also directly and indirectly impacts other sectors of the economy through its inter-linkages with inflation, rural demand, demand for input industries etc.
- 4.7 Coming back to the list of considerations mentioned above, the above observations clearly state the extent of impact monsoon rains make to the daily lives of a significant majority of our people. Reasonable understanding of monsoon rainfall should therefore ideally be one of the “key considerations” in the budget formulation exercise. Now, given the current financial year, the Government at present is unfortunately not able to adequately account for the impact of monsoons while planning its investments and budgetary allocations. Without this, the Budget effectively ends up as more of a “reactive” intervention than a “pro-active” one to address the needs of people, particularly the rural population.

- 4.8 Another fact linked to the above criticism is that even in the current financial year cycle, the Government does have avenues to address repercussions of uncertain monsoon. For example, in case monsoon fails, Government can still facilitate implementation of urgent projects, it thinks necessary, through supplementary demand for grants. In case uncertain monsoon leads to drought or floods, Government can fund appropriate measures through Contingency Fund, Disaster relief funds, Prime Minister's relief fund etc. But all such steps are again reactionary/patch-works in nature when contrasted with the quality of planning that various Departments/Ministries could potentially do in case they have clear information about monsoons and agriculture situation.
- 4.9 A change in financial year could thus re-orient the budget formulation exercise by increasing the quality of "input considerations" – monsoon rains being one of the major ones. In such a case, various departments and ministries could then take this aspect proactively into account while prioritizing their investments and initiatives. Ultimately, Budget is an important policy instrument of the Government to optimally allocate scarce resources for the benefit and development of people of India. A change in financial year would thus improve the quality of planning thereby balancing and re-orienting the "people" aspect of the Budget. A sustained re-orientation over the medium to longer term will therefore facilitate Rural Transformation thereby leading to superior social, economic and political outputs.
- 4.10 On the point b) regarding upsetting the data collection, the committee on change in financial year has dealt into this issue in a detailed manner. The committee took specific inputs from the CSO on this matter and the same have already been discussed earlier. A concluding summary is re-produced below for easy reference: "Para 10.16: The conclusions we have come to regarding the National Accounts and the statistical issues have been arrived at after full discussions with the CSO, who has supported the change to the calendar year which it feels is not likely to result in any major disruption. On the other hand, it may be a neater arrangement, especially since it would then make for more uniformity in the periods of the various statistical series. In some cases, appropriate modifications in the collection of statistical data or adaptation of the latter might, of course, be needed to meet the requirements of the National Accounts, both for the transitional period and for the twelve-month period of the financial year commencing in January. Once a decision is taken, an inter-departmental working group could be set up to work out the necessary details...."⁴²,
- 4.11 Essentially, the CSO broadly concurs that: a) it is feasible to collect and disseminate the National Accounts statistics in case the financial year is changed; and that b) it does not expect any major disruption in the data collections due to such change. Even today, time periods of various statistical series differ – for example agriculture crop data pertains to the agriculture year, GDP, GNP data pertains to the financial year. CSO does appropriate adjustments to these statistical series with respect to the financial year. Taking this into account and given that CSO is the expert institution of the Government responsible for National Accounts statistics, it is difficult to disagree with its judgement on this matter.
- 4.12 Coming to point c) regarding administrative difficulties and innumerable amendments to existing statutes, the next section highlights the broader constitutional and legal provisions that may need amendments to effect change in

⁴² Source: Para 10.16: Report of the Committee on Change in Financial Year chaired by Shri L. K. Jha

financial year. It is probably true that executive and possibly legislative energies will need to be expended to make necessary amendments to laws, statutes, administrative procedures and manage the transition to a new financial year smoothly. But again the point being that such energies would :a) need to be expended for a short term (during the transition year plus few years more in the new financial year till the system stabilizes); and b) would lead to further improving the existing budgetary system thereby resulting in significant benefits to the people of the country. This time needs to be considered from the perspective that this short term discomfort and pain will potentially lead to a longer-term gain for the people – the key benefits have been articulated in this note earlier.

- 4.13 As a matter of fact, this aspect has also been duly noted and acknowledged by experts in the past. The Report on Finance, Accounts and Audit by the first Administrative Reforms Commission notes the following: “Para 25: We recognise that any change in the financial year would cause in the short run considerable dislocation in the administrative and statistical fields of activity. But that consideration should not deter us from adopting a more rational, practical and convenient system, keeping in view the many advantages which will accrue therefrom. We are confident that a change in the Financial Year is less likely to cause dislocation in national life than some of the changes introduced in recent years, for example, the decimal system of coinage, the metric system of weights and measures. Past experience in such matters shows that the process of adaptation to new systems superseding age-old practices will not be unduly protracted or painful”⁴³.
- 4.14 Similarly, the comments of Committee on change in Financial Year on this issue are also reproduced for easy reference:
- a) Para 9.1: In forming a final judgement, the long-term advantages of the change will have to be weighed against the difficulties and dislocations that it may give rise to in the short term. In the USA and Canada as well as in Pakistan, to name only a few countries, the financial year was changed and the operation was a reasonably smooth one.....
 - b) Para 7.14: The conclusion that we come to, therefore, is that while a change in the financial year would undoubtedly necessitate changes, particularly in the statutes and procedures relating to the direct taxes at the centre and perhaps, the problems are not likely to be insurmountable or need stand in the way of a change in the financial year, if the latter be otherwise considered desirable.....
- 4.15 Another related criticism against this proposal has been that it could not be implemented due to lack of unanimity/consensus on the commencement date for the new financial year. In this context, it is hoped that the recent constitution of expert committee under the chairmanship of Dr. Shankar Acharya could be used as an opportunity to take fresh views of various stakeholders, institutions, state governments, general public, industry associations etc. on this matter. Similarly, this note also presents a fresh perspective and hence can be used to stimulate a consensus building debate over the next few months.
- 4.16 To conclude, a change in financial year could arm the Government with levers to effectively and adequately re-orient the budget formulation exercise. Monsoon rains impact the daily lives of significant majority of our population even today.

