

Volume II

USAID/INDIA
REFORM PROJECT
COMPENDIUM WITH PRACTITIONERS' GUIDE
To State Fiscal Management Reform

The Expenditure Planning &
Management Practitioners' Guide

An Introduction to Program and Performance Budgeting at the
Indian State (Sub-national) Level

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Compendium Disclaimer:

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REFORM Project: Rationale, Objective & Terms of Reference

The REFORM Vision

"State governments have the necessary organizational structures, analytical tools and decision-making processes, information sources and trained staff that enable them to make better informed choices on a transparent and accountable basis with respect to state public finances. Subsequently, this capacity is institutionalized into the mainstream of state government practices to ensure the sustainability of the effort."

The Rationale:

The starting point of the USAID/India Fiscal Management Reform Project (REFORM) is that the fiscal distress seen at the state level in early 2000 was, to a large extent, a result of the systemic weaknesses in state fiscal management (Box 1), including within the key departments of finance and planning. This prevented forward-looking fiscal decision-making grounded in careful analysis and leading to good governance. In short, the majority of Indian states needed better analytical capacity backed by appropriate institutional infrastructure to formulate and implement good fiscal policy.

Box 1: Systemic Weaknesses in Fiscal Management

The systemic weaknesses found in fiscal management at the state level may be described as "inadequate":

- Technical know-how in modern fiscal management practices.
- Comprehensive, current information databases.
- Robust analytical tools and techniques that correspond to internationally accepted standards.
- Integrated management information systems and systematic approaches to the fiscal decision-making processes.
- Transparent, consistent and institutionalized fiscal practices, reporting systems, and structures that promote the desired accountability for the effective and efficient mobilization, allocation and utilization of public funds.

Currently, therefore, many Indian states do not have the *appropriate capacity*¹ and the *necessary practices*² to perform relevant, economic and statistical analyses (Box 2).

Box 2: Consequence of Systemic Weaknesses

As a consequence of the systemic weaknesses, most Indian states, for example, have inadequate fiscal management expertise and institutional infrastructure to perform revenue and expenditure projections and distributional analysis, assess multiplier and elasticity effects, and run policy simulation and develop alternative policy scenarios. This includes their inability to establish strong links between budgetary outlays and program outcomes for efficient and effective delivery of results, establish debt and investment frameworks to improve their quality and profile, and conduct rigorous project appraisals to ensure selection of socio-economically viable projects.

¹ i.e., fiscal management skill-sets, tools and techniques and organizational structures.

² i.e., consistent, transparent and accountable processes.

Given increasing decentralization and the continued significance of public finance in India, many state governments will be required to assume greater responsibility for the design and implementation of their own development strategies. As a result, their ability to strike the *right balance between fiscal policy, broad-based growth, and financial sustainability* will be fundamental to promoting and sustaining development across every sector of the state economy and, consequently, the nation as a whole, especially in light of the new challenges posed by the opening-up of the Indian economy and state finances getting substantially linked with market forces.

The Objective:

As a response, USAID/India's REFORM project (September 2003-2008) was designed to provide practical hands-on "how to" skills transferal, based on international best practices, to strengthen fiscal analytical expertise, structures and systems of selected Indian states. The objective was to help these states to better plan and manage their public finances, especially in the light of the challenges they faced following the 2000-01 fiscal crisis. Jharkhand, Karnataka, and Uttarakhand were identified as the three REFORM partner states.

The specific objectives of REFORM were:

- 1) To improve "informed" decision-making within state (sub-national) governments;
- 2) To ensure that decision-making processes followed consistent and transparent principles, leading to greater accountability; and
- 3) To sustain the efforts by institutionalizing and mainstreaming the capacity built.

REFORM, therefore, was not designed to advise or guide Indian state governments on specific policy decisions but rather to enhance their ability to evaluate and to address crucial policy choices and implementation options, based on an understanding of the environment - i.e., its potentials, its limits and its perceived needs.³

Terms of Reference:

Based on discussions with the respective partner states, the REFORM terms of reference were to help enhance their fiscal management capacity in the following four (4) areas:

- *Revenue Management Capacity* – To help states undertake detailed analysis of revenue projections and the implications of alternative tax policies and revenue choices. Interventions included: Introduction of improved revenue forecasting methodologies, an Input-Output (I-O) framework and macroeconomic database. A practitioners' guide was also developed along with hands-on training to build state capacity in the above areas.

³ Capacity-building as defined by the United Nations Center for Education and Development, (Agenda 21's definition, Chapter 37, UNCED, 1992).

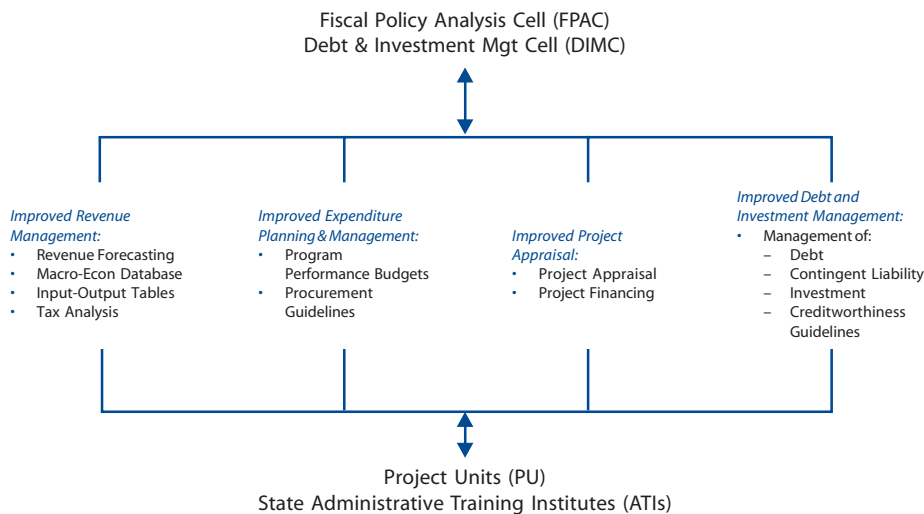
- *Expenditure Planning and Management Capacity* – To help states improve quality and accountability of expenditures. Interventions included: Introduction of an outlays to outcomes budgeting methodology (*i.e.*, program performance budgeting (PPB)) to help states' prioritize the allocation of public funds, improve program planning, monitoring and evaluation, increase transparency, accountability, and consequently, the quality of public services delivery. A practitioners' guide with related software was developed and delivered. Structured/hands-on training was provided across all levels and in almost all departments. Detailed public procurement guidelines were also developed for two out of the three states.
- *Debt and Investment Management Capacity* – To help states to better document, track, analyze, and manage debt, contingent liabilities and investments, in the medium to long term. Interventions included structured and hands-on training as well as introduction of practical guides (with reporting templates). Comprehensive debt datasets were developed and migrated into a database using the *Commonwealth Secretariat-Debt Recording and Management System (CS-DRMS)* software.
- *Project Appraisal Capacity* – To help states improve appraisal and selection of socioeconomically viable capital projects. Interventions included: Training in the Harberger project appraisal technique which involves financial, economic, social and stakeholders' risks analysis. A Project Appraisal practitioners' guide with sector-specific guidelines was also developed and introduced to serve as a desk reference.

To sustain and mainstream the above fiscal management reform efforts, four (4) institutional structures were designed and supported:

- The Fiscal Policy Analysis Cell (FPAC) – To help states institutionalize continuous analysis of the implications of policies, procedures and regulatory decisions on the fiscal health of the states. An analytic unit supported by a team of dedicated and trained staff, with access to relevant and quality data, tools and techniques was established.
- The Debt and Investment Management Cell (DMIC) – To help states identify, generate, and analyze data and support more effective and prudent debt/investment decision-making. Similar to the FPAC, an analytic unit supported by a team of dedicated and trained staff, with access to relevant and quality data, tools and techniques was established.
- Project Unit (PU) – To help states offer a comprehensive range of services from project appraisal and monitoring, to final end-of-project evaluation, a project unit was designed that would also help promote public-private partnerships (PPPs).
- Administrative Training Institutes (ATIs) and State Institutes for Rural Development (SIRDs) – To help state civil service training institutes (ATIs and SIRDs) train entry level and mid-career state civil servants in fiscal planning and management, training courses; training materials and reference guides were developed and provided.

The REFORM project may therefore be considered as four-by-four (4x4), consisting of four intervention areas (expenditure, revenue, project appraisal, and debt and investment management) supported by four institutional structures (FPAC, DMIC, PUs, and ATIs/SIRDs).

REFORM: Four-by-Four



The Final Products:

A project *Compendium with Practitioners' Guides* was developed under REFORM to assist state governments to implement necessary fiscal management practices in the areas of forecasting, budgeting, tracking of debt and investment, and improving project appraisal techniques. Specifically, these Guides were developed to function both as desk references for government officers earlier trained under REFORM as well as training tools for strengthening capacity of new officers. For officers not earlier exposed to the new fiscal practices, the Guides will need to be supplemented with additional technical support or guidance.

The Compendium also includes a variety of case studies including the experiences of the three REFORM partner states – Jharkhand, Karnataka, and Uttarakhand – with respect to the implementing the new practices under REFORM.

"Fiscal Watch", a virtual resource center, has also been designed and launched to provide a dedicated site to promote greater thinking, collaboration, discussions, best practices and, exchange information and post current data on the fiscal health (and related issues) of Indian states and India. The key feature of *"Fiscal Watch"* is the dedicated discussion forums to facilitate interaction between fiscal practitioners, both Indian and international (*e.g.*, to provide a platform for finance secretaries, budget officers, revenue officials, and researchers). In addition, there are numerous hyperlinks to related online resources such as government websites, professional societies, consultancy opportunities, and training and education providers.

To Conclude:

Despite spending large sums of money, governments and donors in many countries have been limited in their ability to develop successful, sustainable programs due to the inadequacy of fiscal management expertise and infrastructure. Such inadequacies prevent the productive absorption of funds. They also prevent states from equipping themselves with the necessary fiscal shock absorbers to cushion them against unexpected fiscal challenges - some arising out of discretionary, unplanned decision-making and others as a result of increased globalization. More often than not, these unexpected challenges can and have served as the tipping points, seriously affecting the fiscal condition of even fiscally healthy states, as seen in India especially post 1995-96.

However, given the increasing recognition by state governments of the role of and need for improved fiscal management capacity in Indian states' development process, and indeed for India as a nation, we are confident that endeavors such REFORM will be sustained and further strengthened.

Madhumita Gupta, Team Leader REFORM, USAID/India

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Authors' Note

What is Program and Performance Budgeting?⁴

Program and Performance Budgeting (PPB) has been defined as a system wherein managers are provided with the flexibility to utilize agency resources as required, in return for their commitment to achieve certain performance results. Budgets are based on agreed upon outcomes rather than "historical efforts and good intentions." Initiatives such as these are often referred to as performance budgeting and are designed to help answer the questions: can issues and problems be solved with more money or might other measures be more effective.

What does PPB Consist of?

PPB is a system of planning, budgeting, and evaluation that emphasizes the relationship between money budgeted and results expected. PPB:

- *Focuses on results.* Departments are held accountable to certain performance standards. There is a greater awareness of what services taxpayers are receiving for their tax dollars;
- *Is flexible.* Money is often allocated in lump sums rather than line item budgets, giving managers the flexibility to determine how best to achieve results;
- *Is inclusive.* It involves policymakers, managers, and often citizens in the budget "discussion" through the development of strategic plans, identification of spending priorities, and evaluation of performance; and
- *Has a long-term perspective.* By recognizing the relationship between strategic planning and resource allocation, performance budgeting focuses more attention on longer time horizons.

Why develop this Guidebook?

The purpose of this Guidebook is to help an Indian State Government implement Program and Performance Budgeting (PPB).

What is the Guidebook?

The Guidebook is a supplement to training of those employees who are not familiar with budgeting or PPB. It helps employees of the operating departments understand public sector budgeting by placing the PPB methodology in the context of some of the budgeting reforms that have been successful internationally. The Guidebook contains an introduction to budgeting, a brief discussion of types of budgets, a detailed discussion of PPB, and some practical recommendations on how to proceed. The Guidebook supplements all other budget manuals applicable for the state, as, in the first years of implementation the PPB format should not replace but be an explanatory attachment to the budget.

⁴ http://www.finance.alberta.ca/publications/measuring/results_oriented/module5_overview.pdf

In addition, the PPB Database software (See Annexure 9 for further information) introduced in this guide can assist government officials to track actual budget outlays in relation to planned outputs and expected outcomes. This database software enables budget tracking at these departmental, program, subprogram, and schematic levels.

When to use the Guidebook?

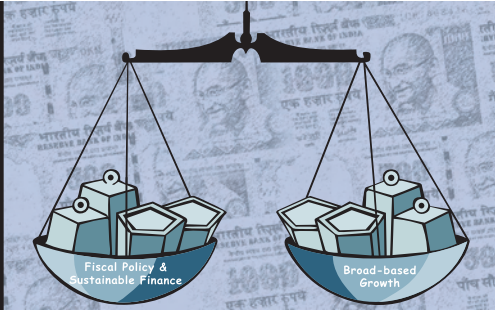
Once a state government has decided to implement PPB, the state can use the Guidebook as an introduction to budgeting and PPB.

Who should use the Guidebook?

The Guidebook is helpful to those who will be learning how to prepare budgets using the PPB methodology, department of finance officials who will review and approve the PPB documents, and other state decision makers who will be considering the PPB documents for the first time.

How to use the Guidebook?

The Guidebook serves as a baseline tool to assist state governments to implement necessary fiscal management reform. The compendium includes guidelines for on-the-ground implementation of international best practices by state officials in the areas of forecasting, budgeting, tracking of debt and investment, and improved project appraisal. These guidelines have been developed with the aim of serving both as desk references for government officials already trained in the respective fiscal competency as well as training tools for structured capacity-strengthening programs. For officials not already exposed to the fiscal practices introduced under REFORM, the guidelines will need to be supplemented with technical support or guidance.



Section I

Managing Expenditure for Results

Part 1:

Introduction to Budgeting

Experiences in India and other countries demonstrate that there is no single accepted methodology for implementing modern budgeting. The USAID REFORM Project adapted the PPB methodology to a typical Indian state budget classification structure and selected a set of specifically defined narrative elements designed to present both department and program level budgets. (These narrative elements are not intended to be the only possible elements to be included in a PPB.) To ensure clarity, to establish consistency, and to have a common starting point, we recommend adhering to this methodology in the beginning. As states gain experience with the PPB approach, they will find it desirable to make modifications in the methodology from time to time. This is normal and very desirable.

The PPB methodology grew out of many earlier approaches to modern budgeting that have been attempted in India. (*Annexure 1: Outcome Budgeting — Moving Beyond Rhetoric*) Examples of these Indian innovations include state government initiatives such as Karnataka's use of performance budgets that dates back more than twenty years and departmental medium term fiscal plans since 2002. Other states in India have also implemented performance budgets dating back decades. In fact, Indian efforts at performance budgeting can be traced back to the 1968 administrative reforms commission report entitled "Finance Accounts and Audit." More recently the Indian government's Outcome Budgeting introduced in 2005. Therefore, credit belongs to the many forward-thinking officials in Indian states who valued the concepts of modern budgeting and actively supported this work. These techniques owe much of their longevity to the honest desire

of public officials in India and elsewhere to make budgeting more transparent and understandable to budget decision makers, legislators, and the public. Other examples of budget reform efforts internationally include Program Planning Budgeting System (PPBS), Program Budgeting, and Performance Budgeting in various iterations developed in many other countries.

What is a Budget?

In simple terms, a budget is an organization's plan for its financial resources; a plan of financial activity for a specified period of time including all planned revenues and expenses for the budget period. The budget is often considered an operating plan. In the case of government, it serves as the basis for financial reporting to the Legislature, Department of Finance, operating departments, and the citizens.

A budget is a powerful tool for allocating limited resources among competing priorities within the community. Because needs always exceed available funds, funds allocated to one department must be denied to another department. Officials measure the value of the funds spent not only by the benefits gained, but also by what is given up. Approving budgets means making choices.

A government budget includes:

- Planned activities of new and ongoing programs, projects, and services;
- Estimates of the resources or revenues available; and
- Estimates of public expenditures necessary to finance planned activities.

Why is it Important to have a Budget?

The law requires governments to prepare an annual budget for the fiscal year. Beyond simply meeting the requirements of the law, the budget is important as a statement of policy regarding allocation of limited resources among government service areas. A budget is not just a statement of finances but is the link between mobilization of funds and attainment of government goals and objectives.

Activities associated with budget formulation, legislative review, budget execution, budget control, and audits are major financial management elements used to decide the policy and direction of a government. A good budget also is a description of the effectiveness and efficiency of government programs.

A budget is a powerful tool for allocating limited resources among competing priorities within the community. Because needs always exceed available funds, funds allocated to one department must be denied to another department. Officials measure the value of the funds spent not only by the benefits gained, but also by what is given up. Approving budgets means making choices.

There are a number of additional purposes that are served by the preparation of an annual budget. These include the budget serving as a legal document, a policy document, a financial plan, an operations guide, and lastly, a communications tool.

Legal Document

The budget ensures compliance with applicable laws and statutes through an established budget preparation process. The budget document itself is the formal justification for the

expenditure of money to achieve a promised level of service.

Policy Document

The budget provides an opportunity to explain the substantive impact of policy changes on operations, service levels, and the financial well being of the community. Therefore, the budget as a policy instrument requires a clear articulation by the chief executive and legislative body of the goals, objectives, and strategies that underline the budget. In addition, the budget also assigns accountability. If the budget reflects changes in policy, it is generally useful to explain at the outset exactly how the new or revised policy will be implemented and how performance will be monitored.

Financial Plan

A budget generally has to balance receipts and expenditures. Therefore, a key budgetary function is to provide a financial plan that will govern the fiscal operation of a government for the next year. At a minimum, the financial planning process will include:

- A projection of the government's financial condition at the end of the current year and at the end of the proposed fiscal year;
- Current and past year financial activity by department or program so that decision makers know where current appropriations are being spent in comparison to proposed expenditures;
- A formal revenue estimate that includes a listing of all the current and proposed sources of revenue, how much has historically been produced by each source, how much is expected in the proposed budget, and the underlying sensitivities of the revenue

projections (economic, seasonal, demographic, or activity changes) resulting in either more or less revenue than projected. This will provide the decision makers with an idea of the potential fiscal volatility with which they are dealing;

- A look to the future to anticipate events or conditions that would require changes in operations in order to ensure financial stability or solvency; and
- An explicit relationship of debt service to the budget, *i.e.*, the budget must allocate a sum sufficient to service the state's debt from annual appropriations. Thus, there is a clear relationship between expenditure outlays and public debt management. (*See Volume IV: The Debt & Investment Management Practitioners' Guide for further details.*)

To ensure that debt service remains under control and that sitting decision makers do not unwisely mortgage the future, many governments have instituted guidelines that seek to contain debt service as a specified ratio of debt to general fund expenditures. A good financial plan will try to set a rational debt service level for a multiyear period. The Fiscal Responsibility and Budget Management Act requires that budgets meet these guidelines.

Operations Guide

The budget not only sets the policy and financial plan for a government; it is also the blueprint that governs the amount of service provided and how that service is provided. It is a basic tool that directs the bureaucracy to deliver services to the community. The budget is the basis for financial control and sets expectations for the delivery of public services. The budget also should provide planned levels of service in the

form of objectives and performance indicators, targets, and timetables for projects. An effective budget helps the government in:

- Managing services and expenditures by allocating money to specific programs designed to accomplish clearly defined objectives;
- Setting forth a detailed plan for what services will be provided and how it will be accomplished;
- Providing the basic guidelines through which elected officials control the staff in providing services; and
- Outlining the categories, service objectives and financial system that can be used as the basis for periodic reports on the status of state operations.

Communication Tool

Finally, the budget is a concise way for a government's decision makers to communicate the priorities, the rationale for decisions made, and the vision for the future. The budget process can be an effective tool to help citizens understand the reasons behind the policy decisions. In addition to the budget itself, governments often include other information to inform the public. For instance, good budget information sources geared to the public may include:

- An explanation of the budget process;
- Explanations of changes in the budget;
- Summary information and Tables;
- Charts and graphs to highlight information; and
- Data to describe the government and the community.

Other Information:

The history of budget reform internationally includes many innovations that were less than successful in producing the desired result.

Examples from international experience are included in Annexure 2: Evolution of Budget Reforms and Annexure 3: Florida: A Case Study.

Part 2:

Modernizing the Budget

The budget process can be an effective tool to help citizens understand the reasons behind the policy decisions.

Traditionally, line item budgets have been the predominant method of presenting state budgets. While there are advantages to the line item budget, modern budget techniques include other elements in the budget request. PPB combines best practices such as program budgeting and performance measurement in a medium term approach. The principal advantage of the PPB is that it shows both the desired end (goals of the activities of government) and the service levels anticipated from its activities (objectives). The relative service levels and funds spent on different activities show where priorities lie.

Combining a summary-level line item budget, with the elements from program budgeting, (identifying a department's mission, a program's goals, and objectives) and performance measurement in a medium-term framework is a powerful combination for explaining and justifying the budget. It becomes a single mechanism for answering the three basic questions in budgeting:

1. What will we purchase? (Line Items).
2. What will we do? (Goals and Objectives).
3. What will we achieve? (Performance).

This style of budget also gives decision makers and the public necessary information to decide if the government's priorities are correct. It is also an immense help in assessing the quantity, quality, and productivity of government programs.

PPB and Best Practices in Budgeting

Line Item Budgets

A line item budget of a government provides a list of the *types* of goods and services each department will purchase followed by a cost estimate for each. Examples include labor, supplies, utilities, and capital outlay. Some line item budgets are reported at very detailed object of expenditure levels, other versions have various degrees of aggregation. Normally, however, this budget type provides little explanation of why the money will be spent or what will be achieved. Department line item budgets provide a simple basis for allocating funding.

A detailed line item budget shows how much will be spent on every type of expenditure a government budgetary organization makes. Primarily objects of expenditure such as salaries, materials and supplies, and goods and services bought are the basis for organizing expenditures. Normally, amounts spent on line items and staffing levels are described as budgetary *inputs*.

At a basic level, all government budget managers must be aware of input indicators. It is generally a bad idea to overspend the budget. If a budget manager does not monitor spending to remain within budgetary limits, then difficulties arise. Arrears may result so that vendors may have to wait for payment for goods or services. The government itself may lose credibility with citizens. Some countries have civil and administrative penalties for overspending.

Accordingly, a certain type of performance measure (*input* measure) can reflect the

progress of a government organization with respect to spending in accord with its line item budget.

In many governments, the line item budget and its natural counterpart, line item control, allow little opportunity for flexibility. Line item control establishes significant control on spending and only allows spending in accord with the approved budget plan. Line item budgets are often converted to detailed quarterly or monthly spending plans. Accordingly, financial procedures may make it difficult to deviate from the approved plan.⁵

While the simplest to prepare, the line item budget does not provide any information regarding the achievements of an organization, department, or government. In addition, the line item budget may have a time frame of a single budget cycle and therefore does not consider the multiyear implications of the budget decisions made.

Knowing how much a state spends for salaries, supplies, maintenance, and utilities does not reveal much about the actual delivery of services such as:

- How many citizens are being provided with social services?
- How many kilometers of roads are maintained?
- What is the cost per kilometer of roads maintained?
- How many children are in school?
- What is the quality of education?

To answer these questions, governments must prepare different kinds of information for the budget. The government needs to provide information to decision makers to focus the budget discussion on what government accomplishes.

Program Budgeting

Program budgeting is a way to structure the budget information to help decision makers choose among alternatives for providing services. This approach addresses the following questions:

- What are we trying to accomplish (goal)?
- How much will we spend on this goal?

Combining a summary-level line item budget, with the elements from program budgeting, (identifying a department's mission, a program's goals, and objectives) and performance measurement is a powerful combination for explaining and justifying the budget.

This method of budgeting provides a method for organizing government activities into programs (activities or services with similar or related goals). By organizing its activities in this way, governments can begin to identify alternatives for achieving each goal, to determine the costs and benefits for each alternative, and to select the alternative they believe will maximize benefits.

Since total cost and performance levels are what matter, not the cost of each line item, budget discussions can begin to address the

⁵ Scrutiny of the detailed spending plans is a necessary part of budgeting; the PPB methodology does not replace this scrutiny. Accordingly, the current budget manuals in use in Indian State government are necessary even after the implementation of the PPB methodology.

government's proper roles and responsibilities in addressing the problems in society. In advanced forms, allocations can even be provided "lump sum" by program rather than in traditional line items.

There are various methods used in the instructions for preparing the narrative justification portion of the program budget. In most cases, similarities outweigh the differences. For instance, most program budget formats require a description of the services, a statement of the program's long-term goals, and some identification of its short-term objectives (usually in the form of accomplishments expected in the next year). Some instructions also require citing the governmental orders or laws that established the program, descriptions of important issues and concerns, summary descriptions of implementation plans, etc. Countries have focused on developing their program budget format to attempt to satisfy the information needs of decision makers rather than establishing complete uniformity.

Performance Measurement

Program budgeting is often accompanied by various kinds of performance indicators.

The purposes of including performance indicators in the budget are to:

- Provide a running check on whether programs meet their objectives and work toward goals; and
- Provide a basis for comparing the cost and quality of services.

(See Annexure 9 for information on the PPB database software and how it can be referred to

This method of budgeting provides a method for organizing government activities into programs (activities or services with similar or related goals). By organizing its activities in this way, governments can begin to identify alternatives for achieving each goal, to determine the costs and benefits for each alternative, and to select the alternative they believe will maximize benefits.

for further information on performance indicators or outcomes.)

There are four general types of performance indicators:

1. **Input indicators** are typically characterized as either money (budget funds) or people (government employees and officers). Input indicators identify the resources the government will use. Input indicators are very useful in managing a budget once the legislature authorizes it.

For example, the input indicators can be:

- Human resources the Government uses; and
- The line items relating to salaries, wages, and dearness allowance, etc., showing expenditure in the employee related isolate.

(See sample PPB document on Page 26 for details.)

2. **Output indicators** (or sometimes called workload indicators) identify the amount of work planned by the government organization. Examples are: workload targets such as the number of clients served or number of permits issued. These indicators are more effective at justifying the budget than input indicators alone. They also help to

focus attention on what citizens can expect to be accomplished by the program. (See sample PPB document on page 26 for details.)

3. **Efficiency indicators** combine input and output indicators as a ratio. When combining input indicators and output indicators, it becomes possible to begin to evaluate efficiency. Efficiency indicators, such as cost per client or cost per permit issued, helps evaluate whether service delivery is economical. These are better indicators as they begin to express how well the government is doing its work. Efficiency indicators also help justify proposals that involve better work methods, accordingly, they are best used to show improvements over time.

The PPB methodology provides an opportunity for program and department managers to present their programs, describe their performance, and explain their plans for the medium term. The medium term is usually a budget year plus two to five years into the future. However, this is at the discretion of the officials preparing the budget.

4. **Effectiveness indicators** (sometimes called "outcome" or "results" indicators) attempt to express the effects of the government's activities. Ideally, effectiveness indicators are quantifiable so that the decision-maker can compare the performance level budgeted for the coming year with the actual performance levels of prior years. Effectiveness indicators can be difficult to develop and use effectively as these indicators attempt to reveal to what extent programs are achieving the purpose of the program. For example, public expenditure outlays have resulted in increased literacy rates or lower crime rates.

(Note: See Annexure 10a and 10b for developing performance and outcome indicators. Also see Figure 2.1 for details.)

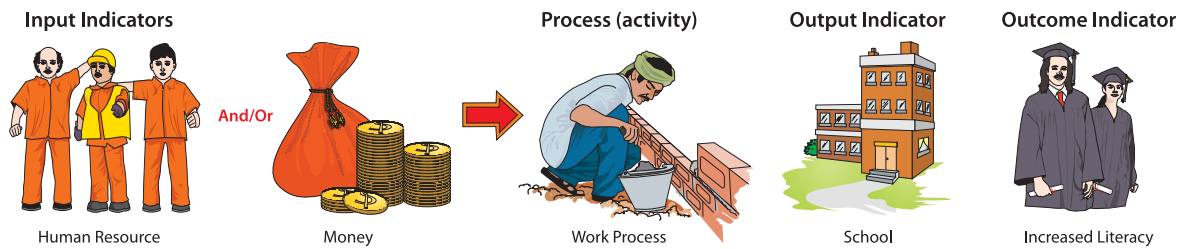
Medium-term Planning

The PPB methodology provides an opportunity for program and department managers to present their programs, describe their performance, and explain their plans for the medium term. The medium term is usually a budget year plus two to five years into the future. However, this is at the discretion of the officials preparing the budget. Some officials may prefer to include the budget, the previous budget year, and the next two to three future budget years for a five-year time horizon.

The medium term gives budget decision makers a better feel for the financial implications of the decisions made for the coming year. Budget decisions have an impact on spending in the future. This is especially true for capital projects where, once built, a facility will need financing to operate it. The aggregate projections of revenue expenditures must be weighed against a reasonable projection of revenue receipts during the medium term. The implication of this is that budget decision makers should make informed expenditure decisions that can be afforded in the medium term.

Each year decision makers should review the medium term projections and adjust them as appropriate. For example, many governments have established fiscal think tanks that advise decision makers on future expenditure outlay levels derived from budget tools such as the PPB. (See Volume I: REFORM Project: Overview, Section III Annexure FPAC Implementation Guide for further details on these think tanks.)

Figure 2.1: Budget Outlays to Program Outcomes



Efficiency Indicators

Ratio between Input and Output gives Efficiency Indicator

Examples are:

Cost per kilometer for Sewer Cleaned

Total Expenditure Made = INR 100,000

Total Sewer Cleaned = 2,000 kms.

Cost per kilometer of Sewer Cleaned = $100,000/2,000$

= INR 50 per kms.

Effectiveness Indicators

How effectively has the government fulfilled the need of people is determined by effectiveness indicator or outcome indicator

Examples are:

- Percent decrease in maternal-child mortality rates;
- Percent increase in general population literacy; and
- Percent of population to benefit from a new hospital.

PPB Documents: Critical Ongoing Budget Management Tool

The PPB is more than a good method for preparing and presenting the budget. Inherent in the methodology is the assumption that budget decision makers at all levels will use this information to make more informed and better decisions. All government officials realize that there is never enough money to fund all the important needs of the state.

Budget decisions made at various levels within state government. On the one hand, program managers may make operational decisions affecting the program's day to day

activities. In addition, department managers may redirect activities within or even between programs if necessary.

On the other hand, decisions affecting the program's budget are often made at levels that are not always fully informed of the program's benefits and the results of service. Some government programs may outlive their usefulness and yet retain annual funding. In other cases very successful programs may lose funding, as decision makers are unaware of the results of service. Informed decision makers best serve the interests of the citizens of the state. The PPB methodology contains essential

State Government of (Name of State)
 Department of Health
 2006-09 Budget

Department Name:

Appropriations	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)		(9)		(10)		(11)		(12)	
	2003-04 Plan	2003-04 Actual	2004-05 Plan	2004-05 Nonplan	2004-05 BE	2004-05 Plan	2004-05 Nonplan	2004-05 RE	2004-05 Plan	2004-05 Nonplan	2005-06 BE	2005-06 Plan	2005-06 Nonplan	2006-07 Plan	2006-07 Nonplan	2006-07 Forecast	2006-07 Est.	2007-08 Plan	2007-08 Forecast	2007-08 Plan	2007-08 Nonplan	2007-08 Forecast	2007-08 Nonplan	
Employee-related	5412.96	7919.82	5406.80	9846.96	9846.96	5396.80	9846.96	9846.96	5396.80	9846.96	3753.57	9914.89	3895.25	10289.71	10289.71	4043.51	10681.93							
Administrative Costs	536.45	711.05	890.75	882.32	882.32	820.75	882.32	882.32	820.75	882.32	668.81	862.98	548.43	898.08	898.08	570.95	934.62							
Other Costs*	4125.78	31.21	3416.37	54.63	54.63	2616.37	54.63	54.63	2616.37	54.63	12031.74	42.86	12633.33	45.01	45.01	13264.99	47.26							
Operations and Maintenance	2571.52	4881.30	3518.97	5794.94	5794.94	3518.97	5794.94	5794.94	3518.97	5794.94	2494.01	6776.28	2618.71	7115.09	7115.09	2749.64	7470.85							
Capital—Works	412.1	583.67	2120	710	710	2120	710	710	2120	710	10	600	10.5	630	630	11.03	661.5							
Capital—Loans/Investments	3596.87	0.00	3988.00	0.00	0.00	1988.00	0.00	0.00	1988.00	0.00	5458.20	100.00	5731.11	105.00	105.00	6017.67	110.25							
Transfers to Local Government	16773.96	22754.90	14453.59	26136.34	26136.34	14453.59	26136.34	26136.34	14453.59	26136.34	18660.09	30196.85	19593.10	31706.69	31706.69	20572.75	33292.03							
Transfers—Other	1750.97	616.52	2019.78	1001.06	1001.06	2019.78	1011.06	1011.06	2019.78	1011.06	1905.38	199.41	2000.65	209.38	209.38	2100.69	219.85							
Debt Service																								
Total	35180.61	37498.47	35814.26	44426.25	44426.25	32934.26	44436.25	44436.25	32934.26	44436.25	44981.80	48693.27	47031.08	50998.96	50998.96	49331.23	53418.29							
Of Which: Revenue Approp.	31583.74	37498.47	31826.26	44426.25	44426.25	30946.26	44436.25	44436.25	30946.26	44436.25	39523.60	48593.27	41299.97	50893.96	50893.96	43313.56	53308.04							
Capital Approp.	3596.87	0.00	3988.00	0.00	0.00	1988.00	0.00	0.00	1988.00	0.00	5458.20	100.00	5731.11	105.00	105.00	6017.67	110.25							
Total Appropriation	72679.08		80240.51			77370.51			77370.51		93675.07		98030.04			102749.52								
Performance Measures																								
Outcome:																								
Life Expectancy at Birth Persons									67															
Infant Mortality Rate									55		55		55		55		55				50			
Maternal Mortality Rate									195		195		185		175		175				140			
Population Served per Medical Institution									18857															
Population per Bed in Government Medical Institution									1134															
Average Rural Population Covered by a Subcenter (2001)									4284															
Output:																								
Number of Primary Health Centres with 24-hour Delivery Service									256		256													
Number of Government Hospitals									430		430													

Note: *Includes lump sum transfer of INR 1,025.21 lakhs.

information regarding the purposes served by government services, the program goals, and the expected results.

