Improvements in the Quality of Expenditure To Obtain Better Outputs and Outcomes

A Study
By
Administrative Staff College of India
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Abbreviations and Acronyms

AIIMS	All India Institute of Medical Sciences, New Delhi
ASCI	Administrative Staff College of India
BPL	Below Poverty Line
BR	Bharat Nirman
CAG	Comptroller & Auditor General
CBHI	Community based health insurance
CMC	Christian Medical College, Vellore
EBR	Extra budgetary resources
EDI	Education Development Index
FMIP	Financial Management Improvement Programme
G2B	Government to business
G2C	Government to citizens
G2G	Government to government
G2X	Government to wider economy
GDP	Gross Domestic Product
GoI	Government of India
GPRA	Government Performance and Results Act, 1993
GSDP	Gross State Domestic Product
HDR	Human Development Report
IAY	Indira Awas Yojana
ICT	Information and communication technology
IMR	Infant mortality rate
JSA	Jan Shiksha Adhiniyam
JSS	Jana Swasthya Sahyog
M&E	Monitoring and Evaluation
MAF	Management Accountability Framework
MDG	Millennium Development Goals
MDMS	Mid-day Meal Scheme
MMR	Maternal mortality rate
MoV	Means of verification
MPCE	Monthly per capita consumption expenditure
MTEF	Medium Term Expenditure Framework
NAMA	Non-agricultural market access
NGO	Non-governmental organisation
NPR	National Partnership for Reinventing Government
NREGA	National Rural Employment Guarantee Act
NREGP	National Rural Employment Guarantee Programme
NREGS	National Rural Employment Guarantee Scheme
NRHM	National Rural Health Mission
NUEPA	National University for Planning and Administration
OECD	Organisation for Economic Cooperation and Development
OMB	Office of Management and Budget
OVI	Objectively verifiable indicators
PAC	Public Affairs Centre, Bangalore
PART	Performance Assessment Rating Tool
PDS	Public Distribution System
PMGSY	Pradhan Mantri Gram Sadak Yojana
PPBS	Planning Programming & Budgeting System
PPP	Public Private Partnership
PRI	Performance related incentives
PSA	Public Service Agreement

PVSP	Public Voluntary-sector partnerships
RBM	Results based management
RCH	Reproductive and Child Health
SDA	Service Delivery Agreement
SGRY	Sampoorna Gramin Rozgar Yojana
SGSY	Swarnajayanti Gram Swarozgar Yojana
SHG	Self Help Group
SSA	Sarva Shiksha Abhiyan
TFR	Total fertility rate
UID	Unique ID
UK	United Kingdom
UTI	Urinary tract infection
WTO	World Trade Organisation
ZBB	Zero base budgeting

Executive Summary

Introduction

1. The Terms of Reference of the Thirteenth Finance Commission enjoin it to have regard, among other considerations, to the need to improve the quality of public expenditure to obtain better outputs and outcomes. In this context, the Thirteenth Finance Commission has entrusted a Study to the Administrative Staff College of India (ASCI). Under the Terms of Reference, the three sectors of Rural Development, Health and Education are to be covered both, in the Central and State Governments.

2. The Study does not claim or attempt to provide an evaluation of the programmes in these three sectors, which is beyond its scope (and resources). The remit of the Study is limited to focusing on systems improvement aimed at enhancing the quality of public spending reflected in outputs and outcomes. To this end, the procedures and mechanisms in place are reviewed, having regard to international experience and the legal framework enveloping these programmes.

3. The methodology for the Study consisted of desk review of some of the available literature relevant to the topic, desk review of the data collected, discussions with officials of the Centre and States; and a workshop involving different stakeholders.

4. Given the constraints of time and resources, it was obviously not possible to cover the full gamut of functions and activities of the rural development, education and health sectors at the Centre and the States. Perforce, a selective approach was adopted. In so far the Centre was concerned, the choice of programmes for the Study was determined by the importance of programmes and schemes, either in terms of magnitude of the expenditure or intended impact of the programmes. As for the States, selection was influenced by their performance in selected indices relating to poverty alleviation, education and health.

