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Outlays to Outcomes

Some Issues Relating to Policy and Institutional Bottlenecks

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This paper seeks to examine some of the key issues relating to outcome budgeting in India. It begins with a discussion on the genesis of outcome budgeting in the country and goes on to highlight some of the major weaknesses observed in the current practice across Union and State governments. Some of the major problems witnessed in the process of utilisation of budget outlays, particularly those meant for social sector programmes/schemes have been outlined. Besides, this paper also tries to identify some of the major planning and policy bottlenecks which could be resulting in the problems witnessed in utilisation of budget outlays by states.

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INTRODUCTION

One of the most important issues in economic analysis in general, and analysis of public policies in particular, has to do with the 'appropriate' utilisation of scarce resources. It is often argued, and justifiably so, that problems relating to efficiency in planning, management and utilisation of public resources have been major constraints in the domain of government interventions for development. As it happens, the notion of efficiency in economic analysis is, simultaneously, one of the most coveted as well as among the most abused ones; in fact it may not be an exaggeration to say that this ruling deity of economics is also analytically an extremely slippery idea. However, the authors do not wish to enter into a detailed interrogation of this concept or its philosophical underpinnings, instead go along with a common-sensical meaning of the notion of efficiency in this paper. In such a perspective, one of the central questions in the contemporary discourse on public policies in India is how well do budget outlays translate into physical outputs/services and ultimately lead to improvements in the development outcomes in various sectors? In this context, the idea of 'outcome budgeting' or 'impact budgeting' has tended to acquire salience, particularly in recent years.

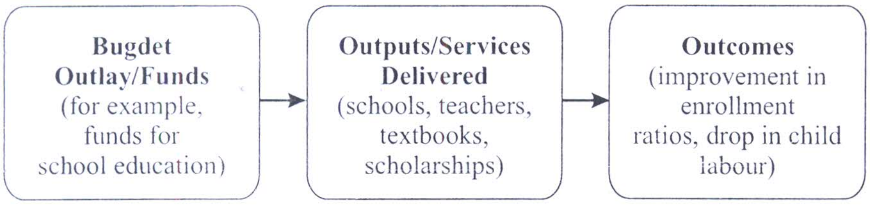
As is well-known, since the early 1990s, economic policies adopted in India have shown a marked tendency towards constraining the role of the state in various spheres. Neo-liberal reforms and the consequent policy framework adopted since then have led to a gradual withdrawal of government interventions from crucial and strategic sectors of the economy. Public investment in crucial sectors like agriculture, rural development, health and education (as compared to the country's GDP) have either stagnated or their growth has been inadequate. This is mainly because the fiscal policy adopted by successive governments at the Centre over the last one and a half decades has been marked by 'fiscal conservatism', which strongly advocates for reducing the magnitude of deficits in the budget even at the cost of checking or reducing government's expenditure in different sectors. As is the case in India, the current regime of policies has not been very helpful if we take into account the country's poor performance in terms of several standard development indicators (such as the infant mortality rate, maternal mortality ratio, school dropout rates and the extent of nutritional deprivation, and so on). One of the major reasons behind India's poor performance in accelerating human development, as has been widely acknowledged, has to do with low levels of public expenditure in several crucial sectors. International comparisons of the levels of public expenditure on sectors like education and health show that not only many of the developed countries, but also some of the developing countries have been incurring significantly higher magnitudes of public expenditure than India.

However, since 2004–2005, when the Central Government started increasing its budget outlays for Plan programmes/ schemes in the social sectors (education, health and family welfare, water supply and sanitation, nutrition, and so on), many states (implementing the Central Sector programmes/schemes) have been unable to spend the total quantum of funds available within the concerned financial year, in case of a number of programmes/schemes (for example, National Rural Health Mission (NRHM), Total Sanitation Campaign (TSC), Sarva Shiksha Abhiyan (SSA), Integrated Child Development Services (ICDS), and so on).

Consequently, the Planning Commission and the Central Government's Ministry of Finance have argued that resource absorption capacity of states, in particular the backward States is low, and hence public expenditure on social sectors cannot be increased significantly over a short period of time. This has led to a paradoxical situation, where the need for a significant increase in public expenditure in the social sectors, although well-recognised, is not being pursued since some of the states have been unable to spend the total quantum of funds available within the concerned financial year, in case of a number of programmes/ schemes in the social sector. Moreover, many observers have also pointed out that the quality of public expenditure in the social sectors in the country has been far from satisfactory.

In this context, it can be argued that the assessment of bottlenecks in planning and budgetary processes can generate significant insights about the factors that constrain effective utilisation of funds in the social sector programmes, which has assumed a lot of importance with respect to the backward states in the country. However, the framework for analysing planning and budgetary processes needs to take into account the fiscal architecture as well as the intricate fiscal processes prevailing in the country. The outlays to outcomes approach, as put forward by the Planning Commission and Central Government's Ministry of Finance (for outcome budgeting by Central and State Governments since 2005–2006), could serve as a useful starting point in this regard.

Information contained in the budgets of both the Central and State Governments, in particular those contained in the Expenditure Budgets, pertain to the fund outlays/allocations/expenditures. However, the budget outlays or funds are meant for different services/programmes/schemes which pursue certain goals/objectives of the government. These goals/objectives are typically expressed in terms of improvement in development outcomes. As shown in the flow chart given below, in the first step outlays are provided in a budget; then outputs/services are delivered with the help of those budget outlays; and finally those outputs/services delivered by the government are expected to give better outcomes.



It may be worthwhile to note at the outset that in the context of a developing country like India, provision of adequate public resources for socio-economic development programmes is a necessity, without which even sound institutions and sound processes of programme implementation cannot give us the desired development outcomes. However, in order to get a complete picture of government intervention for a sector/sub-sector, we need to bother not only about the resources provided in the budgets, but also about the subsequent stages of programme implementation and actual delivery of public services.

In this backdrop, the present paper attempts to examine some of the key issues relating to outcome budgeting in India. Section-I of the paper discusses the evolution of outcome budgeting in India and highlights some of the major weaknesses observed in the current practice of outcome budgeting. The subsequent sections of the paper discuss the key issues which should be taken up by the Central and State Governments in their outcome budgeting exercises. Section-II highlights some of the major problems witnessed in the process of utilisation of budget outlays (meant for social sector programmes/ schemes) by the states. Section-III identifies some of the major planning and policy bottlenecks which could be resulting in the problems witnessed in utilisation of budget outlays by states. Section-IV presents some concluding remarks based on the analysis attempted in this paper.