Transparency

Effective budgeting seeks to convey information in such a way as to promote understanding. After reading a good PPB, a member of the public, for instance, should better understand government programs. In this way the budget can be described as more transparent. If a member of the public cannot understand the budget document because it is filled with great detail or technical language, it is *less* transparent.

Many budget decision makers do not have deep technical knowledge on every conceivable subject covered in a governmental budget. Therefore the leaders of departments and programs should make a sincere effort to relate their work to addressing public needs and concerns as clearly as possible. When thought of this way, the budget exercise becomes “a much better way to tell the department’s story.”

PPB Preparation Process

Figure 2.2 illustrates the major steps in preparing the budget documents using the PPB methodology.

Statewide Coordination

A single statewide entity, normally the state department of finance, takes the lead responsibility for communicating the state’s priorities and fiscal policy that govern the budget process for the coming year. Normally, the department of finance produces a set of statewide expenditure planning parameters and instructions for the budget process. Often, an annual budget circular issued by the state finance department contains much of this information.

Draft PPB documents should be prepared prior to the budget decision-making process. A fully developed PPB methodology usually involves multiple iterations of the budget documents as decisions are made. It is not unusual for the program budgets to be revised many times prior to their presentation to the legislature.

Budget projections for existing (nonplan) programs and schemes are usually governed by guidelines contained in the budget circular. For instance, circulars usually state approved levels of inflation for such items as salaries, supplies, subsidies, etc. The state finance department also monitors and supports the budget development process by offering technical assistance to field department and program staff. The state finance department may also review budgets and recommend improvements and changes. Some finance departments develop alternative recommendations to give decision makers in program design and financing. Finally, state finance analysts may recommend the relative priority of program activities of various field departments.

Planning Departments

Modern governmental decision-making involves input from multiple levels both within and outside of state departments. The PPB methodology becomes an excellent platform for raising important issues and recommendations from all levels within the government when submitted prior to the preparation of the state planning department’s preparation of new plans.

The planning departments of many states in India have the responsibility for preparing plans that outline new programs and schemes for the

coming year. The PPB process should be a part of this planning process. The final PPB should contain approved proposals for new spending as they provide a key to understanding decisions that help shape both social and economic development. In addition, since PPB documentation may present operational and program recommendations that improve both efficiency and effectiveness of existing government services, state budget policy should stipulate the planning department's role in approving these recommendations. To conclude, adoption of good project appraisal methodology along with program and performance budgeting can enable preparation of plans and programs that are consistent with mission, goals and objectives of the nodal department (*See Volume V: The Project Appraisal Practitioners' Guide for further details.*)

Timing

Draft PPB documents should be prepared prior to the budget decision-making process. A fully developed PPB methodology usually involves multiple iterations of the budget documents as decisions are made. It is not unusual for the program budgets to be revised many times prior to their presentation to the legislature.

Generally, the production of the state's budget documents is a relatively lengthy process. Field departments submit their budget documents to the statewide level to be incorporated into a single set of budget departments for submission to the legislative branch. (*See Annexure 12 for details on the Karnataka experience in extending PPB to the district level for the education, health, and women and child development departments.*)

It is imperative that the process start early as there should be sufficient time to: issue guidelines, prepare budget draft documents,

consider and revise proposals, make final allocations, and incorporate new proposals in the final budget document. A typical timeline for the entire process could be as long as nine months, depending how long the government and legislature require for reviewing and considering the budget before making a final decision. The budget circular should contain the timetable for the major steps in the process. The state finance department should ensure that the process does not become unduly delayed so that final appropriations are passed by the legislature before the beginning of the fiscal year. A possible budget schedule might look like this:

Guidelines, Instructions and Circular	1 October
Draft PPBs to Finance and Planning	1 December
Governmental Approval	15 February
Approved PPB to Legislature	15 March
Legislative Approval	31 March

Ideally, the PPB budget document should accompany the line-item budget when the latter is presented to the concerned legislative body for final appropriations.

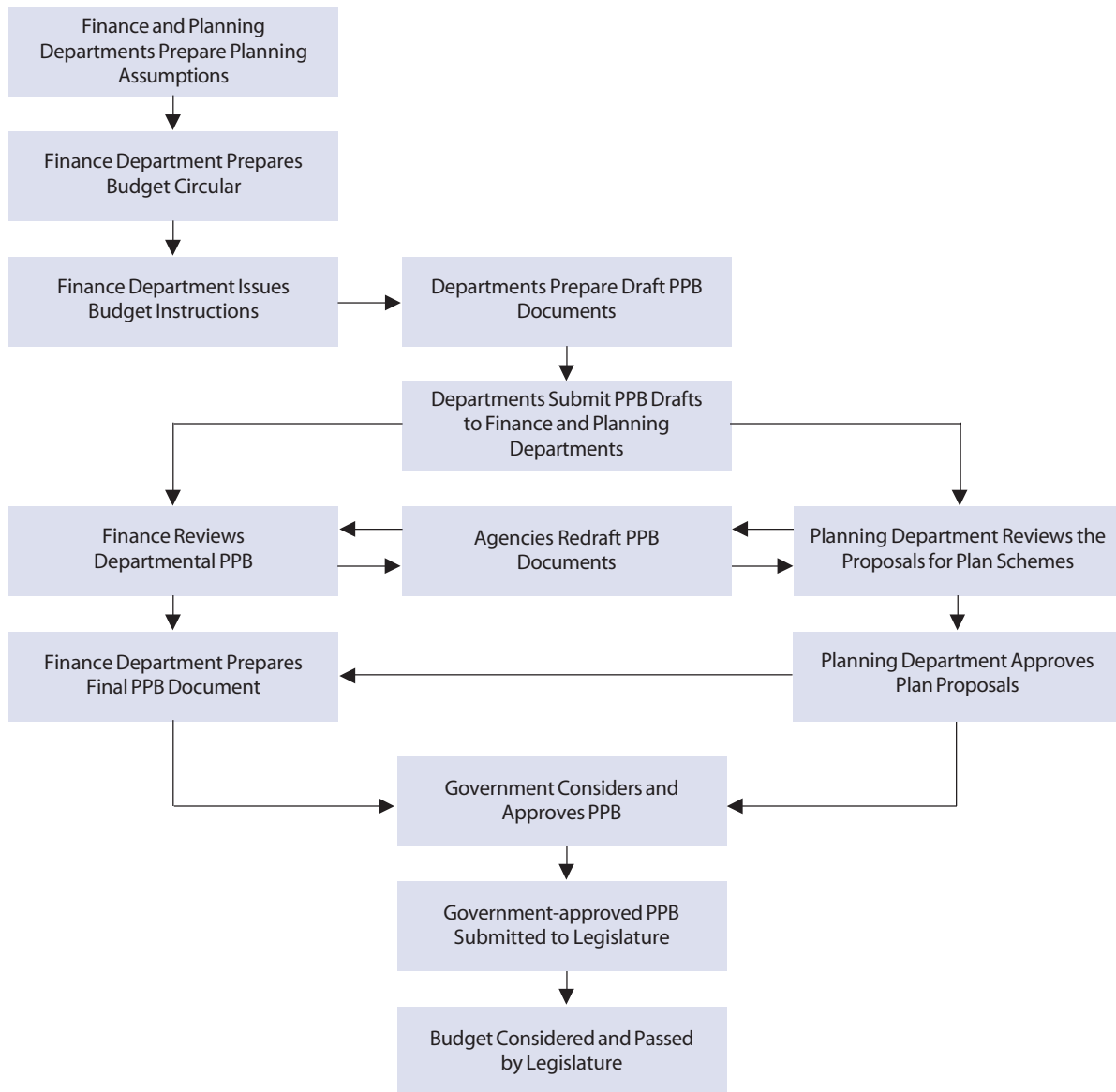
Implementation Challenges

Implementation of PPB is a challenging task involving time, cost, and at times it can be a difficult process. The lack of analytical staff, and information technology to implement changes in the budget process may also pose problems. Training in-house staff and the use of a pilot project, for example, can address these issues in implementing PPB. With proper preparation and ownership of the process states can overcome these challenges.

Appointment of a Steering Committee

When a state government decides to implement a major reform such as PPB, officials

Figure 2.2: A Typical PPB Preparation and Approval Process



have found a high level steering committee is helpful. Members of a high-level steering committee can be effective in ensuring that the implementation remains on course.

Appointment of a Departmental Task Force
 Officials cannot expect these benefits in the first

year of implementation. It is common for some program managers to experience a longer learning curve than others. It is also unrealistic to expect daily support from outside sources as they may be unavailable or may be unfamiliar with the department. Accordingly, the department needs to ensure that adequate

support is available to program managers from a variety of sources.

International experience has demonstrated that assigning the responsibility for implementation of a major new process to an internal task force is an effective strategy. An officially constituted and assigned, a task force is a strong ingredient for success.

- A task force that receives training in the process serves as an internal technical resource with an important tie to the department head. The work of the task force should also be augmented by an external support facility. Accordingly, the task force is much more effective than just having an external support structure alone.
- Having officials within the organization who are recognized as internal experts helps to ensure that the process becomes self-sustainable once the external support structures are no longer available. This group can continue to suggest improvements and be a catalyst for further developing advanced benefits.
- The use of a task force is invaluable for developing capacity in departments. Often mid-level professionals gain advanced knowledge and expertise making them invaluable to the department as a repository of institutional memory. Often these professionals become prime candidates for implementing other innovations that department heads see as strategically important. The experience that members of the task force gain can fill an important gap in the ongoing training capacity of a department, especially with regard to the new reforms.

- Finally, the members of task forces can join with all department officials in taking credit for a successful implementation of an important state reform. *(See Annexure 12 for the Jharkhand experience in forming and working with PPB Task Forces at the secretariat level. Such task forces can also be replicated at the district level).*

The task force should have a designated leader responsible for report progress and problems to the department head. The task force should include at least one person from:

- The departmental finance (or budget) unit;
- Technical experts or subject specialists from each major division or subdepartment;
- The State Department of Finance; and
- The Department of Planning.

Ownership of the Process

The implementation of a PPB process within a department is an important step in promoting understanding to the operations of government. A department best achieves the purposes of PPB when its officials understand the requirements and begin to take ownership of the product. If officials view the budget process as merely an annual task to satisfy the requirements of the state government, they will attend to their duties consistent with the budget instructions and, when completed, will put it away until the next cycle. Ownership occurs when the officials see that the process itself serves their best interests not just the interests of the Department of Finance's budgeting exercise.

There are many good reasons that some government's budgets have evolved in this way

over many decades. The officials in these governments have discovered that the PPB approach helps them both explain and manage their operations better. Officials have found that PPB is helpful in ways that traditional line item methods should:

- Well-developed PPB documents are helpful in describing the operations of a department to a much wider audience than just to budget decision makers;
- The performance indicators identified in these documents also help in the overall administration of the department as they powerfully define what is important;
- Department heads use the trends identified in the indicators as a platform to develop improved strategies to achieve the agency's mission;
- Officials find that program indicators are helpful in defining internal performance measurements (that need not be included in

the budget documents) that assess the effectiveness of individual units within the department; and

- Department officials have found that their PPB documents are helpful in providing a succinct explanation of department operations to the public.

As officials gain experience with the process, they begin to make modifications that improve the quality and usefulness of the document. In addition, the expertise departments gained learning how to prepare these documents can be very helpful to other state departments as they begin to implement the process.

As a final thought, state governments may want to consider including preparation of PPB documents as a clause in their respective *Fiscal Responsibility and Budget Management Acts*. Especially in light of the value these budget documents add to the transparency of the expenditure management process.

Part 3:

Program Budget Structure

PPB Levels

Normally, program budgets are framed within governmental departments. Complex programs are often divided into subprograms. Defining a department's programs can be a difficult exercise. Programs normally contain activities that are related to a common purpose. Since, defining departmental programs is an important first step it may be helpful to think of ways of implementing PPB using the existing budget classification structure as much as possible.

The Indian Budget Classification System contains six levels:

1. Major Head.
2. Submajor Head.
3. Minor Head.
4. Subhead or Scheme.
5. Detail Head or Subscheme.
6. Standard Object.

A department's PPB could take advantage of the structure of the Indian Budget Classification. For instance, a department may define the PPB levels as related to three of these levels. In this case, a department could define their budget structures within the following Indian budget classifications:

- Department = Major/Submajor Head;
- Program = Minor Head/Group of Minor Heads; and
- Subprogram (Optional) = Subhead or Group of Schemes.

There is a built-in advantage to implementing PPB in this way. If a department uses the existing Indian Budget Classification structure in defining

its PPB program structure, i.e., using the Minor Head level — or group of minor heads— as the program level, compiling financial data is relatively straightforward. Since each Minor Head contains one or more schemes and since each scheme receives a specific appropriation, financing and, perhaps, staffing information should be readily available for past, current, and future years.

Department Level

All departments must prepare a department level narrative page. All departments contain one or more programs. It is important in the budgeting process to concentrate on the work of the individual programs when presenting the work of a department. However, there also are important issues that are best discussed at this level.

Key elements for the department level include:

- Legal Authority;
- Department Mission;
- Important Accomplishments;
- Key Performance Indicators; and
- Gender Impacts.

The Department Narrative Page gives the department head the opportunity to present summary information to put into context the program narratives that follow. *(See Annexure 9 for information on how the PPB database software can be used at the departmental level.)*

Program Level

The PPB is, by definition, a strategy for focusing the budget discussion at the *program* level. Accordingly, a significant amount of effort should be given to preparing sound program narrative pages.

Key program narrative pages contain:

- Program Description (Functions);
- Key Program Goals;
- Key Objectives for each Goal;
- Key Performance Indicators;
- Key Community Targets;
- Special Impacts; and
- Gender Impacts.

It is important to craft the program description so that the program's activities and functions can be stated in terms of clear goals and objectives. A clear goal should describe the service provided for citizens or clients. Likewise, program goals and objectives should be consistent with the department mission.

Each goal should have *at least* one objective describing a specific quantifiable target to be achieved in a specific time period. Each objective should, in turn, have at least one performance measure that will illustrate the *level of performance*.

Initially, we recommend developing output and efficiency indicators. As a department gains experience, additional quantifiable performance indicators need to be developed that measure the quality and effectiveness (results and outcomes) of the work related to the objective. Quantified indicators allow the program manager to monitor performance over time. In this way managers can track changes in service levels and make adjustments as necessary.

For PPB, we recommend presenting only the most important program goals, objectives and

performance indicators. By presenting only *key* information, the program's explanation is easier to understand giving a more concise basis for determining its value. While this is not an exact science, it helps budget decision makers put all state programs into perspective. *(See Annexure 9 for information on how the PPB database software can be used at the program level.)*

Subprogram Level

Some programs are large and complex, involving many schemes. To accommodate the department's explanation of their programs, program managers may choose to further divide a program into two or more subprograms each containing one or more schemes. We recommend that program managers not divide any scheme into two or more subprograms as collecting historical data and making budget projections would be difficult.

PPB is a flexible approach to budgeting in that it allows department officials some discretion to define their programs and subprograms. In addition, the PPB approach requires narrative explanation of programs and subprograms.

Sometimes it is necessary to provide an explanation at the scheme level. In this case, each scheme may be defined as a subprogram. This choice increases the size of the PPB. Conversely, department officials may reduce the size of their narratives by grouping related schemes at the subprogram level. Department officials should have some flexibility in deciding how best to present their budgets.

The subprogram level, if used, would contain information similar to the narrative and the financial portions of a program budget and function in a similar way.

When beginning the process of implementing PPB we do not recommend extensive use of this level. *(See Annexure 9 for information on how the PPB database software can be used at the subprogram level.)*

Scheme Level

The Indian Budget Classification includes two levels below the program level. For most departments implementing program budgeting, we do not recommend developing separate narrative descriptions at this detailed level. However, all schemes must have detailed budget projections by economic classification line item level that reconcile with the program budgets and the appropriate department pages. *(See Annexure 9 for information on how the PPB database software can be used at the scheme level.)*

The budget narrative pages provide an opportunity for heads of departments to present concise information about their field departments and each of their programs. Budget decision makers can use information on these narrative pages to help prioritize the various departments and programs that compete for limited budget funds. Budget decision makers who use this methodology believe that they make more informed and, therefore, better budget choices.

Budget Narrative Pages

The budget narrative pages provide an opportunity for heads of departments to present concise information about their field departments and each of their programs. Budget decision makers can use information on these narrative pages to help prioritize the various departments and programs that compete for limited budget funds. Budget decision makers who use this methodology believe that they

make more informed and, therefore, better budget choices.

The narrative pages give department officials the chance to make a strong argument to ensure that budget decision makers understand the public value of their department and assign the proper relative priority to each of its programs. Accordingly, it is in the interest of every department head to assign the highest priority to completing the budget documentation in a competent manner so that it adequately represents the department's work in the budget discussions.

Well-developed budget narrative pages should give decision makers a more rational basis for prioritizing the services and activities among departments competing for funding. A well-developed budget narrative should also highlight specific strategies the department will need to employ to achieve its objectives. It should describe important issues the department must address in the budget period. In addition, well-developed budget narrative pages should document key indicators demonstrating the results achieved in the past and the results expected in the future.

The Program and Performance Budgeting format in this Guidebook is adaptable so that it can meet the needs of many departments. We have carefully selected the elements on these forms because they are relatively straightforward and officials can adequately complete them with a relatively short introduction to PPB. These elements provide the opportunity to present their budgets in a way that better communicates what is done and what will be accomplished. In addition, to avoid long explanations of minor, ancillary activities and

functions officials may choose to group schemes into programs (or subprograms) and provide summarized information regarding them.

The length of PPB narratives should be reasonable. Generally, the total narrative for a department, program or subprogram should not exceed a page or two as conciseness and clarity is desirable. Department officials should complete each appropriate section while striving to avoid complex, technical language. As department officials gain experience with the budget format, they will discover many opportunities to highlight their work and to describe the value of their services.

Below are specific instructions for completing the headings on the three budget narrative forms. Each of the sections contains a description of the element and the considerations necessary for completion of the form.

A final note: while the methodology includes specific elements to be included on the narrative forms, each state implementing PPB should understand and evaluate each one. While this Guidebook recommends using them in total, states may decide to use some of them and/or add their own on their PPB forms.

Finally, the PPB database software enables the line item budget codes to be calculated into ten (10) economic classes. (See Annexure 9 for further details.)

Department Narrative Page

Legal Authority: This section should list the legal basis for the department, citing enabling rules of business or executive orders that specify or define the functional responsibilities of the

department. Departments may list specific laws it must enforce especially if these laws identify it as the enforcing department. It is not necessary to list all possible laws that govern the department; it is sufficient to list the enabling legislation and only the most important other laws.

Mission: *A mission statement is a concise, nontechnical declaration of the fundamental purpose of a field department and its programs. The mission statement also is a foundation for the activities and programs within the department. Well-written mission statements of public departments should refer to the public interests that are addressed.*

Generally, a well-written mission could be no more than one paragraph in length. The mission statement should be broad enough to encompass all department programs and public services yet not so broad as to include activities and services that the department is not authorized to provide. Citizens and department employees alike easily understand well-written mission statements. Often, good mission statements qualify the services provided in an attempt to reduce ambiguity and misunderstandings.

Example: *The mission of the Department of Environmental Quality is to enforce air and water standards to ensure the best possible environmental quality for the citizens of the state. The department also recommends environmental quality standards to be enacted by the state legislature. This mission supports the protection of public health and safety while also facilitating sustainable economic growth.*

Department Description: The purpose of the department description is to give officials an opportunity to deepen reader's understanding of how the department works. This section should include an inventory of the major programs, functions, and public services provided. The description should not restate the mission but should attempt to demonstrate how the structure and activities of the department help it to achieve its mission. The description may briefly describe the departmental organization, its role in the broader governmental sector, and its unique financing structure (grants, fees, etc.) Each department should use this section to further explain its work, in a nontechnical manner, to budget decision makers and other readers.

Important Achievements: In this section, department officials may point out significant departmental milestones or achievements over the past two years. These achievements help readers appreciate the work of the department related to the issues that are important to the citizens of the state. To the extent possible, achievements should be readily understood as important to citizens, specifically related to the department's efforts, and within the department's mission, programs, and goals.

Key Performance Indicators: In this section, department officials may select a short list of key performance indicators that are important to the successful achievement of its work. Key performance indicators may illustrate the excellence of the work of the department, may be critical success factors, or may point to important work that officials believe must improve. The key performance indicators help to provide broad direction to department officers and employees as they identify issues of

particular importance to department management. Key indicators also help budget decision makers and other readers understand the priorities and emphases to be given in the future.

The terms "outcomes" and "results" are often used to describe the broader effects of public services in a sector. At the Department level, officials should describe the effectiveness of their activities by pointing to the broad results or outcomes. The result of a good health delivery system could be a rise in the general health of the population, the ease of access to quality health care, or the quality of the health care facilities. Officials representing education delivery systems may also look to literacy rates, graduation rates, or even standard test scores as effectiveness indicators. A transportation agency could look at condition of roads, traffic safety indicators, or ease of access to roads, rail, or air transportation as effectiveness indicators. Police agencies could look at crime rates, proportion of violent crime to nonviolent crime, or opinion of overall perception of the relative safety of the community. The list can be almost endless. Generally, there is a widely held view of the desirable condition of the indicator: graduation rates should go up, crime rates should go down, etc. Essentially these indicators attempt to capture the value of the efforts of the public sector's activities.

Emerging Issues and Risks: This section can be helpful to identify important issues that departments will face in the next few years. The department should also describe the risks involved for its programs to achieve their objectives. These, in turn, will set the stage for short or long-term operational changes that may be necessary, budget adjustments or new

services that will be needed. Sometimes emerging issues will also be needed to address legislation or executive orders.

Key Special Impacts: Special impacts relate to special targeted groups that must receive special attention in the delivery of departmental services. These groups may be specifically identified in law or executive order. Officials should briefly describe the important or key concerns and the desired outcome of the work of the department's work as these may also receive some attention on program or subprogram pages. In addition, the department should include some indication of the level of funding that is specifically targeted for activities addressing the needs of these groups.

Key Gender Impacts: Department officials should identify key special gender related issues within its scope of work, especially as related to budget decisions.

Budget-related Strategies and Adjustments: Often, department managers wish to recommend strategies to meet new demands or to achieve their objectives. This section should contain only the most important strategies and adjustments that are necessary for the success of the department. If crafted properly, the preceding narrative sections should provide much of the rationale for recommending these strategies and adjustments. These strategies may include implementing new techniques or technologies, reorganization of work, or other adjustments that may be necessary.

Expenditure and Source of Finance Charts: Expenditure and Sources of Revenue charts should provide a high-level graphic summary of the planned expenditures and the sources of

Provide a high-level graphic summary of the planned expenditures and the sources of financing of the department for the budget year. This chart should give only highly aggregated categories that will facilitate understanding. Generally, no more than four or five categories should be used at the department level.

financing of the department for the budget year. This chart should give only highly aggregated categories that will facilitate understanding. Generally, no more than four or five categories should be used at the department level. The input for the Expenditure chart should be taken from the aggregate of all planned expenditures for all plan and nonplan programs and subprograms. The input for the Sources of Financing chart should be taken from the Department Budget Summary form. Categories shown on the sample forms are for illustrative purposes only. States may include their own choice of categories, eliminating those that are not necessary.

Sample 3.1 illustrates an effective format for a Department Narrative Page.

Program Narrative Page

Program Description/Function: Like the Department description, the purpose of the Program Description is to give program managers an opportunity to deepen the reader's understanding of what the program does. Each program manager should use this section to further explain the work, in a nontechnical manner, to budget decision makers and other readers. This section should include an inventory of the major activities and public services provided.

The program description should relate to the department mission by demonstrating how the

State Government of (Name of State)
 Department Narrative Page
 2006-09 Budget

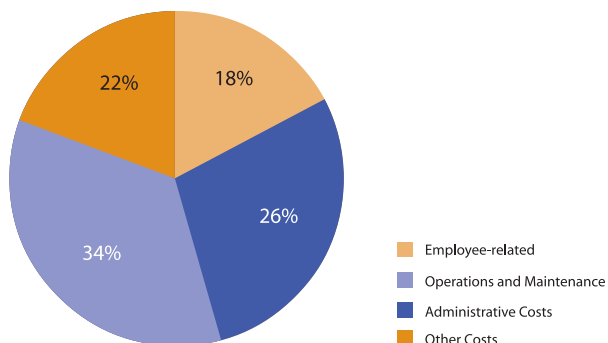
Department Name:
 Legal Authority:
 Mission:
 Department Description:

Important Achievements:

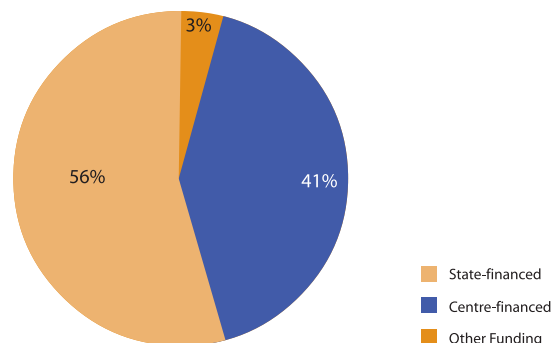
Key Performance Indicators	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09

Emerging Issues and Risks:
 Key Special Impacts:
 Key Gender Impacts:
 Budget Strategies and Adjustments:

Major Spending Categories



Sources of Financing



structure, processes, and activities of the program help achieve the mission. *If important for understanding and appropriate*, the program description may also briefly describe the program's organization, its role in the broader governmental sector, and its unique financing structure (grants, fees, etc.)

Key Long-term Goals: *Program goals are broad statements describing the desired outcome for department programs.*

The development of program goals is one of the most important aspects of PPB. Goals chart the direction of the program and focus its activities and services toward clearly defined purposes. Goals are broad, service-oriented statements that also reflect the mission and the relative priorities of the department. Well-written goals will focus on the services performed for citizens or clients and are easily understood by the general public.

Although there are no established limits to the number of goals for a particular program, managers should concentrate on developing a reasonable number of important goals for the PPB. A reasonable number of well-written key goals better establish the program's direction by providing a unifying theme for its services and activities.

Accordingly, goals should:

- Be **consistent** with the department's mission and priorities;
- Provide a **clear direction** for department action; and
- Be **result-oriented** statements.

To the extent possible, managers should try to craft program goals as "timeless" and "enduring." Written properly, goal statements can never be completely "accomplished." In addition, unless there is a change in policy or program direction, well-written goals statements should not change from year to year.

Example:

A goal of a program that cleans streets might be "to keep the streets free from debris." The department should continually strive to make the street cleaner every year, but no matter how hard the employees work, they are not likely to achieve the goal completely. In this way the goal is "timeless." Likewise, it would be reasonable to expect that this same goal would be equally valid from one year to the next. In this way, the goal is "enduring."

Well-written goals can become a reasonable measure for evaluating the activities of a program. For instance, if the example above were the only goal of this hypothetical program, the manager could easily determine if major activities of the program directly or indirectly support the goal, i.e., activities either directly or indirectly support the goal or they do not.

Well-written goal statements should be as concise as possible. A good general rule is that they should be limited to a two sentence maximum in length. Well-written goals often begin with the infinitive form of an action verb: "to clean the streets..." or "to ensure utilities charge fair rates..." or "to evaluate all proper bids in a tender..." or "to adjudicate adults charged with committing a crime..."

Often well-written goals refer to a service that addresses an obvious public need. They also may

refer to the citizens or clientele that receive the services. Descriptors and qualifiers help decision makers to better understand the focus of the program's work.

Some programs have goal statements contained in enabling laws, rules, or orders. If possible, the goal should end with the legal citation authorizing the goal. Programs may also have legitimate goals that do not relate to particular legal mandates.

Examples:

- To ensure financial, geographic, and cultural access to quality healthcare;
- To ensure that gas and electric utility companies provide adequate and reliable services to their customers;
- To process all taxpayer transactions promptly and accurately;
- To ensure that government employees work in an accident-free and disease-free environment; and
- To provide cost-effective central data processing and telecommunications services.

Goals statements must be reasonable for the program's ability to deliver its services. Poorly written goal statements are so broad or so expansive as to be outside the competencies or responsibilities of any single government program.

Accordingly, the development of good goal statements is a very important task for program managers.

Objectives: *Objectives are quantified statements describing measurable work*

that a service or program is expected to accomplish in a given period of time (usually quantified as an amount to accomplish by year.) Objectives are sometimes described as "targets" and should be directly related to the goals of a program and to the overall department mission.

In contrast to goals, setting objectives identifies a measurable level of service or activity that a program will accomplish in the future. Officials usually specify levels of service or activity as annual figures. Therefore, objectives are specific, quantified, and time-based statements of accomplishment or outcome. Objectives should be stated as to emphasize the results of a program's actions. Accordingly, the program's objectives should suggest the kinds of performance indicators that should be tracked.

Accordingly, program objectives should:

- Describe a targeted level of performance for a particular time frame;
- Be realistic and attainable;
- Relate to results or outcomes instead of internal processes; and
- Be logically connected to a specific goal.

There must be at least one objective for each stated goal. Similar to the number of goals, there is no upper limit to the number of objectives however; program managers should also concentrate on including only the most significant objectives in the PPB. Objectives should also be prioritized within the program's goals, beginning with those of greatest importance and impact. Like program goal statements each objective statement should strive for clarity and brevity, meaning generally no more than a sentence or two in length.

Well-thought out objectives can be expressed as annual targets. Targets can and should change from year to year. Annual changes in these targets express the program's understanding of the dynamics of the delivery of its services. Well-understood program dynamics give program managers the opportunity to make adjustments in the delivery strategies for their program services. These changes can result in improvements in efficiency and effectiveness. When program managers report these improvements budget decision makers have a deeper appreciation of the value the program delivers to its clients. Well-written objective statements give an unqualified message to program employees, as program managers will

evaluate individual performance partially in light of the program's achievement of the broader targets.

Often PPB narrative pages provide tabular summaries for the objectives under its goals. Usually, a historical perspective is helpful in understanding trends and giving credibility for the annual targets chosen. Future projections demonstrate the program's expectations for its performance. If the description contained in the table is sufficient to explain the objective, listing the objectives in a bullet form may not be necessary. For clarity, however, the examples that follow list the objectives in a bullet list above the table. This bullet list is optional.

Examples:

Goal:

To reduce the number of alcohol-related deaths on public highways.

- Objective: The police-public information unit will conduct a total of (actual number) public awareness education programs regarding reducing alcohol-related traffic deaths by 2009-10.
- Objective: Police will conduct spot road checks on specific holidays known to have a high alcohol related highway death rate.
- Objective: Police patrol officers will speak to high school student groups in high schools regarding the alcohol related highway death program.

Objective	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09
No. of Public Awareness Programs Conducted per Year					
No. of Spot Road Checks on Specific Holidays per Year					
No. of Classes Conducted by Patrol Offices per Year					

Goal:

To reduce the recidivism rate for nonviolent juvenile offenders in state correctional facilities.

- Objective: The state correctional facility for juvenile offenders will release (actual number) individuals in after successfully completing the program by 2009-10.
- Objective: The program will establish (actual number) new resident halfway houses where recent released juveniles will reside to receive support services by 2009-10.

Objective	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09
No. of Juvenile Released from Program					
No. of Halfway Houses Established					

Goal:

To respond appropriately to tax-related inquiries within one day.

- Objective: The program will provide (actual number) appropriately written responses to tax-related inquiries by 2009-10.
- Objective: The program will increase the percentage of appropriately written responses to tax-related inquiries that meet the one day standard.