5. Effectiveness and efficiency of public expenditure cannot be gauged unless they are related to productivity with reference to monitorable indicators of outputs and outcomes. It is therefore important to know what factors affect quality of expenditure before attempting to identify appropriate indicators of outputs and outcomes reflective of a results-based approach to quality of public spending. Equally, it is useful and instructive to know how other countries have coped with the issue to see if their experiences and best practices could be replicated or adapted to our conditions.

Quality of Expenditure

6. Two factors principally determine the quality of expenditure namely effectiveness and efficiency. Effectiveness is the relationship between the resources deployed (inputs) and the attainment of one's final objective or the intended impact of a programme. On the other hand, efficiency is a measure of the amount of inputs used to produce a given output or outcome; in other words, one strives for greater efficiency by attempting to maximize the output for a given amount of inputs or minimize the input for a given output or outcome.

7. Typically, budgets are focused on inputs (money, men and material) rather than on what the expenditure produces or the cost of achieving policy objectives. Budgets are normally driven by an 'incrementalist' approach where the concern is more with whether the increases in expenditure are affordable. Further,

traditionally, managers are more concerned with compliance of rules rather than with achievement of results; accountability is more with reference to processes rather than with results.

8. Quality of expenditure must start with planning and formulation of programmes and must be informed by considerations such as value for money, cost effectiveness, giving choice and nurturing competition, if possible. Once programmes get off the ground issues that arise are how well services are delivered and what monitoring and evaluation mechanisms are in place to provide feedback and permit corrective action or mid- course corrections, if need be.

9. Many interrelated factors impinge on the quality of expenditure like planning (including allocative efficiency and appropriate design of projects or programmes/schemes) execution, governance and accountability, each of which comprises cross-cutting interrelated elements.

10. Other factors that would impinge on the quality of expenditure and delivery of services are provisions made for non-salary expenditures and for maintenance expenditure, which are often neglected because of the dubious distinction between plan and non-plan expenditure. Further, there is need periodically to review the relevance and content of government programmes, to see which programmes if any have outlived their utility or relevance.

11. Allocative efficiency, which is "the capacity to establish priorities within the budget, including the capacity to shift resources from old priorities to new ones, or from less to more productive uses, in correspondence with the government's objectives", is also important. Poor allocative efficiency results in spreading of resources thinly over projects and inadequate provisioning, with inevitable consequences of time and cost overruns. Needless to say, other factors that need to be borne in mind while designing and formulating programmes are cost-effectiveness and value for money, competition and choice.

12. Two important factors that have a bearing on service delivery are access and quality. Involvement of the private sector through PPPs and engaging the voluntary sector, if properly managed, could enhance access and quality of public spending.

13. Public Private Partnerships (PPPs) could help leverage the resources of government to expand access and improve service delivery. PPPs have developed in part because of paucity of financial resources in the public sector and the ability to draw on the operating efficiencies inherent to the private sector. Though they may have many advantages, the schemes may be complex to design, implement and manage. PPPs may therefore call for a change in the role of the public sector from that of a service provider to manager or monitor of private contractors. Guaranteeing and enhancing public benefits from PPPs will depend to a large extent on effective management and monitoring systems, as also developing capacity in public sector to design and formulate PPPs and negotiate them. PPPs need not necessarily be the only or preferred option; they should be considered only if it can be demonstrated that they achieve additional value compared to other approaches.

14. Use of technology and involvement of non-governmental organizations (NGOs) and civil society organisations are other approaches that can enhance the quality of expenditure and public service delivery.

15. Two important elements bearing on execution of programmes and service delivery are monitoring and evaluation. Continual monitoring and periodic evaluation should underpin execution of programmes, and also serve as

management tools and policy instruments respectively. In this context, it needs to be borne in mind that monitoring and measurement of indicators of outputs and outcomes are only as good as the reliability of the underlying data and faithfulness and integrity of reporting systems.

