



E-ISSN: 2706-8927

P-ISSN: 2706-8919

www.allstudyjournal.com

IJAAS 2021; 3(1): 389-394

Received: 22-01-2021

Accepted: 25-02-2021

Dr. Manjula Grover

Associate Professor,
Department of Commerce,
Shyama Prasad Mukherji
College, University of Delhi,
New Delhi, India

Evolution and implementation of zero-based budgeting in India's governance framework

Manjula Grover

Abstract

This paper examines the evolution and implementation of Zero-Based Budgeting (ZBB) in India's governance framework analysing its conceptual foundations, historical trajectory, practical challenges, and continuing relevance. ZBB demonstrates a shift from the more traditional incremental budgeting, as it requires each spending unit to justify all expenditures for each budget cycle starting from a "zero base". This paper examines the evolution, theoretical foundations as well as rational, and contemporary value of ZBB in India's public sector. The paper traces the genesis of ZBB, starting in the corporate sector in the 1970s, being introduced in India's governance system by the Ministry of Finance (MoF) in 1986, and supported by various efforts in implementation across central ministries and states such as Karnataka, Andhra Pradesh, and Rajasthan. Early experiments highlighted ZBB's potential in trimming unnecessary schemes and facilitating targeted spending. However, widespread application was unachievable due to bureaucratic inertia, limited information systems, and political interference. The paper identifies implementation barriers as institutional, resources, data, and political factors, and emphasizes the duality of technical feasibility and political economy. International experiences with selective utilization of ZBB provide comparative insights and confirm ZBB as a tool for targeted budgeting rather than a universal budgeting method. The paper concludes that ZBB has potential as a budgeting tool to improve fiscal discipline, increase transparency, and prioritize public expenditures that reflect national priorities provided it sustains its inclusive nature and provide a safe means for creating inventories of expenditures in the context of public services when simultaneously used with modern reforms such as Public Financial Management system (PFM) and Outcome-Based Budgeting (OBB). The study also advocates a selective but regular use of ZBB in priority sectors with good administrative commitment, and relevance of technological support systems to overcome historic limitations.

Keywords: Zero-based budgeting, public expenditure reform, decision packages, fiscal efficiency, budgetary accountability, India

1. Introductions

Public budgeting is the basis of government; it is a financial plan and a tool for defining and implementing government priorities. In India, where developmental needs are vast and resources constrained, the design of budgeting systems directly influences the efficiency, equity, and accountability of public expenditure. Historically, the country has relied on incremental budgeting, a system in which allocations are based on the previous year's expenditure, with minor adjustments for inflation, programme changes, or new schemes (Sharma, 2020) ^[15]. While administratively convenient, incrementalism has been criticised for institutionalising inefficiencies, allowing redundant schemes to persist, and failing to compel a re-examination of resource allocation considering current needs (Kavanagh, 2012) ^[8]. Against this backdrop, Zero-Based Budgeting (ZBB) emerged globally as an alternative framework that could potentially transform public financial management. ZBB begins each budgeting cycle from a "zero base," requiring all expenditures, whether for new or ongoing programmes, to be justified afresh (Pyhrr, 1973) ^[11]. Rather than treating historical allocations as entitlements, ZBB demands detailed "decision packages" for every activity, each of which is evaluated, ranked, and funded in order of priority (Sehgal, 2016) ^[14]. The approach shifts the burden of proof to managers, compelling them to explain why resources should be spent and what benefits are expected in return.

In the Indian context, ZBB was introduced in 1986 by the Ministry of Finance as part of a broader set of expenditure reforms. The official guidelines called for ministries and departments to adopt ZBB in preparing their budget proposals, especially for Plan expenditure, with the objectives of eliminating wasteful spending, improving programme

Corresponding Author:

Dr. Manjula Grover

Associate Professor,
Department of Commerce,
Shyama Prasad Mukherji
College, University of Delhi,
New Delhi, India

prioritisation, and aligning resource use with national development goals (Government of India, 1986) ^[5]. Select states, including Karnataka and Andhra Pradesh, also piloted the system in their departmental budgets. The reform push coincided with a period of fiscal stress, when rationalising expenditure became a pressing necessity (Government of India, 1987) ^[6].

