



Zero-Based Budgeting as a Tool of Budgetary Control in Panchayati Raj in India

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Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

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ABSTRACT

Zero-based budgeting (ZBB) is a systematic approach to budgeting that starts from a "zero base," aiming to analyze the requirements and costs of each activity. The aim of this article is to explore the application of ZBB as an effective means of budgetary control within the Panchayati Raj institutions in India, with Nigeria serving as an example of its successful implementation. As the cornerstone of decentralized governance, Panchayati Raj plays an important role in implementing rural development programs while ensuring optimal use of resources. However, traditional methods of incremental budgeting often lead to inefficiency, misuse of funds, and lack of accountability. The study delves into the principles of ZBB and its ability to increase financial discipline, prioritize spending, and align budget allocations with development objectives in the rural governance framework. Nigeria's implementation of ZBB highlights its ability to eliminate redundant programs, reallocate resources to critical sectors, and enhance transparency through stakeholder involvement and technological integration. Despite these advantages, ZBB faces challenges such as high time

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investment, manpower turnover, lack of experienced personnel, administrative complexity, bureaucratic inertia, local political resistance, and resistance to change. While ZBB requires considerable effort in terms of training and stakeholder engagement, it can significantly improve financial management and service delivery in Panchayati Raj institutions. The study concludes by emphasizing the need for capacity building and institutional reforms to achieve sustainable and equitable development in India's villages and offers policy recommendations for integrating ZBB into rural governance systems.

Keywords: *Zero-based budgeting; Panchayati Raj Institutions (PRIs); resource allocation; financial discipline; budgetary control.*

1. INTRODUCTION

Zero-Based Budgeting (ZBB) has become a revolutionary tool in financial management, especially within the framework of Panchayati Raj Institutions in India. This budgeting method mandates that every expense be justified from a "zero base" for each new budget cycle, rather than merely modifying the figures from the previous year (McKinsey & Company, 2018). This approach sharply contrasts with traditional incremental budgeting, which frequently maintains inefficiencies and falls short in terms of accountability. Peter Pyhrr, an accountant and consultant, is credited with creating the concept of **zero-based budgeting (ZBB)** in the 1970s. He identified the shortcomings of traditional budgeting methods, which often relied on incremental changes to prior budgets. Pyhrr advocated for a more rigorous budgeting approach that would ensure resources were allocated effectively and aligned with an organization's strategic goals. The essence of zero-based budgeting is to initiate the budgeting process from a "zero base," meaning that every expense must be justified anew (Kaplan & Norton, 2001). This method challenges the presumption that past spending levels are inherently valid, compelling departments and individuals to provide a thorough justification for each cost. By mandating a comprehensive review of all expenses, Pyhrr aimed to eliminate wasteful spending, uncover inefficiencies, and encourage a more deliberate allocation of resources. His approach sought to foster accountability and ownership among budget managers, motivating them to critically assess and validate their budget requests (IBM, 2023).

In the context of **Panchayati Raj**, which is a system of local governance in rural India, zero-based budgeting (ZBB) can significantly improve financial discipline and transparency (NIRDPR, 2018). The majority of revenue for **Panchayati Raj Institutions (PRIs)** is derived from grants

provided by central and state governments, with limited ability to generate their own revenue through taxation. Consequently, PRIs often encounter challenges related to funding and resource allocation, making effective budgeting crucial for their operations and service delivery (Drishti IAS, 2024). Resource planning and allocation have become a major exercise on the part of the government organization and more emphasis being laid on effective use of resources in relation to priority and achievements. As a consequence, to identify and minimize avoidable expenditure thereby making government programme more effective and result oriented. ZBB is being applied by many government departments and organizations (Press Information Bureau, 2021). The technique provides a means of continually directing resources in the highest priority programme whether they are existing or newly proposed so that sectoral balanced development may be achieved. Zero-Based Budgeting(ZBB), though in the nascent stage in the country is a management tool for the decision makers enabling them to frame range of options and choose priorities among the allocative programmes in relation to funds availability.

