

# Budgetary Reforms and New Public Management in India: Transforming Fiscal Governance in a Developing Democracy

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**Abstract:** Budgetary reforms in India represent a central pillar of administrative modernization and fiscal governance transformation in the world's largest democracy. Over the past three decades, India has progressively adopted principles associated with New Public Management (NPM)—efficiency, transparency, performance orientation, and accountability—within its public financial management system. Reforms such as the Fiscal Responsibility and Budget Management Act, outcome budgeting, digitized financial transfers, and integrated expenditure monitoring systems have sought to align fiscal discipline with developmental objectives. These measures aim to rationalize expenditure, enhance transparency, and strengthen institutional oversight while enabling the state to respond effectively to complex socio-economic challenges. Despite measurable gains in fiscal discipline and service delivery efficiency, persistent structural constraints—fragmented frameworks, intergovernmental coordination gaps, and data limitations—continue to impede full realization of reform goals. This paper critically examines India's budgetary reform trajectory through the lens of NPM theory, evaluating achievements, limitations, and future directions. It argues that sustained institutional reform and technological integration are essential to building resilient fiscal governance in developing democracies.

**Keywords:** Budgetary Reform; New Public Management; Fiscal Governance; Public Financial Management; India.

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## I. INTRODUCTION

Fiscal governance is a foundational element of democratic statecraft, shaping public trust, development outcomes, and macroeconomic stability. In developing democracies like India, budgetary systems perform dual roles: they allocate scarce resources while ensuring political legitimacy through transparency and accountability. Since economic liberalization in 1991, India has pursued a series of fiscal and administrative reforms aimed at modernizing its budgetary architecture and improving public sector performance.

Public Financial Management (PFM) systems are widely recognized as crucial for ensuring efficient resource utilization, transparency, and equitable service delivery. Strong PFM systems are associated with poverty reduction, economic growth, and improved governance outcomes.

India's reform trajectory increasingly reflects the influence of New Public Management (NPM), a governance paradigm emphasizing managerial efficiency, performance measurement, decentralization, and market-oriented administrative practices. This paper explores how budgetary reforms inspired by NPM principles have transformed fiscal governance in India, while also identifying unresolved institutional and structural challenges<sup>1</sup> [1].

### ➤ *Conceptual Framework: New Public Management and Fiscal Governance*

New Public Management emerged in the late twentieth century as a response to perceived inefficiencies in traditional bureaucratic systems. Its core elements include:

- Performance-based budgeting
- Output and outcome measurement
- Decentralized decision-making
- Financial discipline
- Customer-oriented public services

<sup>1</sup> Kumar, Sonia; Singh, Jyotsana. Financial Administration and Public Financial Management Reforms: Lessons from India.

Within fiscal governance, NPM seeks to replace rigid input-based budgeting with results-oriented financial planning. Instead of measuring success solely through expenditure levels, governments evaluate effectiveness through outcomes such as poverty reduction, infrastructure development, or health indicators.

In democratic contexts, NPM intersects with accountability mechanisms such as parliamentary oversight, audit institutions, and public disclosure. Thus, budgetary reform becomes both a managerial and constitutional process<sup>2</sup>[2].

## II. EVOLUTION OF BUDGETARY REFORMS IN INDIA

### ➤ *Pre-Liberalization Framework*

Before 1991, India's fiscal governance structure reflected centralized planning traditions. Budgets were largely incremental, focusing on expenditure authorization rather than performance assessment. Financial reporting systems were fragmented across rules, manuals, and guidelines.

India's PFM architecture remains dispersed across constitutional provisions and operational regulations, creating inconsistencies between high-level frameworks and implementation processes.

### ➤ *Post-1991 Reform Era*

Economic liberalization triggered systemic changes in fiscal policy and budgeting. The government introduced:

- Fiscal consolidation targets
- Public sector accountability reforms
- Modernized accounting systems
- Market-oriented resource allocation

These changes reflected a shift from control-oriented administration to performance-oriented governance consistent with NPM principles.

## III. INSTITUTIONAL PILLARS OF INDIA'S BUDGETARY REFORM

### ➤ *Fiscal Responsibility and Budget Management Act (FRBM)*

The Fiscal Responsibility and Budget Management Act, 2003 institutionalized fiscal discipline by mandating deficit reduction targets and strengthening macroeconomic management. Its goal included reducing fiscal deficit levels and improving public fund management.

The FRBM framework marked a structural shift toward rule-based fiscal governance, limiting discretionary populism and promoting long-term sustainability. Though

implementation deadlines were adjusted following global crises, the Act remains a cornerstone of India's fiscal architecture<sup>3</sup>[3].

### ➤ *Outcome Budgeting and Medium-Term Expenditure Frameworks*

Modern PFM reforms in India emphasize results-based spending. Two important innovations are:

- Outcome budgeting, linking expenditure with measurable results
- Medium-Term Expenditure Frameworks (MTEF), enabling multi-year fiscal planning

These reforms enhance policy implementation, fiscal discipline, and service delivery effectiveness.