16. Corruption, a hydra-headed cancer, is another factor that affects quality and efficiency of delivery of services. It gnaws into access, dilutes quality, and whittles down accountability. Corruption has both a fiscal and direct impact on the delivery of services.

17. In a tacit endorsement of the principle of subsidiarity, the Eleventh Five Year Plan concedes that 'Local governments are in a better position to appreciate problems holistically and come out with cross-sectoral solutions…As local governments are closer to the people, they are capable of identifying local priorities and entering into partnership with communities for the management of assets and facilities.'

18. Accountability in public sector has two dimensions; at the macro level where national or state governments can be held responsible through elections, legislative answerability, audit etc.; and at the micro level, i.e., the local level, which is the point of delivery of public services. Hence, a two pronged approach is necessary for strengthening existing (institutional) macro level mechanisms, and devising effective tools for accountability at the micro level. Further, access to information and stakeholders' involvement are additional tools for enforcement of accountability. In this context, report cards, surveys, and social audit are also useful mechanisms.

International Experience

19. Increasingly, governments around the world are recognizing and realizing the importance of the quality of expenditure. There is a shift in focus from the role of governments to how effectively and efficiently this role is being performed.

20. Governments use inputs or resources (financial, manpower etc.) to engage in activities intended to produce outputs (goods and services) to achieve certain outcomes or produce a desired impact. Five 'whats' summarize the flow:

    - What resources (financial, manpower and other) we use (inputs).
    - What we do (activities) – in the near term.
    - What (goods and services) we produce or deliver (outputs) – in short/medium term.
    - What we wish to achieve (outcomes) – in the medium term.
    - What we aim to change (impact) in the long term.

21. The 1990s witnessed many OECD countries undertaking extensive public sector reforms in response to economic, social and political pressures. Phrases are such as "reinventing government", "doing more with less", and "demonstrating value for money" became catchphrases. Though they were variations in the package of reforms introduced by different countries, aspects common to most countries were: focus on performance issues; devolution of management authority and responsibility, orientation to customer needs and preferences; participation by stakeholders; reform of budget processes and financial management systems; and application of modern management practices.

22. "A results based approach aims at improving management effectiveness and accountability by defining realistic expected results, monitoring progress toward

the achievement of expected results, integrating lessons learnt into management decisions and reporting on performance".

23. Reforms in the OECD countries included development of systems for improving technical strengths and rolling out programmes across further areas of government, including agencies and sub-central government. Efforts are made on a continual basis to link output to outcomes and outcomes to resources as also to the development of appropriate accounting systems to buttress the reforms process.

United States

24. A series of performance measuring initiatives mark the progress of the United States towards a results-oriented budgeting system, a decades' long journey from performance budgeting in 1949 to the Government Performance and Results Act (GPRA), 1993 (*Appendix C*) and the National Partnership for Reinventing Government (NPR, formerly the National Performance Review).

25. The GPRA 1993 reportedly drew inspiration from the apparent success of performance management initiatives in other OECD countries such as Australia and New Zealand.

26. Along with GPRA was another significant parallel initiative, the National Partnership for Reinventing Government, which has several dimensions, including the establishment of customer service standards; performance agreement between President and Cabinet Secretary or head of independent agency, and performance partnerships between federal government and other levels of government. The NPR saw a high level of political commitment.

27. A recent major initiative to strengthen its performance is the Performance Assessment Rating Tool (PART), which is managed by the Office of the Management and Budget (OMB). It attempts to provide a standardized methodology for rating all 1,000 government programmes and for identifying needed improvements to these programmes, apart from giving an information basis to assist government decisions on programme budgets.