The Systematic step of ZBB is methodical and an easy approach in linking planning, budgeting and review into a single system (Kaplan & Norton, 2001). The central theme of Zero-Based Budgeting technique is that every schemes, programmes and activities have to start from ground 'Zero' with each year's budget and resources can be allocated on the basis of cost benefit or some similar type of evaluation analytical tool.

Thus, ZBB is an evaluation, appraisal and critical review of the on-going schemes and programmes in such a way that outdated, redundant and low priority schemes and programmes which have outlived their utility are weeded out. By this review process funds are released from unneeded and pet schemes to highest priority schemes and programmes.

1.1 Objective of the Study

The aim of the research is to achieve following goals:

1. Identify the theoretical side of the ZBB system, goals & steps and implement ZBB system in Panchayat Raj
2. To know the applied and practical aspect, how the ZBB system can be a tool of reducing the unnecessary capital expenditure and Government development programmes come in true sense to uplift the unreached section of the society.

2. REVIEW OF LITERATURE

The Zero Base Budgeting (ZBB) approach requires managers to prepare their budgets each year as if the organization were entirely new (Kanungo, 2017). This involves a thorough evaluation of all activities, focusing on cost-benefit analysis to justify their inclusion in the upcoming budget. Managers will incorporate only those activities deemed essential to the organization and eliminate those considered unnecessary. Unlike traditional budgeting methods, ZBB does not depend on the previous year's budget as a foundation for preparing the budget for the next year.

The Zero-Base Budget represents a system for preparation of the financial Budget which includes all the expenses that must be allocated for each new fiscal year (Abbas et al., 2020). The budget starts from the "Zero Point" and any function within the Unitary Government is analysed according to their needs and costs. Then the budget is prepared based on the requirement of the next stage, regardless of whether the budget is more or less than its predecessor.

2.1 Historical Context and Adoption in India

The introduction of Zero-Based Budgeting (ZBB) in India began in the 1980s when it was first implemented by certain government departments to enhance financial discipline. However, its rollout has yielded mixed outcomes due to various challenges, such as resistance to change and the complexity involved in the process.

Early Adoption: Initial trials indicated that ZBB had the potential for cost savings, but they also revealed that its implementation could be resource-intensive.

Government Initiatives: The Indian government has periodically renewed interest in ZBB, promoting its exploration across sectors like healthcare, education, and infrastructure (Times of India, 2021).

ZBB in Panchayati Raj Institutions: Panchayati Raj Institutions (PRIs) are vital for local governance and rural development. Implementing Zero-Based Budgeting (ZBB) within these institutions can strengthen financial autonomy and enhance service delivery.

Resource Allocation: ZBB enables a more efficient allocation of funds based on the specific needs of the community rather than relying on past expenditures.

Participatory Budgeting: Involving local communities in the budgeting process ensures that spending aligns with local priorities (NIRDPR, 2022).

2.2 Overview of Panchayati Raj System in India

It has been felt that merely holding elections of Panchayat does not mean decentralization. They need to have sufficient power and resources to work, under decentralization, instead of conceiving Panchayati Raj as an agent of development i.e, of people's power. The earlier concept of grew out of the failure of the community development administrative involving the people in the development process. Now it is expected that people are to be made into efficient instrument of development, instead of viewing development as an instrument of people.

The 73rd Constitutional amendment act 1992, has given autonomy to PRI (Panchayati Raj Institution) within the frame of article 243 (G). PRI's have adequate autonomy to decide their local needs and priorities and design and implement action in their light (Johnson, 2003). They have now reasonable degree of autonomy supported by adequate administrative and financial powers to achieve their objectives.

According to article 243 H of the 73rd Amendment Act 1992, state legislature has been empowered to enact laws:

- i. To authorize a Panchayat to levy, collect and appropriate such taxes, duties, tolls and fees.

- ii. To assign to a Panchayat such taxes, duties, tolls, fees levy of State Government.
- iii. To provide for mankind such grants- in- aid to the Panchayat from the consolidated fund of the state and
- iv. To provide for constitution of such funds for Panchayat for crediting all money received by or on behalf of Panchayats and the withdrawal of such money therefrom.

