

Outcome Budgeting in India: The Need for Re-Engineering

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The transformation from the comforts of outlay budgeting to an environment of accountability with outcome budgeting is difficult but not impossible. This re-engineering is essential as in the absence of outcome budgeting, budget management may be ineffective and ineffective budget management would weaken the Public Financial Management (PFM) system. A weakened PFM could even threaten established economic, social and political equilibriums. The weaknesses in the existing system need to be accepted and a roadmap for budgeting in terms of outcomes needs to be worked out and followed by programme managers of public authorities.

Introduction

Budget management plays a crucial role in the PFM system. Management, *inter-alia*, involves budget formulation, budget execution and budget reporting. The vigour and effectiveness of these processes varies from country to country. The budget is expected to be based on sound policy. The execution process should have a high degree of credibility and control. The accounting, recording and reporting need

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to be complete, accurate and timely. The scrutiny process by an external auditor adds credibility to these processes.¹ In an emerging economy like India, even with the expanding role of the private sector, there are enormous expectations from the government expenditure policy. Sectors which are lagging behind, sectors which play a facilitating role in private sector development, concerns for equity, and imperatives for empowerment necessitate effective and efficient budget management. The budget is an instrument of control. The control is to be exercised by the legislature over the executive to achieve timely results to meet the aspirations of the people.

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Limitation of Outlays

Traditionally, the budget was viewed merely as a statement of receipt and expenditure in terms of outlays which were financial in nature. On the expenditure side, the projected expenditures on different sectors and programmes were often used to analyse the priorities across sectors and programmes. Increases and decreases in outlays are analysed in terms of percentage increase and decrease relative to competing sectors/programmes, previous year's outlay, or practices in the rest of the world. For a country like India, allocations on anti-poverty programmes, literacy programmes, primary health programmes are keenly watched. On the receipt side, the means to achieve expenditure goals are spelt out. The related importance of tax revenue and non-tax revenue and the extent of dependence on borrowing can be explored. The budget, after all is an expression of the will and the commitment of the government to fiscal prudence. There are debates and arguments over the mere projections of expenditure and receipts, in terms of financial outlays. However, dependence on outlays could be misleading as results on the ground - which matter - may not be captured by mere outlays.

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Budget Documents

Over the years, some progress was made when government of India's ministries started bringing out a performance budget, which attempted to capture the physical targets achieved². This measure did extend budget management to output. However, this management was not an ex-ante measurement of output.

Basic documents such as Detailed Demand for Grants of the Ministry continue to give the outlays only. Budget documents in India consist of a set of documents. Which includes:³

- Annual Financial Statement (AFS)
- Demand for Grants (DG)
- Appropriation Bill
- Finance Bill

- Memorandum Explaining the Provisions in the Finance Bill, 2010
- Macro-economic framework for the relevant financial year
- Medium Term Fiscal Policy Statement
- Expenditure Budget Volume -1
- Expenditure Budget Volume -2
- Receipts Budget
- Budget at a glance
- Highlights of Budget
- Status of implementation of Announcements made in Finance Minister's Budget Speech of the previous financial year

Only the last document gives some information on results, which could be considered as the broad outcomes, stating the ex-ante objectives and achievements. But the information is just illustrative, not exhaustive.

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Outcome Budget

The finance minister, made some reference to physical outputs on ex-ante basis, in his budget speech but by and large, the document contains the appropriations in terms of outlays only. After the performance budget, was discontinued in 2006-07, certain ministries of the government of India were required to produce an outcome budget. As per ministry of finance guidelines, an Outcome Budget⁴ is expected to deal with the following issues in chapters which are follows:

- Preface/ Executive Summary
- Introduction : Mandate, Vision, Goals and Policy Framework

- Statement of Budget Estimate (SBE)
- Reform Measures and Policy Initiatives
- Past Performance including Physical performance of Schemes
- Financial Review Covering Overall Trends of Expenditure vis-à-vis Budget Estimates/Revised Estimates along with position of outstanding Utilisation Certificates and Details of Unspent balances with State Governments and Implementing Agencies
- Review of Performance of Statutory and Autonomous Bodies
- Follow up action after presentation of Outcome Budget

The Outcome Budget is expected to sharpen the budgetary projections by listing the projected outcomes under various schemes programmes. The outcomes are expected results not only in terms of monetary units or physical infrastructure but also in terms of qualitative targets and achievements. Outcome budgeting is expected to lead to efficient service delivery, transparency, and accountability.⁵ For example, financial allocations under primary education are outlays, construction of an x number of primary school buildings could be the desired output, the outcomes could be to educate an x number of children up to the primary level. Subsequently, outcomes could be further refined by adding elements of qualitative improvements and measuring them through quantitative techniques to determine: whether the quality of primary education is acceptable, has improved or needs to be improved. For the primary health programme, the financial allocation could be the outlays; setting up of x numbers of primary health centres could be output and the provision of an adequate primary health service to the citizens in a defined area would be desired outcome. In the subsequent periods, the outcome parameters could be refined by including the qualitative improvement indicators and measuring such improvements through quantitative techniques. It is desirable to work out quantitative feedbacks on the qualitative aspects of outcomes. Meaningful inferences can be made on the basis of n statistical random sampling. A technique such as PETS (Public Expenditure Tracking Survey)⁷ could be tried for a programme in education or in rural development sectors. For instance, PETS can be an effective instrument of

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feedback and control in MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme).