New Zealand

28. The new public management embraced by New Zealand was based on the principle that chief executives are directly responsible for the outputs produced by departments while ministers are responsible for the outcomes. The thrust of New Zealand reforms was to shift focus from how much money was spent to what it was spent on and why. Under the New Zealand system responsibilities between ministers and chief executives are separated: ministers are responsible for outcomes whereas chief executives are accountable for outputs.

29. Five core principles characterize the public management system of New Zealand: clarity of objectives, freedom to manage; accountability; effective assessment of performance; and adequate information flows.

30. New Zealand's success in moving to outcome focus is said to have been achieved through the generation of quality information, particularly through introduction of accrual accounting. The legislative basis for New Zealand output budgeting model was the Public finance Act 1990 which sought to establish accountability of public sector departments and agencies for outputs and ministerial responsibility for determining outcomes. The focus on outputs at the departmental level follows from the distinction between the responsibilities of ministers and chief executives. In general, it is very difficult to hold managers accountable for outcomes rather than outputs because of difficulties in

determining causality accurately, significant time lags, and lack of information and information asymmetries.

United Kingdom

31. Three distinguishing features of a result-based approach in the United Kingdom are Citizens Charter, Public Service Agreements and Service Delivery Agreements.

32. A significant reform in recent years in United Kingdom is the introduction of Public Service Agreements (PSAs). These were first introduced in 1998 along with department spending plans for the next three years. In exchange for spending commitments the departments are required to commit themselves to achieving tangible results that are set out in PSAs. A new revised set of PSAs along with spending plans were published in July 2000 and were complemented by Service Delivery Agreements (SDAs) which indicate in detail how the targets are to be achieved. A noteworthy feature of the new PSAs is the inclusion of floor targets. However, a lacuna of PSAs is the absence of provision for independent assessment of progress in meeting targets.

Australia

33. Two features that distinguish the reforms in Australia in regard to performance related expenditure management are forward estimates and accrual accounting. Forward estimates are considered an important reform that has helped the system to allocate resources in relation to strategic priorities. Forward estimates are three – year rolling forecasts of existing policies, which also adjust for changes in inflation, unemployment and the exchange rate. Australia is considered to be a pioneer in the development of accrual accounting and budgeting.

34. Initially, unlike in the United Kingdom and New Zealand the process of reform did not seek to 'de-couple' policymaking and service delivery. However, subsequently Australia has veered to the view that separation of policy and service delivery could provide important benefits like greater choice, flexibility and improved accountability.

35. Widespread use of evaluation is another distinctive feature of Australian reform.

Canada

36. Canada introduced a new expenditure management system in 2007, which was designed with a view to improving performance and value for money in public spending. Strategic reviews undertake assessment of large spending programmes to generate performance information with a view to informing budget-related decision-making.

37. The new expenditure management system is built on three pillars: (i) upfront discipline on spending proposals for new programmes; ii) strategic reviews of the on-going programme base; and (iii) managing for results.

38. Accountability between departments and the Treasury Board is sought to be achieved on the basis of the Management Accountability Framework, which sets out the expectations for management performance. Departments are assessed against a set of indicators that *inter alia* consider the quality of management, resources and result structures; capacity to undertake and use programme evaluations and the overall quality of reports to Parliament. Discussions are held between senior officials to identify priorities for improvement of management.

Lessons

39. A consistent theme running through the reforms is a desire to place more emphasis on the outputs to be produced rather than detailed control of inputs used by government.

40. Different countries have adopted different approaches in linking annual public expenditure allocations to the achievement of strategic policy objectives. However, a common theme that emerges is that centralized control of inputs is not the most effective way if public expenditure is to achieve underlying cause of public spending. Another feature of public expenditure reform is the use of alternative delivery mechanisms, like contracting out delivery of services to the private and voluntary sectors and partnership with them.