Despite its theoretical appeal, ZBB's institutionalization across the Indian public sector has been uneven. In practice, its adoption has been fragmentary and sporadic, with most Ministries returning to incremental methods over time. Bureaucratic inertia, data limitations, and political considerations, among others, had some role to play (Agarwal & Amte, 2016) ^[11].

This paper critically analysis the role of ZBB in India's governance system mainly based on developments and data till October 2020. The first part covers conceptual and theoretical issues around ZBB, the second part looks at its introduction and growth in India, the third part considers its practical status and implementation challenges, and the last part reflects on contemporary significance of ZBB in public expenditure reform. Then through comparative observations from other jurisdictions along with observations of lessons learned, highlights concluding observations about how ZBB principles can be strategically used in India to improve fiscal prudence and accountability.

Re-examining ZBB from both historical and analytical perspectives, this study hopes to contribute to the ongoing policy discourse on public finance management. In an era of increasing fiscal pressures and demands for accountability, the principles try to move beyond useful budgeting methodology, to challenge a mindset, the willingness to make decisions on the use of public funds for delivering public goods, based on evidence; make rational choices regarding public scarce resources; and to continuously evaluate alternatives to improve public spending priorities.

2. Concept and theoretical foundations of zero-based budgeting

Zero-Based Budgeting (ZBB) is a budgeting theory that questions one of the most orthodox practices in public finance, the presumption that this year's budget should include the same excluded amounts from last year's budget along with any additional requests for resource allocation. At its essence, ZBB requires that every rupee spent, regardless of whether it is for a new program or the continuation of an ongoing program, must be substantially justified completely for each budget cycle (Pyhrr, 1973) ^[11]. It eliminates the incremental rationale of adding or subtracting additional marginal amounts from someone's historical base and, instead, forces managers to approach each budget developing exercise as if they are starting from a "zero base" (Sharma, 2020) ^[15].

2.1 Key principles and process

The mechanics of ZBB are centred on the development of *decision packages*, structured documents that present detailed information about each activity or programme. A decision package includes the purpose of the activity, measurable objectives, alternative methods of achieving the same outcome, the cost of each option, and an assessment of expected benefits (Sehgal, 2016) ^[14]. These packages are evaluated through cost-benefit analysis and ranked according to their priority within the organisation's objectives (Government of India, 1986) ^[5].

Several principles distinguish ZBB from other budgeting methods:

- **Activity-based focus:** The budget is built around discrete activities rather than broad expenditure heads.
- **Justification of all expenditures:** Managers must provide evidence and rationale for every item of spending, not just proposed increases.
- **Evaluation of alternatives:** Multiple approaches to achieving a given goal are examined before resources are committed.
- **Ranking and prioritisation:** Decision packages are compared, ranked, and funded in order of strategic importance.

These features make ZBB both a planning and a control tool, allowing organisations to allocate resources where they are most effective while eliminating redundant or low value activities (Agarwal & Amte, 2016) ^[11].

2.2 Origins and early development

ZBB's modern form is attributed to Peter A. Pyhrr, who implemented it at Texas Instruments in the early 1970s to improve corporate budgeting discipline (Pyhrr, 1973) ^[11]. Its potential for public administration was recognised soon after, particularly in the United States, where President Jimmy Carter introduced it at the federal level in 1977 after successfully using it as Governor of Georgia (Minmier & Hermanson, 1976) ^[10]. While the American experiment faced challenges in sustaining the system across multiple agencies, it demonstrated the applicability of ZBB principles beyond the private sector.

2.3 Comparison with other budgeting approaches

ZBB differs significantly from both traditional incremental budgeting and Performance-Based Budgeting (PBB). Incremental budgeting relies on the previous year's figures as a baseline, adjusting them slightly to accommodate inflation or policy changes. This method is administratively simple but tends to perpetuate inefficiencies, as ongoing programmes often escape critical scrutiny (Kavanagh, 2012) ^[8]. PBB, on the other hand, ties funding to measurable performance indicators, but it often assumes the necessity of existing programmes. ZBB goes a step further by questioning whether a programme should exist at all before considering how well it performs (Ross, 2018) ^[13].