Objective	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09
No. of Tax-related Inquiries					
No. of Inquiries Response Within One Day					
Percent of Appropriately Written Responses					

Public officials have found that when they set specific objectives they are more successful at explaining the work of their program to individuals both inside and outside the department. Some governments publish their program and performance data on their Internet sites so that the public and other interested groups have access to the information. Setting realistic objectives illustrate the actual capabilities of a program to provide its public

services. It also suggests that expectations for the success of the program should be based on the work it can actually accomplish.

Key Performance Indicators: Performance indicators illustrate how well objectives are being met. Programs managers should choose the most significant indicators to include in their PPB narrative. Conceptually, program managers could list many indicators for each of its

Goal:

To increase the graduation rate for disadvantaged secondary education students.

- Objective: Graduation rates for disadvantaged students will rise to at least (actual percentage) by the school year ending 2010.
- Objective: The program will establish (actual number) additional tutorial projects during each of the next three years.
- Objective: The program will introduce (actual number) additional vocational education alternatives for disadvantaged students in (actual number) high schools in each of the next three years.

Objective	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09
Graduation Rate of Disadvantaged Students					
No. of Additional Tutorial Projects					
No. of Vocational Ed. Classes Added					

objectives. It is possible to report on all of these in the PPB Program Narrative page, however, it is rarely a good idea. Accordingly, the program manager should choose a relatively few key indicators that give the best, overall indication of the performance of the program. (See Annexure 10a for more information on developing performance indicators.)

There are three useful types of performance indicators used in PPB.

Output Indicators

An output indicator describes a quantified amount of work accomplished compared to a plan.

The objectives are the source of the plan data; program records are the source of the actual data. Output indicators are the simplest to develop. They are important as they express whether the program achieved its objectives. They also complement other indicators that are

also useful in understanding the work of the program.

(See Annexure 10b for more information on developing outcome indicators.)

Efficiency Indicators

Efficiency indicators describe the relationship between the amount of work done and the resources required.

A simple efficiency measure would be the unit cost of an item of an output (cost per unit of work) or the number of output units per staff member (number of inspections made per inspector). Efficiency indicators are useful when the program manager wishes to evaluate the work being accomplished by comparing it to resources used.

Often, reorganizing work (increasing efficiency) is desirable if effectiveness does not suffer. On the other hand, there are generally accepted

indicators of efficiency where it may be desirable to be "less efficient." A good example of this type of measure is student/teacher ratios. In many situations, optimum student/teacher ratios are lower than the levels actually experienced. In this case "efficiency" goes down to achieve optimum levels.

Developing good efficiency indicators requires some detailed analysis. Officials should be sure that they consistently capture all appropriate costs (or staff resources) related to the unit of output. If developed properly, efficiency indicators are useful in viewing changes over time; for instance, trends are easy to demonstrate on charts. Program managers can also make operational decisions that reliably affect them. Efficiency indicators can be relatively straightforward to develop if output is known and input (staff or money) can be calculated. While some analysis is necessary, they do not always require additional data collection.

Public officials have found that when they set specific objectives they are more successful at explaining the work of their program to individuals both inside and outside the department. Some governments publish their program and performance data on their Internet sites so that the public and other interested groups have access to the information. Setting realistic objectives illustrate the actual capabilities of a program to provide its public services.

Effectiveness Indicators

Effectiveness (sometimes called outcome or results) indicators describe how well a program does in achieving its goals.

More has been written on effectiveness indicators than on any other type of

performance measure. As an effectiveness indicator implies a value judgment, developing good indicators is a much more difficult activity. There are several approaches to developing well-designed effectiveness indicators.

One approach is to use existing or to develop broad effectiveness indicators. Examples of broad indicators are: graduation rates, scores on tests, crime rates, recidivism rates, and similar statistical indicators. However, program officials should be careful as these indicators may, in fact, be measuring much more than just one program's effectiveness. Some of these indicators may measure the effects of much broader efforts. This can be especially true of human services programs such as education, health, welfare, corrections, and police work. The same may be true of programs working in areas such as economic or agricultural development.

Accordingly, broad indicators may be better used at the department level as key performance indicators.

In some cases, a generally agreed upon efficiency standard may suffice for a proxy for effectiveness. The student/teacher ratio that is sometimes helpful in evaluating education delivery systems assumes that a relatively low ratio is an optimum level for learning. There may be good research that substantiates this assumption. Accordingly, a standard (in this case, a kind of efficiency indicator) is a proxy for effectiveness. Health officials also suggest that reasonable access to health care professionals (expressed as a kind of efficiency measure) promotes better health. Likewise, police officials may suggest that the number of patrol officers (again a kind of efficiency measure) lowers crime levels. In these cases, such

“efficiency” indicators may be effective proxies for program effectiveness.

Another approach is to measure how well the program’s methods achieved its objectives.⁶

Essentially, these measures suggest that the methods chosen to achieve the workload objectives were particularly effective. Employing new technology may have reduced errors in a system or improving a delivery system may have reduced stakeholder complaints. These effectiveness indicators are relatively easy to develop. They may also rely on data from existing collection systems, an added advantage.

As program and department officials gain experience in performance reporting they will develop more advanced effectiveness indicators. In some cases there may not be any baseline data to develop reasonable targets. When data becomes available, officials can set performance targets. In the meantime, simple effectiveness indicators may still be very useful.

International experience has shown that developing good effectiveness indicators can be difficult in some sectors. For instance, officials have found it difficult developing good effectiveness indicators relating to programs that concentrate on general administrative functions such as finance, planning, and human resources. Consequently, to avoid disappointment while implementing the PPB

methodology, state officials should take a measured approach. The initial implementation efforts should concentrate on developing sound output and efficiency measures. With experience, program managers will learn to develop better effectiveness indicators.

Key Community Targets: This section can be used to identify important concerns in the broader community that are being addressed by the program. Some program managers may find it useful to specify issues in the community that require emphasis by the program. Some educational programs may address access to education by members of the community that reside in particularly remote areas. Access to healthcare or transportation systems may require specific interventions by the program and can be described as a key community target.

Emerging Issues and Risks: This section can be helpful to identify important issues that will face the program in the next few years. This section should give the reader an understanding of some likely future issues that the program must address in the near future. Program managers should also describe the risks involved for the program to achieve its objectives.

Often this section will set the stage for short- or long-term operational changes that may be necessary, budget adjustments needed, or new services to be added. Sometimes emerging issues will need to be addressed by changing law or issuing a new executive order.

⁶ Sometimes officials try to use advanced data gathering techniques such as client or stakeholder opinion surveys to develop effectiveness measures. Experience demonstrates that these surveys are very difficult to design and conduct correctly. Officials also find it difficult to interpret the results in a helpful way. Sometimes officials wish to develop new data such as through the use of trained observers, interviews, focus groups, or other advanced research methods. There are a variety of inexpensive (and expensive) data gathering techniques that can help establish effectiveness of program activities, however, it is prudent to add advanced measures over time.

Special Impacts: Special impacts relate to special targeted groups that must receive special attention in the delivery of departmental services. These groups may be specifically identified in law or executive order. Officials should briefly describe the important or key concerns and the desired outcome of the work of the department's work. To the extent possible, budget allocations that are specifically targeted to these special groups should be identified and discussed.

Gender Impacts: Program officials should identify and list key special gender related issues within its scope of work, especially as related to budget decisions.

A sample Program Summary narrative page and a similar Subprogram Summary narrative page follows.

As program and department officials gain experience in performance reporting they will develop more advanced effectiveness indicators. In some cases there may not be any baseline data to develop reasonable targets. When data becomes available, officials can set performance targets.

PPB Budget Summary Pages

PPB budget summary pages serve a very different purpose from the detailed scheme (or subscheme) level financial pages. The PPB budget summary pages have a medium-term basis, meaning they include estimates for the budget year and the next two years. In addition, these pages are summary level only. This means that even the most detailed PPB pages summarize the object of expenditures into 10 general categories.

The summary pages contain estimates of expenditures based on "current law," sometimes referred to as "standing sanctions." However, the state department of finance may issue planning assumptions that authorize spending departments to increase estimates for specific expenditure lines to account for increases in the costs of operation through use of proscribed factors. These planning assumptions will normally be outlined in the budget circular or another official order. This means that both financial and staffing estimates on the PPB forms should not exceed these levels.

A major exception to this principle is the recognition of changes in financing as planned schemes convert to nonplan schemes. For instance, in the event a capital project is to be completed during the medium term, departments must make proper estimations of the additional cost of operations for each subsequent year. Likewise, if schemes expire as of a certain date within the medium term, appropriate adjustments must be made in the estimations. Normally, the plan schemes themselves would contain the expected additional costs when they were initially approved.

The state department of finance should issue specific instructions and guidance in these cases.

Department Budget Summary Page

The department level summary page contains financial and staffing information for the entire department. This information gives decision makers an understanding of the departmental revenue sources and a financial comparison of each of the programs.

Government of (Name of State)
 Program Narrative Page
 2006-09 Budget

Department Name:
 Program Name:

Program Description/Function:

Key Long-term Goals and Objectives:

1. Goal 1							
• Objective 1:							
• Objective 2:							
• Objective 3:							
Objective	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09		

Key Performance Indicators:

Key Performance Indicators	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09

2. Goal 2

- Objective 1:
- Objective 2:
- Objective 3:

Objective	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09

Key Community Targets:
 Emerging Issues and Risks:
 Special Impacts:
 Gender Impacts:

(Add additional Goals and Objectives)

Government of (Name of State)
 Subprogram Narrative Page
 2006-09 Budget

Department:
 Program:
 Subprogram:

Subprogram Description/Function:

Key Long-term Goals and Objectives:

1.	<ul style="list-style-type: none"> Objective 1: Objective 2: Objective 3: 	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09
Objective						

Key Performance Indicators:

Key Performance Indicators	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09

2.	<ul style="list-style-type: none"> Objective 1: Objective 2: Objective 3: 	Actual 2004-05	Estimate 2005-06	Proposed 2006-07	Forecast 2007-08	Forecast 2008-09
Objective						

Key Community Targets:
 Emerging Issues and Risks:
 Special Impacts:
 Gender Impacts:

(Add additional Goals and Objectives)

The financial and staffing information, arrayed over the medium term, also depicts the amounts contained in both plan and nonplan categories. A provision in the form also summarizes expenditure into "revenue expenditure" and "capital expenditure." The department summary page includes actual figures from the previous year, the latest budget estimates for the current year, the budget request, and a projection for the next two years.

The department summary page should be complete and comprehensive. It should list each departmental program or subprogram, if used, on a separate line. (If departments have divided some programs into subprograms, each subprogram should appear on a separate line.) It should not be necessary to separately list all schemes on the department budget summary form. However, the sum of all scheme detailed budgets should total the sum of all program budgets.

If the department budget includes approved additional funding for existing or new programs or schemes, the department summary budget page should also include these items.

Department Staffing should include the number of employees by class, as indicated on the form.

A sample department budget summary page follows:

Program Budget Summary Page

The purpose of the Program Budget Summary Page is to present a program's aggregated financial information for decision makers. All approved schemes included in the program should be represented on this form. Normally, it is not necessary to present financial information at the subprogram level.

The program financial information presents the kind of spending, e.g., cost of labor, transfers, subsidies, loans and investments, etc. In addition, the page provides summary information regarding financing from government funds, state funds, and external funding. It also includes the total capital expenditures, the total revenue expenditures, and the program's staffing information.

The following is a sample of the object of expenditure mapping into the 10 categories. This sample list is drawn from the State of Karnataka. Each state will have to develop its own particular map for its own codes that may not apply in the sample below.

Object Heads Mapped to Categories in Program Budget Summary

<i>Object Head</i>	<i>Description</i>
Employee-related	
001	Consolidated Salary
002	Pay of Officers
003	Pay of Staff
011	Dearness Allowance
014	Other Allowances
041	Travel Expenses
251	Pension and Retirement Benefits
Administrative Cost	
015	Subsidiary Expenses
071	Building Expenses
195	Transport Expenses
051	General Expenses
221	Materials and Supplies
125	Modernization
Operations and Maintenance	
200	Maintenance
180	Machinery and Equipment
230	Hospital Accessories

Government of (Name of State)
 Department Budget Summary

Department:												
Program Budgets	2004-05 Actual		2005-06 Budget		2006-07 Proposed		2007-08 Forecast		2008-09 Forecast		2009-10 Forecast	
	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan
Total	0	0	0	0	0	0	0	0	0	0	0	0
<i>Expenditure</i>												
Revenue Expenditure												
Capital Expenditure												
<i>Nature of Funding</i>												
Centre-financed Schemes												
State-financed Schemes												
Other Funding												
Total	0	0	0	0	0	0	0	0	0	0	0	0
Number of Employees												
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Class A												
Class B												
Class C												
Class D												
Total	0	0	0	0	0	0	0	0	0	0	0	0

Debt Servicing

240 Debt Servicing Expenses

Subsidies

106 Subsidies

422 SCP

423 TSP

Transfers

100 Financial Assistance

101 Grants-in-Aid

104 Contributions

117 Scholarships and Incentives

261 Inter-account Transfers

Transfer to Local Bodies

201 GIA for ZP

401 Bangalore (Urban)

402 Bangalore (Rural)

403 Chitradurga

404 Kolar

405 Shimoga

406 Tumkur

407 Mysore

408 Chikmagalur

409 Dakshina Kannada

410 Hassan

411 Kodagu

412 Mandya

413 Belgaum

414 Bijapur

415 Dharwad

416 Uttara Kannada

417 Gulbarga

418 Bellary

419 Bidar

420 Raichur

451 Davanagere

456 Chamarajanagar

457 Udupi

461 Bagalkot

462 Gadag

463 Haveri

466 Koppal

300 Lump sum for ZPs

Capital — Works

139 Major Works

147 Land and Buildings

172 Roads

173 Bridges

182 Repairs and Carriages

250 Pensionary Charges

291 Suspense

292 Stock Debits

293 MPWA Debits

294 Stock Credits

295 MPWA Credits

296 Stock

297 Misc. Works Advances

386 Construction

436 NABARD Works

Capital — Others

393 Advance

394 Loans

395 Loans to PSUs

495 Loans to Cooperative Societies

132 Capital Expenses

211 Investment

Others

59 Other Expenses

59a Other Miscellaneous

234 Direct Expenses

Staffing figures should reflect the number of male and female employees of the program. The purpose for presenting this information is to demonstrate a dimension of gender distribution within the state's workforce.

Note: Only the total expenditures for each Program Budget Summary (or subprogram level, if used) are entered on a separate line on the Department Budget Summary Page. In addition, the total figures on the Department Budget Summary Page must total to the sum of all of the Program Budget Summary pages.

A sample of the Program Budget Summary Page follows:

Government of (Name of State)
 Program Budget Summary

Department:													
Program:													
Scheme(s):													
Expenditures	2004-05 Actual		2005-06 Budget		2006-07 Proposed		2007-08 Forecast		2008-09 Forecast				
	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan	Plan	Nonplan	
Employee Related													
Administrative Costs													
Operations and Maintenance													
Other Costs													
Capital — Works													
Subsidies													
Transfers to Local Government													
Transfers — Other													
Capital — Loans/Investments													
Debt Service													
Total	0	0	0	0	0	0	0	0	0	0	0	0	
<i>Expenditure</i>													
Revenue Expenditure													
Capital Expenditure													
<i>Nature of Funding</i>													
Centre-financed Schemes													
State-financed Schemes													
Other Funding													
Total	0	0	0	0	0	0	0	0	0	0	0	0	
Number of Employees	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
Class A													
Class B													
Class C													
Class D													
Total	0	0	0	0	0	0	0	0	0	0	0	0	

Other PPB Documentation and Information

PPB budget documents should include additional material in order for budget decision makers to understand the department better. The following additional material should not be considered as exhaustive or complete. However, for initial implementation of the methodology we recommend at least the following documents:

Letter of Transmittal

The head of the department should prepare a letter of transmittal to be included at the beginning of the PPB documents. The letter may summarize the scope of the department, outline the most significant departmental accomplishments, and discuss the most significant issues that the department must address in the budget period. The transmittal letter should be relatively brief and serve to introduce the department budget.

Department Organizational Chart

The department should graphically depict its organization to facilitate understanding. Normally a block diagram showing the major department divisions and, if possible, programs

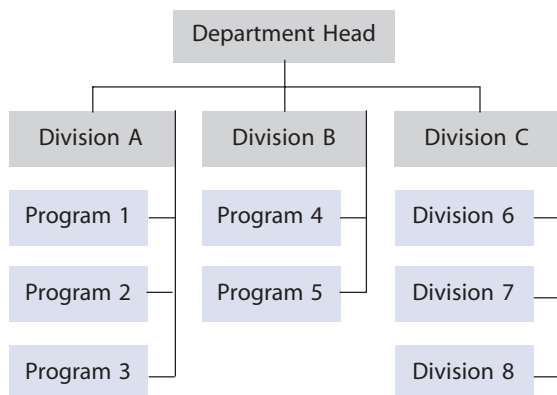
gives the reader an overview of the major components of the department. All organizational charts should be hierarchical, showing the head of the department at the top of the chart and all subordinate divisions and entities at appropriate levels below.

The chart should also clearly depict the reporting structure; direct reporting relationships should be shown with a solid line as illustrated. Sometimes, organizations contain units that provide indirect reporting relationships such as a support office that gives legal advice and other direction to other units. These indirect reporting situations are unusual however, if necessary for understanding the organization, these reporting relationships should be depicted with a broken line.

Department Program-to-scheme Map

The Program-to-scheme Map should show, in a clear chart, the mapping of department schemes into the various departmental programs. A simple Table could show this relationship with the program names in the leftmost column and the various schemes that belong to the program in the next column. Plan and nonplan schemes should be listed in separate columns.

Figure 3.1: A Simple Organizational Chart



Other Documents

Sometimes it becomes necessary to provide additional information not envisaged in the department or program narrative forms. PPB encourages relevant, additional information that best communicates the purpose, function, or operations of a department or a program. For instance, it might be acceptable for departments to include other material such as photos, charts, tables, etc. as long as the additional material does not unduly add excess volume to the PPB.

Formatting and Assembling the PPB

The PPB document should be assembled in a professional and proper manner. Departments should be careful to include all appropriate pages and forms. The preferred presentation of the budget documents should be according to the sample documents included in this Guidebook. With experience, alternative formats may become appropriate.

Format

This Guidebook recommends a two-column, landscape format using a 10-point font. This format allows a great deal of information to be presented in a relatively small space. The two-column format makes reading the document easier yet leaves sufficient room for presenting quantified information. Charts, graphics and tables also help to communicate the department's message effectively. These

Program-to-scheme Map

Page No.	Program	Subprogram	Plan Scheme No.	Plan Scheme Name	Nonplan Scheme No.	Nonplan Scheme Name
1	Program 1	1a	XXXX	Name		
					XXXX	Name
		1b	XXXX	Name		
			XXXX	Name		
	Program 2	2a	XXXX	Name		
					XXXX	Name
					XXXX	Name

Program-to-scheme Map

Program	Plan Scheme	Nonplan Scheme
Program 1	Scheme a	Scheme a (n-p)
	Scheme b	
	Scheme c	Scheme c (n-p)
	Scheme d	Scheme d (n-p)
		Scheme e (n-p)
		Scheme f (n-p)
Program 2	Scheme g	Scheme g (n-p)
	Scheme h	
	Scheme i	Scheme i (n-p)
	Scheme j	Scheme j (n-p)
		Scheme k (n-p)
		Scheme l (n-p)

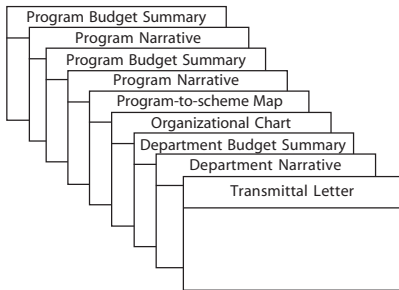
techniques can be effectively adapted to the two-column, landscape format.

Order of Assembly

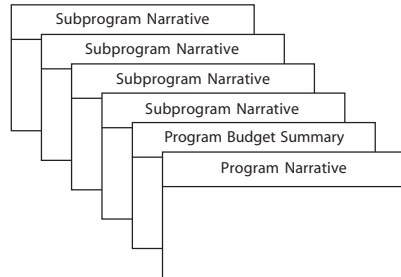
While the PPB is a department document, the focus of the PPB is to be on the program level. Accordingly, the order of assembly is important. The document should begin, as illustrated, with the letter of transmittal, followed by the Department Narrative Page, the Department Summary Budget Page, the Organizational Chart, the Program-to-scheme Map, followed by the program material. All information pertaining to a particular program should be located together.

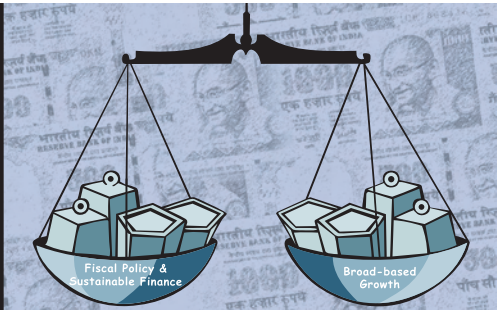
This means that the appropriate Program Budget Summary should follow the particular program narrative pages.

PPB Order Of



In the event a program has been divided into a number of subprograms, the document order should be as follows:





Section II

Steps to Implementing PPB in a Pilot Department

Part 1:

Overview

This section provides recommended roadmap with the most important instructions, suggestions, and examples that will help a state government introduce PPB in a pilot department. Instructions and suggestions related to all steps previously processed in the first part of the Guidebook. Annexure 4 is a draft timeline for implementing PPB in a state department, Annexure 5 is a Implementation Process Map. Annexure 6 provides an overview of the Basic Concepts of a State Budget.

Step 1. Select the Pilot Department

- Medium-sized department or large department with multiple public services activities.
- Primarily funded by state revenues.
- Department head willing to take leadership role and interested in budget improvement.
- Department staff available and interested in new approach.

Step 2. Gather Department Data and Information

- Appropriate laws and regulations.
- Orders issued by Government ministries.
- Adopted department policies.
- Current and prior year budget/final reports.
- Department accomplishments (current and prior years).
- Previous mission statements or goals.
- Stated goals and priorities for department and its programs.
- Measures of demand and workload or output.
- Long-range capital and operational plans.

- Budget instructions and calculation factors for salary and benefits.

Step 3. Prepare an Organizational Chart

- Depicts department structure to show relationships between department head, divisions, programs and subprograms.
- Illustrates lines of authority between head of department, assistants and program managers.
- Show to whom the department head reports.
- Shows names of divisions/programs and persons in charge.
- Organization rectangles should be larger at top of chart; progress to smaller ones further down.
- Solid lines indicate direct reporting relationships; dashed, liaison relationships.
- Aids citizen understanding if simple.

Step 4. Prepare a Departmental Mission Statement

A departmental mission statement is concise statement that identifies a department's primary purpose for its existence, its customers, general level of service, major functions of the department and overall public benefits. Department mission statements need to be aligned with the government's strategies.

Examples — Mission Statements

Transportation infrastructure maintenance

"To create the basic conditions in transportation infrastructure for promoting a safer quality of life for all citizens."

Water Utility

"To supply safe, uninterrupted water and wastewater services to residents and businesses."

Financial Services

"To provide relevant and accurate information to facilitate quality decisions and sound financial planning for the department and ensure compliance with laws and professional standards in accounting, taxation and fee collections."

Step 5. Identify and Group Services Activities into Programs

- Review data and information gathered.
- Examine previous spending by Minor Head (programs).
- Identify program services provided to the public by program.
- List activities that support these services.
- Programs should have:
 - Singular focus or purpose;
 - Name easily recognized and understood by citizens; and
 - Services that are clear and unambiguous.

Note: It is acceptable to have administration (department head and support) as a program. See Annexure 7 for the classification of Budgetary Heads.

Step 6. Prepare Program Goals

Goal: a long-term attainable target for a community, organization or program — its vision of the future or the desired state.

- Characteristics: general, timeless, continual, and often never achieved.

- Goals of an organization are the unifying point around which all activities revolve.
- In public organizations, goals are associated with major services offered.

Example of Goal

Public surfaces maintenance program (program within a road department)

Create and maintain public surfaces that are safe, clean and tidy for the business and recreation use of our citizens and are attractive to new businesses and visitors.

Step 7. Prepare objectives

Objectives are a specific, measurable and observable result of an organization's activity that advances the organization toward its goal within a specific time frame.

- Should also be achievable, consistent with goals and show improvement toward goal.
- State what is to be accomplished, how much and by when.

Value of objectives

- Provide direction to government activities (Achievement of objectives leads to reaching the goal.)
- Facilitate the generating and analytical comparison of alternatives.
- Motivate changes of behavior.
- Facilitate continuous program monitoring.
- Provide for basis of postactivity evaluation.

How to write program objective statements

- Start with "to" followed by an action verb (example: To increase, to improve, to build, to construct, to mow, to replace etc.).

- Specify a single key result to be accomplished.
- Specify a target date for completion.
- Make it specific and quantifiable or verifiable.
- Specify the “what” and “when” not the “why” (goal) or “how” (strategy).
- Relate it directly to the program goal.
- Make it easily understandable.
- Make it realistic and attainable, but challenging.
- Make it consistent with laws and policies.
- Make it consistent with available resources.
- Assign single responsibility and accountability even in joint efforts.

Program: (Primary Education)

Goal: Early Learning of a Foreign Language.

Objective #1: *To have at least 66 percent of students receive a “very good” or higher grade in English lessons by end of school year.*

Objective #2: *To achieve at least a 95 percent passing rate for second-grade students on the standardized English proficiency exam annually.*

Step 8. Determine Performance Indicators to Measure the Achievement of Objectives

Measures are means of indicating the extent, dimensions or capacity of anything. In budgeting, a measure is means of determining whether or not an objective is being achieved. Measures can be thought of as activity-based or performance-based. See Annexure 10a and 10b on how to Develop Performance Indicators.

Activity indicators

- Measure an identifiable action or operation of an organization.
- Demand indicators quantitatively indicate work to be done by assessing the severity of a problem. Example: 50 percent of streets (50 kilometers) are unpaved.
- Output or Workload indicators quantitatively indicate how much work is accomplished (output) which represents a simple counting of units of work completed. Indicates the size of the program by measuring units of work involved — 17 kilometers of streets repaved.

Performance indicators

- Measure by efficiency or effectiveness the achievement of an identifiable action, operation or program.
- Efficiency indicators indicate the accomplishment of desired results with little wasted effort.
- Effectiveness or Outcome indicators indicate the value or quality of the product or service provided.

Efficiency indicators

- Measure how economically resources are used.
- Show ratio of input (resources) to ultimate output (service or units of production).
- Indicators are expressed as costs per work unit; cost per customer, cost per employee hour, units produced per hour.
- Don't report on quality of the product.
- Are process-oriented not results-oriented.
- Useful for comparing government costs to each other.

Examples — Efficiency indicators

- Cost per 1,000 residents.
- Cost per metric ton.
- Cost per million liters processed.
- Cost per revenue passenger.
- Operating cost per substation.
- Cost per kilometer of streets swept or cleaned.
- Cost per kilometer of sewer cleaned.

Criteria to evaluate efficiency indicators

- Does it show a ratio of inputs (resources) to a unit of outputs (units of work produced)?
- Does it focus on process rather than results?
- Is the measure expressed in accepted standards within a program? Ex. Cost per 1,000 residents?

Effectiveness indicators

- Provide an indication of how successful a program is in achieving an objective or solving a problem.
- Tend to be subjective because value judgments are involved.
- Should be quantifiable whenever possible.
- Focus not on process, but impact of government activities on problems and to show results.

Examples — Effectiveness indicators

Water Operations

- Percentage of water samples meeting national health standards (health hazards).
- Percentage of citizens who rate the water as

satisfactory on appearance, odor and taste (esthetic quality).

Solid Waste

- Percentage of citizens satisfied with collection service (pleasing esthetics).
- Rate of injuries to waste collectors (employee safety).

Criteria for evaluating effectiveness indicators

- Is it results-oriented?
- Does it measure progress toward a goal?
- Does it relate to an objective of that service?
- Does it measure the degree in which the customer's need is met?
- Does it measure a characteristic that no other measure encompasses?
- Does it cover all the objectives listed?
- Is the measure simple and easy to understand?
- Are requirements for cost and staffing reasonable?
- Does it measure real problems soon enough so they can be fixed?
- Can accurate and reliable data be obtained?

Step 9. Prepare Program Narrative Page

Program narratives provide descriptive information about the program including a list of services and activities performed.

- Program description.
- Includes program goals and objectives.
- Includes key performance indicators.
- May include list of specific accomplishments in the current year.

- May highlight policy changes (if any), major changes in expenditures and/or personnel.

Step 10. Convert the Department's Budget to Program Budgets

This step is important to relate last year's budget to this year's program budget. This provides a common basis of comparison between years to indicate changes in program expenses and service levels.

- Prepare a matrix with space for line item budget down left hand column and programs across the top of the page.
- Fill in budget numbers by economic classification and add program names across the top.
- Break down total department budget into programs based on actual staffing and other expenditure levels for each program.
- Verify accurate distribution.
- Total program columns to show current budget by program.
- Budget instructions specify acceptable increased funding increase assumptions.
- Program managers propose a spending plan for the budget year and the forecast years that is within the planning assumptions.

Step 11. Prepare a Budget for each Program

- Define sources from which the program will be financed.
- Include all sources of funding.
- Prepare budget detail (by economic classification) for each program to accomplish program goals and objectives.

- Include estimates of all direct costs of program (salaries, benefits, supplies, services, contracts, and equipment).
- Calculate amounts that need to be transferred between line items as compared to last year's budget.
- Explain the basis for any line item reallocation.

Step 12. Prepare Work Plan

Program managers should not just simply carry forward what they did last year but look at what it will take to achieve the goals and objectives laid out in the previous steps

- Analyze the service levels planned.
- Determine most cost effective service delivery (public employees, contract out, cooperative agreement, combination).
- List steps and time frames of actions that must take place to produce that service level and achieve the program goals and objectives.
- Be specific as to numbers and types of personnel, and quantities of supplies, services and equipment necessary.
- Identify where other departments are involved and how they affect the service provided.
- Determine what indicators will be used: the amount of annual work to be produced by the personnel in the program (output) and indicators of effectiveness in achieving the objectives (outcomes or results).

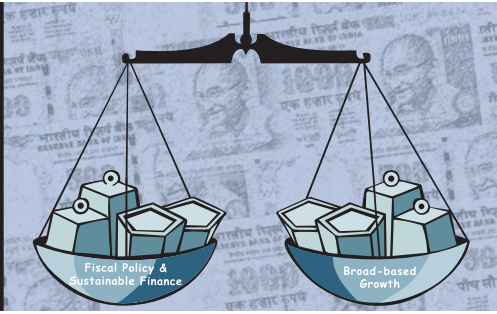
Step 13. Submit Budget for Consideration

Budgeting is by nature an iterative process; the draft budget will always be subject to review and

requests for changes by various budget decision-makers. In many cases, this process inevitably requires revisions and resubmission. We believe that effective budget narrative pages, produced through a PPB approach, better inform budget decision makers so that they make more rational budget allocations. Accordingly, multiple review and approvals can significantly strengthen the document. Therefore, we believe that the number

of review and revisions is a very effective measure of the success of PPB's implementation.

Through the iterative budget development process officials begin to take ownership of the process. When state officials and budget decision makers "own" the process, the implementation is complete. For a list of PPB virtual links, please see Annexure 11.



Annexures

Annexure 1:

Outcome Budgeting — Moving Beyond Rhetoric

Outcome budgeting has been claimed as a major budgetary reform. It involves a movement beyond inputs and outputs toward outcomes, concerning a macroanalysis of results, accomplishments and impact. It is a “pre-expenditure instrument” that seeks to educate and involve external stakeholders on government goals, accomplishments and the costs of achieving these results. But, important lessons learnt from developed nations as well as the Indian story of performance budgeting need to be incorporated.

On February 28, 2005, the Union Finance Minister, P Chidambaram, in his budget speech promised to put in place a mechanism to measure the development outcomes of all major programs. He said “I must caution that outlays do not necessarily mean outcomes. The people of the country are concerned with the outcomes.” This announcement undoubtedly signaled the right intentions of the government to carry the baton forward. However, we surely tend to ask whether we will be moving beyond mere rhetoric.

Outcome budgeting is ultimately an extension of the performance budgeting base of over 30 years, which however has still not really become a reform in the true spirit and sense of the word. De facto we are still following the outdated administrative budgeting. In order to develop an insight into the basic functioning of budgeting systems in government and the lacunae thereof, one must perforce have some idea of these systems of budgeting (especially as they exist till date in India).

Let us begin with an overview of the traditional budget.

Traditional Budget

Most of us are aware and in fact take a great deal of interest in the conventional budget presented by the FM in the Parliament every year. This budget (which was first presented in India by James Wilson in 1859) is aptly termed as the “administrative budget “as it lives by, through and for the mere administrative purpose of the government” [Sengupta 1990]. It is a product of history, not of logic. It was not so much created as evolved [Wildavsky 1978]. In fact, it is indicative of a mindset that solely focuses on inputs, on line-itemization and on control out of the triumvirate requirements of the budgetary system of control, management and planning.