OUTCOME BUDGETING IN INDIA

Evolution of Outcome Budgeting in India

Going beyond the conventional budgeting practices, the concern for assessing the effectiveness of the development programmes/schemes in translating budget outlays into outputs/ services was first given concrete shape in the year 1968–1969 in the form of performance budgeting, following the recommendation of the Administrative Reform Commission. However, prior to this, in the year 1953, Dean Appleby had conducted the first ever study on the relevance of performance budgeting in the Indian context. In the year 1968–1969, for the first time Performance Budgets (at the Centre) were prepared for four Central Government ministries. Subsequently, many more ministries at the Centre as well as the State Governments implementing developmental programmes introduced performance budgeting. This exercise of performance budgeting was also termed as 'output budgeting', whose thrust was mainly on the outputs/ services delivered from the budget outlays.

In performance budgeting, the idea was to assess whether spending a certain quantum of funds in a programme is worth the outputs directly resulting from it or not. Hence, performance budgeting took into account the linkages between the flow of financial resources and the physical outputs/services delivered, and thereby dealt with the structure and functioning of the institutions responsible for implementing the programmes/schemes. However, many would argue that the assessment of budgets should be concerned with final outcomes rather than the outputs/services delivered from the budget outlays. As defined at the outset, while outputs refer to the physical and quantitative aspects of the goods and services delivered through the programmes/schemes financed in the budget, outcomes refer to the impact in terms of achieving the concerned development goals. The recognition of the need for outcome budgeting gathered momentum in India over time.

For quite some time, the Central Government's Ministry of Finance and the Planning Commission had been considering the need to address some of the major concerns pertaining to the performance budgeting system in the country. These considerations arose out of a number of concerns such as: a) lack of a clear one-to-one relationship between the budget outlays and their outputs; b) inadequate target-setting by the ministries in physical output terms for the approaching fiscal year; and c) a growing recognition of the need to track not just the intermediate physical outputs that are more readily measurable but also the final development outcomes, which are the end objectives of state intervention. These concerns gradually led to the adoption of a new kind of budgeting practice in the country, namely outcome budgeting.

In order to overcome the weaknesses mentioned above, outcome budgeting was introduced as a pre-expenditure instrument to help realise the ministries' 'vision' through clearly defined outputs and outcomes, as compared to the earlier prevailing system built around post-expenditure scrutiny. This new system (outcome budgeting) was supposed to co-relate financial outlays for the ensuing fiscal year with expected physical outputs/final outcomes in respect of schemes/programmes being implemented by the ministries/departments and was expected to form a part of the normal budgetary process. It can be seen as a more advanced form of budgetary scrutiny, which would provide more detailed information about progress towards meeting the executive's spending priorities. Thus, in India, the idea of outcome budgeting is not an entirely original one; rather it is an extended form of the performance budgeting practice. Essentially, the outcome budget is a step ahead of the practice of performance budgeting which had prevailed for over 30 years. The basic thrust of performance budgeting was limited to outputs only, whereas outcome budgeting is concerned with the impact of the outputs/services delivered and the success achieved in attaining the objectives of government intervention.

Thus, with the stated objective to measure the development outcomes of all major programmes/schemes, the Union Government, in consultation with the Planning Commission, released the first set of Outcome Budgets on August 25, 2005. The ministries and departments of both the Central and State governments were asked to bring out outcome budgets annually. The outcome budgeting exercise was initially limited to Plan allocations only. However, from 2006–2007, an outcome budget for Non-plan expenditure too was contemplated. In the process of evaluating the effectiveness of converting budget outlays into development outcomes, the key steps which have been emphasised in outcome budgeting are:

- defining development outcomes in measurable and monitorable terms,
- standardisation of the unit costs of service delivery, and
- benchmarking of the standards in outputs/services delivered.

These steps are expected to provide for effective monitoring and evaluation systems for government programmes. Thus, the outcome budget is supposed to be a progress card on what various ministries/ departments have done with the outlays allocated to them in the budgets. It stresses upon the importance of converting financial outlays into development outcomes, with fixed measurable and monitorable quarterly, half-yearly and annual targets. This is expected to improve the quality of implementation of development programmes funded by budgets. Further, it is also expected to improve transparency in governance, by generating crucial data and information on expected outcomes and putting the same in the public domain.

Outcome budgeting has gradually become an integral part of the budgeting process in our country since 2005–2006. However, looking at the present situation, we could say that the outcome budgets in the last couple of years seem to have been prepared without significant additional efforts by the ministries/ departments. There are certain weaknesses which need to be addressed at the earliest in the present practice of outcome budgeting. Several policy analysts have pointed out a number of limitations in this regard, which include—lack of clarity between inputs, outputs and outcomes in some sectors; the exercise being limited to spelling out targets of physical performance along with the financial outlays; no clear standard methodologies being developed to link outlays to outcomes; no emphasis being given on independent mechanisms/institutions for monitoring and evaluation of the government programmes; and no emphasis being given on participation of communities. Besides these weaknesses, the following major problems with the ongoing practice of outcome budgeting demand immediate attention by the Central and State Governments.

Some of the Major Weaknesses in the Outcome Budgeting Exercise

Limited Coverage

The coverage of outcome budgeting exercise of both the Central and State Governments has been in many cases limited only to the Plan outlays in the budget, excluding the Non-plan outlays made in the budget for a department. Though outcome budgeting does cover the Non-plan budget also in case of a few ministries/administrative departments, at both the levels (Central and State governments), there is a need for extending its coverage to the Non-plan budgets of all the ministries and departments. Since the share of Non-plan expenditure in the total government expenditure in many crucial sectors, such as education and health, accounts for a huge share, emphasising only on the Plan expenditure will not go very far in improving the process of converting budget outlays into development outcomes. Moreover, in sectors like education and health, the overall development outcomes may depend more on the Non-plan outlays (which shape up the regular government interventions in these sectors) as compared to the Plan outlays (which shape up only specific interventions).

Inadequate Analysis of Risk Factors

The outcome budgeting exercise does require the programme implementing ministries/departments to identify the 'risk factors' in the process of implementation of their programmes, which could be the various possible bottlenecks in planning and budgetary processes, bottlenecks in the relevant institutions and gaps in actual service delivery. However, a close scrutiny of the outcome budgets brought out by the Central Government ministries/departments reveals that only a very few of them have listed the risk factors involved in the implementation of their Plan programmes/schemes. This could be because of the lack of any significant additional effort by the ministries/departments to identify such bottlenecks. As a result, the information presented in the outcome budgets gets limited only to the magnitude of the Plan outlays for a year, physical deliverable outputs/services and overall objectives of the programmes/schemes, without giving any insight about the possible risk factors in the process of their implementation. The lack of strong efforts by the ministries/departments to identify the possible bottlenecks in implementation of schemes might defeat the whole purpose of the outcome budgeting exercise.