2.4 Relevance for governments

In the public sector, ZBB appeals to reformers seeking fiscal efficiency, transparency, and accountability. For countries with diverse and competing development priorities such as India, it provides a structured method to reallocate resources from outdated or underperforming schemes to initiatives with higher policy relevance (Government of India, 1987) ^[6]. It also strengthens the link between budget allocations and strategic objectives, ensuring that funds are not simply absorbed by historical entitlements.

However, ZBB is not without its critics. The process can be resource-intensive, requiring considerable time, analytical capability, and administrative coordination (Sehgal, 2016) ^[14]. As later sections of this paper will show, these operational demands have been one of the key reasons for its partial adoption in India despite its strong theoretical appeal.

3. Evolution of ZBB in India's public sector

The introduction of Zero-Based Budgeting (ZBB) into India's public sector was part of a broader wave of administrative and financial reforms during the mid-1980s. These reforms were driven by growing fiscal pressures, the need to improve developmental outcomes, and recommendations from various expenditure review committees. The idea was to adopt a budgeting framework that would compel ministries and departments to justify each item of expenditure from first principles, rather than relying on incremental adjustments to past allocations (Government of India, 1986) ^[5].

3.1 Formal introduction in 1986

In December 1986, the Ministry of Finance issued a circular directing all central government ministries and departments to adopt ZBB for the preparation of their 1987-88 budget proposals. The directive applied particularly to Plan expenditure, expenditure linked to developmental schemes and projects, and required each department to:

- Identify all existing and proposed activities.
- Prepare decision packages for each, detailing objectives, costs, benefits, and alternatives.
- Rank these packages in order of priority.
- Recommend discontinuation of schemes that could not be justified on cost-benefit grounds.

The Union Budget 1987-88 reflected this policy shift, noting that ZBB was expected to improve efficiency in public expenditure and free resources for priority sectors (Government of India, 1987) ^[6]. The Planning Commission (now NITI Aayog) was tasked with coordinating implementation and reviewing ministries' prioritisation exercises.

3.2 Early implementation and results

Initially, ZBB was applied in ministries with many ongoing schemes, such as Agriculture, Rural Development, Science & Technology, and Education. These ministries were required to classify their schemes into:

- Core schemes essential to policy objectives.
- Continuing schemes subject to performance review.
- Schemes to be discontinued due to low relevance or poor cost benefit ratios.

This exercise led to the identification of overlapping or redundant schemes, and in some cases, the merging of smaller projects into larger, more coherent programmes.

3.3 State level initiatives

Several states also experimented with ZBB during the late 1980s and early 1990s, often adapting the methodology to their administrative contexts.

- Karnataka was among the first to adopt ZBB in 1983-84, before the central government's directive, focusing on sectors such as irrigation, agriculture, and education. Reports indicated that the exercise led to the pruning of non-essential schemes and improved inter-departmental coordination.
- Andhra Pradesh introduced ZBB in the late 1980s, targeting major development departments. While some redundant schemes were eliminated, political changes and administrative constraints affected continuity.
- Rajasthan and Maharashtra applied ZBB selectively in sectors with large discretionary spending, though they

faced challenges in sustaining the process beyond a few budget cycles.

3.4 Policy references in later years

The initial momentum of ZBB waned by the mid-1990s, as many ministries reverted to incremental budgeting for non-plan expenditure. Nevertheless, the concept continued to receive policy attention:

- The Economic Survey 2000-01 recommended selective application of ZBB for evaluating centrally sponsored schemes.
- In the 2000s, the Ministry of Finance's Expenditure Reforms Commission suggested using ZBB principles for reviewing departmental budgets and rationalising expenditure.
- NITI Aayog, in various discussion papers, referred to ZBB as a tool for expenditure prioritisation, particularly for overlapping schemes in social sectors.

3.5 Assessment of evolution

India's experience with ZBB can be described as a case of strong policy initiation but weak institutionalisation. While early applications showed potential in identifying savings and improving resource allocation, systemic challenges including limited capacity for cost-benefit analysis, insufficient data systems, and political reluctance to discontinue popular schemes prevented ZBB from becoming a permanent feature of the budgeting process. By the end of 2020, ZBB in India was largely confined to selective reviews rather than comprehensive annual application.