⁴³Source: Para 25: Report on Finance, Accounts and Audit by the first Administrative Reforms Commission

Changing the financial year to the calendar year would enable Government departments and ministries to take monsoon situation into account while prioritizing their investments and policy interventions. This would structurally improve the quality of planning thereby balancing and re-orienting the “people” aspect of the Budget. A sustained re-orientation of Budget over the medium to longer term has a serious potential to facilitate and accelerate Rural Transformation thereby leading to superior social, economic and political outputs.

5. Broad framework for choosing an alternate date for financial year

- 5.1 Having argued need for changing the financial year (i.e why the financial year should change), likely criticisms of this proposal and their counter arguments, this section aims to present a broad framework that may be considered for choosing an alternate date for the financial year (i.e what could be a preferred date for the start of the Indian financial year).
- 5.2 As has been discussed earlier, from the perspective of financial years of Governments, there does not seem to be a “global standard”. However, it is important to note that while financial years (the start and end dates) may vary, their start date largely coincides with start dates of quarters. Meaning for majority of the Governments (including the Indian Government) the start date of their financial year would be 1st January; or 1st April; or 1st July or 1st October. Taking this principle as critical to ensure broader consistency with global practices, it is proposed to consider the above 4 dates as the selected options for examining the preferred financial year, with 1st April being the current financial year start date.
- 5.3 Now, having shortlisted the possible options for the alternate financial year, it is important to re-visit important milestones/processes that would help evaluate pros and cons of each of the options. The table below, lists the important milestones for each of the options:

Table: Important Milestones (likely dates) for various options

Important Milestones	Option 1	Option 2 (Current)	Option 3	Option 4
Start date of financial year	1 st January	1 st April	1 st July	1 st October
Likely Budget Presentation Day	Nov 30/1 Dec	27 or 28 Feb	31 May/1 June	31 Aug/1 Sep
Likely date of receipts and expenditure closure	By Nov 1 st week	By Feb 1 st week	By May 1 st week	By Aug 1 st week
Likely timelines of pre-budget meetings & discussions	Aug-Oct	Oct – Dec	Jan-March	April-June
Likely dates by which South West Monsoon situation could be credibly known	Mid Aug – Sep 1 st week	Mid Aug – Sep 1 st week	Mid Aug – Sep 1 st week	Mid Aug – Sep 1 st week
Likely Budget	4 th week Nov –	4 th week of	4 th week of May	4 th week of

Session timelines	Feb 1 st week	Feb – May 1 st week	– Aug 1 st week	Aug –Nov 1 st week
Likely date of President's approval to Appropriation (Main) & Finance Bill	Feb 1 st Week	May 1 st week	Aug 1 st week	Nov 1 st week
Diwali	Oct/Nov	Oct/Nov	Oct/Nov	Oct/Nov

- 5.4 Using the above table of key milestones and with reference to the discussions in the note earlier, pros and cons of each of the option is briefly evaluated against the parameters discussed in section 3 of the note. A summary of pros and cons of each option is presented below:

Table: Brief commentary on pros and cons of each option against relevant parameters

Parameters and start dates	Option 1 1 Jan	Option 2 1 April	Option 3 1 July	Option 4 1 October
Credible assessment of SW monsoon situation	Most preferred	Not preferred	Not preferred	Feasible, but to a reasonable extent
Impact on working season	No noteworthy impact to working season envisaged	Ongoing practice. Neutral	No noteworthy impact to working season envisaged	No noteworthy impact to working season envisaged
Impact on statistics and data collection periods	Preferred. In line with UN practices	Ongoing practice. Neutral	Neutral	Neutral
International Practice	Preferred	Acceptable	Acceptable	Acceptable
National culture/traditions	Budget presentation just about the end of festival season and financial year to begin at the start of new year.	No specific pros/cons. Neutral	No specific pros/cons. Neutral	Financial year to begin just ahead of festival season.
Convenience of legislators	No notable inconvenience envisaged	No notable inconvenience envisaged	Minor inconvenience in touring constituencies due to ensuing SW monsoons just as the Parliament session ends	No notable inconvenience envisaged

- 5.5 As can be seen from the table above, a brief comparative evaluation of pros and cons of each option against the relevant parameters indicate that 1st January could be seen as the most preferred date for the start of Indian financial year. The output of this assessment is also in line with views and recommendations of various experts, institutions and stakeholders in the past. It is therefore suggested that 1st January be considered the most preferred option to start the Indian financial year.