Time lag in Availability of Data on Outcomes

It is obvious that data on development outcomes in various sectors (such as, enrollment rates, dropout rates, infant mortality rates, and maternal mortality ratios, and so on) are available in our country with a time lag of more than two years. Thus, the ability of the ministries/departments to track progress in development outcomes (if any) following some increases in budget outlays and fund utilisation levels in a sector gets limited because of the lack of required data on outcomes in that sector for the most recent years. Addressing this difficulty would require bringing about major changes and modifications in the data collection systems of the country.

Thus, there are numerous weaknesses in the outcome budgeting exercise, which has come into practice in India in the last few years. The Central and State Governments need to take timely and substantive measures to address these weaknesses, so that the objectives of outcome budgeting get fulfilled. However, it would be worthwhile to discuss here in detail the issue of a number of planning and policy bottlenecks constraining the process of fund utilisation/programme implementation in the states, which in fact should be the focus of outcome budgeting exercise being followed by the Central and State Government ministries in India.

EFFECTIVENESS OF THE PROCESS OF UTILISATION OF BUDGET OUTLAYS

Public expenditure in India is usually divided into two categories, namely Plan expenditure (which refers to all kinds of public expenditure incurred on the programmes/schemes laid out in the ongoing Five Year Plan, for example, all kinds of expenditure incurred on SSA, Mid-Day Meal Scheme, and ICDS, and so on) and Non-Plan expenditure (which refers to all kinds of public expenditure that are outside the purview of the Five-Year Plan, for example, expenditure on defence services, interest payments, organs of the some sectors; the exercise being limited to spelling out targets of physical performance along with the financial outlays; no clear standard methodologies being developed to link outlays to outcomes; no emphasis being given on independent mechanisms/institutions for monitoring and evaluation of the government programmes; and no emphasis being given on participation of communities. Besides these weaknesses, the following major problems with the ongoing practice of outcome budgeting demand immediate attention by the Central and State Governments.

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Similarly, expenditures made by some selected satates under the Reproductive Child Health (RCH) programme as proportion to the funds released to them, during the years 2002–2003 to 2005–2006, shows a disconcerting trend (Table 2). These figures show that fund utilisation by Rajasthan had been impressive. However, Uttar Pradesh was not able to utilise its approved budget outlays for RCH up to any reasonable extent in 2004–2005 and 2005–2006. The performance of Madhya Pradesh too, with regard to utilisation of budget outlays for RCH programme, had been poor in 2004–2005 and 2005–2006. The fund utilisation figures for all India suggest that the overall performance of utilisation of funds released for RCH had been low during 2003–2004 to 2005–2006.

TABLE 2: Expenditure as a Proportion of Funds Released* (in percent) under RCH Programme

State	*2002–2003*	*2003–2004*	*2004–2005*	*2005–2006*
Rajasthan	119.1	73.1	104.9	87.9
Madhya Pradesh	105.6	107.3	19.3	39.4
Uttar Pradesh	81.3	85.0	72.7	40.2
All India	**95.4**	**81.0**	**62.1**	**55.0**

Note:* Expenditure is made from Total Funds Available, which include unspent balances from previous financial years. Hence, these proportions do not present a precise picture of the extent of fund utilisation by the states. They are meant to be used only as a proxy indicator of the ability of the states to utilise available funds under the RCH Programme.

Source: Compiled from the report (draft version) Public Resources for Children in India: A Study of the Budgets of Selected States-A CBGA-UNICEF Publication, 2007.

Quality of Fund Utilisation/Spending is Poor

Another important point to note here with regard to the issue of effective utilisation of funds is the timing of the release of funds and its utilisation during any financial year. It has been observed that large shares of the fund releases and expenditures are carried out in the third and fourth quarters of the fiscal year, which raises a number of concerns with regard to the quality of fund utilisation. Besides, significant delay in flow of funds from the Central and State Governments have been observed in most of the development schemes which are being implemented by the State and District administrations and other implementing agencies. In some cases, the first installment to the districts (implementing agencies) is coming in as late as the third quarter of the financial year. So, there lies much uncertainty about funds reaching the implementing agencies on time.

For example, available evidence on the timing of release of funds from the Centre to Rajasthan for SSA shows that the slow pace of fund utilisation (in SSA) by Rajasthan, during 2002–2003 to 2004–2005, had been mainly because of the delay in release of installments and in the subsequent flow of funds.

TABLE 3: Timing of Release of Funds from the Centre for SSA in Rajasthan (in Rupees Lakh)

Year	*1st Installment*	*2nd Installment*	*3rd Installment*	*GoI Releases*
2001–2002	320.35	–	–	320.35
2002–2003	6,407.18	–	–	6,407.18
2003–2004	11,252.00	4,000.00	–	15,252.00
2004–2005	3,000.00	7,500.00	12500.00	23,000.00
2005–2006	27,585.00*	31,244.37	–	58,829.37
*Ad-hoc Installment: Rupees 6,000.00 lakh on 20.04.2005 (ad-hoc), Rupees 4,500.00 lakh on 07.06.2005 (ad-hoc), and Rupees 1,7085.00 lakh on 18.08.2005 (as 1st Instalment) (These dates and amounts had been reported by Ministry of HRD, Government of India in 2006)				

Source: Jha, Praveen, S. Das, S.S. Mohanty and N.K. Jha (2006), *Public Provisioning for Elementary Education in India*, *SAGE*, 2008.

The releases of installments from Central Government were quite delayed in 2002–2003 and 2003–2004 (Table 3), which in turn was due to the delay in submission of Annual Work Plan and Budget by the State, and its subsequent approval by the Centre. The Comptroller and Auditor General of India, based on its review of implementation of SSA in Rajasthan during 2001–2002 to 2004–2005, has observed that as per the framework of implementation of SSA, the State Government was to transfer its share within 30 days of the receipt of the Central share. It was, however, observed that the State Government failed to fulfill its obligation of providing matching share on due dates. The delay ranged from 4,332 days during 2002–2005.

The findings of a study by the Centre for Budget and Governance Accountability, New Delhi (study on Constraints in Effective Utilisation of Funds in the Social Sector, supported by UNICEF India, which focused on Rajnandgaon district in Chhattisgarh and Lalitpur district in Uttar Pradesh) suggest that besides the process of fund utilisation in social sector schemes being skewed across the four quarters in a financial year, there are several other problems with regard to the quality of fund utilisation. The study finds that levels of fund utilisation are skewed across different components in a scheme (spending on those components increases quickly where it is easier to disburse money as compared to some other components which require greater efforts from the implementing agencies), and also the levels of fund utilisation are skewed across different regions. Moreover, in case of several Centrally Sponsored Schemes like SSA, advances disbursed to sub-district level authorities are being shown as expenditures, and hence the actual magnitude of expenditure under the schemes cannot be ascertained.