4. Practical status and challenges of implementation

While Zero-Based Budgeting (ZBB) offered a structured approach to improving the efficiency of public expenditure in India, its large-scale institutionalisation faced persistent hurdles. The experience since its introduction in 1986 reveals that, although several ministries and states adopted ZBB in varying degrees, the process often remained a one-time or short-term exercise rather than an embedded budgeting practice. The challenges can be grouped into four main categories.

4.1 Institutional and administrative barriers

Implementing ZBB required a complete shift from the established incremental budgeting mindset to one where each activity was examined afresh. Many government officials were accustomed to building budgets by making marginal adjustments to the previous year's figures. This familiarity created a preference for the status quo, making ZBB appear as an additional administrative burden (Agarwal & Amte, 2016) ^[1].

Furthermore, the institutional set-up in most ministries lacked specialised budget analysis units capable of preparing and evaluating decision packages. For example, the Ministry of Rural Development, in its 1987 ZBB exercise, faced difficulty in ranking hundreds of small-scale schemes due to inadequate analytical capacity and absence of uniform performance metrics (Government of India, 1987) ^[7].

Coordination was also a recurring issue. The Ministry of Finance provided overarching guidelines, while the Planning Commission evaluated proposals, but line ministries often interpreted requirements differently. This led to inconsistencies in the quality and depth of decision

packages, making inter ministerial comparisons challenging (Sehgal, 2016) ^[14].

4.2 Resource and time constraints

India's annual budget cycle is tightly scheduled, with ministries beginning the formulation process months in advance to meet statutory deadlines. Preparing comprehensive decision packages for each scheme was a time-consuming task, particularly when multiple levels of approval were required.

A case in point was Karnataka's 1983-84 ZBB pilot, where departments reported that the initial exercise took several months, diverting staff from their core responsibilities. Similarly, in Andhra Pradesh, the short time frame between receipt of ZBB instructions and budget submission resulted in incomplete reviews, with many schemes carried forward without full evaluation (Planning Commission, 1990s reports).

Due to these pressures, ministries and states often adopted partial application of ZBB focusing only on select schemes or sectors thereby diluting its systemic benefits.

4.3 Data and monitoring limitations

A cornerstone of ZBB is reliable, detailed data on programme costs, outputs, and outcomes. In India, the absence of comprehensive monitoring systems hindered the preparation of credible decision packages. Many ministries relied on outdated statistics or estimates, making cost benefit analysis less rigorous (Economic Survey, 2000-01) ^[7]. For example, in the social sector, data on scheme outcomes were often aggregated at the national level, obscuring state level variations in performance. This made it difficult to objectively rank schemes. In the absence of robust management information systems, ministries tended to base rankings on qualitative judgements rather than measurable indicators (Sharma, 2020) ^[15].

4.4 Political and structural limitations

Budget decisions in India are shaped not only by technical and economic criteria but also by political considerations. Large portions of the budget are pre committed to salaries, pensions, interest payments, and statutory transfers, leaving limited discretionary space for ZBB driven reallocations (Government of India, 1987) ^[6].

Furthermore, the political fallout from canceling or merging popular programs is substantial. Even when ZBB exercises revealed low impact programmes, ministries tended to be reluctant to respond to recommendations owing to fears of backlash from the public. For instance, during the Andhra Pradesh ZBB review, from the late 1980s, the review recommended that several welfare schemes with overlapping objectives be merged. However, the circumstantial environment prohibited their recommendations from being actioned based on political sensitivities before state elections.

Finally, the structural complexity of India's fiscal federalism also meant that for centrally sponsored schemes, changes required concurrence from both the central and state government. This added yet another level of negotiation, and time, to the process.

4.5 Overall assessment

In its practical record of ZBB in India, it shows that while ZBB had a theoretical basis, the empirical demands for

analytical rigor, administrative capability, and political enthusiasm often exceeded what the system could deliver at scale. In this respect, ZBB was more useful as a selective tool for reviewing, rather than as a general budgeting scheme. Given the rational and technical processes related to ZBB, where the process included adequate readiness and required leadership support, ZBB was certainly able to eliminate redundancies and redistribute resources, but this was the exception rather than the rule.