Review of Outcome Budgets

A review of the 2010-11 Outcome Budgets of a sample of ministries reflects the difficulties in spelling out the outcomes on ex-ante basis. Even when such outcomes are stated they are not put together with the actual outcomes, and the exercise of making an outcome budget, instead of serving as input for aiding implementation, becomes another routine publication.

The review confirms that there is a lack of clarity in stating the projected outcomes. For instance for a programme on civil defence,⁷ the following outcomes have been projected:

- “Renovation/up-gradation of identified training institutes will be undertaken.
- Provisioning of equipment and transport for existing training institutes.
- Construction work of infrastructure for new training institutes will be commenced.
- Up-gradation of Civil Defence set up and commencement of transformation from town centric to district centric.
- Training of CD volunteers under the pilot project involving Civil Defence in community policing, internal security and law & order situation will be undertaken.
- Reorientation programme, monitoring and training exercises/camps will be commenced.
- Awareness programme on Civil Defence and Disaster Management will be launched.”

The outcome for modernisation of the fire services has been stated as follows:

- “The deliverables cannot be quantified as direct physical output. In the long run they will be well equipped and will respond timely which in turn will save lives and property worth several crores.”

For a scheme for construction of buildings for police the projected outcome is stated to be:

- “The Police Stations/offices will have their own regular building and this will fulfil the functional requirements of Delhi Police.”

For Border Management schemes, the following outcomes have been stated:-

- “Improving the effectiveness of border management.
- These equipments will act as force multiplier for effective border management.”

For the National Agricultural Insurance Scheme and Weather Based Crop Insurance Scheme⁸ under Quantifiable Deliverables it has been stated:

- “They are demand driven schemes, thus no targets are fixed.”

For the Schemes for Cooperation Education and Cooperative Training, no Quantifiable Deliverables and outcomes have been given.

For the National Project on Management of Soil Health and Fertility the stated outcome is:

- “Proposals are being invited under the scheme NPMSF and efforts are being made for achievements of maximum targets.”

No outcomes have been given for Scheme of Implementation of Insecticides.

The ministry of rural development¹⁰ has given the following outcomes for schemes such as Pradhan Mantri Gram Sadak Yojana:

- “To improve market access for agricultural produce

- To improve access to health care and educational facilities
- To reduce travel time.”

For the National Rural Employment Guarantee Act (NREGA) the projected outcomes, it has been given as:

- “Outcomes under NREGA would be creation of durable community assets and strengthening of livelihood resource base for rural poor.”

Under the deliverables it has been stated:

- “Demands for employment made by women are to be fully met under the Scheme.”

The projected outcomes under Indira Awaas Yojana under the Projected Outcomes, have been simply given as:

- “40.52 lakh houses.”

For the scheme¹⁰ of Central Institute of Indian Languages and Regional Languages, under the projected outcome is:

- “Spread of awareness.”

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The Indian Institute of Management under its projected outcomes lists ‘IIM wise’ figures relating to intake of OBC students.

While formulating the Outcome Budget, the principles and the intent of outcome budgeting are often overlooked. This is because the programmes are implemented without a comprehensive risk management framework. This could be attributed to the lack of programme formulation, programme implementation and programme monitoring capabilities in the ministries of the government. Lack of capacity at the apex level is not considered an inhibiting limiting factor. Responsibilities are conveniently diffused when schemes are

implemented through other governments or agencies. The core implementation issues are passed on to the local governments or state governments. The central government considers itself to have been absolved of its liabilities the moment the funds are transferred to the implementing agencies.

The external audit of programmes, at times, does highlight the corrective measures necessary to address the weaknesses in implementation. However, as the internal audit system in the ministries is weak both in terms of professional expertise and in terms of adequate manpower, there is no effective institution in the departments that can give an independent, objective opinion to add value and improve the operation of various schemes¹². An effective internal audit could have helped the departments to accomplish their objectives by bringing a systematic disciplined approach to evaluate and improve risk management, control and governance processes. The creation of fresh positions in internal audit organisation is considered an avoidable cost and the failure to achieve outcomes is considered an acceptable cost - even when the ratio of these costs could be in the range of 1:1000.