Thus, the first problem highlighted here is the low capacity of some of the states to increase spending in the Plan schemes especially in the social sectors, which is evident from the noticeable levels of unspent budget outlays left with some of the states and low levels of actual spending as compared to approved budgets for the schemes in many states. While, the second major problem observed here is the poor quality of spending/fund utilisation in the Plan schemes, since the fund utilisation levels are skewed across the four quarters in a fiscal year, fund utilisation levels are skewed across different components in a scheme, and fund utilisation levels are also skewed across different regions.

POLICY AND INSTITUTIONAL BOTTLENECKS CONSTRAINING THE PROCESSES OF PLANNING AND IMPLEMENTATION OF SCHEMES

A number of factors could be identified as the reasons for the above mentioned problems in the levels and quality of fund utilisation in Plan schemes in the social sectors, some of which are as discussed in the following.

Policy Bottlenecks

Deficiencies in the Process of Decentralised Planning

Many of the ongoing social sector schemes, such as SSA, RCH, TSC and National Child Labour Project (NCLP), and so on, have been designed for planning and implementation at the level of districts. In these schemes, plans prepared in a decentralised process are required to be consolidated at the level of districts; they rely heavily upon the concept of 'bottom-up' planning at sub-district and district level so that the plans reflect the local needs which could then be addressed by the concerned programmes/ schemes.

However, the process of decentralised planning followed in these schemes within the districts has shown several deficiencies, which have been caused mainly by shortage of staff to carry out planning activities, lack of emphasis on training and capacity building of staff and community leaders for decentralised planning, and inadequate emphasis on community participation in the planning process. Lack of human resources at the district and sub-district levels has caused a major hindrance in the process of 'bottom-up' planning, and the lack of adequate training of the existing human resources has aggravated the problem.

Two recent studies carried out by the Centre for Budget and Governance Accountability (study on *Public Resources for Children*, supported by UNICEF India, which focused on Rajasthan, Uttar Pradesh and Madhya Pradesh; and study on *Constraints in Effective Utilisation of Funds* in the social sector, also supported by UNICEF India, which focused on Rajnandgaon district in Chhattisgarh and Lalitpur district in Uttar Pradesh) have shown that the planning process in some of the important social sector schemes is not resulting in any comprehensive assessment of needs across different regions within a district, rather the process seems more like an exercise in filling up pre-designed formats to demand funds under the schemes. As a result, the quality of plans prepared at the level of districts is poor, which constrains the effectiveness of the concerned programmes/ schemes.

A number of problems have also been found in planning at the district level with regard to the task of translating physical interventions into financial requirements. In some cases, low comprehensibility of guidelines meant for planning and difficulty faced by sub-district level staff in preparing plans in English have also hindered the decentralised planning process. Also, the lack of capacity at state level to train the district and sub-district level officials to appraise plans being prepared by the lower levels has led to several deficiencies in the decentralised planning process in the schemes. Moreover, the amount of time and effort required for carrying out 'bottom-up' planning at all levels is not being given due to work load and non availability of staff.

In this context, it may be noted here that the Seventy-third and Seventy-fourth Amendments of the Constitution of India had emphasised on the formation and functioning of District Planning Committees and proper enforcement of decentralised planning to identify and prioritise local needs, but, even after one and a half decades, district level planning continues to be weak in most states.

Too Many Schemes

Most of the Central Government ministries have reasonably long lists of programmes/schemes which they are funding and implementing. Given the high number of their programmes/ schemes, it must be difficult for any individual ministry to seek detailed information from each State and Union Territory about the implementation of the programmes/schemes. The plan outlays for the ministries are thinly distributed over too many programmes and schemes, leading to inadequacy of financial resources in most schemes. More importantly, the lack of convergence across the hundreds of schemes creates problems at various levels; consequently, there could be serious gaps in the outputs delivered by the programmes/schemes, which in turn could lead to deficits in the development outcomes. For example, in Uttar Pradesh, in 2006–2007, there were 336 Central Schemes, which included 167 Central Plan Schemes (schemes in which 100 percent funding is by the Centre) and 169 Centrally Sponsored Schemes (in which both Centre and States contribute funds); even a small state like Chhattisgarh had more than 125 plan schemes in 2007–2008.

Growing Centralisation of the Federal Fiscal Architecture

The problems relating to too many programmes/schemes being implemented in states without adequate convergence or integration across them and that of deficiencies in the process of decentralised planning in the districts are rooted in a major policy bottleneck witnessed in India over the last few decades, which is the growing centralisation of the federal fiscal architecture in the country. Devolution of funds is a critical component of decentralisation, without which devolution of functions and functionaries alone cannot give us the outcomes expected from decentralisation. While the State Governments are expected to expand and deepen the scope of fiscal decentralisation, the Central Government too should also be asked for promoting decentralisation from Centre to the level of States.

Over the last one and a half decades, the fiscal policy space available to the states has shrunk vis-à-vis that available to the Centre. The total tax revenue collected in India had fallen from 16 percent of the GDP in 1989–2090 to 13.8 percent of the GDP in 2001–2002, before it started recovering gradually from 2002–2003. The magnitude of tax revenue collected under the Central Government tax system had fallen from 10.6 percent of the GDP in 1989–2090 to 8.2 percent of the GDP in 2001–2002. In the wake of the resource crunch faced by the Centre (which was a consequence of some of the liberalisation policies adopted by the Centre), the magnitude of financial resources transferred from the Centre to States had been compressed.

TABLE 4: Gross Devolution and Transfers from Centre to States

Year	*Gross Devolution and Transfers (GDT) from Centre to States (in Rupees Crore)*	*GDT as percent of GDP*	*GDT as percent of Aggregate Disbursements of States*
1988–1989	30,333	7.2	45.2
1989–1990	32,862	6.8	42.8
1990–1991	40,859	7.2	44.9
1998–1999	1,02,268	5.9	39.1
1999–2000	95,652	4.9	31.1
2000–2001	1,06,730	5.1	31.4
2001–2002	1,19,213	5.2	32.3
2002–2003	1,28,657	5.2	31.4
2003–2004	1,43,785	5.2	28.0
2004–2005	1,60,750	5.1	29.0
2005–2006	1,78,871	5.0	31.8
2006–2007	2,20,462	4.7	33.5
2007–2008 (RE)	2,84,063	5.2	36.1
2008–2009 (BE)	3,31,525	5.5	37.1

Note: Gross Devolution and Transfers (GDT) include: (i) States' Share in Central taxes, (ii) Grants from the Centre, and (iii) Gross Loans from the Centre.

Source: Reserve Bank of India (2007). State Finances: A Study of Budget 2007–2008.