6. Legal/Constitutional Provisions

- 6.1 Having examined the need for changing the current financial year, this section aims to highlight the constitutional and other legal provisions that may need to be assessed for effecting this change.
- 6.2 Starting with Constitutional provisions, while the Constitution does not explicitly define the start and end dates of the financial year, by virtue of Articles 112, 202 read along with Article 367(1), it can be inferred that constitution requires the Indian financial year to start from 1st April. Articles 112 and 202 of the Constitution of India mandate the Union Government and State Governments to lay annual financial statements for a *financial year* before the Parliament or State legislatures respectively. The Article 367(1) of the Constitution makes the provisions of General Clauses Act 1897 applicable for interpretation of the Constitution. The General Clauses Act 1897, in turn, defines the financial year to start on April 1.
- 6.3 The above referred Articles are reproduced below for reference:
- a) Article 112 of the Constitution– Annual Financial Statement
“(1) The President shall in respect of every financial year cause to be laid before both the Houses of Parliament a statement of the estimated receipts and expenditure of the Government of India for that year, in this Part referred to as the annual financial statement”.
 - b) Article 202 of the Constitution – Annual Financial Statement
“(1) The Governor shall in respect of every financial year cause to be laid before the House or Houses of the Legislature of the State a statement of the estimated receipts and expenditure of the State for that year, in this Part referred to as the annual financial statement”.
 - c) Article 367(1) of the Constitution
“Unless the context otherwise requires, the General Clauses Act, 1897 , shall, subject to any adaptations and modifications that may be made therein under Article 372, apply for the interpretation of this Constitution as it applies for the interpretation of an Act of the Legislature of the Dominion of India”.
 - d) General Clauses Act 1897, (Act No. 10 of 1897), Section 3 – Definitions
"Financial year" shall mean the year commencing on the first day of April
- 6.4 Besides the constitutional provisions discussed above, key laws and guidelines of Central Government and State Government that have reference to April 1 as the start of the financial year include laws and guidelines related to *inter-alia*:
- a) Taxation (Direct and Indirect Taxes such as Income Tax Act, Wealth Tax, Gift Tax, Excise and Customs, state's sales tax and so on);
 - b) Accounting rules (the Government Accounting Rules 1990);
 - c) Statistical practices for national accounts;
 - d) General financial rules (the General Financial Rules 2005);

- e) Regulations governing companies (the Companies Act 2013⁴⁴) etc.
- 6.5 Another key point worth mentioning in this section is that the scheme of devolution of resources from the Central Government to states as per the recommendations of the 14th Finance Commission also has reference to the existing financial year. The recommendations of the Finance Commission are effective 1st April 2015 for the next 5 years ending 31st March 2020 and in this regard take the financial year for administering its recommendations as the year starting 1st April.
- 6.6 In conclusion, it is evident that the constitution and various statutes highlighted above interpret the “financial year” as the year starting 1st April. A proposal to change the financial year would therefore involve necessary changes/amendments to the above provisions. The expert committee recently constituted by the Government under the chairmanship of Dr. Shankar Acharya is likely to examine such constitutional and legal provisions in a detailed manner. Keeping this in mind, the last section lists broad conceptual options, as way forward, for effecting change in the financial year.

7. Way Forward

- 7.1 The previous sections of the note presented detailed arguments highlighting the need for changing India's financial year, likely criticisms and counter-arguments of this proposal and a broad framework for choosing an alternate financial year. This section aims to outline some conceptual options in terms of a way forward so that the relevant stakeholders (Union Government, States, think-tanks, industry confederations etc.) are sensitized about various feasible options that could be explored to eventually facilitate implementation of this change.
- 7.2 In terms of modalities for amending constitutional/legal provisions, the following aspects need to be conceptually addressed in case a decision is taken to change the financial year to the calendar year (Jan-Dec):
 - a) There would be a “transitional financial year” to effect this change. For example, if say the decision to change the financial year is taken with effect from 1st January 2018, then the period between 1st April 2017 to 31st December 2017 could be considered as the “transitional financial year”;
 - b) The Government of the United States passed a new Act – “the Congressional Budget and Impoundment Control Act of 1974” to effect change of its financial year from 1 July-30 Jun to 1 Oct – 30 Sept. This act provided for a “transitional quarter” from 1 July 1976 to 30 September 1976⁴⁵. Now, as indicated in earlier sections, the General Clauses Act 1897 defines the financial year as the year starting 1st April. By virtue of Article 367(1) of the Constitution, the above definition also applies to the interpretation of the Constitution. Therefore, a new

⁴⁴ It may be noted here that prior to the enactment of the Companies Act 2013, business entities in India had flexibility to choose their financial year. The Tax year however coincided with the financial year of the Government. Pursuant to the enactment of the Companies Act 2013, Section 2(41) of this Act now practically requires business entities, registered under the Companies Act, to align their financial year (both for financial statements closing and for tax reporting) with that of the Government's financial year (April – March). Some exceptions are however allowed as per the provisions and as approved by the Company Law Tribunal.