This system was suitable so far as the state did not extend its activities very much beyond the police or security functions. However, as India attained independence and the challenge of a socioeconomic transformation of the nation loomed large before the policymakers, it became clear that this system, which had spread and taken roots like a giant banyan tree, suffered from obsolescence — of time, function and purpose. It had developed a sort of “budgetocracy” — a habit of looking at the lines and items and not at the results, a habit of cutting a budget, and of justifying a budget and a habit of control and management without the use of analytical techniques. Hence, three lags came to characterize the system — a recognition lag, a decision lag, and an implementation lag.

Surprisingly, this system is still our budgetary mainstay, in spite of the fact that India is poised for a “takeoff” in most other fields. Nevertheless, it cannot be denied that the policymakers had also realized these deficiencies way back and had turned toward performance budgeting,

which came as a "breath of fresh air to those working within an archaic system of financial management" [Doh 1977].

Performance Budgeting

In 1953, Dean Appleby conducted the first study on the relevance of performance budgeting to Indian conditions. In 1968, the Administrative Reforms Commission submitted a landmark report titled "Finance, Accounts and Audit," which in fact forms the blueprint for the further extension of the system of performance budgeting. Beginning with the presentation of the first performance budgets at the Centre, for four ministries and some organizations under them, for the year 1968-69, gradual though steady progress has been achieved both extensively and intensively in the movement toward performance budgeting in India. Presently many state governments like Tamil Nadu, Kerala, Uttar Pradesh, etc., have been preparing performance budgets for a number of departments and more than 40 performance budgets are being prepared at the centre in addition to the conventional administrative budgets. However, what precisely do these performance budgets represent and what is their importance in the present Indian scenario? This question needs to be addressed.

The performance system of budgeting, also variously termed as output budgeting, shifts the focus from inputs to outputs and end results. Assessment is made of the direct relationships of inputs to outputs through the media of activities. It is sought to establish whether the spending of a specific quantum of inputs is worth the outputs directly resulting from it. The management orientation thus becomes paramount here. Performance budgeting takes into account the mutual relationship between the flow of financial resources and the physical

targets and thereby reflects the organizational structure of the institution implementing the budget. It thus represents a fruitful blending of three techniques, namely, management by objectives (MBO), "financial and cost control" and "physical performance control".

The overall attempt is to meet the dynamic needs of the government and transform its budget from an annual document to a comprehensive management system. Though the basic procedure remains the same as in the administrative budget, performance budgeting emphasizes the implementation and evaluation stages with a stress on the physical aspects too. It involves a modification of the classification, accounting, workload and organizational aspects. However in India, even till date the performance budgets are merely conversions of the administrative budgets into performance type of budgets. While the formal elements are in place, the system suffers from neglect and its penetration of decision-making is patchy and superficial. Thus in the words of Briones it has largely been "a reform of mere form, not substance" [Toye 1981].

It is against this backdrop that one has to see the latest endeavour of the government of India in the form of outcome budgeting.

Outcome Budgeting

In order to measure the development outcomes of all major programs/schemes initiated after the announcement of the union budget, the government, in consultation with the Planning Commission, released the outcome budget for 2005-06 on August 25, 2005. In this document the various ministries/departments have set out targets of intermediate outcomes pertaining to plan expenditure in measurable terms. From 2006-07, an outcome budget for nonplan

expenditure is also scheduled and over a period of time it would replicate the budgetary process in terms of intended outcomes.

The outcome budget is basically a pre-expenditure instrument to realize the government's vision through clearly defined outcomes, which will lend greater transparency to the 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. At present, budget scrutiny is mainly concerned with inputs (the amount of money that is being allocated to a specific department for a specific purpose in the forthcoming year) and outputs (the products of public bodies, for example, the number of children taught in schools or operations performed in hospitals). Outcomes can be seen as benefits resulting from outputs, which correspond to the ultimate aims of a government. For example, the output of health expenditure may be more doctors, but the outcome of that expenditure may be to improve the overall health of the nation. The emphasis is on shifting the focus from mere "release of funds" (outlays) to "actual utilization for intended purposes" (outcomes).

Chidambaram has stressed the "involvement of community/target groups/recipients of the service, with easy access and feedback systems" as one of the important steps in the "conversion of outlays into outcomes." He has also called for the "meaningful involvement" of all the ministries, state governments, local bodies, panchayati raj institutions, self-help groups, etc., in critical decision and implementation processes of the schemes [Gopalakrishnan 2004].

The mindsets of government officials are expected to change to become more outcome, i.e., result-oriented, over and above outlay-oriented. They will be forced to do some macro and creative thinking each time they prepare a budget. Converting outlays into outcomes will require ensuring the flow of the right amount of money at the right time to the right level with neither delays nor parking of funds and effective monitoring and evaluation systems.

Moving Beyond Rhetoric

Given the above, the present stage in the Indian budgetary pilgrimage seems logical. In fact, the pendulum has moved back in most developed nations as well (including the US and the OECD countries) towards performance budgeting and outcome budgeting. But this is the point where we need to exercise caution. Important lessons are to be learnt from both the foreign experience as well as our own usage, in case we want the reform to really deliver both in terms of spirit as well as substance.

Over the past decade, US state governments have experimented extensively with performance-based budgeting. The basic conclusion reached is that the political environment becomes critical. Legislators are more likely to cite performance measures when they align with constituent interests and if they are involved in creating them. Further, recognizing the limits of performance-based budgeting, US state governments have taken other steps to improve performance [PREM 2003]. The perspective has been widened to include strategic goals as well as performance measures and been termed as outcome budgeting. From a survey administered to budget and finance officers, analysts, and auditors working in federal, state and local

governments in the US it was, however, found that there was a lack of an agreement about the conceptual definition of outcome budgeting across government levels, which was impeding its implementation. Furthermore, the elements of outcome budgeting, as understood across government levels, differed from the ones embodied in the ideal framework of an outcome budgeting system. It was found that an outcome budgeting system requires: (i) a strategic plan; (ii) an annual performance plan; (iii) an annual performance report; and (iv) a program evaluation. Performance audits may or may not be required and there is no requirement for a multiyear budget. Finally, line-managers are not granted lump sum allocations to manage as they think best, nor are individuals or group participants given meaningful incentives. These incentives include (i) an individual's pay dependent upon either an individual's or work group's performance; and (ii) retention of savings by a budgeted unit such as an organization or program if the unit achieved the savings in the previous year. However, the last part of the normative model has been challenged by other studies [Nyogi et al]. Consonant results have been found in various OECD countries as well. Campbell (1997) noted that outcome-based budgeting systems result only when performance measurement has been fully integrated into the budget process.

In India, performance budgeting unfortunately is yet to be integrated within the main system. The major issues related to its success can be categorized as (i) issues associated with its introduction; (ii) handicaps relating to its implementation; and (iii) problems concerning analysis and evaluation.

Issues Associated with its Introduction

Here, it has been recognized that adequate hybridization is required together with sincere and competent support beginning at the political leadership level and right down the line in order to overcome the economic-psychological and the political-bureaucratic inertia and resistance.

Handicaps Relating to its Implementation

The first step lies in identifying appropriate and adaptable functional categories which are not too broad or inconsistent. The next major problem arises in the establishment of proper work units to measure activities. In fact, the absence of proper measures of workload is the Achilles heel of performance budgeting. Unless suitable norms and yardsticks are developed, performance budgeting will be like a castle built on quicksand. This problem is heightened for areas such as project design, surveys, research, and foreign affairs, etc., which defy standardization. In the Indian system itself, nothing substantial has been done in this direction and standards of performance are often seen to be based on historical records as against a scientific study of the measurement of the level of performance. Furthermore, a reorientation of the accounting system is needed and a supplemental accountancy system developed for accounting of performance in physical terms. Another imperative for implementing performance budgeting is the requirement of a suitable information system for comparing the total output, total input and rate of performance against the standard incorporated in the budgets. This information should be in addition to the normal budget control statements. Sadly, in Indian conditions,

the progress in this area is not satisfactory because of lack of proper integration. Another point of difficulty so far as putting the system into operation is the pattern of control. Output control needs to replace input control and more reliance will need to be placed on internal controls. Also, the budgetary details will have to be reduced and besides budgeting other measures of control and tools will have to be developed and used.

Finally, the new system requires proper training and acquisition of skills by the needed human power. While it is true that considerable efforts are being devoted in India to provide training, the programs are not as extensive as they should have been. There were cases where workers at operational levels were trained but those at the policy levels were neglected, and vice versa. Furthermore, implementing the new procedures required for performance budgeting put additional burdens on the budget office already constrained by deadlines. Thus, what is required is that those responsible for framing personnel policies should ensure that suitably skilled and experienced staff is available, adequate periods of overlaps are insured when the staff are replaced and the career development of civil servants is rationally planned. The present policies characterized by expediency and inconsistency should be aptly reviewed.

Problems Concerning Analysis and Evaluation

The first issue here is that the expenditure classification used in Indian performance budgets is typically institutional. This needs rectification. Secondly, the indicators of performance in Indian performance budgets are sadly inadequate. Further, the claim that the

combination of financial and physical data is sufficient for the assessment of performance is seen to be lacking conclusiveness. Hence, a fully spent-up allocation alongside figures showing that physical achievements are exactly on target could be a result of an over/under pitching of the physical or financial targets. On the other side, a project may have been well planned and well managed despite the fact that it failed to fulfil its physical or financial targets.

The discrepancies may be due to a general price rise or due to newer, more efficient methods of working. The third analytical problem arises from the fact that Indian performance budgets have remained more or less static since their introduction. Like an abbreviated version of each department's obligatory annual report, Indian performance budgets embody description and not analysis of the projects that generate government development expenditure. In fact, they have become an excuse for "information overload."

However, having come so far with performance budgeting, and having built up with training and experience a degree of understanding of its potential, concerted efforts should be made to realize the potential to serve as a base for outcome budgeting. The lessons from the developed countries should also be taken into context. Logically, the three documents, the administrative budget, the performance budget and the outcome budget together would definitely impart a much more complete picture of what has been achieved on the outlays made each year. The government would begin with clearly defining its objectives and macrogoals and then go on to detailing financial and physical targets and at the end evaluation of what has been achieved. Thus, overall efficiency and effectiveness would become the keywords

together with ensuring discipline at the working end and transparency at the receiving end.

Thus, we may conclude that, like other budgeting reforms, outcome budgeting is a tool and not a panacea. Whether it is manageable

universally and does not become a mere stopover depends largely on the skill, imagination, energy and strength of purpose of the user.

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Annexure 2:

Evolution of Budget Reforms

In many countries, the budget has evolved from a simple control mechanism to a management and policy tool. How did this come to be? As an example, the history of budget reform in the US resulted in several experiments, some more successful than others.

In the US, at the beginning of the twentieth century, there was great concern with corruption in government and great fear of people misusing public funds. To protect public funds, financial authority had to be concentrated. Governments established positions such as controllers to control expenditures and revenues. In the US, New York City led this reform in 1907, and the U.S. Federal government followed in 1912.

The most prominent guidance for federal budget reform came from the 1949 federal Hoover Commission on the Organization of the Executive Branch.⁷ The Commission recommended “program budgeting” (a budget based upon functions, activities, and projects) rather than the then-current method of line item budgeting such as salaries and operating capital outlay. Although federal budgeting in the 1950s was statutorily directed to relate to performance data, the data available was largely workload indicators.

In 1961, the Defense Department piloted a planning-programming-budgeting-system (PPBS⁸) that was expanded to civilian federal agencies by 1965 and also adopted by many states. PPBS attempted to link long- and short-range planning with budgeting by identifying goals, objectives, and costs several years into the

future. It was supposed to provide decision makers with information on the cost and effectiveness of alternative approaches to achieving objectives. However, by 1971, a new presidential administration reduced the focus on the planning orientation of PPBS and looked more at current management issues.

In 1973, the federal government piloted management by objectives (MBO) in 21 federal agencies. Under MBO, managers set targets for program objectives, established annual operating plans, and tracked progress toward these goals. Managers were to have discussions with staff through the year on how to improve performance. This performance information was productivity— rather than result-focused, and it was not linked with the budget. This effort was discontinued in the mid-1970s.

Zero-based budgeting (ZBB) was a 1970s reform effort adopted in Georgia and attempted by at least 11 other state governments as well as the federal government in 1977. ZBB was an effort to examine all spending of programs annually and present funding decision packages ranked on the costs and benefits of each. By the early 1980s, the ZBB effort was abandoned in many jurisdictions because it did not result in significant reallocations.

Lessons Learned: While these early reform efforts have had some effect on the government budgeting process, many were unsustainable for several reasons. First, the information requirements of these systems were extensive but were not supported by adequate historical record keeping, sufficient staff expertise, or

⁷ Isolated instances of budget reform attempts occurred before 1940 in a few jurisdictions; these efforts are antecedents to the more visible and influential activity based on the 1949 Hoover Commission recommendations.

⁸ Readers should not confuse PPBS of the 1960s with the PPB described in this Guidebook.

sufficient computer support for the type of analysis required. Typically, these early approaches collapsed under paperwork. Second, requiring all programs to justify their existence under a system like zero-based budgeting was a laborious exercise that was not feasible on a regular basis and did not appear to produce substantial resource reallocation. Third, by stressing "rational" analysis, these systems did not acknowledge real world choices inherent in

budgeting and so tended to have little impact on funding decisions. Finally, prior reform efforts have often not had the strong and consistent backing from both the executive and legislative branches needed to succeed.

Later developments in US and other international examples of budget reform have taken advantage of the lessons learned from these early attempts.

Annexure 3:

Florida: A Case Study

Program and performance-based budgeting are not new concepts in Florida budgeting. As early as the 1950s, academic articles from Florida institutions contrasted budgeting by objects of expenditure with budgeting by government functions and objectives. Such commentary noted that as the state's needs become more complex, legislators need a budget that provides greater information.⁹

Statutory changes and executive branch initiatives brought reform ideas to action. The 1967 State Planning and Programming Act introduced to Florida government the concepts of long-range state planning and short-range action programs. The Office of State Planning (created by the 1967 law) began a planning-programming-budgeting system (PPBS) initiative by categorizing state government activities into ten state "programs," or policy areas that cut across agency organization. This grouping was to provide each policy area's goals and objectives with financial information, for six years. With the 1969 statutory reorganization of Florida government came the legal requirement that each department compile a comprehensive program budget reflecting all program and fiscal matters related to the department and each program, subprogram, and activity. By 1970 the PPBS was completed and was intended for budget preparation. Although the resulting program structure described the services and programs of state government, the effort to link planning to budgeting was relatively unsuccessful for some of the same reasons that national efforts failed. Interviews with staff who had been

involved in this effort indicate that Department of Administration budget staff were reluctant to abandon the line item system that facilitated expenditure control in favor of long-range planning that did not take fiscal constraints into account. Agencies did not have the staff and computer capacity to create a program budget with the type of analysis required and reportedly did not use the program structure for their fiscal year 1971-72 budget requests. They also were uncertain whether the extensive workload would yield benefits in the legislative process. In part, because of inadequate computer support and the lack of a statewide accounting system, the appropriations bill in the early 1970s remained structured along bureaucratic organizational lines and was not linked to the new program structure. Thus, the structure could not be used to display funding for programs and their objectives. PPBS was not explicitly abandoned, as the program structure was eventually used for agency budget requests in order to show program objectives. However, the key ideas of planning and measuring achievement of objectives were not embraced by the Legislature and so were not central to the budget decision-making process.

Later Reforms: In the 1980s, the Legislature passed major legislation establishing the framework for strategic planning in Florida state and local government based on a state comprehensive plan. By 1986, the Governor's Office and the Legislative appropriations committees had instructed agencies to integrate strategic planning and operational budget preparation to produce budgets

⁹ Excerpt from Performance-Based Program Budgeting in Context: History and Comparison; State of Florida Office of Program Policy Analysis and Government Accountability; April 1997; Report 96-77A; pp 5-7.

consonant with agency goals. Also in the mid 1980s, the program structure from the earlier PPBS efforts continued to be modified.¹⁰ It was incorporated to a limited degree in the statewide accounting system so that program structure could be linked to expenditure information and budget preparation. However, the performance indicators included in legislative budget requests in the 1970s and 1980s were often output or workload indicators that were not easily understood outside the agency and that did not describe results. Over time both the executive and legislative branches considered these indicators inaccurate and irrelevant to management or budget decision-making.

Lessons Learned: Several important observations can be made about prior reform efforts. One important lesson to be learned from past experience is that ambitions of budget reforms have often outstripped the analytic and information management capacity of government agencies. The labor-intensive nature of these systems led to a recognition that they were not feasible. Another key lesson is that lack of leadership support in both the executive and legislative branches allows reform efforts to falter. There must be real commitment from all parties to shift budgeting towards directing results as well as monitoring spending. A third lesson is that rational, planning

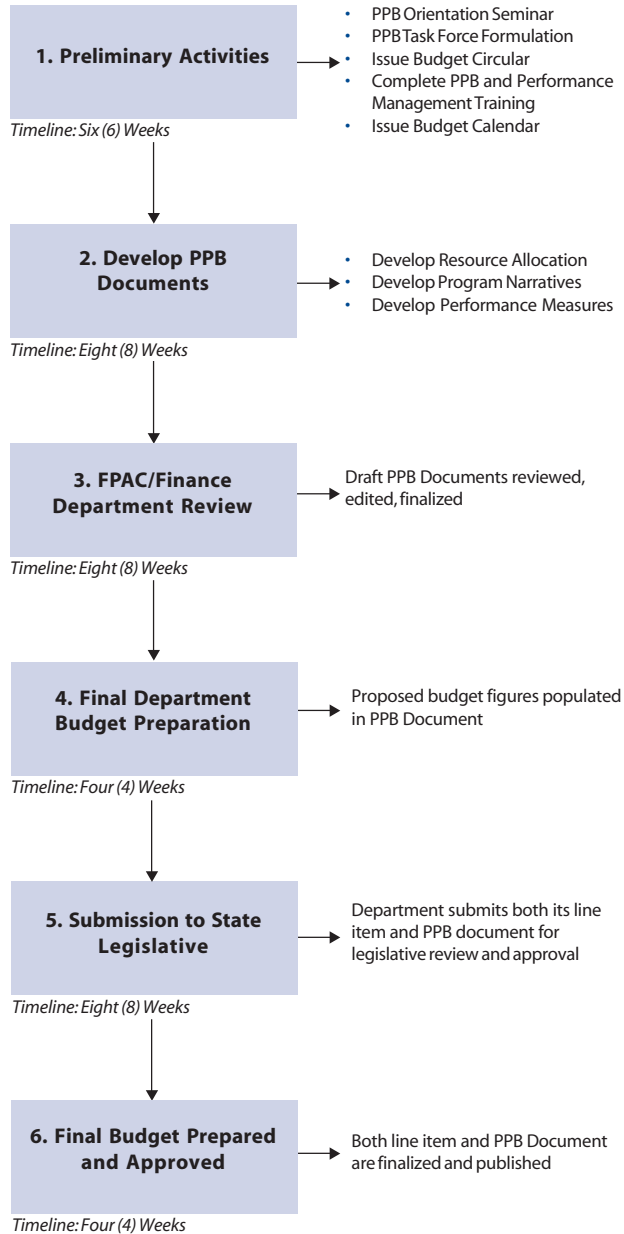
based systems must not be expected to replace the real world process of making resource choices in a highly complex environment of competing interests. Such systems may focus on government structure and thus seem divorced from operations and performance. It may appear impractical as a decision tool and unrelated to pressing, immediate concerns.

Current Budget Reform: Florida's current budget reform effort may have a greater chance of success than did previous reform efforts. The newest program budgeting effort takes place in an environment of increasing public discontent with government results and increasing demand for more government accountability. Its design is more focused on performance or effect of government functions than on government structure. It emphasizes results or outcomes and offers agencies increased management flexibility in exchange for accountability through performance information. Such flexibility may allow management innovation or tailoring resource use to solve problems. Because prior reforms brought trained professionals into the public sector to support systematic analysis in public budgeting, performance objectives and results may be better measured today than in the past. Also, modern computer systems are capable of such analysis. Finally, program budgeting in Florida today is a legislative initiative and enjoys leadership support.

¹⁰ The 10 program areas are presently Economic Opportunities, Agriculture, and Employment; Public Safety; Education; Health and Social Concerns; Housing and Community Development; Natural Resources and Environmental Management; Recreational and Cultural Opportunities; Transportation; Governmental Direction and Support Services; and State Lottery Operations.

Annexure 4:

Timeline for Implementing Program and Performance Budgeting



Annexure 5:

PPB Implementation Process Map

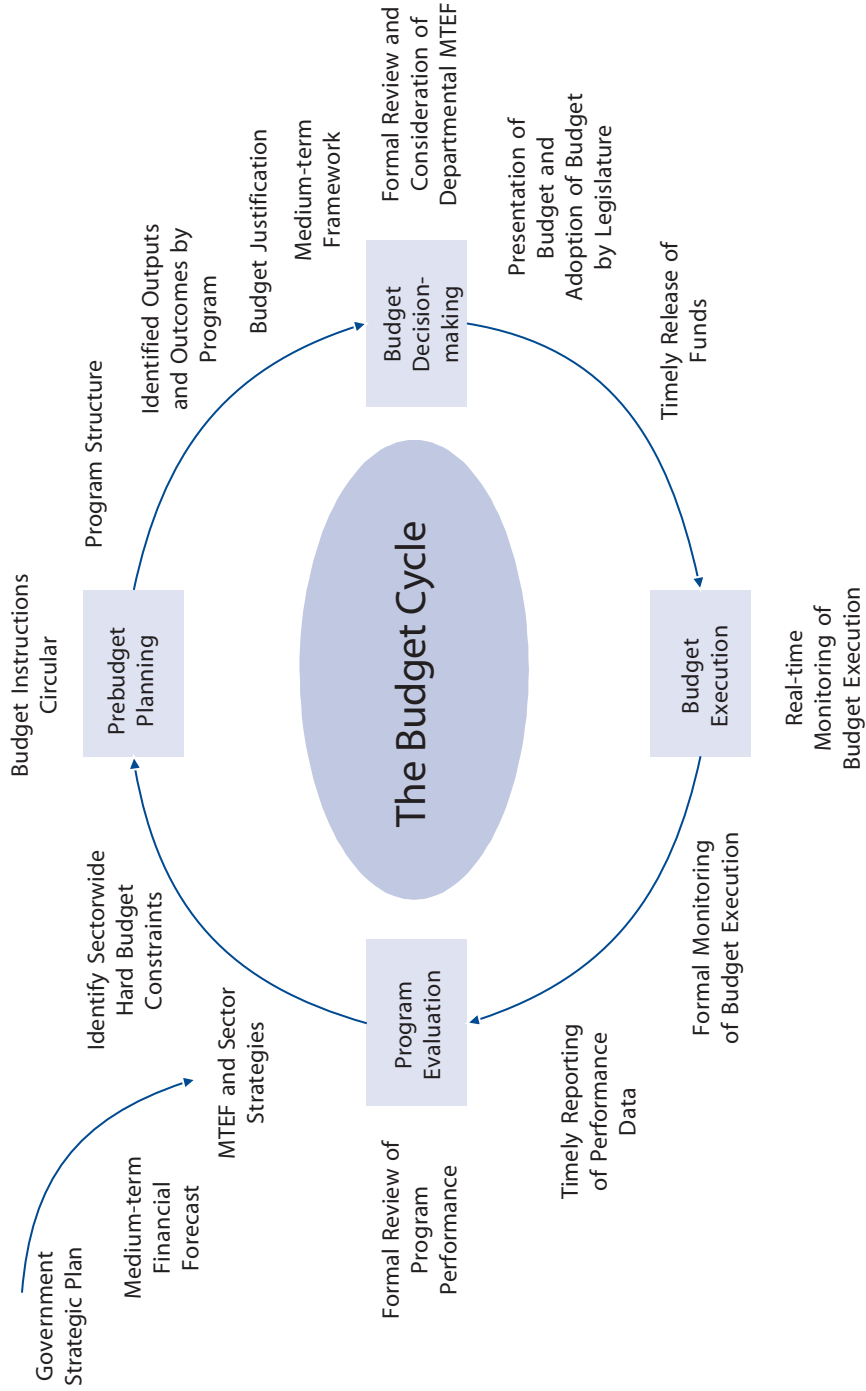


Figure 5A.1: A Sound Financial Management Process

Annexure 6:

Basic Concepts of State Budget

The statement showing estimated receipts and expenditure of the govt. is called "**Annual Financial Statement**" or "**the Budget.**"

Budget is divided into two major heads:-

1. Revenue Budget
2. Capital Budget

Revenue Budget Includes:

- **Revenue Receipts** — income from taxes/duties/fines/penalties/Interest/dividend); and
- **Revenue Expenditure** — expenditure for normal running of the Government/ interest charges on debt/grants given).

Revenue Expenditure is generally that expenditure which does not facilitate in creating any asset.

Capital Budget Includes:

- **Capital Receipts:** (Loans received/sale of Treasury Bills);
- **Capital Expenditure:** (Expenditure on land acquisition/building/machinery/equipment); and
- **Voted and Charged:** The estimates of expenditure from Consolidated Fund are required to be voted.

The expenditure which is charged is not to be voted.

The charged items includes emoluments of the President and the salaries and allowances of the Chairman and Deputy Chairman of

Rajya Sabha and the Speaker and Deputy Speaker of Lok Sabha, Judges of Supreme Court, Comptroller and Auditor General of India and certain other items specified in the Constitution of India.

- **Plan and Nonplan Budget**

When a Hospital is constructed the expenditure is booked under Plan but there after the expenditure on maintenance of the Hospital is taken under the Nonplan.

The Plan Expenditure consists of revenue and capital spending. It includes expenditure on creation of capital assets.

- **Nonplan Budget**

Includes salary, watch ward, subsidies and grants. It is divided into revenue and capital spending (repairs).

- **Central Plan**

It refers to the Central Government's budgetary support to the Plan and, the internal and extra budgetary resources raised by the Public Sector Undertakings. Hundred percent funding by Central Government.

- **Centrally-sponsored Plan**

Expenditure is shared by Central Government and State government in an agreed ratio varying from 50 percent to 90 percent.

- **State Plan**

When a new program is taken up by the State Government it is normally taken under State Plan.

- **External Assistance**

World Bank Loan and Grant from DFID or other agencies are passed on by Gol as additional Central Assistance under Externally Aided Projects (70 percent Loan + 30 percent Grant).

- **Outcome Budgeting**

The Outcome Budget for the Ministry of External Affairs provides a mechanism to link certain outlays to quantifiable deliverables and outcomes and also for evaluating the performance of ongoing programs. It is only for Plan schemes.

- **Program and Performance Budgeting**

Combination of Program Budgeting and

Performance Measures. PPB shows both the desired end (goals of the activities of government) and the service levels anticipated from its activities (objectives) and funding provided for these.

- **Departmental Medium Term Fiscal Plan (DMTFP)**

The Medium Term is usually a budget year plus two to five years into the future.

Annexure 7:

Classification of Budgetary Heads

- Demand (for Grants) Code;
- Major Heads;
- Submajor Heads;
- Minor Head;
- Subhead (Subminor Head);
- Detail Head; and
- Standard Object.

Demand for Grants:

Each ministry is allocated a demand for grant. However in case of large ministries there may be more than one Demand for Grant.

The code depicts the name of the Ministry/ Department. It is generally denoted by two-digit code.

For example: "12" it's the code for the health department.

Major Head

It is a four-digit code. It represents Major Functional Department.

- The first digit indicates whether the Major Head is of Revenue/Capital Receipt or Expenditure or Loan.
- If the digit starts from:
 - "0" or "1" : It represents Revenue Receipt;
 - "2" or "3" : It represents Revenue Expenditure;
 - "4" or "5" : It represents Capital Expenditure;
 - "6" or "7" : It represents Loan Head; and
 - "8" : It represents Contingency Fund and Public Account Expenditures.

Submajor Head

Represented by two-digit code. It gives information of important Unit of function/area.

- For example:
 - "01" : Giving information on the functional area;
 - "00" : It represents that there is no functional area; and
 - "80" : Represents a general functional area.

Minor Head

It is a three-digit code representing programs.

- For example:
 - Codes from the series "001" to "100" and few codes from "750" to "900" have been reserved for certain standard Minor Heads;
 - "001" : Always represents Direction and Administration;
 - "101" : Represents Nonstandard code for Revenue Expenditure;
 - "201" : Represents Nonstandard code for Capital and loan; and
 - "900" : Reserved for Deduct Receipt or Deduct Expenditure Heads.

Subhead

It is a two-digit code representing the schemes.

- For example:
 - "01" : Represents for Central Plan/ Centrally-sponsored Schemes; and
 - "91" : Represents district Plan.

Detail Head

It is a two-digit code representing subscheme (if any).

- For example:
 - “0101” : Represents a subscheme for Subhead of Central Plan/Centrally-sponsored schemes.

Standard Object

It is a two-digit code represents detailed expenditure for each scheme/ subscheme. The codes range from “01” to ‘49’ ; each representing different types of Expenditure.

- For example:
 - “01” : Represents Salary; and
 - “13” : Telephone Expenditure.

For example: The coding pattern of allocation of purchase of medicines in T.B. Clinic of a district will be depicted as under:

- 2210** — Medical and Public Health
 - 01** — Urban Health Services- Allopathy
 - 200** — Other Health Services
 - 01** — Centrally-sponsored schemes under Central Plan
 - 01** — Supply of Anti T.B. Medicines
 - 39** — Medicines and chemicals.

The code written to depict a scheme comprises of **15 digits** for example, in above case the scheme number for the Department of Health in allopathic department in Urban Health Services for Supply of medicines for T.B. Clinics is **221001200010139**.

Major Head	Submajor Head	Minor Head	Subhead	Detail Head	Standard Object
2210	01	200	01	01	39

Annexure 8:

Comparison of PPB with other Efforts in India

Table 8A.1 gives a comparison between some of the features of the Departmental Medium-term Fiscal Plan (DMTFP) and Performance Budget produced in Karnataka, the Central Government's 2005-06 Outcome Budget, and the PPB.

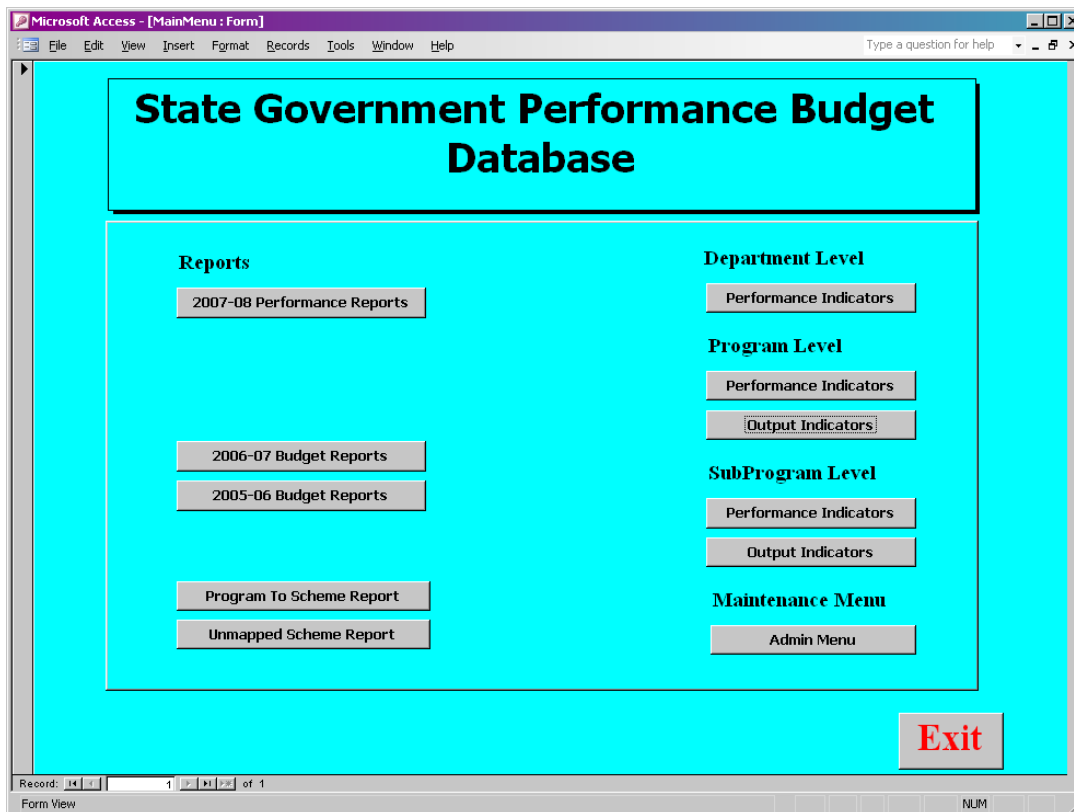
Table 8A.1: Comparison of Various Indian Budget Documents

	DMTFP	Performance Budget	Outcome Budget	PPB
Completed Before Making the Budget Decisions	N	N	N	Y
Multiyear Framework	Y	N	N	Y
Includes Both Plan and Nonplan Budgets	Y	Y	N	Y
Department-level Narrative	Y	Y	N	Y
Addresses Challenges and Risks	Y	N	Y	Y
Program-based Narrative	Y	Y	N	Y
Scheme-based Narrative	N	N	Y	Optional
Narrative Description of Program	Y	Y	N	Y
Identifies Goals	Y (Called Objectives and Strategies)	Y (Called Targets)	Y (Called Objective/ Outcome)	Y
Identifies Objectives	Y (Called Targets)	Y (Called Targets)	Y (Called Quantifiable Deliverables)	Y
Highlight Achievements	Y	Y	N	Y
Addresses Gender Issues	N	N	N	Y
Plan of Action	N	Y	Could be included in Remarks	Y (Called Budget-related Strategies)
Detailed Instruction Manual	-	-	-	Y
Inclusion of Budget Narrative Page Summarizing the Line Item Budget into 10 Economic Classification	N	N	N	Y

This Table demonstrates that the PPB approach has learned from these efforts by incorporating elements used in other methods. For instance, the strength of the Outcome Budget approach is a consistent format presenting the information, while the strength of the DMTFP is its multiyear framework. The PPB approach incorporates both of these important features.