As shown in Table 4 above, the magnitude of gross devolution and transfers (GDT) from the Centre to States (which include: States' Share in Central taxes, Grants from the Centre, and Gross Loans from the Centre) had fallen from 7.2 percent of the GDP in 1990–1991 to 4.9 percent of the GDP in 1999–2000, and it hovered around 5.1 per cent of the GDP during 2000–2001 to 2004–2005. As a proportion of Total Expenditure from the Budgets of all states, the magnitude of gross devolution and transfers (GDT) from the Centre to States had fallen sharply from 45 percent in 1990–1991 to 29 percent in 2004–2005. It was found that the magnitude of gross devolution and transfers (GDT) from Centre to States shows a gradual improvement over the last five years, since it has improved from 29 per cent of the Aggregate Disbursements of States (5.1 percent of the GDP) in 2004–2005 to 37 percent of the Aggregate Disbursements of States (5.5 percent of the GDP) in 2008–2009 (BE). However, it must be noted here that this magnitude is still far short of the level prevailing in the late 1980s when the GDT from Centre to States accounted for around 45 percent of the Aggregate Disbursements of States (which was around 7 percent of the GDP).

The decline in transfer of resources from the Centre to States, especially during the second half of 1990s and early years of the present decade, had affected the fiscal health of the states adversely. Moreover, a rise in the administered interest rates in the country under the policies for financial sector liberalisation meant that the interest payment burden of the states rose sharply during the second half of 1990s and early years of the present decade. In addition to that a huge increase in states' outlay on salaries for government staff in the late 1990s (following the implementation of Fifth Pay Commission recommendations) meant a further blow to the worsening fiscal health of the states. As a result of all these factors, most states confronted a crisis in their fiscal health during late 1990s and in the early years of this decade.

The dominance of the Central Government in the overall fiscal policy space in the country increased during this period, when most of the states were confronting a severe crisis in their fiscal health. The situation has started improving since 2006–2007. However, the overall fiscal policy space in India still continues to be dominated heavily by the Centre. It has been argued that starting with the Tenth Finance Commission (whose recommendations were applicable for five years from 1995–1996 to 1999–2000), both the Terms of Reference for the successive Finance Commissions as well as their recommendations have indicated a bias towards promoting the conservative fiscal policy of the Centre and contributed towards the growing dominance of the Centre in the federal fiscal architecture in India. It must be noted here that such a bias towards promoting the dominance of the Centre in the federal fiscal architecture in India has been pointed out even in the Terms of Reference given to the Thirteenth Finance Commission, which submitted its recommendations in 2009 for the five years from 2010–2011 to 2014–2015.

Another major issue pertaining to the growing centralisation of the fiscal policy space in India is the changing composition of the grants given by the Centre to the States (Table 5). Out of the different types of grants, Non-Plan Grants (based on the recommendations of the Finance Commission) and Central Assistance for State Plan Schemes (based on the recommendations of the Planning Commission) constitute untied or block grants for states, which they can spend according to their own expenditure priorities. On the other hand, grants under Central Plan Schemes (Plan schemes of the Central Government in which Centre contributes 100 percent of the funds) and Centrally Sponsored Schemes (Plan schemes of the Central Government in which every state has to contribute a certain share of the funds) constitute the tied or conditional grants for the states. It is found that the total grants from Centre to States, the combined share of Non-Plan Grants and Central Assistance for State Plan Schemes has fallen from 77.7 percent in 2000–2001 to 72.7 percent in 2008–2009 (BE). This decline would most likely be sharper if we extend the time period further and look at the composition of grants in the 1990s. On the other hand, the share of grants to states under Central Plan Schemes and Centrally Sponsored Schemes (which are tied to the norms, conditionalities and unit costs of the Central schemes) in the total grants to states has increased over the last five years. Again, this increase would most likely be sharper if one looks at the composition of grants in the 1990s. In this context, many states have been demanding for a significant increase in the magnitude of untied grants from the Centre, which would give them the additional fiscal space to make public investments in accordance with their State-specific development priorities.

However, despite strong demands from the states, the Eleventh Five Year Plan has not shifted any significant number of Central Schemes to the States. On the other hand, the imposition of FRBM legislation on the States through recommendations of the Twelfth Finance Commission relating to the Debt Relief Scheme has constrained significantly the fiscal space available to the state governments for public investments.

TABLE 5: Composition of Grants (to States) from the Centre

Year	*Grants from the Centre (in Rupees Crore)*	*Grants for Various Components as percent of Total Grants from the Centre*				
		State Plan Schemes	*Central Plan Schemes*	*Centrally Sponsored Schemes*	*NEC/ Special Plan Schemes*	*Non-Plan Grants*
2000–2001	37,783.8	42.9	3.0	19.0	0.3	34.8
2001–2002	43,082.3	45.1	2.9	19.4	0.5	32.0
2002–2003	45,682.5	43.4	3.8	19.0	0.5	33.4
2003–2004	51,348.0	49.8	2.6	19.3	0.6	27.7
2004–2005	56,857.0	52.6	2.3	18.4	0.5	26.2
2005–2006	76,750.0	37.5	2.9	17.3	0.4	41.9
2006–2007	94,451.0	42.6	2.2	18.4	0.3	36.4
2007–2008 (RE)	1,24,638.0	44.3	5.0	19.8	0.7	28.1
2008–2009 (BE)	1,43,030.0	46.6	4.6	19.0	0.7	26.1

Source: Reserve Bank of India, State Finances: A Study of Budgets, various issues.

Institutional and Procedural Bottlenecks

Apart from the above-mentioned policy bottlenecks, there are a number of institutional and procedural bottlenecks which have constrained the ability of the states in translating budget outlays into physical outputs/services and influencing development outcomes in the social sectors.

The findings of a study by the Centre for Budget and Governance Accountability (study on Constraints in Effective Utilisation of Funds in the Social Sector, which focused on Rajnandgaon district in Chhattisgarh and Lalitpur district in Uttar Pradesh) throw light on a set of institutional and procedural constraints which need to be removed in order to enable the states to effectively utilise greater magnitudes of Plan outlays in the social sectors. This study has analysed the implementation of major Plan schemes in the social sectors, like the SSA, Mid-Day Meal, RCH, Universal Immunisation Programme, ICDS, NCLP, and TSC at the district level.

This study highlights the following institutional and procedural constraints in the implementation of the selected social sector schemes:

- There are systemic weaknesses in the government apparatus, such as, shortage of staff at the district and sub-district levels, inadequate priority on capacity building of staff, and inadequate infrastructure for programme management, leading to low fund absorption capacity of the State Government for Plan programmes/ schemes. The study argues that shortage of trained, regular staff for various important roles, such as management, finance/ accounts, and frontline service provision has weakened the capacity of government apparatus to implement Plan schemes.
- Delay in flow of funds, owing to factors such as involvement of multiple agencies and multiple reporting requirements and the absence of Electronic Fund Transfer systems, continues to impede the implementation of schemes.
- Decision-making in the schemes seems to be centralised at the level of State Government and also there is inadequate delegation of financial power to the programme implementing staff at the district and sub-district levels, which has slowed down the pace of fund utilisation in the schemes.
- Monitoring and supervision of schemes is weak due to shortage of staff and insufficient funds for relevant non-wage components (such as, vehicles, fuel, phone, and so on), which in turn is affecting the quality of the outputs/services delivered by the schemes.
- There are problems arising due to rigidity of the financial norms, guidelines and unit costs set by the Central Government Ministries, which are restricting the ability of programme implementing staff in the states to expedite the pace of fund utilisation in the schemes.