### ➤ *Digitization and Integrated Financial Platforms*

Digitization represents one of the most transformative elements of India's fiscal governance reforms. The Public Financial Management System (PFMS) enables real-time monitoring of government spending and direct transfers to beneficiaries. By 2025-26, it supported 966 schemes and processed ₹2.87 lakh crore through over 210 crore transactions<sup>4</sup>[4].

Such systems embody NPM principles of transparency, efficiency, and citizen-centric governance.

### ➤ *Structural Financial Reforms: GST, DBT, and Pension Systems*

Several structural fiscal reforms have reshaped India's budgetary ecosystem:

- Goods and Services Tax simplified indirect taxation and improved revenue efficiency.
- Direct Benefit Transfers reduced leakages and improved targeting.
- The National Pension System replaced unfunded pension liabilities with a contributory model, reducing government fiscal burden.

Collectively, these reforms align with NPM's emphasis on efficiency, financial sustainability, and performance-oriented governance.

### ➤ *State-Level Budgetary Innovation*

India's federal structure allows experimentation at subnational levels. Recent evidence shows:

- Adoption of single nodal agency reforms to streamline fund flows and improve expenditure transparency.
- Incentive-based central funding for states implementing urban governance reforms such as GIS mapping and land-pooling schemes.

<sup>2</sup> Nayudu, Sri Hari; Chakraborty, Lekha, Fiscal Transparency and Budgetary Processes in India, NIPFP Working Paper.

<sup>3</sup> Government of India. *Fiscal Responsibility and Budget Management Act, 2003*

<sup>4</sup> Department of Expenditure. *Year-End Review 2025*.

These initiatives demonstrate vertical fiscal coordination and encourage reform competition among states.

➤ *Fiscal Transparency and Accountability*

Transparency is central to modern fiscal governance. Studies on India’s budgetary processes highlight:

- Persistent data gaps in budget preparation and dissemination
- Need for revised fiscal rules
- Importance of comprehensive reporting systems

Researchers recommend institutional innovations such as an independent Fiscal Council to enhance transparency and consistency.

Transparency strengthens democratic legitimacy by enabling legislative scrutiny and public participation in fiscal policymaking<sup>5</sup>[5].

➤ *Budgetary Reform and Developmental Outcomes*

Budgetary reforms influence development outcomes through resource allocation efficiency and policy prioritization.

Recent budgets demonstrate policy-driven governance strategies:

- Fiscal deficit targets aligned with recommended limits to maintain discipline.
- Increased public investment in rural development, housing, and infrastructure.

Such allocation strategies illustrate the integration of fiscal discipline with developmental goals—an essential balance in developing democracies<sup>6</sup>[6].

**IV. NPM IN PRACTICE: ANALYTICAL ASSESSMENT<sup>7</sup>[7]**

➤ *Efficiency Gains*

India’s PFM reforms have improved resource allocation, accountability, and governance efficiency. Initiatives like PFMS, DBT, and GST streamline administrative processes and reduce transaction costs.

➤ *Accountability and Citizen Orientation*

Digital financial systems enhance traceability of public funds, reducing corruption and leakages. Citizen-centric platforms allow beneficiaries to directly access entitlements, strengthening trust in government institutions.

➤ *Fiscal Discipline and Macroeconomic Stability*

Rule-based frameworks such as FRBM promote sustainable fiscal policies and reduce macroeconomic volatility.

➤ *Limitations and Structural Constraints*

Despite progress, several challenges persist:

- Fragmented legal and administrative frameworks.
- Coordination gaps between Union and State governments.
- Data limitations affecting transparency.
- Political economy pressures such as populist expenditure commitments.

For instance, reversion to unfunded pension schemes in some states raises concerns about long-term fiscal sustainability and intergenerational liabilities.

**V. BUDGETARY REFORM AND DEMOCRATIC GOVERNANCE**

India’s fiscal governance transformation illustrates a unique synthesis of technocratic reform and democratic accountability.

➤ *Key Democratic Dimensions Include:*

- Parliamentary approval of budgets
- Audit by constitutional authorities
- Judicial oversight
- Civil society monitoring

This institutional architecture ensures that fiscal reform is not merely administrative but constitutional in character<sup>8</sup>[8].

➤ *Comparative Perspective: India and Developing Democracies*

Table 1 India’s Experience Offers Lessons for Other Developing Democracies

Dimension	Traditional Model	Reformed Indian Model
Budgeting	Incremental	Outcome-based
Transfers	Bureaucratic	Direct digital transfers
Accountability	Ex post audits	Real-time monitoring
Fiscal Rules	Discretionary	Rule-based targets
Citizen Role	Passive	Participatory

India demonstrates that developing countries can adopt sophisticated fiscal management tools without abandoning democratic principles.

<sup>5</sup> Choudhury, Mita; Chutani, Nitya. Public Financial Management Reforms in India. NIPFP Working Paper.