Annexure 9:

A Guidebook on the Use and Operation of the State Government Performance Budget Database



Introduction

Welcome to the State Government Performance database. This Guidebook documents the operation of the system. It is designed as a user ready application so that no user need understand database technology or techniques. All user input can be done through the use of screens accessed by command buttons. In essence, clicking a button is about all the technical skill that is required.

The various screens are relatively self explanatory; however, this Guidebook will be helpful for first time users.

The database is built in MS Access using relational database technology. The system produces performance budget reports that contain information from the PPB document. While the information from the system is redundant with the PPB pages, it is an online repository for performance information and available for future budget cycles. In addition, it can produce sound performance reports independent of the budget cycle.

The system is also designed to contain information from any number of state government budgets. Because the USAID

Reform project only works in three Indian states, the current database contains only that information. Maintained centrally, and Web-enabled, the database could have data from all Indian states.

The advantage of having information from many Indian states is that each state government could learn from the others. Well-conceived performance indicators developed and used in one state could be available for use to all states. In addition, using common measures it would be easier to make state-to-state comparisons. In addition, there is a facility for presenting sound sample performance indicators used internationally. This side benefit can be especially helpful when states and departments begin the implementation of PPB.

The system also can be linked to the current budget development systems used in Indian State Government. The demonstration database uses data from the Uttarakhand NIC Internet site. This data is a Table from the NIC source budget system. The data contains information from the 2005-06 and 2006-07 state budget. Using data maps developed in the State Government Performance Budget Database, users can view budget data in the PPB format without the need to compile large amounts of data from the budget reports from their current systems. This greatly enhances the ability of the state government to produce the PPB Budget pages.

While the current system uses data from the Uttarakhand NIC system, similar systems exist in other states. While the data on performance indicators would be shared among the states, the budget data should remain quarantined at least until the data is made public.

Since the foundation data is included in the current database structure, the system could be a complete PPB development database where instead of entering both narrative and figures on the PPB budget forms, this information could be entered online and in database format.

Therefore, during the preparation of the budget, authorized members of the FPAC and departments could work on the budget narrative together. This would greatly reduce the time needed to prepare the PPB. By linking the data from the current budget source system database (scheme-by-scheme) to the State Government Performance Budget Database, all changes would be automatically reflected in the PPB forms. This would ensure that the PPB would be consistent with the final figures as presented to the state legislature.

As currently designed, this tool will work with the Uttarakhand budget system. With a relatively small amount of modification, it could work with any state budget system that uses ODBC compliant systems.

Finally, the current system has the capability for multilanguage support. With additional design, users could choose the language they would want the reports to reflect. In addition, the screens could be made available in any number of languages. While the availability of the information in the natural language of a state is desirable, having the information in a universal language is helpful for sharing the information with international donors and other interested parties. This capability, if added, would need to be rigorously maintained as it would not be in the interest of any state to provide such important performance information in a form that does not reflect the best representation of the state's intent.

Implementation

The demonstration software is available, free of cost, to any state interested in pursuing the development of performance budget information. Open architecture allows modification by state database experts. While users of the system do not require database skills, maintenance and development of new capabilities do require skill and care. While MS Access is a relatively easy tool for database design, being ODBC compliant, it can share data from any other ODBC system. In addition, migration of the application to another database platform such as Sequel Server should be straightforward.

While it is possible to operate the system in a single state or even on a single computer, the power of the system is only apparent when the data is available to many people across many departments or indeed, many states. For states to get the benefit from interstate sharing of information it would have to be centrally located in a facility committed to maintaining the system. For the time being, however, the current system should be implemented in a single state, operated by the FPAC in Department of Finance. Moving the accessibility of the system to the various departments is a relatively straightforward procedure.

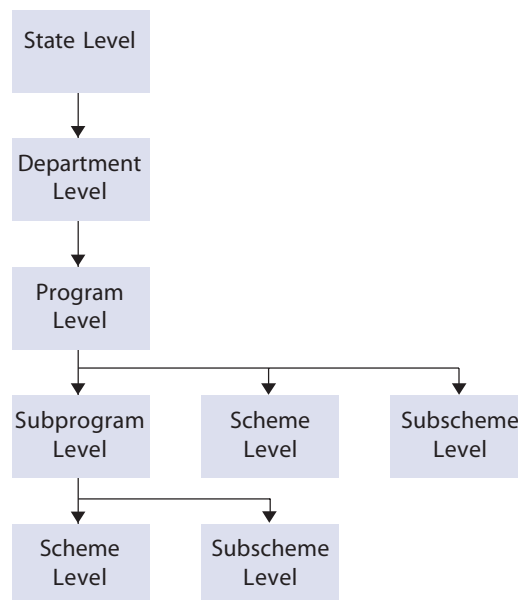
Database Logical Design

The State Government Performance Budget Database uses the Department/Program/Subprogram design of the PPB and relates it to the logical structure of the Indian Budget Classification. There are two mapping structures to accomplish this link. The first map clubs the various detail heads codes into the 10 expenditure budget classifications of the PPB. The second map clubs the various departmental

schemes into the program and subprogram structure of the PPB. These two maps are useful for keeping the PPB data consistent with the budget information as it goes through various changes during the preparation of the budget. Linking the two systems means that all data is maintained in one source system (the current state budget system) and uploaded to the PPB forms for inclusion in the PPB document.

The Chart illustrates the logical structure of the State Government Performance Budget Database:

Program-to-scheme Structure



The notations mean that a state is made up of one or more departments, a department is made up of one or more programs, a program may have one or more subprograms, or it may have one or more schemes or subschemes, etc. The diagram also implies that one program cannot belong to more than one department: likewise one scheme cannot belong to more

than one program or subprogram. This logical structure is essential for the PPB structure to be consistent with the current Indian Budget Classification structure.

The system enforces these logical relationships through the use of error checking relational technology. This means that users cannot unintentionally create inconsistent data structures.

These relational structures have the added benefit of organizing various kinds of data, from various regions of the database, on reports. In essence, the system is able to create reports with tabular data combined with narrative data on reports that mirror the PPB document.

Users need only follow the instructions for completing the data input screens; the system and its enforced logical design will prevent inconsistent reports. (Of course, data entered in error or on the wrong input sheet will be also consistently reflected on the reports.) Care must be taken to review the reports for logical consistency and to make appropriate corrections to the data as needed.

The Guidebook is organized according to the various input forms listing the instructions for proper entering of data so that the reports reflect the intended information. Generally, the input forms are self-evident, however users still

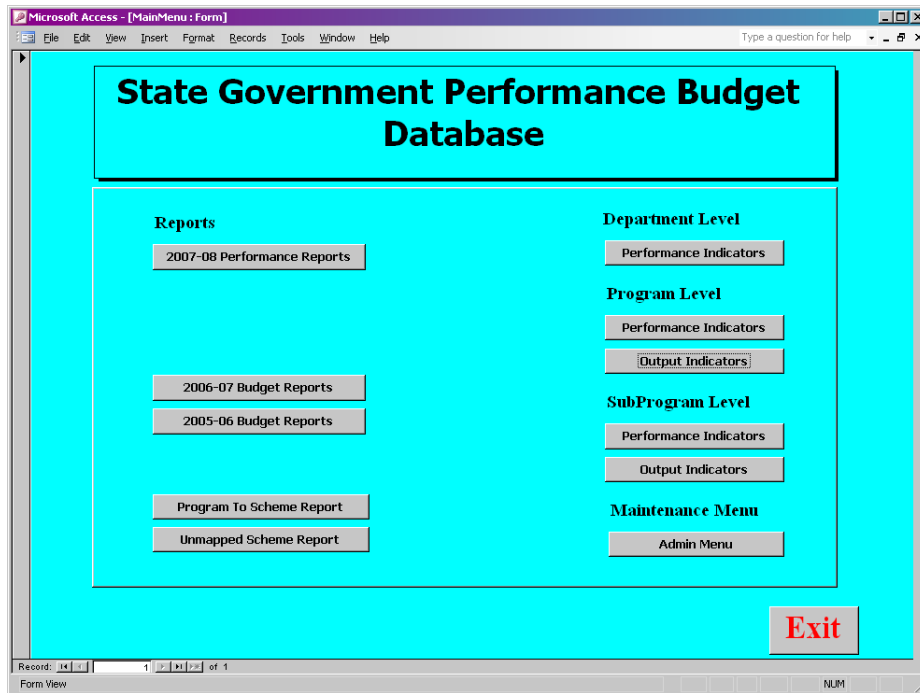
The advantage of having information from many Indian states is that each state government could learn from the others. Well-conceived performance indicators developed and used in one state could be available for use to all states. In addition, using common measures, it would be easier to make state-to-state comparisons. In addition, there is a facility for presenting sound sample performance indicators used internationally. This side benefit can be especially helpful when states and departments begin the implementation of PPB.

require some explanation and some knowledge of the various functions.

Upon opening the system, the first screen is the main menu.

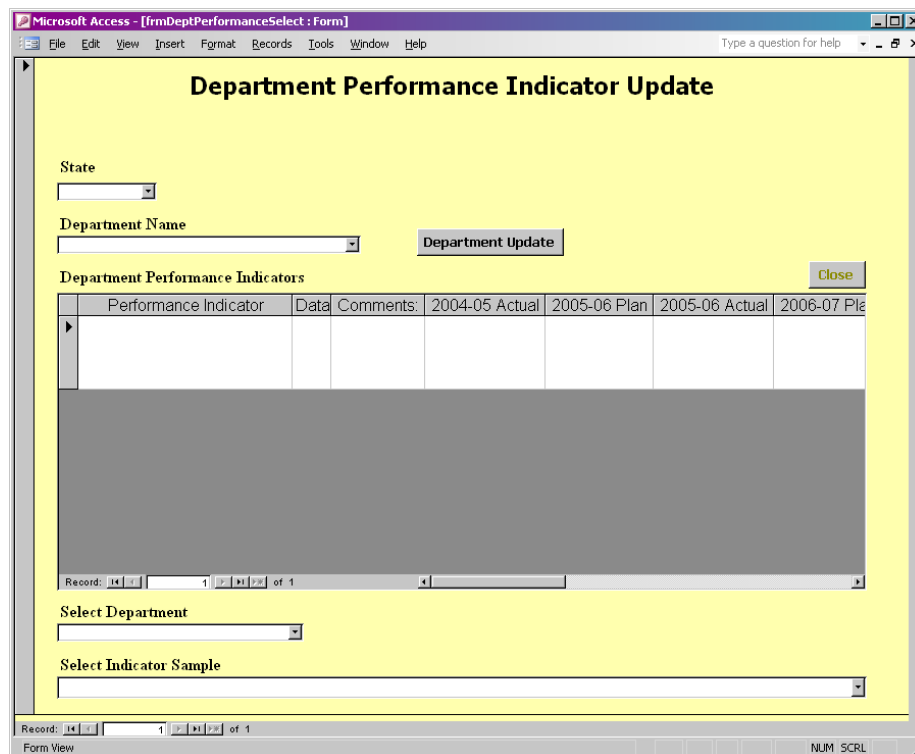
The main menu guides the user to all functions of the system. It is divided into two sections, Reports and the various input screens. Users input performance information, goals, output measures (objectives) and performance measures. In addition, these screens allow input of the narrative elements of the PPB such as the mission of the department and the description of the programs and subprograms. The instructions on how to develop mission and description statements are contained in the PPB Implementation Guide.

This Guidebook will first discuss the input screens and then describe the various reports.



Department Level

Clicking on the Performance Indicator button brings up the Department Performance Indicator Update screen.



Clicking on the state dropdown list brings up a list of all of the states that are included in the system.

The screenshot shows a Microsoft Access form window titled "Microsoft Access - [frmDeptPerformanceSelect : Form]". The form has a yellow background and is titled "Department Performance Indicator Update". At the top left, there is a "State" dropdown menu with a list of states: Jharkhand, Karnataka, and Uttarakhand. To the right of the dropdown is a text field labeled "ame" and a "Department Update" button. Below this is a "Department Performance Indicators" table with a "Close" button. The table has the following columns: Performance Indicator, Data, Comments, 2004-05 Actual, 2005-06 Plan, 2005-06 Actual, and 2006-07 Pl. The table is currently empty. Below the table is a "Record: 1 of 1" indicator. At the bottom of the form, there are two more dropdown menus: "Select Department" and "Select Indicator Sample". The form is in "Form View" and shows "Record: 1 of 1".

Select the desired state code and click on the desired department from the next dropdown list. Type or copy and paste the first department performance indicator in the Performance Indicator Field. If there is data that follows, type "Yes" in the Data Field. (If no data exists yet, type "No" in the field.) In the appropriate fields that follow, enter the performance data.

If desired, you may search the system database for possible performance indicators that have been used elsewhere. A list of possible indicators can be accessed by department via the dropdown lists at the bottom of the input screen. Selecting a department and then selecting a suggested indicator will automatically enter the indicator in the Performance Indicator field. You may then redefine it as needed.

If a department does not appear on the list, it will have to be added to the database. Add new

The screenshot shows a Microsoft Access form titled "Department Update". At the top, there is a "Select State:" dropdown menu. Below it is a table with the following structure:

Department	Department Name Engl	Department Mission

Below the table is a "Sample Department Codes:" dropdown menu. A "Close" button is located in the top right corner of the form. Record navigation controls are visible at the bottom of the form, showing "Record: 1 of 1".

departments by clicking the Department Update button. This brings up the Department Update input screen.

1. Select the state.
2. Select the department (Note: As before, this will bring up the departments that are in the system. From the list of sample departments accessed by the drop down list at the bottom of the form you may select the appropriate department. It will automatically place a department code in the department code field. All departments within a state must have a unique department code. It is not necessary to follow the strict coding structure of the Indian Classification system, but it is a good place to start. If some major heads are divided into two or more departments, you will have to deviate from the list of major codes as the department code. In this situation, using the combination of Major Head and Submajor Head may be a workable solution. Since there is no direct interaction between the budget system and the department code, the codes need not be exactly the same in both systems.)
3. A list of current departments for that state will appear in the window.

4. Enter a unique code in the Department Code field.
5. Enter the Department name in the Department Name English field.
6. Enter the Department Mission from the PPB Program Narrative form by typing the description or copy and paste the description (Note: there are limited formatting options available in the database. Tab codes will not be converted nor will a number of bullet formats. Using a dash (-) as a substitute for a bullet and spaces for tab stops will produce an acceptable output. Some experimenting will likely be necessary to obtain the desired effect on the reports.
7. Add as many departments as appropriate.
8. When complete close the form and return to the previous form.

When all department level performance indicators are entered into the database, close the Department Performance Indicator Update form. This will return you to the Main menu.

Program Performance Indicators

The screen operations Program Performance Indicator Update input screen is similar to the Department Performance Indicator Update Screen. It also has suggested Indicators as at the Department level. The field entry is the same-Performance Indicator, Data, Comments, etc. In a similar way as adding departments, programs not already in the system can be added using the Program Update form. It is also possible to add departments to the database from this screen.

The screenshot shows a Microsoft Access window titled "Microsoft Access - [frmProgPerformanceSelect : Form]". The main form area has a yellow background and is titled "Program Performance Indicator Update". It features several input fields and buttons:

- State:** A dropdown menu.
- Department Name:** A dropdown menu with a "Department Update" button next to it.
- Program Name:** A dropdown menu with a "Program Update" button next to it.
- Buttons:** "Program Output Indicators", "SubProgram Performance Indicators", and "Close".
- Table:** A table with columns: Performance Indicator, Data, Comments, 2004-05 Actual, 2005-06 Plan, 2005-06 Actual, 2006-07 Plan. The table body is currently empty.
- Additional Fields:** "Department" and "Sample Indicator" dropdown menus.
- Status Bar:** Shows "Record: 14 of 1" and "Form View".

1. Select the state from the dropdown list.
2. Select the appropriate department from the dropdown list.
3. Select the appropriate Program from the dropdown list. All performance indicators and the related data for those indicators will be displayed in the window.
4. Enter new indicators and related data as needed. Sample data is provided as on the department screen.
5. When complete close the form.

If a program does not appear on the program list, click the Program Update button. The Program Update screen will appear.

The screenshot shows a Microsoft Access window titled "Microsoft Access - [frmProgramAdd : Form]". The menu bar includes File, Edit, View, Insert, Format, Records, Tools, Window, and Help. The main area is titled "Program Update". It contains two dropdown menus: "Select State" and "Select Department". Below them is a table with columns "Program", "Program Name English", and "Program Description". A "Close" button is in the top right. At the bottom, there are record navigation controls showing "Record: 1 of 1" and "Form View".

This form is similar to the Department Update form.

1. Select the state.
2. Select the department.
3. A list of current programs for that department will appear in the window.
4. Enter a unique code in the Program Code field.
5. Enter the program name in the Program Name English field.
6. Enter the program description from the PPB Program Narrative form by typing the description or copy and paste the description (Note: there are limited formatting options available in the database. Tab codes will not be converted nor will a number of bullet formats. Using a dash (-) as a substitute for a bullet and spaces for tab stops will produce an acceptable output. Some experimenting will likely be necessary to obtain the desired effect on the reports.
7. When complete close the form and return to the previous form.

Using the two buttons in the upper right hand position of the screen you may navigate to the Program Output Indicator input screens or the Subprogram Performance Indicator input screens. These can be accessed from the main menu also.

When all of the Program-level Performance indicators are entered on the screen, close it and return to the Main Menu.

Program Output Indicators

Open the Program Output Indicator screen from the main menu or from the Program Performance Update screen.

The screenshot shows a Microsoft Access window titled "Microsoft Access - [frmProgOutputSelect : Form]". The form is titled "Program Output Indicator Update". It contains several input fields and buttons:

- State:** A dropdown menu.
- Department Name:** A dropdown menu with a "Department Update" button next to it.
- Program Name:** A dropdown menu with a "Program Update" button next to it.
- Select Goal:** A dropdown menu with a "Goal Update" button next to it.
- Program Performance Indicators:** A button.
- Subprogram Output Indicator:** A button.
- Close:** A button.

Below the buttons is a table titled "Program Output Indicators (Objectives)". The table has the following columns: "G:", "Output Indicator:", "Data", "Comments:", "2004-05 Actual:", "2005-06 Plan:", and "2005-06 Actual:". The table is currently empty. Below the table is a record counter: "Record: 1 of 1".

At the bottom of the form, there are two more dropdown menus: "Select Department" and "Sample Output Indicator". A second record counter at the very bottom shows "Record: 1 of 1".

Operation of this form is similar to the Performance Indicator forms. You may navigate to the Department Update screen or to the Program Update screen from this screen. The operation of these screens are the same as described above.

However, all objectives must be associated with a particular Goal. Accordingly in addition to selection of the state, department and program, the appropriate goal must be selected.

Enter the output indicator in a similar manner as the performance indicators above.

It is also possible to navigate to the Program Performance Indicator Screen or to the Subprogram Output indicator screen directly from this screen or from the main menu.

If the goal does not appear on the dropdown list, click on the Goal Update button, opening the Goal Update screen:

The screenshot shows a Microsoft Access form titled "Program Goal Update". The form is displayed in "Form View" and contains the following elements:

- Select State:** A dropdown menu.
- Select Department:** A dropdown menu.
- Select Program:** A dropdown menu.
- Close:** A button located to the right of the dropdown menus.
- Table:** A table with two columns: "Goal Number" and "Goal". The table is currently empty.
- Record Navigation:** At the bottom, there are controls showing "Record: 1 of 1" and "Form View".

The operation of this screen is similar to the other screen.

1. A unique goal number should be entered in the Goal Number field. In this case, the system will list the goal number in the reports and therefore a sequential numbering scheme should be used e.g., 1, 2, 3...
2. Enter the goal as it appears in the PPB Program Narrative Page.
3. Enter as many goals as appropriate for the program.
4. When completed, close the form and return to the previous form.

Subprogram Performance Indicators

From the main menu or from the Program Performance Indicator Update screen, click the Subprogram Performance Indicator button. This will open the Subprogram Performance Indicator Update screen.

The screenshot shows a Microsoft Access form titled "SubProgram Performance Indicator Update". The form has a yellow background and a standard Microsoft Access interface. At the top, there is a title bar and a menu bar (File, Edit, View, Insert, Format, Records, Tools, Window, Help). Below the menu bar, the form title "SubProgram Performance Indicator Update" is centered. The form contains several dropdown menus: "State", "Select Department", "Select Program", and "Select SubProgram". To the right of these dropdowns are buttons: "Department Update", "Program Update", and "SubProgram Update". Further right are buttons for "SubProgram Output Indicator" and "Program Performance Indicators". Below the dropdowns is a table titled "SubProgram Performance Indicators" with a "Close" button to its right. The table has columns: "Performance Indicator", "Data", "Comments", "2004-05 Actual", "2005-06 Plan", "2005-06 Actual", and "2006-07 Actual". Below the table is a record navigation bar showing "Record: 1 of 1". At the bottom of the form, there is a "Department" dropdown menu and a "Sample Performance Indicators" dropdown menu. The status bar at the bottom left shows "Form View" and "Record: 1 of 1". The status bar at the bottom right shows "NUM SCRL".

This form operated exactly like the Program level form except that it will require selection of the appropriate Subprogram. All other features operate the same as the Program level.

In the event that the subprogram does not appear on the dropdown list, click the Subprogram Update button to open the Subprogram Update screen.

The screenshot shows a Microsoft Access window titled "Microsoft Access - [frmSubprogramAdd : Form]". The menu bar includes File, Edit, View, Insert, Format, Records, Tools, Window, and Help. The main area is titled "SubProgram Update". It contains three dropdown menus: "Select State", "Select Department", and "Select Program". Below these is a table with the following columns: "Subprogram Code", "Subprogram Name En", and "Subprogram Description". The table is currently empty. A "Close" button is located to the right of the table. Record navigation controls are visible at the bottom of the table area, showing "Record: 1 of 1".

This form is similar to the program level form. As before, enter a unique subprogram code, the subprogram name and the subprogram description as instructed at the Program level.

When completed, close the form.

Subprogram Output Indicators

From the main menu (or other appropriate screens) click the Subprogram Output Indicator button.

Subprogram Output Indicator Update

State:

Select Department: **Department Update**

Select Program: **Program Update** **SubProgram Performance Indicators**

Select Sub Program: **SubProgram Update** **Program Output Indicators**

Select Goal: **Goal Update**

Subprogram Output Indicators (Objectives) **Close**

Output Indicator:	Data	Comments	2004-05 Actual:	2005-06 Plan:

Record: 1 of 1

Select Department:

Select Sample Output Indicator:

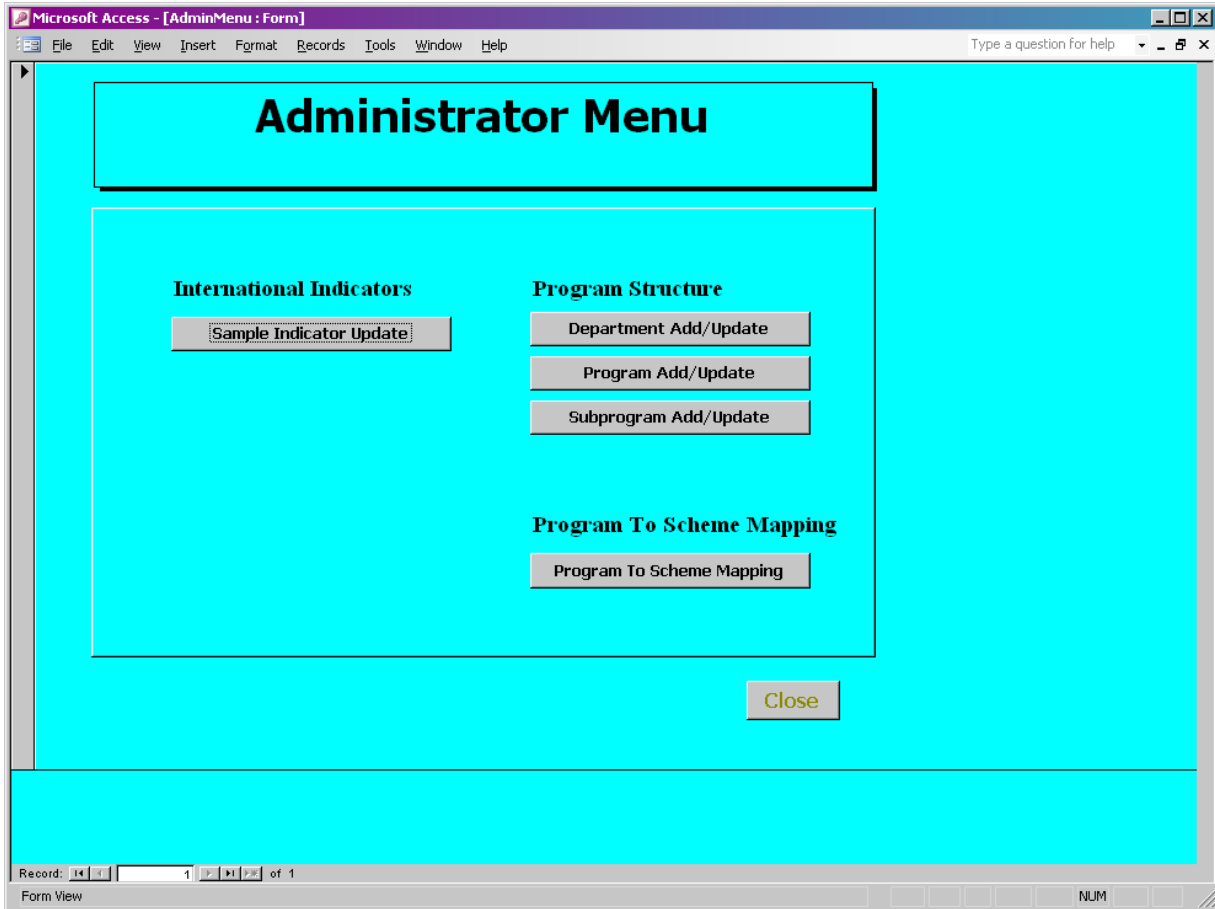
Record: 1 of 1

Form View NUM SCRL

The operation of the form is similar to the Program Output Indicator Update screen. As the output indicators must be associated with a specific goal, updating the subprogram goals is similar to the program level goal update.

Administrator Menu

Clicking on the Admin Menu button from the Maintenance Menu section of the Main Menu produces the Administrator Menu. This Menu contains two additional maintenance screens of the database, the International Indicator update screen and the Program to Scheme Update. In addition, you may reach the department update, program update, and subprogram update from this screen:



Clicking on the Sample Indicator Update button will open the Sample Indicator Add or Update screen:

The screenshot shows a Microsoft Access window titled "Microsoft Access - [tblSamplePerfInd]". The main form area has a light blue background and is titled "Sample Indicator Add or Update". The form contains the following fields and controls:

- Department:** A text box containing "EDUCATION".
- Program:** A text box containing "Vocational Rehabilitation".
- Indicator:** A large text box containing "Number/percent of Vocational Rehabilitation clients gainfully employed (rehabilitated) in at least 90 days".
- Type of Indicator:** A text box containing "Outcome".
- Objective:** A checkbox that is unchecked.
- Performance Indicator:** A checkbox that is checked.
- Close:** A button located at the bottom right of the form area.

The Windows taskbar at the bottom shows several open applications, including "IndiaSocioeco...", "MainMenu : F...", "Performance ...", "AdminMenu : ...", and "tblSampleP...".

This screen adds or modifies the sample indicator database. To modify any indicator, page down to the appropriate indicator and enter changes as desired. To add a new indicator:

1. Page down to the end of the database.
2. Enter the appropriate department name. For consistency, enter the most appropriate name of the department here. The users will be selecting a department when looking for sample indicators. By naming departments carefully, you will ensure ease of use for the users of the database.
3. Enter an appropriate Program Name. Again, try to be consistent in naming programs. As the data will be sorted by program names users will find it easier to locate indicators if consistency is maintained.
4. Enter the Indicator. It is also appropriate to make indicators reflect the actual use in India. When reviewing indicators that come from foreign sources, try to represent them using the appropriate Indian context.
5. Enter the type of indicator. This will help users select indicators that fit their needs.
6. Click on the check box for objective and/or Performance Indicator. This check box selects the appropriate indicators for the Objective or Performance Indicator screens.
7. Close the screen by clicking the Close button.

Program-to-scheme Mapping

An extremely important feature of the database is the appropriate mapping of department schemes to programs. This will ensure that the calculation of program and subprogram budget numbers will be consistent with the department's budget. You must ensure that all department schemes are correctly mapped to a program and, if appropriate, one of its subprograms. This is accomplished using the Program-to-scheme Mapping feature in conjunction with the Program-to-scheme Map Report. A complete listing of the currently mapped schemes is always available. In addition, a current list of unmapped schemes is also available using the Unmapped Scheme Report. Ensuring the correct mapping is reflected in the system will result in correct calculation of department, program, and subprogram budgets.

Clicking on the Program-to-scheme Map button on the Administrator Menu will open the Program to Scheme Mapping Screen:

The screenshot shows a Microsoft Access window titled "Microsoft Access - [frm_ProgramToSchemeMapUpdate]". The main form area is titled "Program to Scheme Mapping". It features the following elements:

- Fields:**
 - Demand Number:** 01
 - Scheme Number:** 2011021010300
 - Scheme Name Hindi:** विधान सभा
 - Enter Scheme Name English:** (empty text box)
 - Select Department:** (dropdown menu)
 - Select Program:** (dropdown menu)
 - Select Subprogram:** (dropdown menu)
- Buttons:**
 - Program to Scheme Map
 - Unmapped Schemes Report
 - Department Update
 - Program Update
 - SubProgram Update
 - Next Record
 - Close
- Status Bar:** Record: 1 of 2656, Form View, NUM

This screen will list the schemes sorted by scheme number and demand number. Accordingly, all schemes associated with a major head will appear together in the listing regardless of demand. Instructions on entering the department, program and subprogram information is as follows:

1. Page down to the appropriate scheme number.

2. Enter an appropriate English translation.
3. Using the dropdown list, select the appropriate department.
4. If the department does not appear in the list, open the Department update screen and enter the department as instructed for that screen.
5. Using the dropdown list, select the appropriate program.
6. Again, if the program does not appear, open the Program update screen and enter the program as instructed for that screen.
7. Using the dropdown list select the appropriate subprogram.
8. Again, if the subprogram does not appear, open the subprogram update screen and enter the subprogram as instructed for that screen.
9. Close the form when through.

Reports

From the main menu there are three kinds of reports that are available. Various performance reports, both current and past year budget reports, and the data in the PPB format.

Performance reports are created from the data entered on the input screens. These reports are similar to the PPB budget narratives and can be modified as needed for optimum readability. The demonstration database gives the reports in English. Simple modification of the database and input of local language narrative portions can produce all reports in more than one language.

To run the Performance reports, click the Performance Report button from the main menu opening the Performance Reports Menu.

The screenshot shows a Microsoft Access window titled "Microsoft Access - [frmReportsMenu : Form]". The window contains a form titled "Performance Reports Menu". At the top of the form, there are two dropdown menus: "Select State" and "Select Department". Below these is a section header "Performance Indicators Goals and Objectives". Under this header, there are three rows of buttons. The first row is for "Department Level" and contains a button labeled "Department Performance Indicators". The second row is for "Program Level" and contains two buttons: "Program Performance Indicators" and "Program Goals and Objectives". The third row is for "SubProgram Level" and contains two buttons: "Subprogram Performance Indicators" and "SubProgram Goals and Objectives". At the bottom right of the form is a "Close" button. The window's status bar shows "Record: 1 of 1" and "Form View".