Out of these various kinds of institutional and procedural constraints, the most important, according to the authors, has been the systemic weakness in the government apparatus. It can be argued that the systemic weaknesses are rooted in the measures taken by several states, over the last decade, to check the growth of Non-plan spending from the state Budgets in an era of 'expenditure reforms' advocated strongly by the Central

Government, Planning Commission and the successive Finance Commissions. In other words, fiscal conservatism, imposed on the states over the last decade, has constrained their systemic capacity to implement development interventions in many sectors and in particular the social sectors. States' adherence to fiscal conservatism, in the form of cutting their regular expenditure (in order to contain the Fiscal Deficit and eliminate the Revenue Deficit), has led to a shortage of staff at various important levels within the government apparatus. This has manifested in the almost freezing of regular staff recruitments by many states starting from the late 1990s (that is, after they implemented salary increases following the recommendations of the Fifth Pay Commission) and a simultaneous adoption of the policy of recruiting contractual staff mostly funded by Plan schemes.

Table 6 shows that over the last decade, State Governments' expenditure on wages and salaries as a proportion of their total revenue expenditure has declined noticeably. This supports the argument that most of the states have been trying to reduce their spending on staff recruitments in order to check the growth of their overall expenditure, which in turn has affected the systemic capacity of their apparatus that implements social sector programmes and schemes. This does not imply that none of the states needed to check the size of their regular government staff; in fact it has been argued that many states had increased the number of regular staff in roles which were unnecessary while not increasing the number of regular staff in important roles such as, front line service providers (for example, teachers, doctors, nurses, auxiliary nurse midwives and anganwadi workers, and so on), finance/accounts staff and staff for implementing development programmes. However, following the significant increase in the pay scales of the regular government staff in most states around late 1990s, they almost froze the recruitment of regular staff in all these important levels, which has gradually weakened their capacity to implement and monitor development programmes in the social sectors.

It has also been argued that inadequate funds for non-wage components, such as, allocations for vehicles, fuel, vehicle maintenance, phones, stationery, and so on has led to poor quality of outputs/services delivered in the development programmes, mainly due to very weak monitoring and supervision activities. Inadequate funds for operation and maintenance purposes affect the durability and productive capacity of the already existing capital assets. The funds earmarked by some of the tates for maintenance and operation purposes have declined significantly over the last one and a half decades.

TABLE 6: Declining Proportion of Expenditure on Wages and Salaries in Total Revenue Expenditure of States since 1990–1991 (Rupees in Crore)

State Government's Expenditure on Wages and Salaries	*(1990–1991 to 1994–1995) Average (Rupees in Crore)*	*(1995–1996 to 1999–2000) Average (Rupees in Crore)*	*(2000–2001 to 2008–2009) Average (Rupees in Crore)*
Andhra Pradesh	2,791.00	5,072.80	10,479.78
Gujarat	851.40	1,686.20	2,608.56
Haryana	898.60	2,024.60	3,648.22
Karnataka	1,706.20	3,420.60	6,410.44
Kerala	1,703.20	3,110.60	6,028.67
Mahasrashtra	5,471.40	10,815.40	23,300.67
Orissa	1,151.00	2,730.60	4,489.00
Tamil Nadu	2,917.40	6,055.40	10,147.89
Uttar Pradesh	3,113.00	5,642.40	9,231.22
All States	26,107.80	59,844.00	1,12,088.44
Expenditure on Wages and Salaries as percent of Total Revenue Expenditure (All States)	35.54	34.82	31.91

Source: Compiled from the data given in State Finances: A Study of Budgets of 2008–2009, RBI.

Note: For source data see page 220, State Finances: A Study of Budgets of 2008-09, RBI; data for 2007–2008 and 2008–20-09 are Revised Estimates and Budget Estimates, respectively.

As shown in Table 7 below, State Governments' expenditure on operation and maintenance as a proportion of their total revenue expenditure was on an average 13.84 percent during 1990–1991 to 1994–1995, which fell to 10.06 per cent during 1995–1996 to 1999–2000, and it declined further to 8.86 percent during 2000–2001 to 2008–2009.

TABLE 7: Average Expenditure on Operation and Maintenance of some selected States and all States since 1990–2091 (Rupees in Crore)

State	*Average (1990–1991 to 1994–1995)*	*Average (1995–2996 to 1999–2000)*	*Average (2000–2001 to 2008–2009)*
Andhra Pradesh	745.0	1,184.2	4,570.8
Gujarat	364.2	507.6	1,181.2
Haryana	104.6	196.4	506.3
Karnataka	12.4	18.6	396.1
Orissa	146.8	265.2	822.0
Uttar Pradesh	2,267.6	2819	1,704.4
All States	8,625.4	14,822.8	32,809.2
Percent to total revenue expenditure	13.84	10.06	8.86

Source: Compiled from the data given in State Finances: A Study of Budgets of 2008–2009, RBI.

Note: For source data see page 221, State Finances: A Study of Budgets of 2008–2009, RBI; data for 2007–2008 and 2008–2009 are Revised Estimates and Budget Estimates, respectively.

Low Priority for Non-Plan Spending in the Social Sectors

As shown in Table 8 given below, on an average, the spending on social sector as a proportion of total spending from the State Budgets was 36.8 percent during 1990–1991 to 1994–1995 and 36.7 percent during 1995–1996 to 1999–2000. However, it declined to 32.5 percent during 2000–2001 to 2004–2005, before showing a recovery to 35.3 percent during 2004–2005 to 2008–2009. During 2000–2001 to 2004–2005, which was a period of acute fiscal stress for most states, the curb in public spending from state budgets was witnessed more in the social sectors, as the states were unable to cut down or check the growth of their spending on several other heads like, interest payments, pensions, and so on which were committed expenditures. However, within this overall curb in spending on social sectors, the Non-plan expenditures were targeted more. Non-plan expenditure from the State Budgets plays an important role in improving the overall capacity of the government apparatus in the social sectors.