⁴⁵Source: https://en.wikipedia.org/wiki/Fiscal_year#Federal_government

bill to implement change in the financial year (the “New Indian Financial Year Act”) may be introduced which could have the effect of:

- Defining the new financial year and the “transitional financial year”;
- Amending the definition of financial year in General Clauses Act 1896;
- Detailing appropriate changes to taxation and financial administration statutes and rules (including implications of recommendations of the 14th Finance Commission) for the “transitional financial year” and the procedures thereof;
- Detailing changes in the statistical data collection and dissemination guidelines, if any;
- Facilitating similar changes to be adopted by State Governments.

c) The Government may also explore the need of amending the Constitution to effect this change.

- 7.3 Task forces comprising senior officials of the Government (from key departments such as Expenditure, Revenue, CSO, Direct and Indirect taxation etc.) may be set up who could develop manuals and guidelines for effecting this change during the transitional period. As this matter requires technical expertise on a range of issues like taxation, legal aspects etc., such task forces may look at specific aspects based on their subject matter expertise. For example, CSO could advise on the necessary changes to be undertaken for data collection and reporting guidelines. Additionally, feedback from expert institutions such as ICAI, professional associations, other Government research institutions and think tanks etc. may also be considered while developing such guidelines.
- 7.4 Finally, as is the case with structural reforms, this change is also likely to result in short-term pains and dislocations. However, such short term pains and dislocations should not matter considering the long term transformative advantages of this reform which have been articulated earlier in this note.

Annexure I – Views of Expert Committees/ Study Teams on the Indian Financial Year

1. Extracts from the report of the “Royal Commission on Indian Finance and Currency” – Chamberlain Commission 1914:⁴⁶

128. Even under normal conditions we have been much impressed by the difficulties in preparing a budget in India. The revenues of India, whether shown under railways or customs or directly under the head of land revenue, fluctuate to an extraordinary extent with the success or failure of the agriculture operations of each year, and these again depend pre-dominantly on the south-west monsoon which spreads over the Indian continent and Burma in the months of June to October. Under present arrangements, the Indian budget is presented before the end of March, and the Finance Minister accordingly has to prepare his estimates in ignorance of the most important factor on which the results of the year will depend. The late Finance Member of the Viceroy's Council, in-deed, has described the framing of a budget as a gamble in rain. We would observe, however, that the description applies only because the budget is taken before the monsoon. It is clear in fact that from the financial point of view the present date is almost the most inconvenient possible for the budget, and the suggestion has therefore been made that the date of the beginning of the financial year should be altered from the altered from the 1st April to the 1st November or 1st January. There may be administrative difficulties in carrying this suggestion into effect, but financially, it would be a great improvement. Criticism directed against the inaccuracy of Indian budgeting is not effectively answered by a reference to the difficulties which arise under present conditions. It has to be shown further that these difficulties cannot be removed by a change of date without incurring greater disadvantages, and we commend the question to the consideration of the Government.

2. Extracts of the resolution of Government of India regarding decision on the Chamberlain Commission's suggestion for changing Indian financial year:⁴⁷

“The Government of India have had under consideration the question of changing the date of the commencement of the Indian financial year from the 1st April to the 1st November or 1st January. The matter has been raised on more than one occasion and notably by the Royal Commission on Indian Finance and Currency of 1913, the main object in view in advocating a change being that it would facilitate more accurate budgeting.

The opinions of the Provincial Governments and the Chambers of Commerce were invited on the proposal in a circular letter, which was also published in the Press. The replies show that the Provincial Governments are unanimously of the opinion that the disadvantages which would result from the change would outweigh the advantages, while opinion among the commercial bodies is divided. After considering the matter in all its bearings, the Government of India have now decided to drop the proposal for a change.”

⁴⁶ Source: Appendix 4 – L. K Jha Committee Report

⁴⁷ Source: <https://books.google.co.in/books?id=DQ3-AQAAQBAJ&pg=PT278&lpg=PT278&dq=chamberlain+commission+on+indian+financial+year&source=bl&ots=EGuklAZYxw&sig=WOUad-1AV7aJt9uHOxEElksMqGI&hl=en&sa=X&ved=0ahUKEwiC8vvN4dbNAhWIr48KHexQCYgQ6AEIGzAA#v=onepage&q=chamberlain%20commission%20on%20indian%20financial%20year&f=false>

[AQAAQBAJ&pg=PT278&lpg=PT278&dq=chamberlain+commission+on+indian+financial+year&source=bl&ots=EGuklAZYxw&sig=WOUad-1AV7aJt9uHOxEElksMqGI&hl=en&sa=X&ved=0ahUKEwiC8vvN4dbNAhWIr48KHexQCYgQ6AEIGzAA#v=onepage&q=chamberlain%20commission%20on%20indian%20financial%20year&f=false](https://books.google.co.in/books?id=DQ3-AQAAQBAJ&pg=PT278&lpg=PT278&dq=chamberlain+commission+on+indian+financial+year&source=bl&ots=EGuklAZYxw&sig=WOUad-1AV7aJt9uHOxEElksMqGI&hl=en&sa=X&ved=0ahUKEwiC8vvN4dbNAhWIr48KHexQCYgQ6AEIGzAA#v=onepage&q=chamberlain%20commission%20on%20indian%20financial%20year&f=false)

3. Extracts of the 4th report on Finance, Accounts and Audit submitted by the 1st Administrative Reforms Commission dated January 1968⁴⁸:

17. Any consideration of reforms in the budget and the procedure thereof would bring to the fore the question of the period which should be covered by it. In our country this question has been debated, off and on, for more than half a century.