1. Select the state and department as before.
2. Click on the Department Performance Indicators button.
3. The appropriate department will be produced in a print preview format.
4. If desired, print the report or close it. (Note: Be careful to press the lower "close" "X" on the report to close just the report. Otherwise, you will close the application altogether. No harm is done but it is annoying to have to open the application and navigate to the reports menu over and over.)
5. Any level report is produced, with the appropriate information as entered in the database through the input screens. By navigating to the appropriate screen corrections can be entered and new reports run immediately.
6. A sample report follows:

Department Performance Indicators

Uttarakhand

Department: Forest

Department Mission: Conservation, preservation & protection of flora and fauna

Performance Indicators:

	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	Actual:	Plan:	Actual:	Plan:	Plan:	Plan:	Plan:	Plan:	Plan:
% of Increase in Forest cover			10	12	15	16	20		
% of Increase in Wildlife			10	15	20	25	30		

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Page: 1 of 1

Ready NUM SCRL

Budget Reports

There are several budget related reports available in the current database. All of these reports have been developed from data sources available from the Uttarakhand NIC Internet site.

Most of the data on the budget reports can also be obtained from the current budget system. Using the system may be a more convenient method of obtaining data that is also listed in the budget books. However, they may be a better way of publishing the data in a more user-friendly manner.

The following reports are available in the current demonstration database for the budget years 2005-06 and 2006-07:

The screenshot shows a Microsoft Access window titled "Microsoft Access - [frmBudgetReports]". The window contains a form with the following structure:

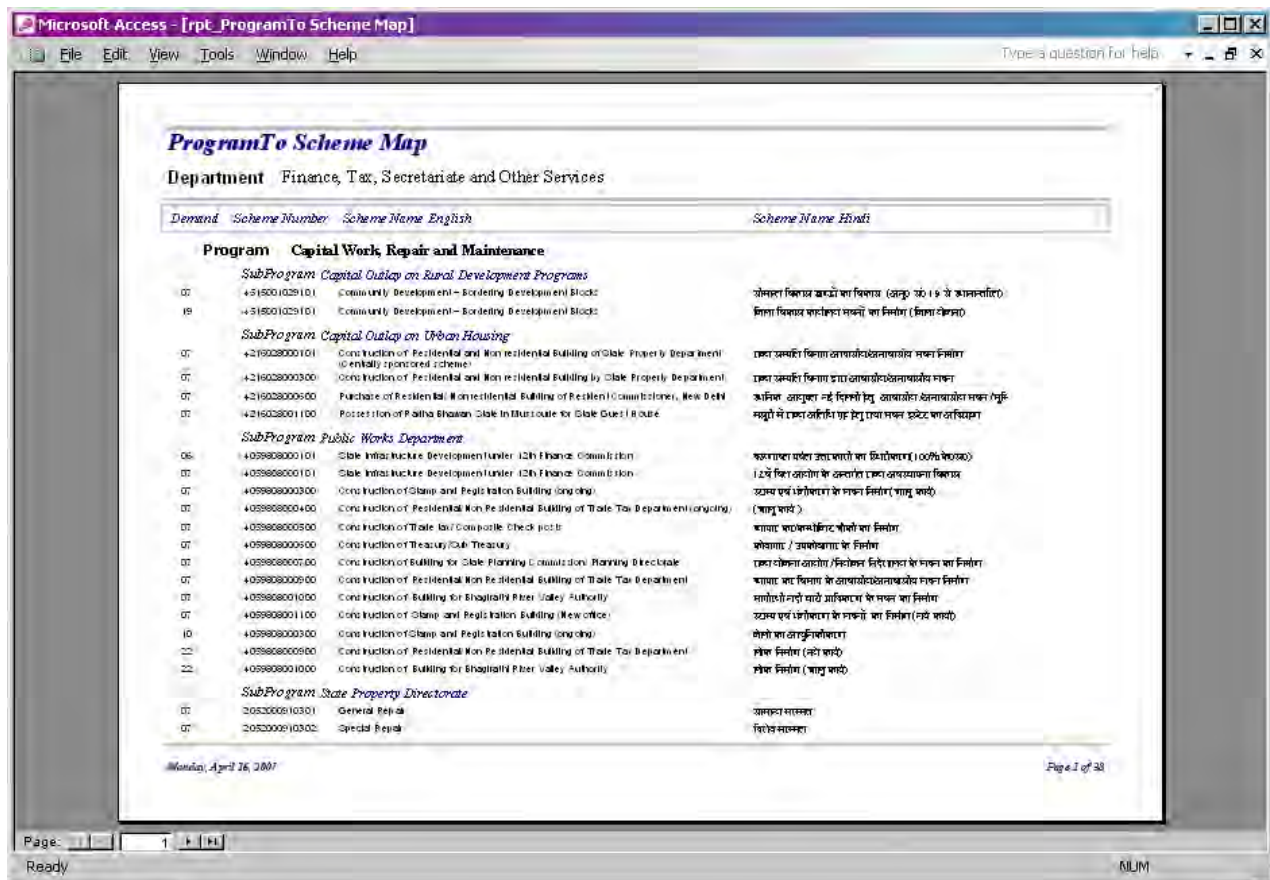
- 2006-07 Budget Reports** (Main Title)
- Budgets by Detail Head** (Section Title)
 - Buttons: Detailed Scheme Budget by Demand, Detailed Scheme Budgets (highlighted), Major Head Budget by Demand, Major Head Total Budgets, State Budget By Object Codes, Major Head Budget by Object Code
- Budgets by Expenditure Group** (Section Title)
 - Buttons: Detailed Scheme Budget, Detailed Plan and Non-Plan Budget, Major Head Budget, Major Head Plan and Non-Plan Budget, State Budget, State Plan and Non-Plan Budget
- Close** (Button)

At the bottom of the window, there is a status bar showing "Record: 1 of 15194" and "Form View".

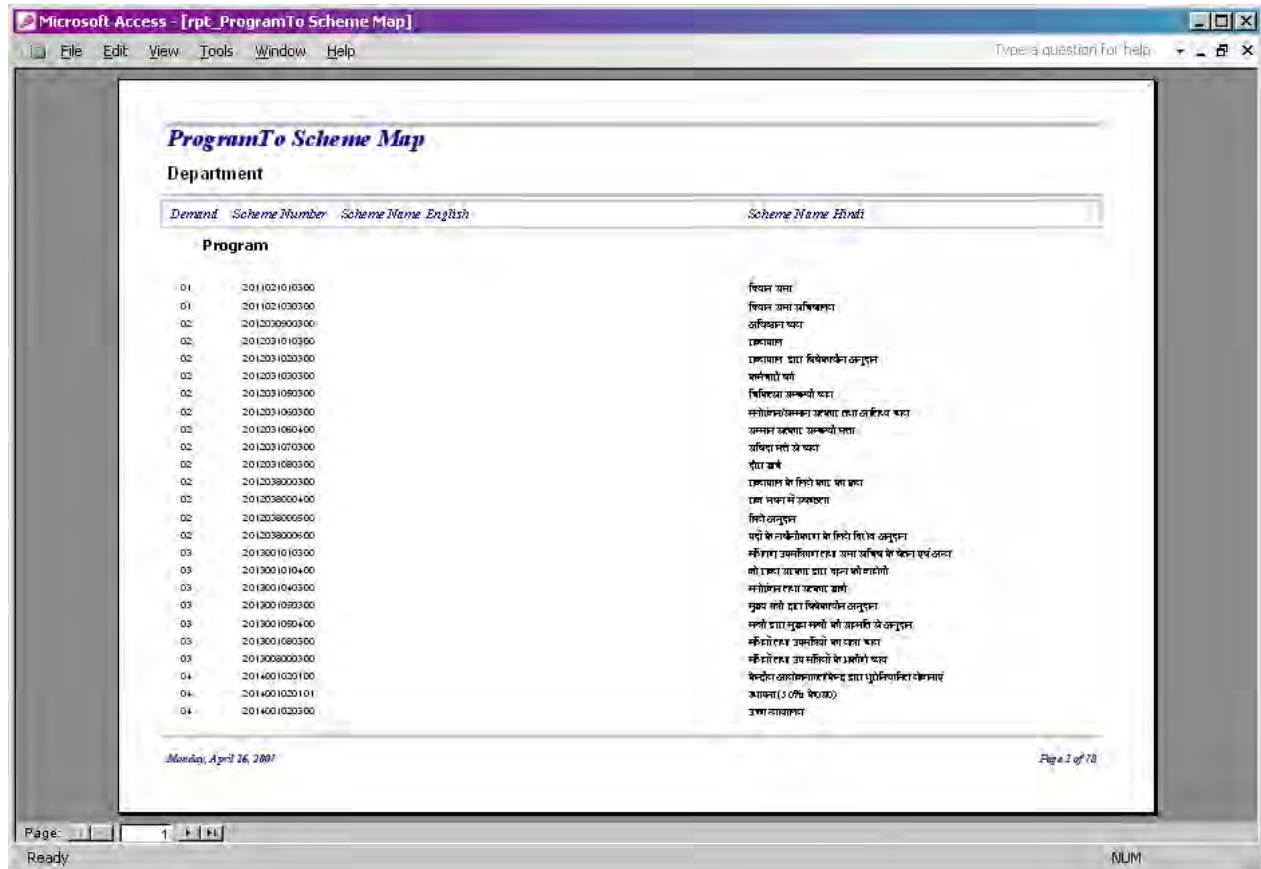
The more useful reports relate to those that reflect the PPB format. The budget mapping discussed in the beginning of the manual allows the production of the reports in the PPB format. There are two types of mapping:

- 1) The clubbing of the detailed head or economic classifications into the expenditure groups in the PPB; and
- 2) The mapping of the budget schemes into programs and subprograms.

The following Program-to-scheme Map report shows this mapping. This report will reflect the mapping as soon as updated work through the Program-to-scheme Mapping Screen.



The Unmapped scheme list will show all schemes not mapped to departments, programs, or subprograms:



The existing budget reports can be easily mapped into the 10 expenditure groups, showing any part of or the entire budget in this format. Once the clubbing of schemes into programs and subprograms is complete, the PPB budget pages can be produced from the system.

Future Possibilities of the System

However, interesting the software is for preparing the PPB budget in multiple languages and with the ability to link information to the existing budget development software, a potentially more powerful use of the system can be made if current expenditure data is mapped to the PPB program format. Ideally, each program and subprogram should be the responsibility of a manager in the department. While a manager may have many programs, no two managers should have responsibility for the same program. If this discipline is followed, budget execution reports by program and subprogram may provide better management information than the current system listing the accounts by scheme. Accordingly, this mapping of scheme to program may be most useful for budget execution.

The demonstration software shows how the current Indian Budget Classification system can be converted to the PPB format through the use of relational database technology. It also points toward ideas and methods of reporting and controlling the budget. Finally, it demonstrates the possibility of providing information for public use and managerial oversight.

Annexure 10a:

Process of Developing Performance Indicators

- The REFORM partner State Government process of developing performance indicators is important so that the process can be replicated in other states.
- Specifically, the following questions need to be asked and answered by PPB task forces:
 - Who called the meeting?
 - Did the Department of Finance at the state level invite the technical departments?
 - How difficult was it to get buy-in — and how long does it take to convince the departments?
 - What are the points of resistance?
 - How were the individuals selected for the training?
 - How often did meetings take place?
 - What documents were used?
 - What documents were supplied by the State Government?
 - How was attendance? Was it consistent?
 - Was there any friction between Finance and Technical departments?
 - Who were the PPB champions?
- convened meetings with the senior technical staff and program managers in the health and education sector to move this forward;
- Points of resistance are: (i) the work required to create an additional document, since most states are already producing a Performance Budget and perhaps a Department Medium Term Fiscal Plan in addition to the regular annual budget (with major and minor heads) each year; and (ii) the perception that the documents are not used in any way and just presented to the legislatures as a new format with different information;
- Individuals selected for the training included program managers (deputy and joint directors), statisticians, and technical staff. Approximately, two to three individuals from each program attend the training;
- Once the PPB is prepared for the sector (with the different departments, programs and subprograms agreed upon, and each having their description, goals and objectives, key performance, special impacts section) two full-day trainings have been conducted for officials from each technical sector. The first day introduced them to performance indicators, the difference between outputs and outcomes, and data collection techniques. The second day focused on data analysis and use. The trainings included several exercises and interactive sessions so that participants have practical experience in applying their new skills. During the course of the workshop, participants were also required to develop the performance indicators for their own program;
- Prior to the workshops, meetings were held with the technical sector to understand their programs, the performance indicators

Process of Developing Performance Indicators:

- The Department of Finance decides which technical sector will pilot the PPB process;
- How long it takes to get the technical sector on board depends on the ability of the Finance Department to convince the technical sector of the value of this endeavor. In Karnataka, Secretary Budget, took ownership of the process and quickly

regularly tracked by the sector, and current data collection techniques. This ensured the training material and exercises included indicator examples and datasets specific to the sector;

- Attendance at the workshop was high — usually 35 to 45 participants. However, there was some trainee turnover between the workshops with the same participants not attending both; and
- In between the two workshops, Reform experts continued to work with the sector officials, helping to refine the PPB, and insert the performance indicators for each program/ subprogram developed by program managers at the workshops into the PPB document.

Eventually, departmental performance indicators were finalized and included in the socioeconomic database.

Annexure 10b:

Guidelines for Helping State Governments and Program Managers Develop Outcome Indicators

The key to successful and sustainable implementation of performance management is ownership of the process by the government officials. Program managers should also keep in mind the final use of performance indicators and not get bogged down in defining too many indicators and in the process of data collection. Most importantly, they should focus on outcome rather than mostly input or output indicators.

These guidelines suggest some ways in which government officials go through this process. This will require them changing their attitudes, and incorporating a lot of new concepts into their systems. One important way to do this is to keep linking the objectives, outcomes, and indicators to what the service actually does, and to talk about how monitoring performance will be useful once the system is set up. For instance, when you are talking about a specific indicator — for example, the percent of fee collected — you might mention that tracking and reporting that fee is likely to have a very motivating effect on bill collectors and possibly on citizens, as well as helping financial managers know where accounts stand.

Step 1: Defining Service/Program Objectives

It is sometimes difficult to get government officials to articulate service objectives keeping in mind the impact/effect of the service on customers. For example, when library staff in Hungary were asked to state their service objectives they first looked at us blankly. When repeatedly asked the same question, they said

that their objective was to come into the library and keep it open from 9.00 a.m. to 5.00 p.m. so that people could use the library. Clearly, they were focusing on their scope of work rather than having an outcome orientation. A focus on outcome would imply for example, increased literacy, access to a good quality recreational activity, and increased knowledge.

Following are some questions you can ask government officials to help them think about service objectives. (I have chosen to focus on the maternal and child health program in this example. A similar process should be followed for any other service area.) I have provided some possible answers in brackets after each question. Once you have answers to all the questions, they can be considered together to define objectives for the maternal and child health program.

- What is the reason for the government to have a maternal and child health program? (to have healthy mothers and babies).
- Are there any educational issues in this program? (to advise the mothers on pre and postnatal care, safe and assisted child birth, infant safety and hygiene, etc.)
- Does the program currently have full service coverage — for all rural areas? (Yes, no, the Lady Health Workers are suppose to cover 6-7 villages each, we have 80 percent, coverage etc.)
- Are you currently charging any fee for maternal and child health services in district

hospitals? If yes, do you have full compliance? That is, does everyone pay their fee? (Yes, no, some blocks and/or district only show 60 percent fee collection).

- Are your citizens currently satisfied with service provision — with the quality of the maternal and child health program in a) urban areas; and b) rural areas? Do you know how many are satisfied/dissatisfied? (Yes, no, majority are dissatisfied, etc.)

Based on the above answers, you can now develop several service objectives such as:

- Increase service coverage by increasing the number of Lady Health Workers/Supervisors or providing them with transportation to more efficiently cover their villages;
- Improve the quality of service (in areas that are currently covered by the service) by improving customer relations, number of visits, increasing IEC — information, education, and communication campaigns — and being responsive to citizen feedback; and
- Move toward full cost recovery for the service.

(Note: these are examples for you to bear in mind, not the objectives that program managers must choose.)

Step 2: Articulating Desired Outcomes (Results)

Once the program officials have articulated their program objectives they now have to translate them into outcomes and outcome indicators. Each program objective can be associated with several outcomes. *When thinking of an outcome for each objective you should first have the officials think about what they need to do to achieve their objective, and then what impact this*

would have on their citizens. For example:

Objective 1:

Increased service coverage by increasing the number of Lady Health Workers/Supervisors or providing them with transportation to more efficiently cover their villages.

Outcomes

- Increase the percentage of urban and rural areas that have service coverage.
- Reduce the rate of infant mortality.

Objective 2:

Improve the quality of service (in areas that are currently covered by the service) by improving customer relations, number of visits, increasing IEC — information, education, and communication campaigns — and being responsive to citizen feedback.

Outcomes

- Increase citizen satisfaction with the service.
- Increase responsiveness to citizen feedback.
- Increase IEC to improve women's awareness of the importance of pre and postnatal care on child survival rates.

Objective 3:

Move toward full cost recovery for the service.

Outcomes

- Increase fee collection from the citizens in district hospitals.

Step 3: Developing Performance Indicators

The next step is to develop indicators — input, output, outcome, and efficiency indicators — for each of the above objectives and outcomes.

Table 10Ab.1: Outcome Indicator Matrix

Outcomes	Outcome Indicators	Baseline	Target
Objective 1: Increased service coverage in rural areas by increasing the number of Lady Health Workers/Supervisors or providing them with transportation to more efficiently cover their villages. Increasing coverage in urban areas by providing MIC services in a larger number of district hospitals and community health centers			
Increase the percentage of urban and rural areas that have service coverage	Number and percent of new mothers and pregnant women covered by the service		
	Percent of villages covered by the service		
Reduce the rate of infant and maternal mortality	Number of infant deaths (below age 1) per year		
	Number of infants requiring hospitalization due to poor or limited prenatal care of the mother		
	Percent of maternal deaths per year		
Objective 2: Improve the quality of service (in areas that are currently covered by the service) by improving customer relations, number of visits, increasing IEC — information, education, and communication campaigns — and being responsive to citizen feedback			
Increase client satisfaction with the service	Percent of mothers reporting that they are very satisfied with their Lady Health Worker		
	Percent of mothers reporting that they are very satisfied with the MIC program in their CHC or district hospital		
Increase responsiveness to client feedback	Number of client complaints against the service		
	Percent of clients who stated that their complaints have been satisfactorily addressed		
Objective 3: Move toward full cost recovery for the service			
Increase fee collection from the clients	Percent of fee collected		

Table 10Ab.2: Other Indicators Matrix

Indicators	Baseline	Target
<i>Inputs:</i>		
Cost of new transportation vehicles		
Cost of additional pre and postnatal medications		
Salaries for Lady Health Workers		
Cost of public outreach program		
Salaries of fee collectors		
<i>Outputs:</i>		
Number of villages covered		
Number/percent of expectant mothers receiving the service		
Number of increased Lady Health Worker schedules		
Number of visits per household to collect fees		
<i>Efficiency:</i>		
Cost per number of expectant mothers seen		
Cost per INR 1,000/- of fee collected		

These are indicators that were prepared for you to use as guidelines and do NOT need to be ones adopted by program managers. It is important that program managers and technical staff should themselves choose the indicators. Also, keep in mind that the indicators developed by the government officials do not have to be perfect when they are just starting with developing performance indicators for their programs. What is important is that they feel they are actively participating in the process and developing

indicators that are important and relevant to their program. The indicators can be refined and redefined as they proceed.

It is definitely not easy to walk this thin line between giving the program managers full responsibility on the one hand, while continuously urging them toward better outcomes and indicators, but this is the only way to ensure that the government officials will feel they "own" the system and will want to keep using it after we are all gone.

Annexure 11:

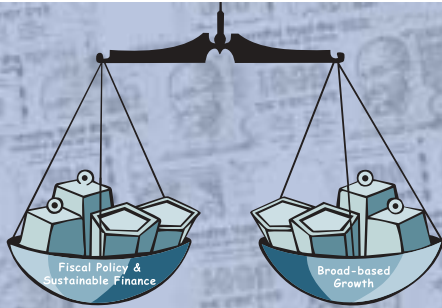
Program and Performance Budgeting Links

Virtual Links

- [http://steel.gov.in/Performance%20Budget%20\(2007-08\)/Outcome%20Budget.pdf](http://steel.gov.in/Performance%20Budget%20(2007-08)/Outcome%20Budget.pdf)
- http://cga.nic.in/pdf/Guidelines_Outcome_Budget.pdf
- <http://www.ato.gov.au/budget/2006-07/bp1/html/index.htm>
- <http://www.mit.gov.in/download/outcomebudget2007-08statusason30092007.pdf>
- http://powermin.nic.in/reports/pdf/Outcome_budget.pdf
- <http://www.naco.org/CountyNewsTemplate.cfm?template=/ContentManagement/ContentDisplay.cfm&ContentID=21992>
- <http://www.legis.state.ia.us/lsadocs/lssReview/1996/IR131B.PDF>
- <http://gov.ua.nic.in/>
- www.kar.nic.in
- <http://jharkhand.nic.in/>
- www.cgg.org
- www.flg.gov

Professional Societies

- www.cbpsindia.org
- www.cbpp.org



Annexure 12

Toward Improving Expenditure Management at the Indian State Level: Case Studies of Jharkhand, Karnataka and Uttarakhand

Part 1:

Introduction to Budgeting

The following sections provide a comparative account of how the REFORM Project state teams in Jharkhand, Karnataka, and Uttarakhand implemented their various expenditure management reform activities. These accounts discuss the implementation methodology, work plan execution, operational challenges and how these were dealt with and, finally, the results of this work.

The need to focus on Expenditure Planning and Management was a response to partner government requests to help them reduce the debt spiral through a number of approaches including enhancing their ability to allocate additional public resources to more productive development and infrastructure needs. This need was contained in the original REFORM scope, which included among the CLIN 1 deliverables, "Identify and introduce best practices (both international and domestic) that can strengthen the stated efforts of the FPAC, including tools and techniques that help its staff to understand the implications of fiscal policy and budget formulation on the fiscal health of the state..." As well, during the project's initial assessment process with each of the three states, they articulated the need for better budget planning in order to allocate resources toward the areas of greatest need—which in the long run would have a payoff in terms of improved efficiency and effectiveness of public services.

The institutional gaps identified for rectification were:

- Lack of staff capacity to allow the government to allocate resources in a way that is informed by robust financial analyses, policy and program analyses, funding trade-offs, and a focus on program outcomes;

- The budget staff who were responsible for developing departmental budget requests were not adequately training or equipped to conduct rigorous analyses of budget requests, nor to develop multiyear budget estimates and projections in connection with policy initiatives and program requests;
- The budget process was focused primarily on inputs and historical trends, with little connection to policy or program outcomes;
- Lack of a multiyear budget structure that would provide the state with a framework that helps decision makers balance the state's priorities, make decisions in the context of hard budget constraints, and provide line departments with greater responsibility for resource allocation decisions;
- The Plan and Nonplan budgets were developed in a segregated fashion, and without the benefit of information regarding the short- and long-term financial implications of new initiatives;
- There was no capacity to systematically evaluate programs and use the information to fine-tune and/or make financial and programmatic adjustments to the budget; and
- Staff did not have the capacity to conduct higher-level financial and policy analyses; there was a significant organizational shortage of critical thinking skills.

These pre-existing gaps in expenditure planning and management led to a number of negative consequences in the states' financial performance. Namely:

- There was very little connection between the government's most important program needs, and its allocation of financial resources;

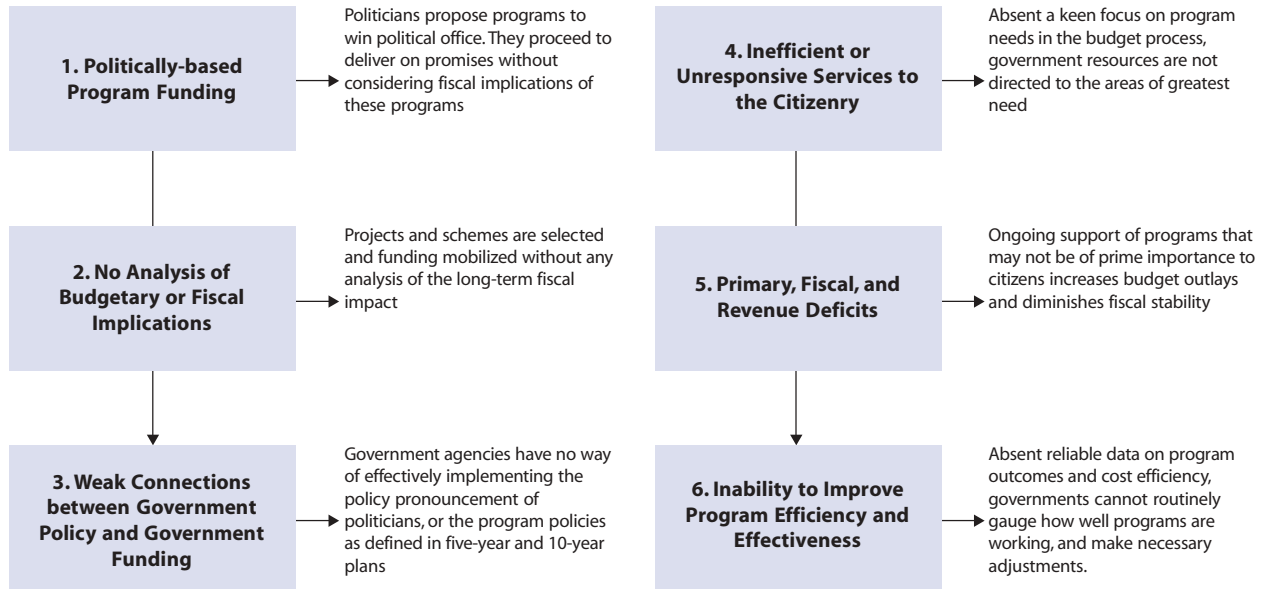
- Using a one-year (not multiyear) perspective on the allocation of resources hindered the government's ability to properly fund public investments and new schemes in a sustainable fashion; for example, infrastructure investments such as new irrigation canals, roads, or public buildings would start to deteriorate in a matter of a few years after completion due to insufficient long-term budget estimates and multiyear budget plans to support ongoing O&M costs;
- There were poor linkages between program needs and budgetary decisions, leading to ineffective state programs that did not deliver the quality level of services required for the citizenry;
- Due to the segregation of the Plan and Nonplan budget processes, the states were allocating approximately 70 percent of their resources (the Nonplan portion) with little or no analytical input; thus a large portion of the governments' budget was determined by historical trends (not by the citizens' program needs);
- The absence of a programmatic, needs-based allocation of resources and the inability to use outcome-based data to fine-tune budget allocations led to inefficiency, waste and mismanagement of public resources; consequently, there was continued funding of ineffective state operations, and a loss of public confidence in the state government;
- Incomplete coverage of Government cash transactions coupled with accounting processes not optimized for computerized operation, which resulted in poor and delayed accounting of public fund utilization;
- The lack of a state procurement law and/or detailed government circulars providing standard bidding and contract templates, conditions, guidelines, evaluation criteria and project archives that cumulatively result in a poorly planned, executed and documented public procurement;
- There was limited information available to citizens regarding their public programs; this constituted a significant information gap between what government was doing and what the citizenry knew about it; and
- This information gap is continually reflected in public opinion surveys throughout India.

Table 12A1.1 depicts the vicious expenditure planning and management processes that typically afflict state governments.

Thus, the objectives of the Expenditure Planning and Management work of the REFORM Project were designed to:

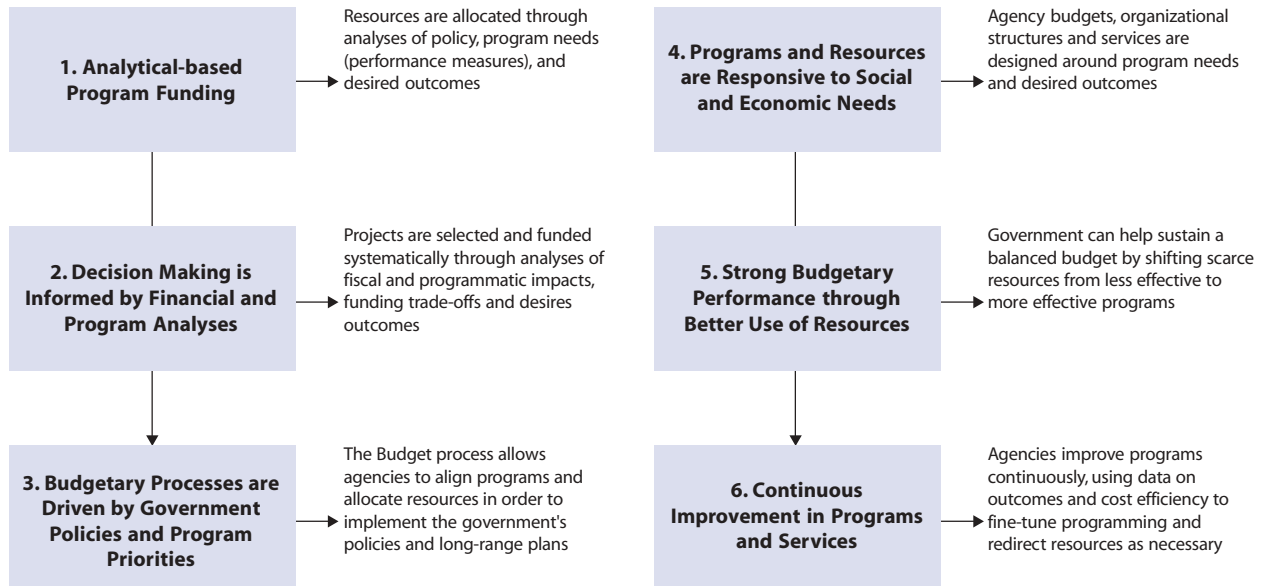
- Improve the institutional and staff capability to use methodologies and analyses to help state governments prioritize the allocation of funds based on program needs and desired outcomes;
- Enhance the ability of departmental staff to develop budget proposals based on analyses of policy, programs and needs; and to develop multiyear projections of policy initiatives and program requests;
- Develop budget documents that combine program data with budgetary data ("PPB" documents) in order to improve resource allocation and provide more useful and transparent information for government officials, citizens and other stakeholders;

Table 12A1.1: Vicious Expenditure Planning and Management Process



Note : Vicious process refers to a situation where a series of actions leads to increasingly negative results.

Table 12A1.2: Virtuous Expenditure Planning and Management Process



Note : Virtuous process refers to a situation where a series of actions leads to increasingly positive results.

- Use these program budget documents as the foundation for developing a multiyear budget structure, which would allow a better allocation of resources, provide more certainty to the departments in funding levels, and provide them with greater authority for resource allocation decisions. [In the case of Karnataka, this was intended to leverage their high-level MTEF structure (World Bank-sponsored) into better budget planning and management at the departmental level.];
- Use the program budget pages to address the problems inherent in the segregation of the Nonplan and Plan budgets, by displaying in the same presentation all costs from both budgets that were related to a particular program—thereby providing a complete picture of program costs. This would aid budget decision making, enhance program management, and provide more meaningful information for stakeholders;
- Improve transparency and accountability by presenting the above information as part of the official package of budget documents for use by government officials;
- Advice and guidelines on Treasury Policies, procedures and processes, Treasury functionality, organization and coverage, legal Framework, Institutional arrangements and implications for progressing Reforms, Linkage of Budget Execution to Budget preparation and presentation, Financial Reporting arrangements, Implications for IT developments, particularly application software, and Training requirements; and
- Draft state laws or detailed government circulars stipulating the required forms, conditions, processes and protocols necessary in order to develop the PPB documents and processes defined above.

To this end, the project offered a complete set of expertise covering the following dimensions of expenditure planning and management:

When developing a public expenditure management (PEM) reform plan, state governments need to view Expenditure Management in a holistic manner (e.g., budget preparation, budget execution, and budget analysis) in order to generate synergies and resource-sharing between its different components

- Develop the analytical capability in the Finance Department and line departments to analyze financial and programmatic data for the purpose of fine-tuning and improving program and budgetary performance;
- Create the structure to house this higher-level analytical capability along with analytical expertise from other functional areas in a central organ (FPAC concept) in order to provide the governments with a strong core of analysts and advisors to support broad-based fiscal reform.
- Budget preparation using the Program and Performance Budget methodology;
- Budget page templates that capture program, financial, and performance information in a single document—to bridge the gap between the Plan and Nonplan budgets and support the PPB initiative;
- Budget execution advise and guidelines on treasury operations;
- Training and capacity-building assistance for the Finance Department and line departments that would be using PPB;
- Training and technical assistance in program budgeting skills and analytical techniques for officers who are hired or deputed to the FPACs—

- to help in the development, staffing and launch of the FPACs as part of larger fiscal reform efforts;
- Assistance in defining new organization structures that would support program budgeting and a stronger institutional focus on program needs and desired outcomes;
- Development of program outcome indicators to measure how well budgets and programs are meeting stated service delivery needs and desired socioeconomic outcomes; also development of other performance indicators (input, output, efficiency, etc.) that support budget reform;
- Assistance in drafting law changes or amendments to the Fiscal Responsibility Act or other Acts that might be necessary to facilitate budget reform; and
- Public procurement management standard bidding forms, templates, contract clauses, procurement protocols and processes.