TABLE 8: Social Sector Spending as a proportion of Total Spending from the State Budgets since 1990–1991 (Figures are in percent)

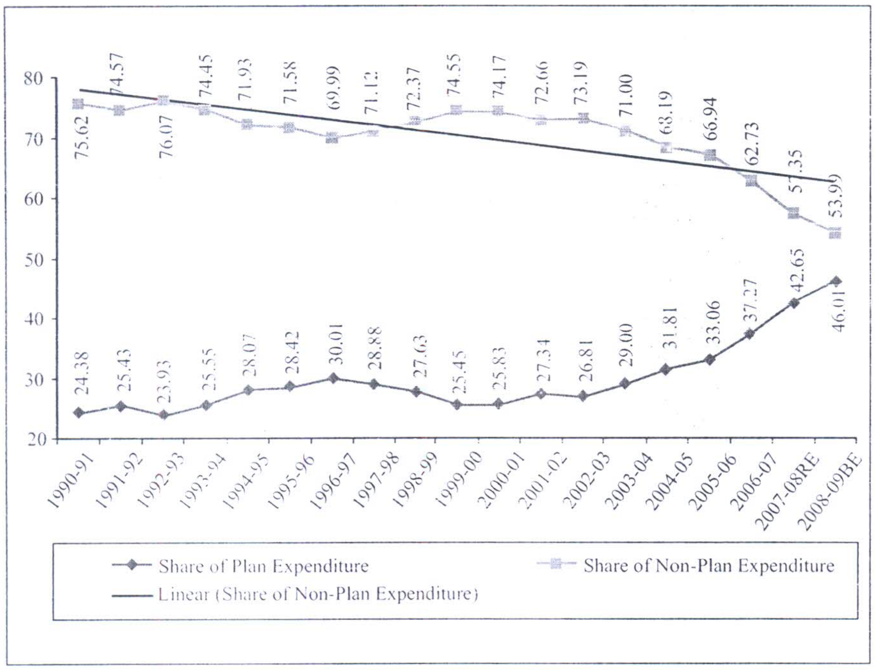
State	*Average (1990–1991 to 1994–1995)*	*Average (1995–1996 to 1999–2000)*	*Average (2000–2001 to 2004–2005)*	*Average (2004–2005 to 2008–2009)*
Andhra Pradesh	38.8	38.9	33.14	34.9
Bihar	41.2	42.5	37.24	41.1
Chhattisgarh	–	–	41.8	47.5
Madhya Pradesh	40.3	41.2	33.7	35.6
Jharkhand	–	–	46.37	45.5
Orissa	37.4	40.6	31.92	33.6
Rajasthan	37.8	38.6	37.82	40.8
Uttar Pradesh	33.4	33.1	28.74	34.1
Goa	38.8	28.6	27.08	31.8
Gujarat	33.9	33.9	31.5	33.8
Haryana	27.8	26.3	28.14	31.7
Karnataka	37.3	38.5	32.28	35.5
Kerala	40.9	41.7	36.22	33.4
Mahasrashtra	37.1	37.1	33.06	37.0
Punjab	24.3	23.2	20.74	21.3
Tamil Nadu	40.6	40.0	35.06	36.4
West Bengal	43.0	39.1	30.62	33.1
All States	36.8	36.7	32.5	35.3

Source: Compiled from the data given in State Finances: A Study of Budgets of 2008–2009, RBI.

Note: For source data see page 223, State Finances: A Study of Budgets of 2008–2009, RBI; data for 2007–2008 and 2008–2009 are Revised Estimates and Budget Estimates, respectively.

Non-plan expenditure shapes up to a significant extent the strength of the state government apparatus for implementing Plan programmes/schemes, in terms of availability of regular qualified staff and adequacy of the government infrastructure. However, over the last decade, Non-plan expenditure on social sectors has been checked by many states due to the prevailing fiscal conservatism in policymaking circles.

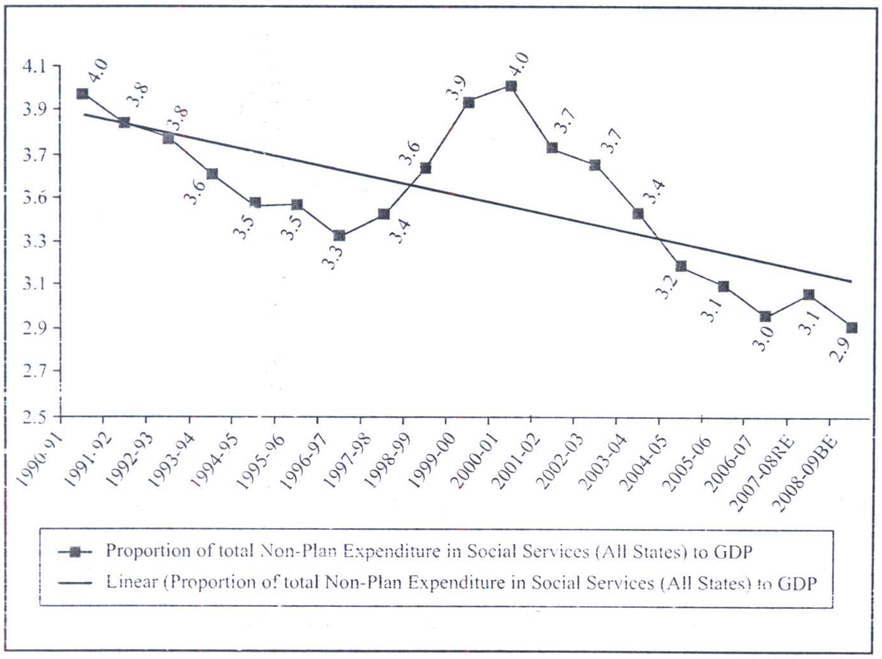
FIGURE 1: Shares of Plan and Non-plan Spending in Total Spending on Social Services from the Budgets of All States (in percent)



Source: Based on the data given in State Finances: A Study of Budgets of 2008–2009, RBI.

As shown in Figure 1 above, the share of Non-plan spending in the total spending on social services from the budgets of all states has declined from around 75 percent in 1990–1991 to around 54 percent in 2008–2009. Also, as shown in Figure 2, Non-plan expenditure on social services from the budgets of all states, as a proportion of GDP of the country, has declined from 4 percent in 1990–1991 to 2.9 percent in 2008–2009. Thus, the curb imposed by most states on Non-plan expenditure on social services has led to a gradual weakening of their systemic capacity to implement Plan programmes/schemes, which has manifested in the form of inability of the states to spend total quantum of funds available for the Plan schemes as well as poor quality of fund utilisation in the schemes.

FIGURE 2: Non-plan Spending on Social Services from the Budgets of All States as percent of GDP



Source: Based on the data given in State Finances: A Study of Budgets of 2008–2009, RBI.

Note: Data on GDP (at market prices, 1999–2000 series) has been taken from Economic Survey, 2007–2008, Government of India, and Budget at a Glance, Union Budget 2008–2009, Goverment of India.