20. The Study Team on Financial Administration which had the benefit of the views of knowledgeable persons outside the Government as well as of senior officers of the Central and State Governments, has observed as follows:

“Since no one solution reconciles all these (alternatives), what particular balance of advantage should be regarded as justifying a disturbance of the *status quo* with its attendant disadvantages. We have considered these questions and feel that if the *status quo* is to be changed, the balance of advantage would lie in favour of 1st October, more especially from the point of view of performance on which we lay emphasis throughout this report”

21. The following important considerations must be taken into account in any serious discussion of this matter:

- (i) India still remains, despite the industrial development of the past decade or so, a predominantly agricultural country with most of the industrial production and commercial activities being dependent to a large extent on agricultural production. This makes it necessary that the financial year should be such that the dominant character of the principal monsoon should be known before the budget is settled.
- (ii) The continuous spell of the working season or as much of it as possible should fall within a single financial year.
- (iii) The period commencing from the end of the monsoon and extending up to the peak of the next hot season constitutes the season of most intense activity.
- (iv) The timing of the budget session of Central and State Legislatures should be suitable for the members thereof.

22. The south-west monsoon – which is the principal one – breaks over the Arabian Sea in the beginning of June, in West Bengal by about the 10th of June and at places in northern India at a somewhat later date. The effect of this monsoon which is responsible for over 90% of the total annual rainfall in India cannot be known until after the rains of the crucial month of September. The budget estimates would have therefore to be finalised sometime after the month of September though the preparation of the budget estimates has necessarily to commence a few months ahead of the commencement of the financial year. By that time (i.e the end of September and the beginning of October) it would be possible not only to take a final view of the behaviour of the monsoon but also to assess the prospects of the main crop, namely, the kharif crop which accounts for a substantial part of the total agricultural production in the country. Bearing in mind the first of the considerations set forth above, the most suitable time for the commencement of the financial year would, in our view, be the 1st of November.

⁴⁸ Source: Report of the 1st Administrative Reforms Commission on Finance, Accounts and Audit

23. As regards the working season, it is generally taken to be from the beginning of October to the end of June. The duration of the present financial year, viz, April-March, splits this working season into two parts falling into two consecutive financial years. If November to October is taken as the financial year almost the whole of the working season (that is the period exclusive of October) will fall in one financial year. We could, of course, put the whole of the working season into the financial year if it were to commence on the 1st October, but that would imply the finalisation of the budget estimates by the end of August, if not earlier, and a clear picture of the agricultural prospects will not probably be available so early.

24. A financial year commencing from 1st November would also seem to be more suitable for Parliamentary business. If the financial year is to commence on the 1st November, the budget discussions can be held at the Centre and in the States during the latter part of the monsoon period when touring in general is inconvenient. Moreover, Government departments would then be employed in the work of preparation of the Budget during the earlier part of the monsoon season, which will suit them better than the hot summer months of April to June.

Another consideration, based on national tradition, may be urged in favour of the above date. Each nation has its own tradition based upon its civilisation, customs and habits. These traditions are evolved over centuries and they continue to remain in force in view of their inherent vitality. In India, whether in the agricultural or in the commercial field, the traditional dividing line between the close of one period of activity and commencement of the next is the Diwali. An accounting year for government transactions conforming to this dividing line will result in considerable psychological advantage. Diwali or some date near about that date can, therefore, be taken as the starting point of the financial year. As the date selected must also be a fixed one in terms of the international calendar, the 1st of November can conveniently be adopted for this purpose.

25. We recognise that any change in the financial year would cause in the short run considerable dislocation in the administrative and statistical fields of activity. But that consideration should not deter us from adopting a more rational, practical and convenient system, keeping in view the many advantages which will accrue therefrom. We are confident that a change in the Financial Year is less likely to cause dislocation in national life than some of the changes introduced in recent years, for example, the decimal system of coinage, the metric system of weights and measures. Past experience in such matters shows that the process of adaptation to new systems superseding age-old practices will not be unduly protracted or painful.

Recommendation 3

We recommend that the financial year should commence from the 1st of November instead of the 1st of April as at present. This should be adopted both at the Centre and in the States.