Table 12A1.3 shows the expenditure management achievement of the REFORM Project in its three (3) partner states—Jharkhand, Karnataka, and Uttarakhand—as well as nationally:

Table 12A1.3: REFORM Project Initiatives, Impact and Leveraging

Government	Achievement	Impact	Leveraging
Jharkhand	A total of 39 out of 42 government departments have been trained in the PPB technique	More than 90 percent of both the Plan and Nonplan budget of the state covered	The GoJ has found the PPB results in the state to be useful and, as a result, it has requested the GoI to facilitate PPB training for the health resource center personnel of all its twenty-four (24) districts
	A core group of officers have been created to carry on the work of PPB training in the GoJ	Members of this core group are imparting training at the workshops being organized at the state <i>SKIPA</i> and <i>SIRD</i> as part of their annual training calendar	Both <i>SKIPA</i> and <i>SIRD</i> have allocated budget funds for their annual Program and Performance Budgeting course offerings
Karnataka	The Estimates Committee of the State Legislative Assembly decided on 10 January 2007 that PPB documents should be extended throughout the government—final legislation is awaited	More than 50 percent of the State Budget is covered by PPB documents	GoK has decided that all government officers would be trained in the PPB concepts and methodology at the upcoming Fiscal Policy Institute by utilizing the services of officers already trained in PPB methodology

Table 12A1.3: REFORM Project Initiatives, Impact and Leveraging (Contd.)

Government	Achievement	Impact	Leveraging
	PPB implementation for the Education, Health and Family Welfare, and Women and Child Development officers in Bijapur, Gulbarga, Mysore, and Udupi districts	First-known district-level PPB implementation in India	<ul style="list-style-type: none"> • Upcoming USAID-funded district work in Jharkhand facilitated by the KA experience; and • United Nations Development Programme Human Development Report Project and the GoK plan to extend this district-level PPB initiative to all 29 state districts
Uttarakhand	GoU issued circular dated 15th May, 2007, to all PPB-trained departments to dispatch their Budget in PPB format, which is to be tabled at the <i>Vidhan Sabha</i>	More than 60 percent of the State Budget is covered by PPB documents	State experience cited by the <i>High Level Committee on Outcome Budget</i> formed by the Institute of Chartered Accountants of India (ICAI)
Government of India	The <i>High Level Committee on Outcome Budget</i> formed by the <i>Institute of Chartered Accountants of India</i> (ICAI) has recommended the gradualist implementation methodology followed by the REFORM project	Recommends the REFORM Project implementation approach viz., careful selection of initial departments, handholding capacity-building methods, inclusion of the departmental secretary and budget heads to ensure their support for the PPB approach, a standardized format and implementation road map concluding with transfer of operational ownership from the REFORM project team to partner governments	The report will be presented to the Minister of Finance for recommendation to all states of the country
	The Reserve Bank of India (RBI) College of Agriculture Banking, Pune, was so impressed with the PPB results in Karnataka, it has decided to incorporate "PPB-Concepts and Methodology" as an input in their training-of-trainers (ToT) program on District Planning and Human Development	RBI officers from all states in India will be trained in PPB concepts and methodology	Government of India funding and support for PPB
	Introductory lectures on PPB held at the <i>Comptroller and Auditor General—National Academy of Accounts</i> (CAG-NAA) in Shimla	All CAG officers at the <i>CAG-NAA</i> will be trained in PPB concepts and methodology provided by the REFORM Project	Use of GoI funds to fund the training of CAG officers in PPB

**Government of Jharkhand
Department of Energy
Nepal House, Doranda, Ranchi—834 002, Jharkhand**

From:

Shri Sudhir Tripathi

Secretary Energy

D.O. No. _____

Ranchi, Dated: _____, 2006.

Respected Shri Lal,

Please recall our discussions in regard to the implementation of Programme and Performance Budgeting (PPB) in Water Resources Department, Government of Jharkhand, which I had the opportunity to oversee as the then Departmental Secretary.

As you are aware, Water Resources Department is one of the most important departments of State Government as it ranks second (1st being Rural Development) in terms of budgetary allocation and third in terms of manpower on its rolls (i.e., after HRD and Health and Family Welfare). Besides, the Water Resources Department of Jharkhand is plagued with some peculiar problems of its own which have arisen due to the legacy from undivided Bihar of a large number of incomplete major and minor irrigation projects that have been under execution for more than two decades and have gone through multiple cost and time revision.

In view of the above, the analytical framework and discipline enforced through the execution of Programme and Performance Budgeting was of great significance in highlighting and thereby facilitating resolution of several chronic issues, such as –

- (1) Unraveling of hidden inefficiencies, for example, it was found that Directorate of Irrigation Revenue was spending almost 10 times more on its salary than what was being collected by way of water charges for irrigation. Pursuant to this finding, proposal for dissolution of Directorate of Irrigation Revenue & transfer of the responsibility for collection of water charges for irrigation to Water Users Association was initiated.
- (2) Rational distribution of manpower across the various offices. The analysis of plan & nonplan expenditure of the departmental units under PPB revealed that several offices with less work had more staff, whereas offices with more work were starved of requisite manpower.
- (3) Rational distribution of volume of work across different work divisions. PPB revealed that the volume of work, both physical and financial, being handled by different work divisions was highly skewed which was affecting both the efficiency and quality of execution. This automatically led to a review and reallocation of work in accordance with the capacity to deliver.
- (4) The large backlog of incomplete irrigation projects, in respect to which the budgetary resources used to be thinly spread resulting in time and cost overruns, were individually reviewed so as to bring about financial closure within specified time by arranging requisite funds from financial institutions like NABARD, so that these projects could be expeditiously completed & operationalized.

In crux, therefore, the implementation of PPB in Water Resources Department has been of great help in building capacity for efficiency in performance on one hand and translating budgetary outflows into concrete outcomes on the other.

**Yours sincerely,
(Sudhir Tripathi)**

Pc.1/md/sec.energy letters/gen.ltrs.doc

Finally, the REFORM team has learned the following key lessons that can be leveraged by other state governments interested in introducing new expenditure planning and management tools and techniques:

- When developing a public expenditure management (PEM) reform plan, state governments need to view Expenditure Management in a holistic manner (*e.g.*, budget preparation, budget execution, and budget analysis) in order to generate synergies and resource-sharing between its different components;
- Institutionalization of PPB begins with strong support by the Principal Finance Secretary of a state to ensure government ownership in and the participation of the right budget personnel from government departments;
- Recognizing that PPB reform affects (eventually) all departments and programs of state government (not just the Finance and Planning Departments), it is important to be as inclusive as possible across the spectrum of government in awareness sessions, training programs, and other technical assistance activities;
- Government Orders requiring the preparation of PPB documents ensure that departmental budget officers are aware this budgeting approach (*e.g.*, the value of budgeting against specific performance results) and their obligation to prepare the same;
- Appointment of dedicated PPB task force members creates cohesion and continuity in the task force membership enabling a consistent level of effort and focus;
- Submission of summary PPB documents to the state cabinet and legislative assembly helps to generate champions for this budgetary approach;
- The early identification, training, and utilization of government budget officers to serve as trainers and change agents greatly facilitates the extension and sustained implementation of the PPB budget format;
- Working with these early change agents and “champions of the cause” to develop “pilot” processes to test and verify the reforms in advance of broad implementation—helps ease concerns about change, and helps develop models that other departments and officers can replicate in a lower-risk fashion;
- Periodic press coverage of the expenditure management efforts of the state government help to engender public and political interest in these reform efforts that, in turn, reinforces and compels the state government to continue down the reform path; and
- PPB reform is not a quick or easy process; it requires a fundamental mindset change in the way that government stakeholders perceive government operations, as well as a basic change in the resource decision-making process. Typically, it takes multiple years to implement fully, and should not be seen as a quick-fix type of tool that can be inserted into government operations with immediate effect.

The following sections describe the actual expenditure management work experiences of all three REFORM project state teams. These work experiences discuss tool and technique implementation methodology, operational challenges and outcomes, and the lessons learned.

Part 2:

Implementation Experiences

Program and Performance Budgeting

State governments do not have the capacity to prepare budgets that accurately describe the outcomes of the programs and services they fund. The goal of the REFORM Project was to close this gap to the maximum extent possible.

Implementation Methodology

All three state level PPB interventions were planned and executed as recommended in the *Program and Performance Budgeting Implementation Guide* (For further details see *Volume I: REFORM Project: Overview, Section II* for the State Case Studies). Table 12A2.1 describes the sequence of implementation steps followed for all three REFORM partner states:

- Developing the *Program and Performance Budgeting Implementation Guide*;
- Conducting departmental secretary-level briefings and sensitization training for officers of implementing departments;
- Conducting formal training to state department budget officers;
- Developing a socioeconomic indicator database for tracking budget outlays and actual delivery in relation to specific program and scheme outcomes;
- Training local Reform Project staff in PPB so they could mentor and assist the state government officers and officials as they develop their PPB documents;
- Providing on-the-job training and guidance to both local Reform Project staff and interested and exemplary state budget personnel so that they could conduct the PPB training in the future;
- Developing curricula for PPB training at both the *Jharkhand State Institute for Rural Development (SIRD)* and the state administrative training institute (ATI) *Shri Krishna Institute for Public Administration (SKIPA)*; and

Table 12A2.1: Expenditure Management Implementation Process

Inputs	1.	Proposal to introduce PPB accepted by state governments
	2.	Staff for training identified by state governments
	3.	Training of pilot departmental staff completed
	4.	Initial outcome and output indicators identified by pilot departments
	5.	Training manual for PPB developed and accepted by state governments
Outputs	1.	Draft PPB budgets prepared by pilot departments
	2.	Institutionalize PPB through issuance of annual State budget circulars instructing departments to prepare PPBs starting with FY 2006-07
	3.	At least two pilot departments in each state prepare PPB budget for 2006-07 and submit to Legislative Assembly (LA)
Intermediate Outcomes	1.	PPB extended to additional state departments to ensure that at least 33 percent of the 2007-08 state expenditure is covered by PPB
	2.	PPB in use? (Impact?)
	3.	PPB extension to district level?

- Conducting formal presentations to the officers of the various state governments, the *Government of India Ministry of Finance*, a select group of state finance secretaries from nonREFORM project state (e.g., Assam, Andhra Pradesh, Bihar, Gujarat, and Tamil Nadu), the *Institute of Chartered Accountants of India* as well as to the trainees at the *Reserve Bank of India Training Centre* in Pune, the *National Academy of Audit and Accounts (NAAA)* in Shimla and the *Lal Bahadur Shastri-National Academy of Administration (LBS-NAA)* in Mussoorie.

The following sections describe the detailed implementation of PPB in each of the three REFORM partner states. This is being done as each state faced unique challenges, objectives, and approaches to working around these challenges.

State Experiences

Jharkhand

THE CHALLENGE

The REFORM team, in the course of needs assessment, identified gaps from best practices in expenditure management of Jharkhand. Some of these are line item focus in budget, lack of information on program outcomes, plan and nonplan segregation, lack of a multiyear framework and inefficient budget execution. The main emphasis is on fund control and release rather than collection and analysis of socioeconomic data that would serve as performance indicators. The need, therefore, was to transform the existing budgetary process into a system that could be the vital link between mobilization of funds and attainment of government goals and objectives as well as to ensure effective internal control, accountability and transparency.

REFORM PROJECT INITIATIVES:

In the light of the challenges before GoJ as stated at the outset, REFORM Project proposed that improved budget management was essential for effectively handling the increased allocations for the central programs. The response, however, was not immediate. Though the REFORM Project started in May 2004 in Jharkhand, PPB could be introduced only in July 2005 after several rounds of discussions with the DoF officials. The Project, however, lost no time and immediately drafted the Senior Budget Advisor and the State PPB Advisor to provide technical assistance to GoJ.

The PPB implementation began slowly with only two pilot departments: Social Welfare and Water Resources and gradually picked up through the following phases covering almost 100 percent of state budget by the end of 4th phase in April 2008.

1st Phase—July 2005 to March 2006

Two Pilot Departments (Social Welfare and Water Resources) were trained in PPB Methodology and submitted 2006-07 budgets in PPB format to Finance Department in February and August 2007, respectively. PPB manual has been prepared and is in use by the Task Forces of GoJ departments.

2nd Phase—2006-07

Commercial Taxes; Road construction; Mines and Geology; Welfare; Health, Medical Education and Family Welfare; Urban Development; Human Resources Development; Energy; Rural Development; and Building Construction Departments were trained in PPB Methodology to prepare 2007-08 budgets in PPB format.

3rd Phase—2007-08

Planning and Development; Finance; Home;

Excise and Prohibition; Registration; Agriculture; Industries; Cabinet Secretariat and Coordination; Institutional Finance and Programme Implementation; and Cooperation Departments were trained in PPB Methodology to prepare 2007-8 budgets in PPB format.

Final Phase— 2008

Tourism; Drinking Water and Sanitation; Public Relations; Science and Technology; Information Technology; Civil Aviation; Forest and Environment; Food Supply and Commerce; Revenue and Land Reforms; Labour and Employment; Art, Culture, Sports and Youth Affairs; Panchayati Raj; Disaster Management; Housing; Cabinet (Election); Cabinet (Vigilance); and Law (Justice) Departments trained in PPB methodology in 2008.

The three orientation workshops for Secretaries and senior officials created interest in PPB and this led to keen participation by the Task Forces in training for whom 17 basic workshops, four follow-up workshops and four handholding workshops have been held.

The State Performance Database Software has been installed in the Finance Department and an action plan drawn up after detailed discussion with DoF and NIC officials has been handed over for implementation.

Till date, 60 mentoring sessions have also been held. The mentoring sessions help the officials as well as the REFORM team to keep a track on the work being done on PPB in each department. These sessions address the problems faced by the officials in the preparation of PPB. The officials freely discuss their views, doubts and the progress achieved by them. Various departments presented their draft PPB budget during handholding workshops in November, 2007 and

Institutionalization of the above PPB implementation has been pursued with the Director General (DG) Sri Krishna Institute of Public Administration (SKIPA). The DG-SKIPA has organized two training workshops on PPB which were held in early 2008. All funds for these workshops were provided by SKIPA while the REFORM Project provided training modules, training material and faculty. In addition, SKIPA has made PPB training courses a regular offering its 2008 training calendar. He has also decide to make PPB a subject in the Foundation Training Programme for the probationers of Jharkhand Administrative Service and Jharkhand Finance Service.

are improving the document as per suggestions for final submission to Finance Department.

Institutionalization of the above PPB implementation has been pursued with the Director General (DG) Sri Krishna Institute of Public Administration (SKIPA). The DG-SKIPA has organized two training workshops on PPB which were held in early 2008. All funds for these workshops were provided by SKIPA while the REFORM Project provided training modules, training material and faculty. In addition, SKIPA has made PPB training courses a regular offering its 2008 training calendar. He has also decide to make PPB a subject in the Foundation Training Programme for the probationers of Jharkhand Administrative Service and Jharkhand Finance Service.

The Director, State Institute of Rural Development (SIRD) has also shown keen interest in PPB Training and the details have been finalized at a meeting with her. PPB has been included in the Training Calendar for 2008-09. All necessary material such as a note on the training course, PPB Training Manual, training module, list of resource persons etc., have been handed over to her and training courses will start soon.

Finally, and most importantly, these workshops have and will be conducted by the REFORM team in association with three officials who were earlier trained intensively in PPB as departmental task force members. Thus, GoJ PPB trainers have been trained and used as adjunct faculty. SKIPA or other institutions can use their expertise for conducting PPB in future.

IMPLEMENTATION CHALLENGES

Some of the key implementation challenges faced by the Jharkhand REFORM team were these:

- Late clearance to take up PPB (June 2005) has delayed cent percent coverage of the government departments, though the target will be achieved by July 2008. Early completion would have allowed ample time for follow-up with GoJ for presentation of the PPB documents to the legislature and also time for training up the field officials;

While imparting training, the need for relating the theoretical aspects to actual needs of the participants shall be kept in mind and modifications, if necessary, shall be made. This is particularly relevant for institutions like SIRD which has a preponderance of rural development officials. With Panchayati Raj Institutions (PRIs) soon to come into being in Jharkhand, the PPB technique is expected to trickle down to the third tier of state administration.

- Acute shortage of officials, an endemic feature in a new state like Jharkhand, has impeded the fast progress of REFORM efforts in the government departments;
- Frequent transfers, partly necessitated by acute shortage of officials and pressing demand for them elsewhere, has been another impeding factor. In the case of PPB, it has led to

induction of new persons in the Task Force, who have to be trained again, and delay in submission of the document to the Finance Department;

- Computer-based Templates and explanation of topics in local vernacular on the request of participants made the training more meaningful;
- The pilot departments do not have infrastructural support and computer aid to make the PPB in proper format;
- Information on Performance indicators is limited to inputs and outputs whereas information on outcome is needed to support the PPB;
- Under the existing system, collection of data, analysis and reporting of results has a backlog of two-three years. Consequently, when data are finally available they are out of date and have little use for correct decision-making; and
- A focused look at current data collection in the pilot departments is necessary before planning activities for generating performance information.

These issues have been communicated to the concerned GoJ officials. However, to a certain extent, the manpower and staff rotation issues are structural and must be accepted as given. To the extent possible, rotated officials have been encouraged to share their PPB skills with their new offices. However, it is not clear to what extent this PPB skill-sharing has taken place.

Though GoJ agreed to the training of its personnel in PPB only in June 2005, its support has been very encouraging and by April 2008, 39 out of 42 government departments have been

trained in the PPB technique. These departments represent over 90 percent of both the Plan and Nonplan budget of the state. Request for notification of departments and constitution of Task Force for training has been met with prompt response from DoF which has also ensured good attendance at the training workshops. It is hoped that the GoJ will also decide soon to present the PPB documents to the legislature.

FUTURE DIRECTIONS

- PPB rolled out to all the 42 departments of Government of Jharkhand by June 2008 achieving total coverage by training the remaining government departments in PPB in 2008.
- Department of Finance has issued instruction to remaining 20 departments to constitute PPB Task Force in their department for training in PPB Methodology by REFORM in 2008 vide their letter NO-CFS-06/23/2007- 305/F dated 4/2/2008.
- The Principal Secretary, Finance has agreed to arrange for review of PPB progress by the Honorable Finance Minister, Government of Jharkhand.
- While imparting training, the need for relating the theoretical aspects to actual needs of the participants shall be kept in mind and modifications, if necessary, shall be made. This is particularly relevant for institutions like SIRD which has a preponderance of rural development officials. With *Panchayati Raj Institutions (PRIs)* soon to come into being in Jharkhand, the PPB technique is expected to trickle down to the third tier of state administration.
- To help the Health Department of Government of Jharkhand to improve budget management, it is proposed to work at two levels:
 1. *State Level:* To track budget delivery against specific programs, subprograms and outcome indicators. Use of the socioeconomic database software developed by the REFORM Project and installed on the state NIC server will enable monitoring and accountability as called for in the NRHM Framework for implementation; and
 2. *District Level:* Use of PPB will enable the districts to complete their intersector health plans for incorporation into the overall state health plan.

Karnataka

THE CHALLENGE

Karnataka state had experienced severe fiscal stress in the decade of nineties (with the exception of a few years during mid nineties) marked by rising deficits—both fiscal and revenue caused by a fall in revenue resources of the state government coupled with unbridled revenue expenditure. Although even during such distress phase, Karnataka's fiscal position compared well with other states, the growing distress in the state was a cause for serious concern. The fiscal reform initiatives introduced by the Government of Karnataka following the release of White Paper on State Finances in 2000, has reversed the trend and today, the state's fiscal position is very sound, marked by revenue surpluses and a fiscal deficit level which is well within the targets of the Fiscal Responsibility Act passed in 2002 by the Government of Karnataka.

The state is currently on a high economic growth trajectory and is attracting considerable amount of investment, both domestic and foreign sources. However, the state's poor achievement levels in the social and economic infrastructure have remained a cause for concern, which pose serious

threat to the sustenance of the recent growth experience. Government expenditure in most of these sectors, despite being assigned the status of "Thrust Sectors" are either receiving reduced or stagnant allocations in real terms. There are also instances where in the needs of a particular sector do not get reflected by way of adequate allocations. The state thus has, on the one hand, a very sound fiscal situation largely led by good and increasing revenue yield due to various reform initiatives, on the other hand on its expenditure front has weaknesses revealed in the form of allocative and technical inefficiencies. Unfortunately, while the overall fiscal improvements may continue for a few more years due to the initiatives on the revenue front, this may not produce everlasting results until and unless the monies expended by the government are also subjected to careful scrutiny to ensure the end results in accost effective manner. The current weaknesses in allocative and technical inefficiencies in the expenditure referred to earlier can largely be attributed to lack of comprehensive and meaningful expenditure reform initiatives until the recent past. Budgeting exercise is largely in the nature of "Line item incremental budgeting" (in line with the practice prevailing in India) where in the increase effected to the line item is based on the amounts expended in the previous year.

The outcomes of huge amount of government expenditure on the ever-expanding number of government schemes and programs have not been meaningfully tracked and the effectiveness of government schemes and programs in delivering the expected results has not been adequately assessed. To a certain extent, the results are reported in the "Performance Budgets" of various departments; however, the focus in these reports is largely on "outputs" pertaining to the "plan schemes" of the respective departments.

It is very rare that program "outcomes" are tracked and reported in any of the reports. While it is very important to have information relating to "outputs" which by and large amounts to listing out of goods and services provided by the government agencies, but they are not tantamount to the final impact or the end result expected of a program. On the other hand "outcomes" indicate the final impact or the end results. Nevertheless, the state has been experimenting with some reform initiatives in the past couple of decades and these include:

Performance Budgets came into existence based on the recommendations of the Administrative Reforms Commission in 1969, and many state governments in India are preparing these reports also in addition to the line item budgets. Their utility is, however, limited only to the plan schemes implemented by the respective departments and the huge nonplan expenditure, which typically constitutes 75 to 80 percent of the total expenditure, escapes a critical review. In addition, the targets and achievements provided in the report largely relate to the inputs and outputs, with very little coverage of outcome information;

Departmental Medium-term Fiscal Plan is another important reform initiative recently introduced by the Government of Karnataka in 2003 as a logical continuation of the provisions of the Fiscal Responsibility legislation relates to the preparation of Departmental Medium-term Fiscal Plan (DMTFP) by some departments;

The DMTFP encompasses reform features such as a medium-term program approach, strategies for achieving the goals and objectives of the programs, "outcomes" and information related to them. These reports however are currently not prepared by all

the departments; in addition the programs are largely at the department level thus, they tend to become very aggregative. Programs are also not connected to their budget summary; and

In the light of the weaknesses referred to above, the state government in collaboration with the USAID-REFORM has been experimenting with some reform initiatives in the area of government expenditure; one of such initiative is in the form of "Program Performance Budget."

REFORM PROJECT INITIATIVE

Government of Karnataka initiated on a pilot basis PPB exercise for eight administrative departments in 2004, which included:

- Home;
- Transport;
- Primary and Secondary Education;
- Higher Education;
- Health and Family Welfare;
- Medical Education;
- Water Resources; and
- Public Works.

The budgets of the pilot Departments: Home, Transport, Health and Family Welfare, Primary and Secondary Education, Higher Education, Public Works, Water Resources represented approximately 50 percent of the State's Budget.

PPB training was very extensive in the state of Karnataka comprising both of limited classroom-type training and innumerable one to one interactive sessions happening almost through the year ever since May 2004. The formal training started with a sensitization workshop regarding

The training modules included discussions on PPB concept, methodology, PPB experiences of other countries, casting of departmental schemes in to programs and subprograms; preparation of the narrative descriptions, budget summary pages, and departmental summary pages, etc. The formal classroom style training was followed by innumerable department level meetings wherein the officers were helped in the actual PPB preparation.

all the inputs provided under the REFORM project to all the Secretaries from all the departments in May 2004. The training programs slated in the context of PPB for the eight administrative pilot departments were always preceded by meetings with the senior officers of the department concerned. Selection of the officers from respective departments was also carefully planned such that there was representation of the officers from the budget, planning and technical sections from the respective departments and also of their counterparts in the Planning, Finance and Rural Development and Panchayat Raj departments. The training modules included discussions on PPB concept, methodology, PPB experiences of other countries, casting of departmental schemes in to programs and sub programs; preparation of the narrative descriptions, budget summary pages, and departmental summary pages, etc. The formal classroom style training was followed by innumerable department level meetings wherein the officers were helped in the actual PPB preparation.

However, in late 2005, the GoK decided to focus only on the Health and Education departments in order to ensure full and proper completion of those departmental PPB documents. At the same time, a Kannada translation of the Health Sector

PPB document was made and this was submitted to the *Estimates Committee of the Karnataka State Legislative Assembly* at its meeting on 10 January 2007. After reviewing the document, the committee recommended the PPB approach to all departments of the GoK. This decision was accompanied by media attention *viz*, articles in the *Deccan Herald* explaining the nature of PPB documents and why the Karnataka general public should be interested in this new approach to governmental budgeting.

Then, in 2007, following changes in the incumbency in the Department of Finance, the GoK decided to expand the number of departments using the PPB approach to include the Home, Transport, Water Resources, and Public Works departments. While the departments of

The PPB experience from the pilot departments has enthused the Government of Karnataka to extend the PPB to all the departments and, currently, the GoK is in the process of finalizing the required Government Order to that effect. It is contemplated that officers from the new departments would be trained in the PPB concepts and methodology at the upcoming Fiscal Policy Institute by making use of the services of the officers who are already trained in PPB methodology by the REFORM team.

Finance and Planning have presently not been included for PPB preparation, officers from these two departments have participated in all the PPB training program organized under the auspices of the REFORM project, thus are well versed in the PPB concepts and methodology.

Government of Karnataka could, in due course, when the departments get acclimatized to the PPB formats, replace the existing reporting

formats of Performance budgets and Departmental Medium-term fiscal plans with that of the PPB to avoid the hassle of reporting in numerous formats. PPB methodology is carefully evolved such that no important information provided hitherto in the other reports is sacrificed.

Finally, the state government intends to present the PPB budgets of some departments to the legislature as a "shadow budget document" (*i.e.*, in addition to the normal expenditure volumes and without the actual allocation figures for 2008-09).

District-level PPB

In late 2007, the new Principal Finance Secretary in concert with the Principal Planning Secretary asked the REFORM Project to extend PPB to four districts being covered by the United Nations Development Programme (UNDP) Human Development Programme. To this end, in early 2008, initial sensitization training was conducted by the REFORM team on the concept and approach of PPB was provided to the officers from Education, Health and Family Welfare, and Woman and Child Development for the following districts: Gulbarga, Bijapur, Mysore and Udupi. At this, the REFORM team is mentoring these district teams to finalize their respective PPB reports.

At the district-level, four training programs were conducted at Gulbarga, Udupi Mysore and Bijapur for ZP officers of Health, Education and Women and Child Development departments.

IMPLEMENTATION CHALLENGES

There is a need to take stock of the current constraints and challenges faced in the preparation of PPB and initiate some measures to make an effective PPB to take roots in the GoK expenditure operations.

Performance Database: While it is important to have the PPB formats in place, it is very essential that relevant performance data are available (especially data relating to outcomes) and used in the decision making process. Currently, availability of data for outcome indicators is very weak and the state government has to strengthen its data base and have the same collected on a regular basis. It has been observed that the data on outcome indicators were not adequately collected and maintained by most of the departments. Therefore, it is necessary on the part of the departments to collect data on the indicators which are identified by the officers concerned. Besides this, each department needs to update the information from time to time. Since the data collected from various districts are consolidated at the state level, there is a need to adopt a common methodology at various data collection points. Moreover, as far as possible, it would be better to give a breakup across different social categories as it gives more meaningful information rather than presenting the information in a single average value.

In addition to this, the indicators identified by the department may change from time to time as the major thrust of a program or subprogram changes over the years. Therefore, there is a need to develop additional performance indicators based on the performance of the program in the previous years and key community targets proposed to the community.

Numerous Reporting Formats: The expenditure departments currently are required to report their activities and performance in numerous reporting formats that are often duplicative in nature. The departments produce Annual reports, performance budgets and Departmental Medium-term Fiscal Plans (DMTFP). Preparation of

all these reports close to the budget time puts enormous amount of pressure on the officers preparing such reports. If and when the PPBs get introduced in all the major Departments of the government, there is every need to review the need to continue with so many reporting formats. Perhaps Performance Budget in its present form (actually there is no prescribed format) and DMTFP (which is *not* mandatory under FRA, 2002) could be replaced by the PPB for which a broad format can be laid down by the Finance Department, based upon the exercise carried out so far with input from the REFORM Project.

Task Force Members: Many a time, it is observed that the officers in charge of preparation of the PPB document and trained by the REFORM team have got transferred and hence, it was difficult to ensure continuity to the work carried out under PPB. Although the respective departments constituted new task force, in the absence of earlier members, the pace of PPB progress suffered as the new set of officers had to get familiarized with the concept and the importance of introducing PPB. There is an urgent need to address this issue, one view point of the Finance department is to outsource the same, however, this may not serve well to institutionalize the PPB effort in the state. Alternatively, proper training of the officers from the expenditure cell in the FPAC (already some FPAC members are trained by the REFORM team) and the faculty of FPI would help a great deal in meeting the requirements.

New Schemes: Another important area that needs to be addressed is the inclusion of new schemes by the government. As the government announces new schemes almost every year, the officers concerned should be in a position to make a meaningful grouping of them under one program or the other based on the objectives of

that scheme. Similarly, for that program or subprogram they have to identify indicators that explain outcome or achievement of the schemes.

Expenditure Categories: Though the basic structure of the PPB for the district remain the same as that adopted at the state level, there needs to be more focus on certain aspects. One of them is the categorization of the objects heads of expenditure into meaningful categories. At the state-level, the expenditure under each program was grouped into 10 categories. But at the district-level PPB, the number of categories of expenditure could be brought down, as certain expenditures such as transfer to local bodies and debt servicing are not present at the district. Therefore, grouping of object heads into different categories of expenditure is an important area to be finalized soon.

Limited Coverage of District-level PPB: The present focus of the district-level PPB is to cover those schemes implemented at the district-level through ZP or those schemes which are given in the link document of the ZP that come under the administrative jurisdiction of the CEO. The departments of education, health and women and child development have state sector schemes implemented at the district-level in addition to the ZP schemes. The outcomes or performance indicators given in the district level PPB document cannot be limited to ZP schemes alone, as the performance of indicators are often influenced by the expenditure decisions of the state sector schemes too. Although the current focus is only on the "District Sector", eventually, there is a need to develop a "District PPB" rather than limiting to only a "district sector" PPB.

PPB IMPACT

The PPB experience from the pilot departments has enthused the Government of Karnataka to

extend the PPB to all the departments and currently the GoK is in the process of finalizing the required Government Order to that effect. It is contemplated that officers from the new departments would be trained in the PPB concepts and methodology at the upcoming Fiscal Policy Institute by making use of the services of the officers who are already trained in PPB methodology by the REFORM team.

The PPB training at the district-level (REFORM team discussions with the CEO, Udupi) has evoked a similar experience, wherein the officers are contemplating to use the PPB formats for their Monthly Monitoring and Review (MMR) of government programs and use the performance information in framing the future expenditure decisions. This could eventually get converted into a Government Order, requiring the ZPs to prepare PPBs along with their line budgets to be presented to the Zilla Panchayat. Even though the 74th amendment to the Constitution of India envisaged formation of District Planning committee, till recently, preparation of a District Development Plan, encompassing activities of Government Departments operating at the District-level and the local Government Institutions (urban and rural) was not being taken very seriously by many State Governments. However, during the Eleventh Plan Period, Government of India has been insisting that the State Governments have to ensure preparation of District-level Development Plans and States which fail to prepare District Plans will not be eligible for funds from several national-level schemes. Ideally, District-level Development Plan should have outcome-oriented targets for all developmental areas, especially in human development sectors, including Education, Health, Woman and Child Development, etc. The Plan will have to allocate funds and monitor progress with reference to these outcome targets.

It is hoped that the Districts which have started preparing District Sector PPB for important Human Development Sectors under the USAID REFORM auspices will be able to make use of documents for formulation of District Development Plans in the coming years, in introducing greater rationality in allocation of funds among different sectors and for monitoring Progress not only with reference to expenditure or output figures but also with reference to expected outcome from different programs/ subprograms/schemes, etc.

Impressed by the REFORM approach to the PPB, the Reserve Bank of India- College of Agriculture Banking, Pune, in collaboration with UNDP and Planning Commission has incorporated "PPB- Concepts and Methodology" as an input in their training of trainers program on District Planning and Human Development. This is expected to take the PPB far and wide in the country as the training is provided to officers representing respective state Administrative Training Institutes (ATI).