Programmes under various ministries continue to suffer. Programme managers do not spell out deliverables that can be effectively measured. The deliverables identified are quite vague.¹³ The programme divisions do not have a regular system to evaluate targeted outcomes with respect to the actual performance. The external audit also suffers from lack of capacity to evaluate outcomes. The legislature, the media, and the civil society prefer to settle for quick inferences based on isolated examples in different conditions. This is repeated year after year. The true potential of an Outcome Budget as an effective tool for management and accountability and for improving the outcomes of government programmes, remains untapped.¹³ The progress that does take place is without effort or by chance. Rest is left to be dealt with by yet new programmes. Given the failures of the system and the outcome budget as it is undertaken in India, some have even suggested that the practice of bringing out Outcome Budget should be discontinued¹⁵ as it does not serve any useful purpose.

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Looking Ahead

The Outcome Budgets being produced by ministries are in fact, not outcome budgets- they are in effect 'outlay budgets' only. They are merely a compilation of the intentions of programme divisions in terms of some vague targets, which

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would often fail to become 'outcomes'. It is meant to be a management tool. In practice, it has become yet another report of support organisations within ministries. However, it will be naïve to infer that an Outcome Budget is impracticable. India needs effective programmes to eradicate poverty and to meet the needs of primary health and education. Resources committed without precise outcomes, and without accountability might get deflected and wasted. The following corrective actions need to be taken:

- Programmes need to be implemented only if an effective and timely feedback system is in place.
- Internal audit organisations in ministries need to play a legitimate role by giving an independent objective assurance to the programme managers.
- External audit must give up its illegitimate role of intruding on executive functions and confine itself to commenting on the quality of the accounts of the organisations. The SAI (Supreme Audit Institution) of India needs to function under the overall direction of PAC (Public Accounts Committee). It must also ensure that it is completely insulated from any conflict of interest.
- Micro management at the level of apex organisations needs to be discarded by empowering the programme managers.
- Capacity needs to be improved at the junior management levels.
- There needs to be flexibility in the hiring of programme managers at senior levels as heads of programme divisions in ministries. Professional expertise should be the only criterion for selection.

Conclusion

Transformation from the comforts of outlay budgeting to an environment of accountability under an Outcome Budget is difficult but not impossible. This

re-engineering is essential as in the absence of outcome budgeting, budget management may be ineffective and ineffective budget management would weaken the PFM system. A weakened PFM could even threaten established economic, social and political equilibriums. The weaknesses in the existing system need to be accepted and a roadmap for budgeting in terms of outcomes needs to be worked out and followed by programme managers of public authorities. The scam-prone country needs to evolve ways and means to strengthen its institutions, without undermining them and without permitting institutional cannibalism by preventing illegitimate intrusions. Measures such as: reforming the institution of C&AG (Comptroller and Auditor General), strengthening the PAC (Public Accounts Committee), professionalising the internal audit and vigilance organisation in the ministries, building capacities for risk management techniques in the programme divisions, and making budget division and budget formulation activities independent of the executive have to be undertaken for improving the outcome of programmes.

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Notes:

- 1 *Public Expenditure Management Handbook*, the World Bank.
- 2 The preparation of Outcome Budget by some ministries started from fiscal 2006-07.
- 3 *Union Budget 2010-2011*, Ministry of Finance (MOF), Government of India (GOI), available at <http://indiabudget.nic.in/ub2010-11/keybud/keybud2010.htm>
- 4 *Outcome Budget 2009-2010*, Ministry of Home Affairs (MHA), Government of India, (GOI), available at <http://mha.nic.in/pdfs/ob-2009-10.pdf>
- 5 "Outcome Budget in India", available at <http://www.indianofficer.com/forums/2185-outcome-budget-india.html>
- 6 Reinikka, Ritva and Smith, Nathanael, "Public Expenditure Tracking Surveys in Education ", International Institute for Educational Planning, available at <http://www.unesco.org/iiep/PDF/pubs/Reinikka.pdf>
- 7 *Outcome Budget 2010-11*, MHA, GOI.
- 8 *Outcome Budget 2009 – 2010*, Ministry of Agriculture (MOA), Department of Agriculture and Cooperation, GOI, available at http://agricoop.nic.in/budget-doc/OCB_09-10.pdf
- 9 *Outcome Budget 2009-2010*, Department of Rural Development, GOI, available at http://www.rural.nic.in/budget/outcome_budget_rd_09-10.pdf
- 10 *Outcome Budget 2010-11*, Department of Higher Education, Ministry of Human Resource Development, GOI, New Delhi, available at <http://education.nic.in/planbudget/OutcomeBgt-2010-11-HE-E.pdf>

- 11 For the definition and other related material on internal audit, visit at www.theiia.org
- 12 Aiyar, Yamini, "Who Cares About Outcomes?", available at <http://www.accountabilityindia.in/accountabilityblog/1174-who-cares-about-outcomes>
- 13 Misra, Sanjiv, "Fixing the Leaking Pipe", March 30, 2010, available at <http://www.livemint.com/2010/03/30203604/Fixing-the-leaking-pipe.html?h=B#>
- 14 "India Likely to Discontinue Outcome Budget", October 13, 2009, available at <http://www.igovernment.in/site/India-likely-to-discontinue-outcome-budget/>