5. Reflections and contemporary relevance

Even though Zero-Based Budgeting (ZBB) has neither developed into a budgeting norm in India nor is seen as the answer to current challenges of budgeting for the government, it holds significant conceptual currency. Given the fiscal space is getting more and more uncondusive to new spending, and with an increasing need to demand more from public resources, ZBB offers a systematic process for challenging assumptions, reducing waste, and ensuring that money spent is aligned with government priorities (Agarwal & Amte, 2016) ^[1].

5.1 Why ZBB still matters

India's budget is full of Central Sponsored Schemes (CSS) and state level schemes, many of which have been functioning essentially unchallenged for decades. ZBB can be used as a diagnostic tool to force departments to ask themselves questions about the efficacy of their schemes, whether they should continue to operate, or if the money could be better allocated to other things.

ZBB allows us to start from zero during each budget cycle and not carry over acceptable legacy expenditure. This is particularly important when considering the 15th Finance Commission (2020) recommendations to constantly consider means of rationalising arrangements for both central and state expenditure to ensure fiscal sustainability. Furthermore, ZBB's insistence on ranking decision packages aligns with India's move towards outcome-based budgeting, which seeks to link expenditure to measurable results (Government of India, 2020) ^[7].

5.2 Selective applications in the current context

Rather than aiming for across-the-board application, ZBB can be strategically deployed in three specific contexts:

5.2.1 Evaluation of Centrally Sponsored Schemes (CSS)

- Given their significant share in both central and state budgets, CSS can be periodically reviewed using ZBB principles to identify duplication, merge similar schemes, and discontinue low-impact programmes.
- For example, discussions within NITI Aayog highlighted overlapping objectives in rural development schemes, suggesting that a ZBB exercise could help streamline them.

5.2.2 Rationalisation of non-essential expenditures

- Administrative overheads and low priority capital works in certain ministries could be trimmed through ZBB without undermining service delivery.
- The Ministry of Railways' 2016 internal ZBB pilot for non-operational expenditure is one example of targeted application.

5.2.3 New project appraisals

- Before sanctioning new projects, ministries could be required to prepare ZBB-style decision packages, detailing alternative approaches, expected benefits, and cost structures. This would integrate cost benefit analysis into the earliest stages of project planning.

5.2.4 Global comparisons and lessons

International experience suggests that ZBB works best when applied selectively and supported by strong institutional frameworks:

- **United States (State level examples):** While the federal ZBB initiative of the late 1970s faded, several U.S. states (e.g., Georgia, Florida) continued to apply ZBB principles in targeted departments such as corrections, health, and education (Minnier & Hermanson, 1976) ^[10].
- **China:** In the 1990s, ZBB was adopted selectively for local government spending in provinces such as Guangdong to improve fiscal discipline and allocate resources towards infrastructure and poverty alleviation.
- **South Africa:** Elements of ZBB were incorporated into programme reviews under the Medium-Term Expenditure Framework to identify low priority spending.

These examples indicate that complete, annual ZBB for all activities is rarely sustainable. Instead, a hybrid approach, blending ZBB with medium term and performance-based frameworks, can deliver better results (Ross, 2018) ^[13].

5.3 Integration with broader public finance reforms

In India, ZBB can complement existing reform initiatives:

- **Public Financial Management System (PFMS):** By integrating ZBB data with PFMS dashboards, expenditure tracking could become more transparent, and evidence based.
- **Outcome budgeting:** ZBB can serve as an upstream filter, ensuring that only justified programmes proceed to outcome evaluation.
- **Digital governance tools:** Developments in e-governance and data analytics provide opportunities to streamline decision package preparation and ranking, reducing the manual burden that hindered earlier ZBB attempts.

5.4 Balancing idealism with pragmatism

Although the theoretical promise of ZBB is exciting, its practical implementation in India needs to acknowledge administrative realities and political constraints. The aim should not be annual adoption in its entirety but rather selective and focused exercises in priority sectors with plenty of potential for reallocation. The idea here is to gradually expand ZBB, backed by digital tools, and through capacity building, to build a momentum for wider institutional acceptance.