41. Some of the lessons emerging from the continual efforts of countries to improve their expenditure and delivery of services and to bring about outcomes and impact consistent with the basic objectives underlying their spending decisions are: (i) outputs and outcome focus; (ii) performance agreements to hold officials or agents accountable for results; (iii) choosing appropriate indicators; (iv) a multi-year approach and focus; (v) change in accounting procedures; and (vi) mandatory minimum standards of service delivery wherever feasible.

Outcome Budgets in Central Ministries

42. Considerable expenditures are incurred by the Central government on subjects primarily in the domain of States; in particular, subjects such as rural development, education and public health. Many flagship programmes of these central ministries with huge and increasing outlays relate to these sectors.

43. Another important development in Indian fiscal federalism is the resort to scheme based discretionary transfers, which are in addition to the centrally sponsored schemes. One other important development is the direct transfers to various local and autonomous bodies.

Performance Budgets to Outcome Budgets

44. Following the recommendations of the Administrative Reforms Commission, performance budgeting was introduced in 1969 in the Central government. Further, owing to certain weaknesses in the performance budgets, a move to outcome budgets was made in 2005-06. The Department of Expenditure in the Ministry of Finance has been issuing guidelines for preparation of outcome budgets each year. The guidelines recognize that outcome budgeting is an evolving dynamic process, and that its utility derives from its being a policy instrument to establish effective linkage with allocation and disbursement of public funds on the basis of measurable performance.

Rural Development

45. The major programmes under rural development are NREGS, SGSY, IAY and Bharat Nirman. Many lacunae and deficiencies have been observed in the implementation of these programmes with inevitable consequences on the quality of expenditure and service delivery.

46. The outcome budget of the department does not adequately address these issues. Indicators would need to be designed to pinpoint such deficiencies and permit timely corrective action.

47. What needs to borne in mind is that budgets are after all only instruments for efficient allocation of resources, and for their effective and efficient use. Their

relevance and sustainability have to be judged in the context of how well they serve as a management tool and as a policy instrument. Though the department has followed the guidelines for preparation of outcome budgets, it would seem it is more in letter than in spirit.

Education

48. Two major flagship programmes under education are the Sarvasiksha Abhyan (SSA) launched in 2001 and the Nutritional Support to the Primary Education annually known as Mid Day Meal Scheme. Though the outcome budgets of the Departments of School Education and Literacy and Higher Education conform in their presentation to the prescribed guidelines, the output and outcome indicators, process timelines, remarks and risks columns are more often than not vague and in very general terms to be of any value for monitoring or as a policy instrument. There is no mention of monitoring and evaluation mechanisms.

49. The relevance and sustainability of outcome budgets would be undermined unless driven by a sense of purpose to use them as veritable tools for efficient and effective service delivery, and as vehicles for disseminating information about government programmes and their true costs and efficacy, with a view to transparency and efficiency in operations.

Health and Family Welfare

50. There is strong correlation between health outcomes and economic development and growth; there is no gainsaying the strong linkage between poverty and ill health.

51. The flagship programme of the ministry is the National Rural Health Mission, which has been launched to address infirmities in primary health care and to bring about improvement in the health system and health status, particularly of those in rural areas. The mission is expected to achieve the goals set under the National Health Policy and the Millennium Development Goals. (See *Appendix F)* The mission rests on five major planks.

52. In their continuing endeavour to enlarge access to services and to improve service delivery many initiatives have been taken both at the instance of the Government of India and on their own by States. In this context, efforts have also been made to harness the benefits of information and communication technology for better access to and delivery of services.

53. The outcome budget of the Ministry of Health and Family Welfare is comprehensive and faithful to the presentation format of the guidelines.

54. Various shortcomings have been documented from time to time in the delivery of health services. Unless some of these lacunae are highlighted in the operational indicators of budgets and timely remedial action taken outputs and outcomes are likely to suffer. For instance, in regard to absenteeism among medical and paramedical staff; lack of medicines; unregulated growth of health services in the private sector, particularly of unregistered medical practitioners; absence of mechanisms for enforcing compliance by the private sector of promises in exchange for fiscal and other concessions; resort to private sector services by the poor because of inadequacies of public sector service delivery and consequent relatively heavier drain on their already strained finances. Further, having regard to the considerable presence of the private sector in health, there is need to harness and leverage the potential of the private sector through regulation and mutually gainful PPPs. It might be useful if some indicators could reflect these aspects also.