Article 243-I provides for constitution of a State Finance Commission to review financial position of Panchayats and to make recommendation to the Governor regarding principles governing major issues mentioned in Articles 243 H. So, the sources of PR system are depended on the proper management of the financial aspect of PRI's. Hence it is necessary to consider this

aspect in its totality. PRI has got both financial and non-financial powers and it has its on internal and external sources. Optimum utilization of these funds is sine qua non for the success of Panchayati Raj.

The System Comprises three tiers:

1. **Gram Panchayat (Village Level):** The basic unit of local governance, directly elected by villagers.
2. **Panchayati Samiti (Block Level):** Acts as a link between the Gram Panchayat and Zila Parishad, focusing on development planning.
3. **Zila Parishad (District Level):** The apex body overseeing the activities of Panchayat Samitis and responsible for district-level planning.

Table 1. Difference between Traditional Budgeting and Zero – Base Budgeting (ZBB)

Aspect	Traditional budgeting	Zero-based budgeting	References
Strating Point	Based on previous year's budget with incremental adjustments	Start from a "zero base "requiring justification	Pyhrr (1970)
Focus and Justification	Emphasizes maintaining existing expenditure levels; justification is needed only for new initiatives or significant changes.	Requires justification for every expense, regardless of history, focusing on necessity rather than tradition.	
Time and Resource Investment	Less resource-intensive; quicker to implement as it builds on existing budgets	More labor-intensive detailed analysis and justification of each line item, which can be time-consuming.	ClearTax (2024, June 24).
Cost Effectiveness	May not effectively control costs, as it often maintains existing spending levels without questioning their necessity.	Aims to enhance cost-effectiveness by ensuring every expenditure aligns with organisational goals reducing waste.	Investopedia (2023)
Adaptability to change	Less adaptable to significant changes in market conditions or organisational needs.	Highly adaptable; suitable for dynamic environments where costs need to be critically evaluated	
Management Involvement	Typically involves top-down management decisions based on historical data.	Encourages input from department managers who justify their budget requests, fostering accountability.	
Use Cases	Suitable for stable environments with predictable expenses.	Ideal for organisations facing significant changes or needing to reassess all expenditures	Paro (2020)

3. METHODOLOGY

3.1 Mechanism and Techniques of ZBB in India

ZBB approach has been adopted by the department of the Central Government from April, 1, 1987 as one of the steps to control public expenditure. It will be applied to both non-development and development expenditure, in short, ZBB requires:-

- i) Identification and shortening of objectives;
- ii) Selecting the best alternatives through cost benefit and cost effectiveness analysis;
- iii) Investigation of various alternatives ways attaining these objectives and targets;
- iv) Priorities of various programmes;
- v) Eliminating those programmes which have outlives their practical utility.

Zero-Base Budgeting is an approach of planning and decision-making which reverses the working process of traditional budgeting. Zero-Base Budgeting starts with zero. In Zero-Base Budgeting every line items of the budget must be approved rather than only changes. During the review process, no reference is made to the previous level of expenditure. Zero-Base Budgeting requires the budget request be re-evaluated thoroughly starting from the Zero-Base. Thus, it is a method of budgeting in which all expenses must be justified for each new period. Zero-Base Budgeting starts from a "Zero Base" and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period regardless of whether the budget is higher or lower than the previous one.

3.2 Zero Base Budgeting Techniques in India

The steps involved for Zero-Base Budgeting:

A. Identification of Decision Units (DU):

Definition: In the context of Panchayati Raj Institutions (PRIs), decision units refer to the various levels of governance within the system, including Gram Panchayats (village level), Panchayat Samitis (block level), and Zilla Parishads (district level). Each unit is tasked with preparing its budget according to local needs and priorities.

Purpose: This technique enables each decision unit to evaluate its activities and resource

requirements critically, fostering accountability and ensuring that funds are directed toward areas that provide direct benefits to the community (NIRDPR, 2024).

B. Preparation of Decision Packages

- **Description:** Each decision unit creates decision packages that outline specific programs or activities, detailing their objectives, required resources, and anticipated outcomes. For example, a Gram Panchayat may develop packages for sanitation projects, rural development initiatives, or educational programs.
- **Components:** These packages must include a clear justification for funding, explaining how each initiative aligns with local development goals and community needs (Financial Insights, n.d.).