4. Extracts of the report of the Study Team – Financial Administration⁴⁹:

⁴⁹ Source: Appendix 4, L. K. Jha Committee Report

4.10 We may now try to sum up briefly the relative advantages of the different alternatives in the light of the criteria enumerated in para.4-7:

- (i) Accuracy of the revenue estimates in the budget. – Agriculture and therefore the monsoon-especially the south-west monsoon – are still important, though not as important as in the past, from the point of view of revenue estimates. This is true of the central government to the extent, for example, that many excises – and so too many export duties – are based on agriculture commodities such as sugar, tobacco, tea and jute. It is also true of the sales taxes of many states. But if what was at issue, however, was land revenue, one has to take note of its dwindling significance in the total size of the state budget. With these reservations, it may be said that for accuracy in this context:
 - (a) the most suitable date is 1st January, while 1st October is only slightly less so.
 - (b) 1st April is the least suitable, while 1st July is only slightly better.
- (ii) Accuracy of expenditure estimates in the budget. – A preliminary point is whether severe drought, and acute food storage resulting therefrom, should or should not hereafter be regarded as features likely to recur fairly often. If the answer is in the affirmative, then this becomes one of the principal causes of expenditure both at the Centre and in the States; and the monsoons, especially the south-west one, become very important. In that event, again as in (i) above, the most suitable budgets are those commencing on 1st January or, as the next priority, 1st October. Also 1st April would be the least suitable and 1st July only slightly better.

But if severe droughts are to be regarded as an exceptional features on which normal budgetary arrangements need not be based, there would have to be an entirely different angle on accuracy in expenditure estimates. This would then depend, firstly, on the extent to which the budget estimates are based on knowledge of the revised estimates of the current year, and secondly, on how far the available revised estimates cover that part of the working season which falls within the current budget year. Since the working season is October-May and since three to four months have usually to be allowed for in order that current data may influence the next year's estimates, it seems clear that the best budget from the point of view is that which begins from 1st October. Next in order of priority would be 1st July. The worst would be 1st January, while 1st April would be slightly better.

- (iii) Efficacy of performance - The efficacy is in terms of what is done or not done by officers in the field. This has to be considered for different categories of works ;
 - (a) New works, for the first time provided for in the budget.
 - (b) Continuing projects only partly completed during the current year and in fact expected to be only partly completed; and for which, therefore, a budget provision has been made for the next year.
 - (c) Individual projects expected to be completed during the year which is current and therefore not figuring in the budget, but which nevertheless, for unforeseen reasons, have not been completed and would therefore be carried forward to the next year; and

- (d) Continuing works (e.g. road maintenance) for which no line can be drawn between one budget and another, and provisions for which invariably continue from budget to budget.

This categorisation is important because it has a bearing on factors which hinder or facilitate performance:

Category (a) raises the question both of preparatory steps (contracts, stores etc.) and the communication of budget grants to the executives in the fields. We are, however, of the view that the preparatory steps in the question are not a serious or universal problem. Further, it is only in exceptional cases that as many as three months would be required for the completion of these steps.

Category (b) raises only the question of the communication budget grants. Where the system of communication operates efficiently, there should be no dislocation of work on account of an apprehended "lapse of grants"

Category (c) involves greater difficulty. The field authorities have to be assured that they can be ahead even though there is no budget provision; and before giving such an assurance the higher authorities have themselves quite often to seek the sanction of the Finance Ministry (for a possible supplementary demand etc.). Any budget year – or any budgetary or administrative arrangement-which tends to increase the number of instances in category (c) is obviously not desirable from the point of view of performance.

Category (d) usually presents no difficulty, provided the system of communication of budget grants is tolerably efficient. Moreover, it is in regard to this category of works that most field officers feel confident that they can proceed with the work without undue risk of later incurring the displeasure of authority.

Taking a total view of these categories and giving due weight to the more difficult ones-since these are the weak points in execution – we feel that, from the point of view of efficacy of performance, 1st October and 1st July are equally suitable. The least suitable date is 1st April, while 1st January is only to some extent better.

- (iv) Convenience of Legislators and Administrators. – This may be looked at from two angles:-
 - (a) suitability from the point of view of presenting and passing the budget; and
 - (b) suitability from the point of view of a legislator who desires to be in touch with his constituency.

So far as (a) is concerned, the least suitable alternative seems to be 1st July since the budget would have to be prepared and passed in the heat of summer, none of the other dates is open to much objection, though 1st January would probably be the most congenial, while 1st April on the one side and 1st October on the other would not come far behind, each having something to commend it.

As regard (b), the desideratum would be for legislator to be as free as possible to tour his constituency and for the administrators to attend to their other duties – during the fair season, i.e. October to May. The arrangement that would best ensure this would

be a budget that comes into force on 1st July or 1st October. Neither 1st January nor 1st April would be suitable from this point of view.

4.11 We have thought it desirable to analyse at some length the various criteria which-not always explicitly-are in the minds of those who advocate one or another alternative for a change in the financial year as well as of those who urge a continuance of the status quo. The alternatives are several and the criteria to be applied many. The conclusion one may reach is, in the last analysis, a matter of priorities. Should the accent be on the efficacy of performance or the accuracy of revenue budgeting? Or the convenience of legislators or the accuracy of expenditure estimation? Since no one solution reconciles all these, what particular balance of advantage should be regarded as justifying a disturbance of the status quo with its attendant disadvantages? We have considered these questions and feel that, if the status quo is to be changed, the balance of advantage would lie in favour of 1st October, more especially from the point of view of performance on which we lay emphasis throughout this report.