CONCLUDING REMARKS

The introduction of outcome budgeting is no doubt an appreciable measure taken by the Central Government, which has the potential to generate valuable insights about the bottlenecks in planning and budgetary processes which have hindered effective implementation of development programmes/schemes in many states. Such insights, if generated in a timely and comprehensive manner, can lead to formulation of appropriate measures by the Central and State Governments for addressing the institutional and procedural bottlenecks, which in turn could improve significantly the process of implementation of development interventions across different sectors. However, as has been discussed in this paper, at present there are a number of loopholes in the outcome budgeting exercise of both the Central and State Governments, such as limited coverage of the exercise, inadequate efforts on the part of the nodal ministries/ departments for identifying the bottlenecks in the planning and implementation processes with regard to their development schemes and a significant time-lag in availability of data on outcome indicators in most sectors. The Central and State Governments need to take strong measures to address all these loopholes so as to make outcome budgeting a worthwhile exercise.

As regards the kind of problems or bottlenecks in the planning and implementation processes, which outcome budgeting should try to identify and address, the authors have discussed a number of factors. With regard to Plan programmes/schemes in the social sectors, a number of problems have been observed across various states, in particular the backward states, over the last few years, which are: (i) low capacity of some of the states to increase spending in the Plan schemes in the social sector, which is evident from the noticeable levels of unspent budget outlays left with some of the states and low levels of actual spending as compared to approved budgets for the schemes in many states; and (ii) poor quality of spending/fund utilisation in the Plan schemes in the social sector, since the fund utilisation levels are skewed across the four quarters in a fiscal year (typically, a large share of spending getting crowded in the last two quarters), fund utilisation levels are skewed across different components in a scheme (spending on those components increases quickly where it is easier to disburse money as compared to some other components which require greater efforts from the implementing agencies), and fund utilisation levels are skewed across different regions.

The authors have discussed a number of factors which could be identified as the reasons for the above-mentioned problems in the levels and quality of fund utilisation in Plan schemes in the social sectors. The first set of factors pertains to the deficiencies in decentralised planning, being carried out in most of the schemes, which is caused by shortage of staff to carry out planning activities, lack of emphasis on training and capacity building of staff and community leaders for decentralised planning, and inadequate emphasis on community participation in the planning process. The second set of factors pertains to bottlenecks in budgetary processes in the schemes, such as delay in flow of funds, delay in sending sanction orders for spending, decision-making being centralised within the states, low delegation of financial powers to district and sub-district level authorities, rigid norms and guidelines of centrally sponsored schemes and weak monitoring and supervision of programme implementation activities. The third set of factors relates to systemic weaknesses in the government apparatus in states, in particular the backward states. Shortage of trained, regular staff for various important roles (such as management, finance/accounts, and frontline service provision) has weakened the capacity of government apparatus to implement Plan schemes. Weak infrastructural facilities with the government apparatus too has had an adverse impact. Both these problems are rooted in the measures taken by several states, over the last decade, to check the growth of Non-plan spending from the State Budgets in an era of 'expenditure reforms' advocated strongly by the Central Government, Planning Commission and the successive Finance Commissions. Thus, fiscal conservatism, imposed on the states over the last decade, has constrained their systemic capacity to implement development interventions in many sectors. Moreover, as discussed in the paper, there are too many Plan schemes being implemented in most of the states, without adequate convergence and integration across them. These systemic weaknesses too have led to problems in the process of fund utilisation in Plan schemes in the social sectors.

The outputs/services delivered through the Plan schemes in the social sectors maybe unable to provide desired levels of development outcomes due to a number of reasons, such as the following—the quality of outputs and services delivered through the Plan schemes could be poor (because of very low unit costs, lack of adequate monitoring and supervision in the schemes, and a low sense of ownership of contractual staff in the schemes), and the usage of outputs/ services by the targeted beneficiary community could be low owing to gaps in planning and improper need assessment. Thus, several of the Plan schemes in the social sectors may be unable to influence significantly the development outcomes in the sector.

However, it is pertinent to note here that Plan programmes/schemes are neither the only possible channel nor the most important channel for government intervention in social sectors for improving development outcomes. As has been observed earlier in this paper, Non-plan spending accounts for a substantial chunk of total public spending on social sectors in any state, which supports all regular government interventions in the sector (such as, staff salaries and establishment costs for all regular schools, hospitals, and so on), unlike Plan spending which is usually targeted in nature and meant for addressing specific problems identified in the planning process. Government interventions in social sectors, which are supported by Non-plan spending, are usually accessible for all sections in the society (for example, both Below Poverty Line and Above Poverty Line people), long term or lasting interventions (unlike some of the Plan interventions which are supported only for a limited number of years) and they are also in the nature of entitlements for the people. For example, SSA is a Plan intervention, with an assured operation only up to 2011–2012 for which the Central Government made certain commitments to share the scheme's funding with the states (which also has raised serious concerns since the Centre has shifted the fund sharing burden progressively on to states during the Eleventh plan period).

Given the uncertainty about the continuation of SSA beyond the Eleventh plan period (i.e. beyond 2011–2012) and the increasing burden on the states for its funding, it is not surprising that only contractual teachers or para teachers have been recruited under this scheme at a large scale (except for a few of the southern states which insisted upon recruiting only regular teachers even under SSA). However, most educationists have pointed out that large-scale recruitment of para teachers, instead of qualified regular teachers, has put the future of India's school education system at stake. Likewise, many of the interventions under SSA, such as provision of free text books, are meant only for children belonging to certain communities, instead of making such basic provisions an entitlement for all children enrolled for elementary education. The various ways in which SSA has pushed for low-cost and parallel streams of provisioning for children in elementary education has led some observers to opine that the scheme promotes a 'graded' right to education for children belonging to different sections of the society.

The point that the authors are trying to make here is: government interventions for development in the social sectors should promote entitlements for people, instead of piecemeal and short-term interventions, in order to effectively deal with the deficits in human development in the country. Such an approach, however, would require the Central and State Governments to invest a much greater magnitude of budgetary resources for public provisioning in the social sectors than what has prevailed until now. Instead of that, what we find is an increasing reliance on Plan schemes, riddled with numerous rigidities, conditionalities and ad hoc measures, which are also not being implemented effectively. It is time that the Central and State Governments make a radical change in their approach towards public provisioning in the social sectors.

Moreover, it is equally pertinent to observe here that the onus for such a fundamental change in public policies in India lies mainly on the Central

Government. As discussed in this paper, the steady increase in the number of centrally sponsored schemes and their share in total budgetary resources in various sectors, over the last few decades, has been antithetical to fiscal decentralisation. Hence, adequate and comprehensive measures for fiscal decentralisation need to be carried out, but for which government interventions for development would hardly be able to bring about desired levels of improvements in outcomes.

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