55. Further, health outcomes are also dependent on access to clean drinking water and sanitation, which would bear attention.

56. The Indian Constitution does not list health as a fundamental right but many court rulings have interpreted fundamental right to protection of life and liberty (Article 21) as inclusive of the right to health, implying state obligation to protect citizens from medical negligence. Many countries have over time attempted to enshrine access to health and education into a legal framework. While one may draft legal or constitutional rights to health and education, enforcement could be fraught with administrative complications and interpretational conflicts.

57. There is little attempt to explicitly link outputs and outcome indicators to MDGs even though two of the eight MDGs relate to education and three to health.

58. Multi-year perspective is conspicuously absent. Outcomes and even some outputs are realized over the medium term. A three-year rolling Medium Term Expenditure Framework (MTEF) would therefore establish a clearer link with outputs and outcomes.

Outcome Budgets in States

59. Though expectedly there is a correlation between higher public expenditures on poverty alleviation, health and education and their outcomes, the correlation is not very strong or significant. It is not sufficient, therefore, to enlarge public spending in these areas but also, and more importantly, necessary to improve the quality of spending for producing better outcomes. In this context, it would be relevant to see what measures States have taken to provide better services and give value for money.

60. The main thrust of the programmes under rural development in the States is in regard to the flagship programmes of the Central government. The design of the programmes and schemes under rural development provide for greater transparency in terms of (public) access to information and social audit for greater accountability and reducing the scope for corruption.

61. A comparison of the expenditure on education with education outcomes shows that expenditure on education by itself does not necessarily lead to better education outcomes. It is therefore the quality of expenditure that really matters.

62. Studies show that the link between public spending on elementary education and enrolment rates does not appear to be strong. However, given efficiency and demand-side factors, public spending does have an impact on the rate of enrolment and quality of education as measured by teacher-pupil ratio. Availability of school within the habitation and incentives for attending school (mid-day meal, textbooks, uniform) are found to reduce household expenditure considerably and, hence, may affect demand for schooling positively.

63. Some (international) studies, which could be of relevance in the Indian context too, show that public spending on health has little impact on child mortality reduction. Using cross-national data to examine the impact on child (under 5) and infant mortality of both non-health (economic, cultural, and educational) factors and public spending on health, Filmer and Pritchett come up with two findings: (i) roughly 95 percent of cross-national variation in mortality can be explained by a country's per capita income, the distribution of income, the extent of women's education, the level of ethnic fragmentation, and the predominant religion; and, (ii) ***Public spending on health has relatively little impact****, with a coefficient that is numerically small and statistically insignificant at conventional levels.*

Independent variations in public spending explain less than one-tenth of one percent of the observed differences in mortality across countries.

Legislative Framework

64. The states of Assam, Andhra Pradesh Bihar, Haryana, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Kerala and West Bengal, have legislation on compulsory elementary education.

Outcome Budgets

65. Not many states appear to have introduced outcome budgeting yet. Among the eight states that have responded (to us) only three have adopted outcome budgets, namely Andhra Pradesh, Bihar and Chattisgarh (and that too selectively in some departments).

66. Only Andhra Pradesh among these has tried to faithfully adopt the guidelines for preparation of outcome budgets suggested by the Government of India and put out outcome budget documents on those lines.

67. However, it would appear that outcome budgets have not really taken off in the States and that in the few States that have introduced them they are still at an early stage, and they are mostly going through the motions of presenting outcome budgets.

68. Apart from calling for the outcome budgets from States we also requested them to provide information on a questionnaire, but no meaningful response has been received from any of them so far.