<sup>6</sup> Nikam, Supriya; Kothe, Satyanarayan. Growth Imperatives and Fiscal Sustainability for Viksit Bharat 2047.

<sup>7</sup> Deeti, Aditya. The Conundrum of the Pension System in India

<sup>8</sup> Oxford Academic. Public Financial Management in India: Reforms and Opportunities.

India's evolving framework of public financial management provides a compelling model for developing democracies seeking to reconcile administrative efficiency with democratic accountability. Traditionally, fiscal governance in many developing countries has been characterized by incremental budgeting, bureaucratic welfare delivery, post-facto accountability mechanisms, discretionary fiscal policies, and limited citizen engagement. However, India's recent reforms indicate a paradigmatic shift toward a more transparent, technology-driven, and participatory governance architecture[9].

At the core of this transformation is the transition from incremental to outcome-based budgeting. While the traditional approach emphasized continuity and marginal increases over previous allocations, the reformed model prioritizes measurable outputs and outcomes. This shift aligns public expenditure with developmental objectives, ensuring that fiscal resources are evaluated not merely in terms of allocation but in terms of tangible socio-economic impact [10].

Equally significant is the reform in the delivery of welfare benefits. The movement from bureaucratic transfers to Direct Benefit Transfers (DBT) has minimized intermediary leakages and enhanced targeting efficiency. By leveraging digital infrastructure, including biometric identification and financial inclusion mechanisms, India has demonstrated how technological integration can strengthen state capacity while reducing corruption and administrative inefficiencies [11].

In the domain of accountability, India has moved beyond traditional ex post audit mechanisms to embrace real-time monitoring systems. Digital dashboards, data analytics, and centralized tracking platforms enable continuous oversight of public expenditure. This shift not only enhances transparency but also facilitates timely corrective interventions, thereby improving program implementation [12].

Further, the adoption of rule-based fiscal frameworks, such as fiscal responsibility legislation, reflects a transition from discretionary fiscal management to institutionalized discipline. These frameworks impose limits on deficits and borrowing, thereby enhancing macroeconomic stability and policy credibility. For developing democracies often vulnerable to political cycles and fiscal populism, such rule-based approaches offer a sustainable path toward fiscal prudence [13].

Another critical dimension of reform is the redefinition of the citizen's role—from a passive recipient to an active participant in governance. Mechanisms such as social audits, public consultations, and digital grievance redressal systems have strengthened participatory governance. This democratization of fiscal processes not only enhances accountability but also fosters trust between the state and its citizens [14].

Taken together, India's experience illustrates that developing democracies can successfully adopt sophisticated fiscal management tools without undermining democratic principles. Rather, these reforms demonstrate that technological innovation, institutional restructuring, and citizen engagement can operate synergistically to produce a more responsive and accountable governance system [15].

In conclusion, the Indian model offers valuable lessons for other developing democracies. It underscores the importance of integrating digital technologies with governance reforms, institutionalizing fiscal discipline, and fostering participatory mechanisms. Such a holistic approach enables states to move beyond traditional administrative constraints and toward a more efficient, transparent, and citizen-centric model of public financial management.

## VI. POLICY RECOMMENDATIONS

➤ *To Consolidate Gains and Address Remaining Challenges, the Following Reforms are Recommended:*

- Enact a comprehensive PFM law harmonizing scattered frameworks.
- Establish an independent Fiscal Council for monitoring compliance.
- Expand real-time expenditure analytics across all states.
- Strengthen parliamentary budget offices.
- Institutionalize outcome-based evaluation in all ministries.
- Improve data standardization and open-budget portals.

## VII. FUTURE TRAJECTORY: TOWARD RESILIENT FISCAL GOVERNANCE

Long-term projections suggest India must maintain high growth rates while sustaining fiscal discipline to achieve its development ambitions. Sustainable growth combined with prudent fiscal management is essential for financing infrastructure, human capital, and technological investment.

➤ *The Next Phase of Reform will Likely Focus on:*

- Artificial intelligence-based expenditure analytics
- Integrated federal fiscal dashboards
- Climate-responsive budgeting
- Participatory digital budgeting platforms

## VIII. CONCLUSION

India's budgetary reforms represent a significant transformation in fiscal governance, reflecting the gradual institutionalization of New Public Management principles within a democratic constitutional framework. From rule-based fiscal discipline and performance budgeting to digital financial platforms and structural tax reforms, the country has made notable progress in enhancing efficiency, transparency, and accountability.

Yet reform remains incomplete. Structural fragmentation, intergovernmental coordination challenges, and political economy constraints continue to limit the full realization of reform objectives. Sustained institutional innovation, legal harmonization, and technological integration will be essential for deepening fiscal governance reforms.

India's experience demonstrates that developing democracies can successfully modernize public financial management systems without sacrificing democratic accountability. In doing so, they can build resilient fiscal states capable of delivering inclusive development and long-term economic stability.

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