5. Extracts of the report of the Committee on Change in Financial Year (1985) chaired by Shri L. K. Jha⁵⁰:

10.23 Conclusion and Recommendation: Against this background, we now proceed to sum up our conclusion and recommendation:-

- (i) Having regards to the impact of the south-west monsoon on the economy as a whole, no less than on the receipts and expenditure of Government, both at the Centre and in the States, the budgetary exercise should be finalised in October after the South-West monsoon is over. This would enable the presentation of the Budget in November which would lead to commencement of financial year in January. Such a change would have many advantages from the point of view of National Accounts as well.
- (ii) The major objection to January-December being made the financial year is that it would result in poor utilisation of the working season, at least in the States where the first quarter of the calendar year is the working season in view of the time lag between the commencement of the financial year and the relevant allocations and authorisations to incur expenditure and proceeds with the works reaching the executive agencies concerned. The suggested solution that the financial year should start in July would mean that the Budget would have to be framed, as at present, without any knowledge of the behaviour of the monsoon and, thus, continue to a "gamble". It would also suffer from other weakness, particularly in regard to the time table of Parliamentary work.
- (iii) On the other hand, a change of the Financial year to make it commence in January, without adequate and effective measures to ensure that projects are not held up for two or three months at the beginning of each financial year on account of the time taken in issuing allocations and sanctions, would mean that the working seasons would not only have an interruption of roughly six months (as it is with the present financial year) but that the interruption would come in two

⁵⁰ Source: Chapter 10, L. K. Jha Committee Report

separate spells of three months each. Such a fragmentation of the working season must be avoided at all costs.

- (iv) Therefore, arrangements must be made to ensure that continuing projects are not halted because, firstly, the funds allotted to them in the previous financial year lapse at the end of it and, secondly, fresh allocations take time to reach the agencies executing them. Such an objective can be achieved if the anticipated under-spending on major projects in a year is provided for in the Vote on Account for the first three months of the following year. In addition, the Vote on Account for other projects and programmes, as also maintenance, could be, in general, for three months expenditure instead of two months, as is the practice at present at least at the centre. Simultaneously the executing agencies would have to be authorised, in general terms, to spend out of the Vote on Account on specific major projects, programmes, etc., without further authorisation from the departmental heads or other appropriate authorities during the first quarter of the financial year.
- (v) The above reform is needed, not only in the context of a change in the financial year but even if the final decision is to continue with the status quo in this regard, since it would help speed up the execution of plan projects by adding three more working months to the projects included in the plan.
- (vi) With the above reform, the way would be clear for government to adopt a new financial year for which, in our judgement, the calendar year offers the most advantageous alternative. If, for any reason, a changeover to the calendar year is not found acceptable, despite its many advantages referred to earlier, or the key administrative and financial reforms recommended by us cannot be given effect to, then, on balance, it might be best to live with existing financial year and avoid the problems of transition.
- (vii) If the final decision is in favour of a change in the financial year, it would be necessary to make changes in the taxation laws and system, as also statistical data compilation besides the various financial procedures relating to the issue of expenditure authorisation and other matters. The transition will, therefore, require careful planning and working out of details of implementation to ensure that there is no dislocation of work.
- (viii) With early decisions on the issues of the changes needed in administrative and financial procedures, as well as of change-over to January-December as the financial year, it should be possible to give effect to the new financial year from 1st January, 1987, if the working groups proposed by us are set up and asked to work according to a time-bound programme.

Annexure 2 – Financial Years of A Few Select Countries

Country	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
<u>Common Wealth Countries</u>																					
India																					
Australia																					
Canada																					
Kenya																					
Mauritius																					
Malaysia																					
Singapore																					
Zimbabwe																					
Pakistan																					
Sri Lanka																					
<u>Europe</u>																					
Austria																					
Belgium																					
UK																					
Denmark																					
France																					
Norway																					
Sweden																					
<u>Asia</u>																					
Philippines																					
Japan																					
China																					

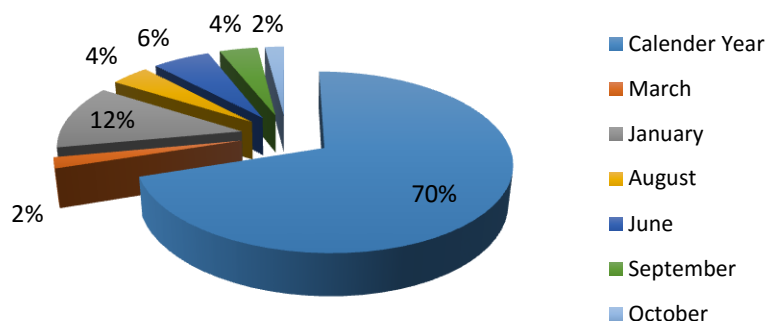
Malaysia		
Indonesia		
Thailand		
<u>Other countries</u>		
US		
Russia		
South Africa		
Brazil		
Hong Kong		
Middle East		
UAE		
Saudi		

Source: https://en.wikipedia.org/wiki/Fiscal_year#Tax_year

Annexure 3: Analysis of financial years of select large international business entities

The chart below shows that out of the 50 biggest companies in the Fortune 500, significant majority (about 70%) follow the calendar year as their financial year. Considering the multi-national geographic coverage of these companies, January-December is typically the preferred financial year to ensure a consistency from international perspective.