FUTURE DIRECTIONS

The Program and Performance Budget (PPB) initiated on a pilot basis by the Government of Karnataka in eight administrative departments in 2004 account for about 50 percent of state government expenditure (excluding pension and interest payments). Officers from these departments (both from the Secretariat and the Field level) with senior officers from a large number of other expenditure departments were first given an orientation program in PPB approach. This was followed by a more focused training in the PPB concepts, approach and preparation of PPB drafts for the respective departments. All of these culminated in a draft PPB report for the Administrative Departments mentioned above in March 2005. Since then PPB

The project was initiated with a general seminar for the sensitization of senior officials of the departments. Thereafter, each Departmental Secretary constituted a task force vertically integrating officials in each department who could be trained and complete the PPB document. Subsequently, series of workshops were held for each department to effectively train the Task Force in the specifics of the budget of the Department. The workshop included theoretical and practical training as well as interactive sessions. Thereafter, individual mentoring was also attempted to impart knowledge concepts and improve skills of the individual officials.

has been developed more thoroughly at an individual department level (*i.e.*, at the level of individual field departments). This exercise for the departments of Health and Family Welfare, Medical Education, Education (Primary, Secondary and Higher Education), Home is largely complete, that of PWD, Water Resources and Transport is nearing completion. It is expected that these departments can be helped to complete their PPB exercise by June 2008, when the substantial activities of the USAID REFORM Project are likely to come to an end, though the life of the Project is up to 31st August 2008.

Scaling Up the PPB Activity: PPB exercise will have significant impact only when it is extended to the entire expenditure program of government so that the government expenditure in its entirety gets evaluated for its performance. Such evaluation would in turn serve as the basis for inter and intrasectoral expenditure allocations that would ultimately help in achieving allocative efficiency.

Scaling-up is required at two levels to capture the expenditure in its entirety; (i) extending it to all the departments; and (ii) extending it to the district sector.

Extending PPB to all Departments: Effort and Time Frame: In addition to the eight administrative departments, if nine administrative Departments (list appended) are included for the PPB exercise, it would be capturing about 75-80 percent of the total government expenditure (excluding pension and interest payments). Officers from these departments need to be familiarized with the PPB approach and trained in the PPB concepts and methodology. They would also need handholding support while the preparation of the PPB is on. On an average, each department would require about six months' time to formulate a meaningful PPB for their department, provided their effort is focused and uninterrupted.

The rollout of PPB in the state of Uttarakhand has covered more than 50 percent of the State Budget. Six departments' viz., Health, Departments namely Education, Rural Development, Forest, Minor Irrigation and Drinking Water have submitted their PPB document sheltering around 33 percent of the total state Budget. The remaining departments are in progress and may submit their documents by the end of 2007. More importantly, nonfinancial officials like doctors, engineers and others have learnt the technique due to its simplicity and template use. It was presented to the Administrative Reforms Commission of GoU and the Commission has commended it.

Designing training programs for a group of departments rather than for individual departments separately can save resources and time. Constituting task forces comprising of officers from budgeting, planning, technical and administrative sections from each department would help in framing meaningful PPB with out lapse of much time.

Extending PPB to the District Sector: It is very important to extend PPB to the district sector in

view of the large-scale expenditure that takes place under the district sector, which can be termed as the "District Sector PPB." This effort has already begun in the districts of Gulbarga, Bijapur, Mysore and Udupi, the four districts for which district Human Development Report are under preparation. To begin with, three departments (Primary and Secondary Education, Health and Women and Child Development) are being covered for preparing district sector PPB, with support from the USAID REFORM team. This work is at a very preliminary stage now. The officers from these departments in the four districts have been sensitized about PPB approach and some handholding has been provided to enable them to group their schemes into programs and sub programs and develop some performance indicators. Scaling up this exercise to all other departments in the district sector and to all the 29 districts, would require considerable amount of time and effort.

Role of FPAC and FPI in Institutionalizing PPB: In view of the fact that the term of the USAID REFORM project would last until August 2008 (with very attenuated level of activity after 30.06.08), there is a need to find alternative means of training the officers in the PPB methodology and guiding them through handholding in the initial phase of preparing PPB. The officers from the Fiscal Policy Analysis Cell (FPAC) and the faculty at the Fiscal Policy Institute (FPI), which would be functional very soon, may be entrusted with the responsibility to carry this work forward. In order to facilitate training in PPB and other expenditure related matters it would be appropriate to post three to four faculty members specialized in the area to the FPI for conducting training and also to handhold the officers in the preparation of PPB. The services of some of the resource persons who have served in the REFORM project could also be made use of

either by absorbing them in the FPI on contract basis or utilizing their services as external consultants. FPI can also be the nodal agency to provide training to the officers from the District sector. It is important to ensure that the faculty at FPI and FPAC staff, who will be the potential future trainers are well versed in the area of Expenditure planning and management. Training of these trainers can be initiated even while the USAID REFORM project is still in operation in the state, i.e., during April to August 2008 so that potential trainers acquire proper understanding of the PPB methodology. This, in turn, would aid in the effort to institutionalize the PPB process in the state of Karnataka. It is expected that with sustained effort by the experts put in place in the FPI and the expenditure management group in FPAC, the PPB can be extended to all the major Departments of Govt. that account for 75-80 percent of expenditure by 2008-09. By 31st March 2009, the district sector exercise can be carried out in say, 12/13 districts. By 31st March 2010, it should be possible to cover all the Departments both at the state level and at the District (ZP) level.

Uttarakhand

THE CHALLENGE

To facilitate the government to transform its present budgetary system (Line Item Budget) into Program and Performance Budget (PPB) so that the Government of Uttarakhand (GoU) has a management tool for internal control that can serve as a self-regulatory device at department, district and program levels. In the process, this will increase official accountability, effectiveness and transparency in daily departmental operations.

As a part of the REFORM Project Program and Performance Budget (PPB) (commonly known as outcome budgeting) was introduced as part of the project.

This was introduced to facilitate the government to transform its present budgetary system (Line Item Budget) into Program and Performance Budget (PPB) so that the Government of Uttarakhand (GoU) has a management tool for internal control that can serve as a self-regulatory device at department, district and program levels. In the process, this will increase official accountability, effectiveness and transparency in daily departmental operations.

The other and most significant dimension of the REFORM initiative was of capacity-building among the Government officials to make them self-sufficient in drafting the PPB document and thus improving the fiscal health of the State.

REFORM PROJECT INITIATIVE

Citing opportunity for reform in public finance expenditure, the India State Fiscal Management Reform Project (REFORM) funded by the United States Agency for International Development (USAID) came into existence in 2004 in Uttarakhand. The GoU decided to work closely with the Uttarakhand REFORM team to modernize and reform its Program and Performance Budget (commonly known as outcome budgeting).

To this end, both a Lead and State Budget Advisor were appointed to provide technical assistance to the GoU.

PPB in the state of Uttarakhand started in August 2004 with training imparted to officials of two pilot departments' viz., Health and Education. With the approval of the government, within a span of three years of initialization, officials from 12 additional departments were trained in PPB. The departments included were Rural Development, Urban Development, Drinking Water, Power, Irrigation, Minor Irrigation, Public Works, Forest, Planning and Finance.

The project was initiated with a general seminar for the sensitization of senior officials of the departments. Thereafter, each Departmental Secretary constituted a task force vertically integrating officials in each department who could be trained and complete the PPB document. Subsequently series of workshops were held for each department to effectively train the Task Force in the specifics of the budget of the Department. The workshop included theoretical and practical training as well as interactive sessions. Thereafter individual mentoring was also attempted to impart knowledge concepts and improve skills of the individual officials. Around 120 officials of GoU have so far been trained in PPB through 22 basic training sessions.

The technique of capacity-building included both classroom teaching and individual coaching.

Till date, around 50 mentoring sessions have been held. The mentoring sessions help the officials as well as the REFORM team to keep a track on the work being done on PPB in each department. These sessions address to the problems faced by the officials in the preparation of PPB. The officials freely discuss their views, doubts and progress achieved by them.

The training/mentoring sessions include topics ranging from Government Budget system, PPB effectiveness, and conversion of line item into ten economic isolates, summarizing the extensive budget programs/schemes into program to scheme map, Vision, Mission, Goals, Objectives, Outputs, Outcomes, Key Indicators and Department Organogram. All these inputs have been compressed into a comprehensive PPB template which is uniform across the departments of GoU. The template has taken into consideration recommendations and suggestions

made by the Gol and *High Level Committee on Outcome Budget* formed by the *Institute of Chartered Accountants of India*.

To this end, the ICAI has particularly recommended the gradualist methodology followed by the REFORM initiative in GoU, viz., selecting 12 departments in the first year for such Programme Performance Budget making; capacity building through handholding methods in these departments; a vertical team capacity building method starting with departmental secretary and budget heads concordance sensitization to the nature and utility of the PPB budget document; a standardized format and implementation road map; the program; and concluding with a consensus-building process to transfer operational ownership from the REFORM project team to the GoU.

IMPLEMENTATION CHALLENGES

The PPB initiative by the REFORM has not been excluded from criticism or resistance by the GoU. The resistance has been mainly on account of fear of increase in transparency of the government spending (as also due to computerization), as it will show in writing the work accomplished (outlays) and its outcomes thus making the officials accountable for the work done.

Secondly, due to lack of coordination among the officials of Uttarakhand on the basis that the officials trained and who actually worked varied, the preparation of the PPB document got delayed.

Thirdly, due to lack of staff at ministerial level the documentation of PPB got slow.

This resistance has been managed through periodic reviews by the Chief Secretary, Principal

Secretary, Finance, Departmental Secretaries/ Additional Secretaries, etc., for their respective departments on the progress on PPB. Regular mentoring sessions, follow up and orientation sessions have been held to keep the work on track. Data accessing for goals/outputs etc., from Five-year-plan/Annual Plan/Sample Surveys/State Statistics, etc., have been explained to the trainees.

Even though there was initial resistance, the GoU is now interested in owning the PPB document. The public officials have done a lot of brainstorming in several meetings held with REFORM and amongst themselves and have suggested some format and presentation changes in the PPB budget document format according to their need.

REFORM PROJECT IMPACT

The rollout of PPB in the state of Uttarakhand has covered more than 50 percent of the State Budget. Six departments' viz., Health, Departments namely Education, Rural Development, Forest, Minor Irrigation and Drinking Water have submitted their PPB document sheltering around 33 percent of the total state Budget. The remaining departments' are in progress and may submit their documents by the end of 2007. More importantly nonfinancial officials like doctors, engineers and others have learnt the technique due to its simplicity and template use. It was presented to the Administrative Reforms Commission of GoU and the Commission has commended it.

In the year 2006, Mr. Rajeev Singh, Deputy Director, Technical Education, Uttarakhand, was requested to present PPB prepared by him to the Finance Secretaries of 17 state Governments at a meeting commenced by Ministry of Finance.

A significant milestone was reached in PPB implementation when the GoU had issued a circular dated 15th May, 2007 vide letter No. 45/ Addl. Sec. Fin/2007 demanding all PPB trained departments to dispatch their Budget in PPB format for tabling it in Vidhan Sabha for the Budget 2007-08. The circular made clear that Budget for FY 2007-08 will only be accepted by Finance Department after the presentation of Departments' PPB to their respective secretaries. A similar circular was also issued in Year 2006 for preparation of PPB.

The Irrigation department had asked REFORM to extend PPB training to their Engineers in the Garhwal and Kumaon regions so to extend PPB to the district level. The training was imparted to around 50 engineers of State of Uttarakhand. Furthermore, Health Department has requested the REFORM for preparation of a short training program in Health Finance inclusive of Accounting, PPB and basic budget concepts.

In a recent development, Department of Labour has contacted the REFORM for taking up PPB in their respective department so that they can use the document for rational analysis for funding. Thus, illustrating interest of the GoU in taking ownership of PPB and also showing the positive impact which REFORM has left on GoU.

The work done now faces the most important question of "Sustainability." This matter is being addressed in the following manner:

- Two members of the FPAC have been extensively trained in PPB so that they are always available with the Government in case of assistance needed in preparation of PPB;
- The REFORM team is also making efforts to have inclusion of executives of different

renowned institutions for establishment of FPAC (e.g., Forest Research Institute);

- New FPAC members will be made fully conversant in PPB so that they are aware of the concepts and work being done in the field of PPB;
- The REFORM has translated the *PPB Implementation Guide* into Hindi and it is being used by the public officials as their desktop reference;
- The Manual, PPB Templates, Program Scheme mapping etc. are also available with the Trainees in CD. NIC officials in Dehradun are also aware of REFORM initiatives; and
- Furthermore, with computerization taking place in the newly developed state of Uttarakhand, *Socioeconomic Database* software in Microsoft Access has been prepared for facilitating PPB preparation. The database is likely to be installed in GoU for use by different departments.

FUTURE DIRECTIONS

Once the Program and Performance Budget is finally adopted by the GoU, Uttarakhand will be (along with the other two REFORM Project partner states Jharkhand and Karnataka) one of the first jurisdictions in India (including the GoI) to have a Budget practice which is according the International Best Practices. PPB can become the basis for improving the allocation of scarce budget resources and therefore improving the performance of the state government in the delivery of important public services in India. It will also help in being accountable to the expenditure of Public funds to the Public in general, thus, being in accordance with *Right to Information Act*.

The need for imparting training to the District/ Subdistrict-level officials is under

consideration. The goal is to extend PPB to the root level especially in programs like the National Rural Health Mission (NRHM). This will help in ascertaining the true outcome for the efforts of the departments and for regulating the program of these programs at different levels. Accordingly, a new PPB format as articulated by GoU Department of Health is under consideration.

Finally, agenda for further imparting training to other departments of GoU is under consideration.

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- The REFORM has translated the *PPB Implementation Guide* into Hindi and it is being used by the public officials as their desktop reference;
- The Manual, PPB Templates, Program Scheme mapping etc. are also available with the Trainees in CD. NIC officials in Dehradun are also aware of REFORM initiatives; and
- Quoting a part of the speech given by P. Chidambaram for Budget 2008-09, "A

comprehensive Decision Support System and Management Information System will also be established"; it clearly mentions that the need for computerization of data is essential. The REFORM project has already developed software in form of Socioeconomic database in Microsoft Access for this developing State of Uttarakhand. Thus illustrating that the REFORM project already had clear futuristic view for establishment of computerized MIS for PPB or outcome budgeting.

Treasury Management

Treasury reform was originally viewed as an important component of the REFORM project technical assistance package. However, following a few missions in 2004 and 2005 by the same international treasury expert, it was decided to discontinue the intervention due to the demand by state counterparts for assistance in PPB. Nevertheless, the project did provide guidance to all three partner state governments in how they could improve their treasury operations and Financial Management Information System (FMIS) computerization. In Karnataka, the project provided a series of guidelines and templates for the state FMIS, treasury code, cash management and general expenditure information needs. A consolidated account of these work experiences follows.

Implementation Methodology

The goals and objectives of the REFORM budget execution (treasury reform) effort consisted of three interlocked strategies:

Strategy 1: Increased coverage of budget expenditure transactions going through Treasury system; and Payroll processing moves to direct deposit system and simplified;

Strategy 2: New financial control measures introduced; and

Strategy 3: Revised Expenditure Report presentations suitable for performance evaluation of budget implementation; and a Revised Chart of Accounts.

The implementation of these strategies was to be led by an international treasury expert and shepherded by the state REFORM teams. However, actual execution was the domain of each partner state governments

Initially, all international expert missions were largely information gathering and assessment missions. The final mission—in September 2005—consisted of a series of meetings with the partner state Finance Departments to consider further initiatives for Treasury Reform. In one partner state, Karnataka, the meetings were supplemented with the development and delivery of a series of guidelines and templates for treasury reform.

State Experiences

Taking the three States together several gaps were discerned from best practice that needed to be addressed collectively, while other aspects were single State specific, at least to the extent that the partner State has expressed interest in assistance on the topic.

The common treasury reform issues affecting all three partner states and, therefore, the focus of REFORM technical advice were:

Incomplete coverage of Government financial transactions.

- Omission of significant expenditure transactions and revenue recording in the Treasury system.

- Expenditure Management processes not optimized for computerized operation.

Introduction of Commitment/Obligation accounting.

- Changes flowing from budgetary process reform, particularly if performance or program based budgeting and reporting are introduced.

Duplication of Activities between Treasury and Accountant General.

- Specifically duplication of transaction level data entry into respective systems.

It was suggested that each of these activities could be addressed as a core area of reform applicable to each State, but largely independent of the form of treasury computerization adopted by the State. Finally, it was suggested that technical assistance to address the issue could best be provided by a collective approach, where State representatives would be gathered together to document the deficiencies and, with guidance provided by the REFORM Project, develop solutions.

The only state-specific treasury reform deliverables were—as mentioned above—produced during the last mission to Karnataka. During this mission, the following concrete deliverables were developed and provided to the state government:

- The key technical issues related to extracting and formatting data from the Treasury database;
- Suggested revisions to the Karnataka Treasure Code to reflect current practices, post computerization; and

- Detailed guidelines and templates for the state FMIS, cash management and general expenditure information.

However, due to the slow pace of treasury reform, other partner state government priorities (e.g., PPB) a joint USAID-REFORM project decision was made to await substantial Government reforms before any further work would be done or any additional technical assistance provided. Since these reforms did not take place in a timely manner, no further missions were undertaken.

Procurement Management

Although procurement management reform was an important part of the REFORM Project SOW, shortly after project operations began, a decision was made by USAID/India to defer to the leading role played by the World Bank. Thus, this intervention area was not promoted or invested in to the same extent as the PPB effort. Nevertheless, the project did significant work in Karnataka and Uttarakhand and it is these work experiences that are described in the sections below.

Goals and Objectives

The specific goals and objectives of the REFORM Project Procurement intervention varied depending on state needs and priorities. However, the common goals and objectives were to develop either a procurement law or government circulars providing:

- Standard templates, conditions of contract;
- Guidelines requiring projects and requests to contain clear “Justification of needs,” clear specifications, and accurate costing;
- Procurement evaluation criteria (marks/points) for a transparent vendor selection process; and

- Guidance on organizing and maintaining procurement records, cost histories, invoice payments, project history, and adequate archives.

Implementation Methodology

To this end, the procurement front REFORM engaged local experts of international caliber to sensitize senior officials on the need and type of reform needed. In Karnataka the local expert was a former World Bank-India procurement officer. In Uttarakhand, the local expert was also associated with Union Government reform on procurement and having worked in Gol. These experts worked closely with their counterparts in their respective states to develop the deliverables described below.

State Experiences

Jharkhand

Although the Government of Jharkhand had the option of engaging the services of a REFORM Project expert in public procurement, it demurred due to more interest in Expenditure, Revenue, Debt, and Project Appraisal management. As a result, the project did not engage in any public procurement activities in the state.

Karnataka

On 24 October 2000 the Government of Karnataka was one of the first states in India to enact public procurement legislation enacted *viz* the *Karnataka Transparency in Public Procurement Act 1999 (KTPPA)*. In addition, it had issues *Rules 2000* and Circulars.

Subsequent to which a number of rules were framed to give effect to the legislation. REFORM team played a significant role in compiling all the circulars issued under the KPTT Act, disseminating the same and

arranging a workshop on various procurement related issues by involving senior officers from the government representing departments such as Public Works Department, Health and family welfare, Karnataka Urban Infrastructure Development Finance Corporation and also the World Bank consultants.

REFORM procurement expert for Karnataka made considerable number of recommendations in the context of select government agencies such as "Social Welfare Department," "Bengaluru Mhanagara Palike" and "Gulbarga Electricity Supply Company."

Requests for technical assistance originated from the GoK. As a result, there was no resistance to the recommendations once they were received. In fact, the technical assistance provided by the REFORM project has been adopted by the concerned GoK departments and are now in operation. (For more information on the specific recommendations made by the REFORM Project, please see *Volume I: REFORM Project: Overview, Section II* for the *Karnataka Case Studies*.)

In closing, despite the limited nature of its project procurement intervention in Karnataka, the REFORM project provided critical advise in reforming and refining the procurement processes for three important GoK offices.

Uttarakhand

The procurement reform effort of the REFORM team in Uttaranchal (now Uttarakhand) was the more robust and complex than the Karnataka state experience. The following account describes this implementation experience in detail.

CHALLENGE

Uttarakhand did not have a specific Law devoted to the control of Public Procurement activities,

but directives on public procurement have been issued through the Ministry of Finance and the Public Works Department. The rules had been in existence since pre-independence days and have been amended over the years. The rules indicate the steps to be taken in the acquisition of goods, materials, and services; tender procedures; financial controls, and issue and receipt of items. Though they represent a codified methodology, they do not address many of the needs of modern day procurement activities. They also are open to flexible interpretation. To address the many shortcomings in the codes, the REFORM Project was tasked with advising the GoU on preparation and enactment of a comprehensive Procurement Law.

This state procurement law was to modernize the public procurement process in the Government of Uttarakhand (GoU) in order to accommodate new work arrangements and technological advances *viz.*, Public-Private Partnerships (PPPs) and Internet-based governance and procurement processes (eProcurement). This was to be done in order to achieve more economical, transparent, and secure data and document management while saving public funds and increasing public official accountability and effectiveness.

BACKGROUND

The new state of Uttaranchal (now Uttarakhand) inherited the *Uttar Pradesh Financial Handbook Volume V Account Rules Part 1*, dated 1979. These rules were a modest update of the 1925 *Store Purchase Rules* used by the British colonial service.

REFORM PROJECT INTERVENTION

With the advent of the India State Fiscal Management Reform Project (REFORM) funded by the United States Agency for International Development (USAID) in 2004, the GoU decided to work closely with the Uttarakhand REFORM

team to modernize and reform its public procurement process.

To this end, a consultant was recruited to provide the technical assistance working closely with Additional Finance Secretary. Together, they organized and held a number of information gathering and sensitization seminars followed by personal interviews with GoU secretaries and their immediate deputies.

As a result of these meetings in early 2006, the REFORM team learned about what was happening in the procurement processes of the government, who was doing what and how, and finally, what the concerns and needs were of the public officials met and interviewed.

The REFORM-GoU team then surveyed all of the various procurement documents available within India (both government and donor) as well as internationally to extract the "international best practices" for inclusion in the *Uttarakhand Procurement Rules* document.

The rules were prepared in both English and Hindi and contain three key parts:

1. The rules (instructions) covering goods, works, services, outsourcing, contract administration and an appeals process;
2. A list of key legal terms; and
3. Standard bidding documents for use in public procurement.

The first draft was ready by mid-2006 and the first draft was reviewed and commented on by the legal department of the GoU.

Subsequently, the file was circulated to all concerned GoU officials in the Finance and

Planning departments as well as the Chief Secretary of the State.

The draft rules contained provisions on both PPP and eProcurement, which was the first time these procurement approaches were, included in any draft government rules in India.

The rules were then posted on the official Web site of the GoU to generate comment from interested stakeholders such as academia, the private sector, concerned citizens, and other government officials.

Key inputs were provided by the Industries Association of Uttarakhand, which is the state branch of the Confederation of Indian Industries.

Key resistance to the draft rules has come from two quarters, both within the GoU: the Public Works Department (PWD), which saw the rules as an attempt by the Finance Department to control PWD procurement; and, managerial-level government officials who feared that formal rules that delegated authority to line staff would result in their being legally liable for any deviation from the same.

The rules have now undergone some language changes and additions following the public comment period and are now ready for submission to the Chief Minister for review and approval for tabling at a future cabinet meeting. It is expected that the rules will be formally approved by the cabinet by the end of calendar year 2007.

WORK RESULT

The *Uttarakhand Procurement Rules* were adopted by the GoU and published in the *GoU May 2008 Gazette*. Now, Uttarakhand is the first jurisdiction in India (including the Gol) to have a modern set of procurement rules that addresses new procurement modalities such as PPP and eProcurement. In addition, the rules consolidate all state procurement into one robust system that will cover all public procurement regardless of funding source (*e.g.*, Gol, GoU, or international donor). In short, the rules enable Internet-based procurement increasing the speed and transparency of the process, consistency in approach, savings in public funds and legally admissible and unalterable documentation of state procurement activities.

Part 3:**Implementation Results****REFORM Project Initiatives, Impact and Leveraging**

The expenditure management achievement of the REFORM Project in its three (3) partner states—Jharkhand, Karnataka, and Uttarakhand—as well as nationally with respect to the knowledge, attitude, practices and impact construed:

Table 12A3.1: Expenditure Planning and Management, Knowledge, Attitudes, Practices Results

Fiscal Sector	Jharkhand	Karnataka	Uttarakhand	Government of India
Knowledge Transferred	<ul style="list-style-type: none"> • More than 300 GoJ officials trained at all levels in PPB. • A core group of 6 trainers and mentors developed. • PPB Implementation Guide developed and accepted by GoJ. • S/W database developed and presented to GoJ for converting general budget data into program/scheme data. 	<ul style="list-style-type: none"> • More than 220 GoK officials trained at all secretariat and district levels in PPB. • Training of 35 GoK officials on public procurement management issues. • <i>PPB Implementation Guide</i> developed for use by <i>Fiscal Policy Institute</i>. • Procurement guidelines developed for 'Social Welfare Department', 'Bengaluru Mhanagara Palike' and 'Gulbarga Electricity Supply Company'. 	<ul style="list-style-type: none"> • More than 150 GoU officials trained at all levels in PPB. • A core group of 6 trainers and mentors developed. • Sensitization of 85 GoU officials on the <i>UA Procurement Rules</i>. • <i>PPB Implementation Guide</i> and <i>Procurement Guide</i> developed and accepted by GoU. • S/W database developed and presented to GoU for converting general budget data into program/scheme data. 	<p>Training courses in PPB for: IAS trainees at LBS-NAA; CAG officers at NAAA; and 30 ATI trainers from 12 states at RBI College of Agriculture-Pune.</p>
Attitudinal Change	<ul style="list-style-type: none"> • PPB methodology institutionalized through issuance of 3 annual budget circulars. • PPB methodology is being extended to all 24 state district health resource centers. 	<ul style="list-style-type: none"> • State Legislature Estimates Committee decided on January 10, 2007 that PPB documents should be extended throughout the government – final legislation is awaited. • PPB implementation for district Education, Health and Family Welfare, And Women and Child development officers in Bijapur, Gulbarga, Mysore, and Udupi districts. 	<ul style="list-style-type: none"> • Uttarakhand Public Procurement Rules approved by the cabinet and published in the state government May 2008 Gazette. • PPB methodology institutionalized through issuance of 3 annual budget circulars. 	<p>The <i>Institute of Chartered Accountants of India (ICAI) High Level Committee on Outcome Budget Report</i> to the Minister of Finance recommended the Uttarakhand PPB experience.</p>

Table 12A3.1: Expenditure Planning and Management, Knowledge, Attitudes, Practices Results (Contd.)

Fiscal Sector	Jharkhand	Karnataka	Uttarakhand	Government of India
Practices Introduced	<ul style="list-style-type: none"> • Thirty-nine (39) out of the 42 GoJ ministerial departments have PPB task forces and PPB documents covering more than 95% of the budget. • PPB methodology institutionalized through issuance of 3 annual budget circulars. • GoJ is using the <i>PPB Implementation Guide</i> as a training tool at the SKIPA and SIRD. 	<ul style="list-style-type: none"> • A total of 8 out of 28 departments have PPB task forces and PPB documents accounting for about 50 percent of the overall state budgets. • PPB implementation for the Education, Health and Family Welfare, and Women and Child Development officers in Bijapur, Gulbarga, Mysore, and Udupi districts. • GoK is using the <i>PPB Implementation Guide</i> as a reference. 	<ul style="list-style-type: none"> • Submission of 4 departmental PPB documents to the state legislature for 2008-09 budget sessions. • A total of 17 out of 27 GoU departments have PPB task forces and PPB documents comprising slightly more than 60% of the state budget. • PPB methodology institutionalized through issuance of 3 annual budget circulars. • GoU is using the <i>PPB Implementation Guide</i> as a reference. 	
Impact(s) Realized	<p>The Water Resources Department has used the PPB methodology to: complete long-delayed and cost-overrun irrigation projects; discover inefficiencies, (e.g., spending almost 10 times more on Irrigation Revenue Directorate salary than actual water charges). GoJ now considering closure of directorate and transferring its responsibilities to the Water Users Association.</p>		<p>GoU state legislature has approved the PPB documents for 4 departments in the 2008-09 budget sessions.</p>	

Part 4:

Lessons Learned

As a result of the above expenditure interventions in all three partner states, the REFORM Project is able to provide a comprehensive list of lessons learned that can be leveraged by other state governments engaged in public expenditure reform. The lessons learned fall into two broad categories:

- Enabling factors, which assisted or facilitated the implementation, adoption, and sustained use of the tools and techniques introduced; and
- Impeding factors, which delayed or prevented the implementation, adoption, and sustained use of the tools and techniques introduced.

More specifically:

Enabling Factors

- When developing a public expenditure management (PEM) reform plan, state governments need to view Expenditure Management in a holistic manner (*e.g.*, budget preparation, budget execution, and budget analysis) in order to generate synergies and resource-sharing between its different components;
- Institutionalization of PPB begins with strong support by the Principal Finance Secretary of a state ensures the participation of the right budget personnel from government departments;
- Government Orders requiring the preparation of PPB documents ensure that departmental budget officers are aware this budgeting approach and their obligation to prepare the same;
- Development of a road map to cover all secretariat departments provides the momentum and coverage needed to sustain preparation of these documents;
- Appointment of dedicated PPB task force members creates cohesion and continuity in the task force membership enabling a consistent level of effort and focus;
- Submission of summary PPB documents to the state cabinet and legislative assembly helps to generate champions for this budgetary approach;
- Formation of department-based PPB Task Forces led by the department secretary provides the referent authority the task force needs to complete its work despite the demands on its time;
- The early identification, training, and utilization of government budget officers to serve as trainers and change agents greatly facilitates the extension and sustained implementation of the PPB budget format;
- To the extent possible, the appointment of dedicated PPB task force members creates cohesion and continuity in the task force membership enabling a consistent level of effort and focus;
- Periodic press coverage of the expenditure management efforts of the state government help to engender public and political interest in these reform efforts that, in turn, reinforces and compels the state government to continue down the reform path;
- The presence of long-term technical experts in the state enables the daily mentoring and shepherding needed to successfully complete PPB documents; and
- The use of PPB enables clear articulation of outcomes in relation to outlays and facilitates expenditure analysis *viz* disbursement flow

levels throughout the fiscal year (FY), sector budget shares, and trend analysis of planned budget growth *versus* actual utilization.

Impeding Factors

- Late clearance to take up PPB efforts reduced the time available for follow-up with partner governments for presentation of the PPB documents to the legislature and also time for training up the field officials;
- Frequent transfers, partly necessitated by acute shortage of officials and pressing demand for them elsewhere, led to induction of new persons in the Task Force, who have to be trained again, and delay in submission of the document to the Finance Department;
- Reluctance by some in state government officials to embrace PPB due to their work on Departmental Medium-Term Fiscal Plan (DMTFP);
- Conflicting time demands on State Government Departments who must also prepare annually other budget related reports such as *Annual Performance Budget, Annual Administrative Report, DMTFP* and the line-item budget along with PPB;
- Inappropriate appointments to departmental PPB Task Forces due to seniority or time availability; and
- Lack of adequate information technology (IT)-savvy staff (Typist/ Computer Operator) can delay completion of PPB documents.

Part 5:

Recommendations: Immediate Next Steps

In order to maintain the momentum and sustain the project appraisal initiatives generated by the REFORM Project, the Uttarakhand project team recommends the following immediate next steps by the governments of Jharkhand, Karnataka, and Uttarakhand:

- All three state governments need to submit as many completed PPB documents as they can to their respective legislative assemblies. This can be done either as a complete document or, a summary document can be submitted including the departmental narrative and program summary pages as was done by the GoU during its 2008-09 budget sessions;
- The PPB methodology needs to be extended to all secretariat-level departments in all three states. The GoJ is the closest to completing this initial milestone. The Governments of Karnataka and Uttarakhand need to develop road maps to follow suite in the shortest possible time (*e.g.*, by the time of the 2010-11 budget sessions);
- All three state governments need to continue to issue annual budget circulars ensuring completion of PPB documents for those departments hosting a PPB task force;
- All three state governments need to continue their initial attempts to extend the PPB methodology to district-level officers in as many social sectors as possible. The GoJ has succeeded in mobilizing funding from USAID for a rollout of PPB to all 24 of its district health resource centers. The GoU has made a similar request to the MOF and this needs to be pursued vigorously from the international donor community. Finally, the UNDP-affiliated district level PPB implementations by the GoK need to be continued so that all 29 state districts are covered;
- Regular course offerings on PPB need to be included in the annual training calendar of all three state administrative training institutions. This has already been done by the GoJ at the SKIPA and SIRD and the practice needs to continue. In Karnataka the newly-established Fiscal Policy Institute needs to make PPB training a core course offering in its capacity-building programs. Finally, the *Uttarakhand Administrative Academy (UAA)* in Nainital (or its proposed satellite center located at the Institute of Chartered Financial Analysts of India campus in Dehradun);
- In order to improve the quality of expenditure management, all three state governments need to appoint Expenditure Budget Analysts in their respective FPACs to study budget execution trends at different governance levels (secretariat, districts, block, and Panchayat Raj Institute) as well as for key sectors (*e.g.*, Education, Health, Power, and Agriculture);
- All three state governments need to begin to use of the REFORM project socioeconomic database by generating quarterly reports by all departments having a PPB Task Force; and
- Finally, in order to ensure a more transparent, accountable and Right to Information Act-compliant budget process, all three state governments need to upload their respective PPB documents (summary or detailed) onto their Web site for public information and comment.

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