C. Ranking Packages in Order of importance

Ranking Process: After preparing the decision packages, they are ranked based on their alignment with strategic objectives such as enhancing local infrastructure, health services, or education. This prioritization ensures that limited resources are allocated to the most impactful initiatives.

Evaluation Criteria: Factors such as cost-effectiveness, the impact on the community, and alignment with government policies (E.g. Sustainable Development Goals) should be taken into account during this ranking process.

D. Allocation of Resources for Chosen Decision Packages

Resource Allocation: Following the ranking, resources are distributed to the highest-priority decision packages until the budget is fully utilized. This method guarantees that funding is directed toward initiatives that offer the greatest benefits to the community.

Strategic Alignment: Resource allocation must align with local priorities and needs, enabling Panchayati Raj Institutions (PRIs) to effectively address community demands while optimizing the use of available funds.

E. Monitoring and Evaluation of Decision Packages:

Evaluation of packages is carried out on the basis of costs, benefit and its feasibility. The

measure of importance is the Benefit Cost Ratio (BCR). The alternative in each programme or activity which provide the best BCR is chosen at first. BCE should be more than the minimum level. For example, in self-employed programme in rural areas, young unemployed tribal women are provided sewing machine and involved in making papad and pickles which are not in their nature and behavior. They should rather involve in those activities which suits their nature and behavior. They could do better in animal husbandry, Dairy, Poultry farms & fishing or making forest based Product & Medicine. Thus, evaluation of each decision packages should be analyzed on the basis of costs, benefits and feasibility.

3.3 Relevance of ZBB in Panchayati Raj

As the Panchayati Raj enjoys the empowerment of both procurement and allocation of funds. We consider that allocation of fund is more important than procurement of fund. Flow of funds should optimally be utilized in Panchayats to achieve the balanced growth and ultimately the benefits should reach to the last bencher of the society. The then finance Minister Sri P. Chidambaram has also emphasized this problem in his present budget and suggest to implement a technique which can make possible to reach to ultimate goal of poor welfare. Our traditional system of budgeting is nothing but to increase or decrease a certain percentage in our previous budget activities. Ministry of Rural Development of India's, stressed that without adequate funds and financial autonomy, PRI's will not be able to function as Institution of Self Government. As the panchayats have given power to decide the welfare activities according to their needs and priorities, each panchayat has its own needs depending upon region, language, religion, geographic structure, culture, social system etc. The need and priority of each panchayat differs with others. ZBB technique will help the Gram Sabha or the Finance Committee in allocating their funds, ZBB technique of budgeting first come to zero to all activities and according to priority and need the activities of Gram Panchayats may be identified. Once identification of activities, the next step of ZBB is to find out various alternative methods to achieve the identified activities and the third step of ZBB is to select the best feasible method to reach the activities. The last but not the least is the implementation of that method to achieve the optimal activity and finally to control the activity by comparing with the standards.

This technique of budgeting will eliminate the unnecessary activities and avoid the expensive and less important activities. This method will concentrate on high priority and most important work first and then according to priority the rest activities will be completed. For example - The newly established State Jharkhand is a hilly state and making of drainage for rain water in rural area has less importance than to give drinking water facilities to the villagers. Previously a similar budget for North and South Bihar were announced and implemented which was useless in hilly areas. So far as each panchayat has their own needs and priorities, budget should be prepared accordingly ZBB technique will certainly help in this regard.

4. APPLICATION AND CHALLENGES ZBB IN PANCHAYATI RAJ

4.1 Application of ZBB in Panchayati Raj

The Panchayati Raj system in India plays a crucial role in decentralized governance, empowering local self-governments to manage resources effectively at the village level. Implementing ZBB within this framework can lead to several advantages:

- 1. Enhanced Financial Accountability:** ZBB requires justification for all expenditures, fostering transparency and accountability among local government officials. This practice can help mitigate corruption and prevent the misallocation of resources (BCG, 2021).
- 2. Improved Resource Allocation:** ZBB allows Panchayati Raj Institutions to allocate funds based on the actual needs of the community rather than relying on historical spending patterns. This approach ensures that resources are directed toward projects that provide maximum benefit to the local population.
- 3. Encouragement Of Community Participation:** The ZBB process actively involves community members, enhancing the relevance of budgetary decisions and ensuring they reflect local priorities (Hall, 1997).
- 4. Cost Control Efficiency:** By Scrutinizing every expense, ZBB helps identify areas where costs can be reduced without compromising service delivery. This particularly important in a resource-constrained environment typical of rural governance.