Outcome Budgets - Going Forward

69. Focus on outcomes based management should be reflected in a continuous search for evidence of the effects of policy and other actions on results–a quest for the 'Holy Grail'. Managing for results is predicated on sound management practices based on clear expectations and periodic assessment.

70. Merely moving to an outcomes budget system will not necessarily produce the desired results. The supporting systems should be able to back up an outcomes focus in strategic management and coordination of policies and service delivery.

71. An outputs / outcome budget is to serve as a management tool in the hands of managers implementing the programme or programmes and as a policy instrument for achieving allocative efficiency, given the abiding and ever-present constraint of competing demands on limited resources. Underpinning it all are issues of governance, transparency and accountability.

Suggested Matrix

72. Activities occur in the near or immediate term, outputs could be realized in the near or medium term, while outcomes result in the medium to long term, and the impact of programmes can be seen only in the long term. Budgeting is done annually since appropriations are by financial year. There is thus, what one might call, a 'temporal mismatch' between financial and outcome budgets. One way to bridge or narrow down this 'mapping' of traditional (financial) budgets on to outcome budgets is to introduce an element of medium term expenditure frameworks into the matrix, on a three-year rolling basis. Obviously, the outlays shown over the three year period would only be indicative (since appropriations would continue to be annual) and not entitlements, but they would enable the implementing agencies to better plan their programmes with a greater

predictability (though not certainty) of budgetary allocations, which would indubitably make for better outputs and outcomes.

73. The suggested table or matrix tries to integrate the basic log frame matrix, with a medium-term expenditure framework and the format currently adopted for outcome budgets. The results chain (inputs, activities, outputs, outcomes, impact) is shown vertically in rows, while the narrative summary, objectively verifiable indicators (OVIs), means of verification and assumptions / risks is shown horizontally in columns. Elsewhere in this study a suggestion has been made that mention be made of the operational staff sanctioned / deployed on the programme / project (in person-months) and the vacant positions there against (in person-months). This could be shown in the narrative summary either under inputs or activities. Likewise, an indication should be available of unit costs, wherever possible.

74. Not only does the currently prescribed format for outcomes budget not show the OVI separately for each link in the results chain but even the Remarks / Risk Factors column ‘lumps together’ everything under it, whereas the assumptions and risks can be separately seen for each item in the suggested matrix.

75. One other feature of the suggested matrix is that target groups can be shown in the same table against outputs, outcomes and goals whereas, currently, departments are asked to show separate Gender and SC / ST outcome budgets, which incidentally appear to be only (possibly politically correct) ‘generalised guesstimates’.

Choice of Indicators

76. Choice of appropriate indicators may present practical difficulties in that there may be no ideal performance indicator. Perhaps, the guiding principle should be that indicators provide managers with the information they need to perform their jobs efficiently and effectively. For meaningful development objectives and indicators of outputs and outcomes to emerge there should be interaction between different stakeholders. However, one should focus on a short manageable list of indicators and avoid ‘indicator creep’.

77. No attempt is made here to suggest individual indicators of outputs and outcomes for different programmes in the three sectors of rural development, health and education. However, it should be possible for the departments to devise suitable indicators keeping in mind the following considerations:

- They should be truly reflective of the underlying objectives of programmes;
- Different objectives should be captured by different indicators;
- They should be rooted in fact, and not be subjective impressions;
- They should be plausible, in other words, directly relatable to the programme;
- They should be based on obtainable data; and
- They should be amenable to objective verification.

78. Metrics differ for different types of results: effort is measured for outputs; effectiveness is gauged in relation to outcomes; and impact is reflected by change.

79. However, what needs to be highlighted and emphasized is that of the eight Millennium Development Goals (MDGs) six relate to poverty alleviation, health and education. These should find explicit mention in the output and outcome

indicators of the relevant departments / ministries (rural development, health and education) to the extent they relate to their departments / ministries.