6. Conclusion

The example of Zero-Based Budgeting (ZBB) in India reflects the classical gap between theoretical allure versus practical use. After the introduction of ZBB in 1986 to foster fiscal discipline, enhance transparency, and require fresh justification for every spending from the government,

ZBB initially gained precedential policy interest. Early attempts from the central, in particular, and first states, like Karnataka and Andhra Pradesh, reflected that ZBB started to meet its promise by discovering redundant schemes, overlapping schemes, and release funds for activities with a higher priority (Government of India, 1987; Planning Commission, various Reports) ^[6].

Yet, the mass implementation of ZBB was constrained by a set of persistent challenges within the public sector. Bureaucratic loyalties, weak data processes, rigid annual budget cycles, and political costs of disbanding popular schemes persisted and limited its institutionalisation (Agarwal & Amte, 2016) ^[11]. Over time, ZBB morphed from a full budget building process to selective scrutiny process. Nevertheless, ZBB's tenants of justification of all spending, ranking in terms of priorities, and alternatives to expenditures, are still fit and relevant in India's today fiscal space. In an era when governments need to do more with less, ZBB can selectively rationalise Centrally Sponsored Schemes, limit unnecessary administrative expenditures, and provide improved appraisal of new projects with added consequence. ZBB can work with other reform proposals like Public Financial Management Systems and outcome-based budgeting and provide a seamless line of accountability from program justification to expenditure tracking and to evaluation of results.

For ZBB to help in substantive reform of public spending, it needs to be implemented pragmatically. A phased approach, based on sectors and supported by digital tools and capacity development, is the most pragmatic way forward. Over time, the threat to bureaucratic traditions might lessen and some agency for making evidence-based allocation decisions might grow.

In the end, whether ZBB survives in India is dependent on both the political and bureaucratic leadership's willingness to be critical of ingrained spending habits and really act on the objective evidence. With suitable political will and a decent data system, ZBB will go from a reform to be considered from time to time to a more practical means of ensuring operational fiscal discipline, efficiency, and accountability in governance.

References

1. Agarwal R, Amte S. Zero-based budgeting: A road to sustainable savings, agility and growth. Accenture Business Journal for India, 2016. Available from: <https://www.accenture.com/in-en/~media/Accenture/in-en/abji/Accenture-BJI-Master-Report>
2. Atrill P, McLaney EJ. Management accounting for decision makers. 7th ed. Harlow (UK): Pearson Education; 2015.
3. Deloitte. Zero-based budgeting: Zero or hero? Deloitte Insights; 2015. Available from: <https://www2.deloitte.com/insights/us/en/focus/zero-based-budgeting/zero-or-hero.html>
4. Dyson JR. Accounting for non-accounting students. 9th ed. Harlow (UK): Pearson Education; 2017.
5. Government of India. Ministry of Finance guidelines on zero-based budgeting. New Delhi: Department of Expenditure, Ministry of Finance; 1986.
6. Government of India. Union Budget 1987-88. New Delhi: Ministry of Finance; 1987.

7. Government of India. Economic Survey 2000-01. New Delhi: Ministry of Finance; 2000.
8. Kavanagh S. Zero-based budgeting: Modern experiences and current perspectives. *Gov Finance Rev.* 2012;28(2):8-14.
9. McNally J. Zero-based budgeting: Building for success again, and again. *Pa CPA J.* 2017;87(4):30-33.
10. Minnier GS, Hermanson RH. A look at zero-based budgeting - The Georgia experience. *Atlanta Econ Rev.* 1976;26(4):5-12.
11. Pyhrr PA. Zero-base budgeting: A practical management tool for evaluating expenses. New York: John Wiley & Sons; 1973.
12. Reh fuss J. Zero-base budgeting: The experience to date. *Public Pers Manage.* 1977;6(3):181-187. doi:10.1177/009102607700600306
13. Ross T. A comprehensive guide to budgeting for health care managers. Burlington (MA): Jones & Bartlett Learning; 2018.
14. Sehgal JK. Zero-based budgeting. *Paripex Indian J Res.* 2016;5(10):250-252.
15. Sharma V. Zero base budgeting: A revolutionary concept of planning the future activities. *Int J Res Manag.* 2020;2(2):19-21. DOI:10.33545/26648792.2020.v2.i2a.33
16. Suver JD, Brown RL. Where does zero-base budgeting work? *Harv Bus Rev.* 1977;55(4):76-83.