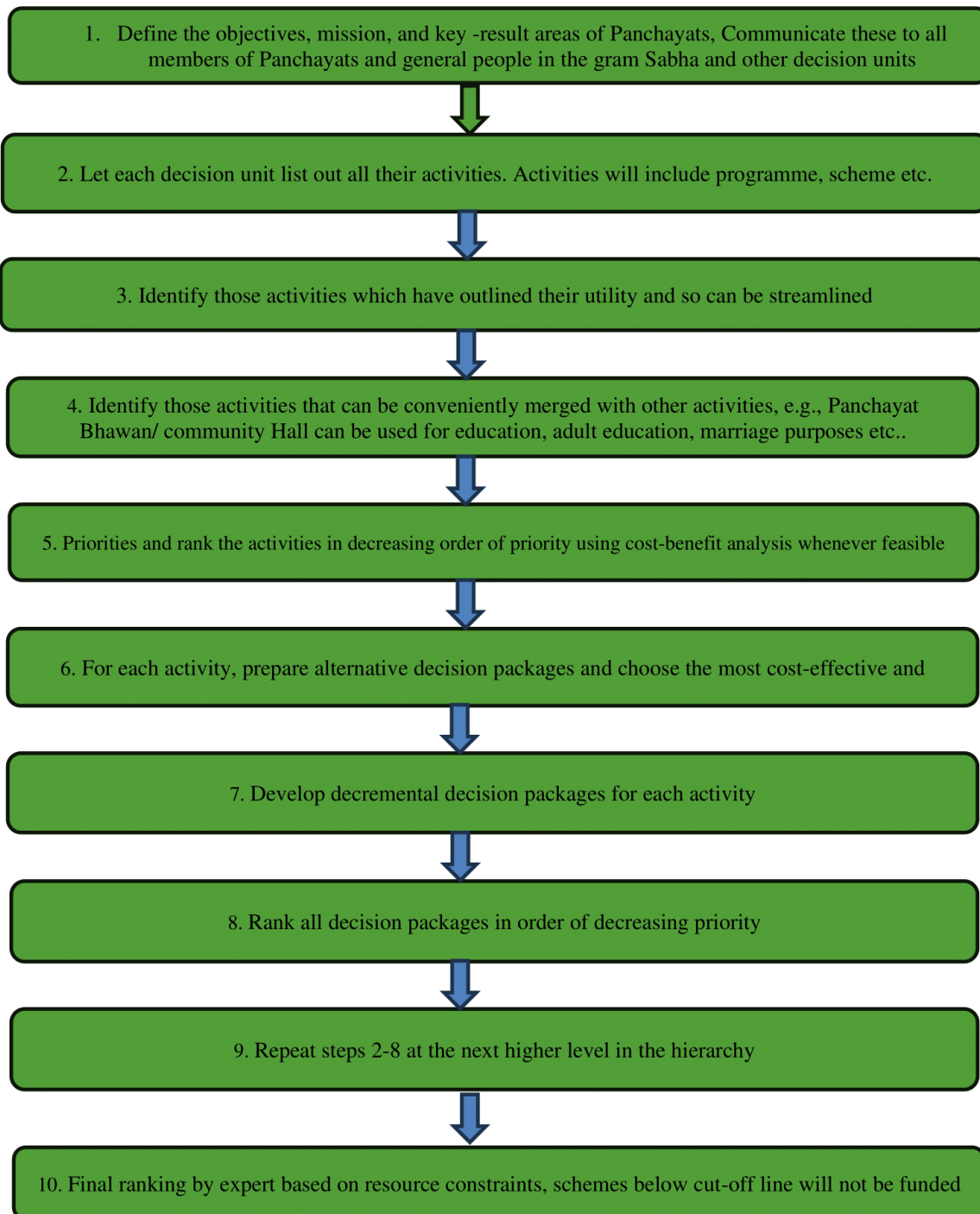


Fig. 1. The model prepared by the author in accordance with Zero-Based Budgeting (ZBB) in the Panchayati Raj System

Source: Model prepared By Author

4.2 Challenges in Implementing ZBB in Panchayati Raj

While the benefits of ZBB are significant, its implementation in the Panchayati Raj System also faces challenges:

1. **Time incentives:** The ZBB approach is a continuous process that requires significant time investment annually, in contrast to incremental budgeting, which is easier to prepare (Deloitte, 2020).