Figure: Financial Year ending of top 50 Fortune 500 American Companies



Source – Fortune 500 Database, Fiscal Year End Numbers - Secondary Research

However, the following broader sectoral trends in terms of seasonality of their business cycles are also to be taken note of:

- The holiday season (December) is generally the most hectic season for retail companies. Retail companies like Walmart, Home Depot, Target and Lowe's may therefore instead prefer their fiscal year end as 30th January instead of 31st December.
- The energy industry is not affected by the seasonality since their products like petroleum are essential. The biggest energy companies in the United States, including Exxon Mobil, Chevron, Phillips 66, Valero energy and Marathon Petroleum, use the calendar date as their fiscal year end.
- The healthcare sector – including the insurance, pharmacy and health services industry – is by and large unaffected by seasonality. Five of the eight biggest companies in the healthcare sector follow the calendar year as the fiscal year, with McKesson, Amerisource Bergen and Cardinal Health follow different dates for their fiscal year end.
- The technology industry is affected by business fluctuations due to the holiday season. Companies like Apple, HP and Microsoft follow different dates. Apple's fiscal year ends on 24th September, HP's ends on 31th October and Microsoft's ends on 30th June. While Alphabet, IBM and Amazon choose to stick to the calendar year.
- There is no effect of the holiday season on the financials industry. The 11 biggest companies in the sector all have 31st December as their fiscal year end. These companies include Berkshire Hathaway, Fannie Mae, JP Morgan Chase, Well Fargo, Bank of America and Citi group amongst other.

- The Aerospace and Defense sector is another such sector, which is not influenced by seasonality. Boeing and United Tech, the two most eminent companies in the sector, follow 31st December as their fiscal year end.

The detailed list is enclosed below:

Companies	Sector	Industry	Year End
Wal-Mart	Retail	Retail	31-Jan
Exxon Mobile	Energy	Petroleum Refinery	31-Dec
Apple	Computers	Tech	24 September
Berkshire Hathaway	Financials	Insurance	31-Dec
McKesson	Healthcare	Healthcare	31-Mar
United Health Group	Healthcare	Healthcare	31-Dec
CVS	Healthcare	Pharmacy	31-Dec
General Motors	Auto	Motor Parts	31-Dec
Ford	Auto	Motor Parts	31-Dec
AT&T	Telecom	Telecom	31-Dec
General Electric	Diversified	Diversified	31-Dec
AmerisourceBergen	Healthcare	Healthcare	30-Sep
Verizon	Telecom	Telecom	31-Dec
Chevron	Energy	Petroleum Refinery	31-Dec
Costco	Retail	Retail	31-Aug
Fannie Mae	Financials	Financials	31-Dec
Kroger	Food and Drug	Food and Drug	30-Jan
Amazon	Tech	E-commerce	31-Dec
Walgreens	Food and Drug	Food and Drug	31-Aug
HP	Tech	Computers	31-Oct
Cardinal Health	Healthcare	Healthcare	30-Jun
Express Scripts Holding	Healthcare	Pharmacy	31-Dec
JP Morgan Chase	Financials	Commercial Banks	31-Dec
Boeing	Aerospace and Defense	Aerospace and Defense	31-Dec
Microsoft	Tech	Computer Software	30-Jun
Bank of America	Financials	Commercial Banks	31-Dec
Wells Fargo	Financials	Commercial Banks	31-Dec
Home Depot	Retail	Retail: Others	31-Jan
Citi Group	Financials	Commercial Banks	31-Dec
Phillips 66	Energy	Petroleum Refinery	31-Dec
IBM	Tech	IT	31-Dec
Valero Energy	Energy	Petroleum Refinery	31-Dec
Anthem	Healthcare	Insurance	31-Dec

Procter & Gamble	Consumer Goods	Household Products	30-Jun
State Farm Insurance Cos	Financials	Insurance	31-Dec
Alphabet	Tech		31-Dec
Comcast	Telecom	Telecom	31-Dec
Target	Retail	Retail	30-Jan
Johnson & Johnson			3-Jan
MetLife	Financials	Insurance	31-Dec
Archer Daniels Midland	Food and Drug	Food, Beverages and Tobacco	31-Dec
Marathon Petroleum	Energy	Petroleum	31-Dec
Freddie Mac	Financials	Diversified Financials	31-Dec
PepsiCo	Consumer Goods	Food and Beverage	26-Dec
United Tech	Aerospace and Defense	Aerospace and Defense	31-Dec
Aetna's	Healthcare	Insurance	31-Dec
Lowe's	Retail	Special Retailing	29-Jan
UPS	Transportation	Mail, Package	31-Dec
AIG	Financial	Insurance	31-Dec
Prudential Fund	Financials	Insurance	31-Dec

Source: Fortune 500 database, Financial Year End Numbers – Secondary Research