2. **More manpower turnover:** ZBB necessitates planning and preparation from scratch, leading to a high turnover of manpower. Many government departments often lack sufficient human resources to support this extensive process.
3. **Lack of experienced personnel:** The scrutiny of costs and benefits at every level requires specialized training for all executives involved. Many organizations may not have the necessary experienced personnel to effectively implement ZBB.
4. **Complexity and Time Consumption:** Justifying every expense can be complex and time-consuming, particularly for local bodies with limited administrative capacity. Effective implementation of ZBB may require additional training and capacity building.
5. **Bureaucratic Inertia-** Public sector employees may be accustomed to traditional budgeting methods, such as incremental budgeting, which relies on historical data. The resource-intensive nature of ZBB demands extensive data collection and justification for every expense, which bureaucracies often struggle to manage due to existing workloads and limited resources (Deloitte, 2020). Implementing ZBB effectively requires skilled personnel who understand the methodology and can critically analyze budgetary needs; many bureaucratic organizations may lack the necessary training programs or expertise, leading to resistance against adopting new budgeting techniques.
6. **Local Political Inertia –** Successful ZBB often requires unified political support. Political officials may have vested interests in certain programs or funding allocations, complicating the prioritization of spending based on ZBB principles. Due to electoral pressures, politicians might prioritize short-term gains over long-term planning. While ZBB promotes transparency and accountability in budgeting processes, local political leaders may resist this shift if they fear increased scrutiny will expose inefficiencies or mismanagement in existing programs.
7. **Resistance to Change:** Transitioning from traditional budgeting practices to ZBB can encounter resistance from officials who are used to historical

budgeting methods. Effective change management strategies will be crucial in facilitating this transition.

5. CASE STUDY AND PRACTICAL APPLICATIONS

5.1 Case Study

A. Nigeria

Nigeria implemented Zero-Based Budgeting (ZBB) in 2016 as a reformative approach to improve fiscal discipline and address inefficiencies in its budgeting process. Moving away from traditional incremental budgeting, which relied on past expenditure patterns, ZBB required all expenditures to be justified from a "zero base." Ministries, Departments, and Agencies (MDAs) had to evaluate and justify each budget item to ensure its alignment with national priorities and goals. This shift facilitated the elimination of redundant programs and the reallocation of resources to critical sectors such as education, agriculture, and infrastructure development. Nigeria also integrated technology and stakeholder involvement to enhance transparency and accountability. Statistical tools, such as SPSS, were employed to evaluate budget performance and ensure that each allocation was results-driven. As a result, ZBB proved more effective than traditional methods, significantly improving resource utilization and driving sustainable development in Nigeria (ZCU, 2016).

India's Panchayati Raj Institutions (PRIs), the cornerstone of decentralized governance, can benefit significantly from adopting Nigeria's ZBB model to overcome challenges such as inefficient resource allocation and lack of accountability. Similar to Nigeria's experience, Indian PRIs could implement ZBB to ensure every expense is justified based on its necessity and impact. By linking financial allocations to measurable outcomes, PRIs could eliminate redundant initiatives and focus resources on priority areas that address community needs. Additionally, capacity building for Panchayat officials, modeled after Nigeria's training initiatives for MDAs, would equip local administrators with the knowledge and skills to implement ZBB effectively. Leveraging India's existing digital platforms, such as eGramSwaraj, could streamline the adoption of ZBB, allowing real-time monitoring of fund utilization and enhancing transparency. To ensure a smooth transition, India could start with

pilot projects in select Panchayats and gradually scale up the initiative nationwide. By learning from Nigeria's success, India can strengthen its grassroots governance through a more accountable and performance-oriented budgeting system.

5.2 Practical Implications of Zero – Based Budgeting (ZBB) in Budgetary Control for Panchayati Raj Institutions

Zero-Based Budgeting (ZBB) provides a transformative approach to financial management in Panchayati Raj Institutions (PRIs), enabling efficient resource utilization and alignment with community priorities. One of the key practical applications of ZBB is the **prioritization of essential infrastructure projects**. In flood-prone areas, for example, funds can be allocated to the construction of embankments and improved drainage systems instead of recreational projects, ensuring that limited resources address immediate risks. Similarly, **health and sanitation initiatives** benefit significantly from ZBB. A Panchayat experiencing an outbreak of waterborne diseases might redirect funds toward clean water supply and sanitation campaigns, delaying less urgent projects to respond effectively to pressing public health needs.

ZBB also supports the **adoption of technology in governance**, enabling Panchayats to transition from manual to digital systems for tax collection and record-keeping, resulting in improved efficiency and transparency. For instance, implementing a digital platform for property tax collection can streamline processes and reduce administrative delays. Furthermore, ZBB plays a crucial role in **tailoring educational and skill development programs to local needs**. A Panchayat may discontinue generic adult literacy programs in favor of vocational training aligned with regional employment opportunities, such as computer literacy or advanced farming techniques.

In disaster-prone regions, ZBB offers **flexibility in addressing emergencies** by allowing the reallocation of funds to disaster preparedness and relief efforts. For example, a Panchayat might divert funds from non-critical projects to provide temporary shelters, medical aid, and food supplies during a cyclone. Additionally, ZBB promotes sustainability through investments in renewable energy. Panchayats can prioritize

projects such as solar streetlights and biogas plants, which not only lower energy costs but also reduce environmental impact. ZBB also enhances **focus on marginalized communities** by addressing their unique needs through targeted programs. For instance, a Panchayat could allocate resources to establish mobile health clinics for tribal populations in remote areas.

Similarly, women empowerment initiatives can be better funded through ZBB by identifying gaps in economic opportunities and supporting self-help groups and skill development programs tailored to women, such as handicraft or tailoring training. Furthermore, ZBB emphasizes the **maintenance of public assets** over the creation of new ones, ensuring better utilization of existing infrastructure. For instance, a Panchayat might prioritize the renovation of an underused community hall instead of constructing a new one, optimizing available resources.

Additionally, ZBB enables Panchayats to boost revenue through community participation, such as by introducing nominal fees for local markets or parking facilities, and reinvesting the revenue in community-driven projects like waste management systems. Through its structured and adaptive approach, ZBB empowers Panchayati Raj Institutions to address the diverse and dynamic needs of rural communities. By promoting financial discipline, community participation, and targeted resource allocation, ZBB aligns local governance with the broader goals of inclusive and sustainable development.

6. CONCLUSION

Zero-Based Budgeting (ZBB) can serve as a transformative tool for budgetary control in Panchayati Raj Institutions (PRIs) in India. By requiring justification for every expense from a "zero base," ZBB promotes financial discipline, eliminates inefficiencies, and ensures that funds are allocated to high-priority areas that directly benefit rural communities. Drawing insights from Nigeria's successful implementation of ZBB since 2016, where it has improved fiscal discipline and resource utilization, India can adopt this approach to address the challenges faced by PRIs, such as limited resources and inefficient traditional budgeting practices. The application of ZBB in PRIs can enhance the effectiveness of rural governance by prioritizing essential projects, such as clean water, sanitation, and

disaster preparedness, over less critical expenditures. Additionally, ZBB encourages transparency and accountability by involving local communities in the budgeting process and leveraging technology to monitor and evaluate resource allocation.

To successfully implement ZBB in PRIs, India must focus on building institutional capacity, training local officials, and addressing resistance to change. Initiating ZBB through pilot projects in selected Panchayats will allow for gradual scaling, ensuring its seamless integration into the rural governance framework. By adopting ZBB, PRIs can optimize resource use, enhance service delivery, and achieve sustainable development goals, fulfilling their critical role in decentralized governance in India.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc.) and text-to-image generators have been used during the writing or editing of this manuscript.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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