Benchmarking

80. ***Benchmarking*** is a useful efficiency tool to measure the performance of an organization against a standard, either absolute or relative to an organization with superior performance. It helps assess performance objectively and identify areas where improvement is needed or possible. Benchmarking can be undertaken with reference to standards, processes or results.

81. Outcome budgets in the Government of India are relatively new, with only two to three years of nascent or incipient experience, which is still evolving. While international experience could serve as a broad guide on how to go about it, there may not be, at least at this stage, any standard bearers against which to benchmark. At this stage, therefore, benchmarking if any can only be against prescribed minimum standards.

82. Many states have yet to adopt outcome budgets. There may not, therefore, be many examples against which to benchmark. However, different States have devised innovative schemes for service delivery in poverty alleviation, health and education, which others may examine to what extent they could be replicable in their situations, and if possible try to integrate through indicators into their outcome budgets.

Monitoring & Evaluation

83. What distinguishes monitoring from evaluation is that monitoring is an ongoing process that charts the progress of inputs, activities and outputs, while evaluation is a one-off or periodic exercise undertaken to assess the results; namely, outcomes and impact of programmes, which also helps in determining causality.

84. Monitoring and evaluation mechanisms should be part of design of a programme, if efficiency and effectiveness, accountability, improved decision making, effective allocation of resources are to be enhanced.

85. A participatory approach to evaluation of outputs and outcomes would better serve the interests of accountability and improved interventions by government.

86. Monitoring and measurement of indicators is only as good as the ***reliability of the underlying data and faithfulness and integrity of reporting systems***. A distinction is made between ***validation and verification of data***. Validation of data is intended to assess the relevance and appropriateness of data (and by extension indicators of outputs and outcomes) to the underlying objectives of programmes while verification in meant to test the correctness and accuracy of data.

Incentive Mechanisms

87. No doubt, performance related incentives (PRIs) would be a spur and stimulus to better performance. However, individual performance related incentives bristle with many knotty issues. Should one replace automatic salary increase through annual increments with performance related pay? Should a performance related incentive result in a permanent increment or should it be a one-off payment to be earned on each occasion at the time of performance appraisal?

88. Staff performance assessment is a difficult process: one has to assess outputs against pre-identified objectives, which should not be too easy to achieve or very complex or unrealistic; competencies and technical skills have to be assessed; team work, leadership qualities and management skills have to be gauged. Most

of these call for qualitative judgment and do not admit of suitable quantitative indicators. Thus, there is large element of managerial judgment involved; the process calls for great transparency in the performance appraisal process related to PRI. Many countries have therefore made the transition from the individual to team-based systems of incentives.

89. Outputs again are the culmination of collective effort of various individuals in an organisation, and may not be attributable to any single individual. Moreover, in the government set-up (in India) officials are transient; a present incumbent may reap the rewards of one's predecessor or predecessors' efforts or initiatives.

90. In the circumstances, performance related incentives to individual functionaries might be misconceived. It would be more logical to devise incentives for team or organisational effort, like for instance, carry forward of unspent balances (non-lapsing authorisations), which would dissuade year-end spurs or spikes in expenditures; flexibility in budgeting; retention of collected revenues; etc. Strictly speaking, however, these would run counter to orthodox budget practices but budgeting too has to make concessions for producing results. It cannot remain a cocoon, rigidly protective of orthodoxies unmindful of the basic raison d'être of government.

Conclusions & Recommendations

91. There is no single accepted model for transforming public service delivery, only responses to common trends and challenges.

92. Looking at the sectors of rural development, health and education individually rather than as inter-related, mutually dependent and mutually reinforcing, might result in missing the wood for the trees. They are not water-tight compartments: rural development, subsuming rural incomes and poverty, is affected in no small measure by education and health outcomes; education outcomes are affected by income levels and income-earning considerations of families as also attainments in health indicators; and health outcomes are in turn influenced by education (including female literacy) and income levels, not forgetting access to safe drinking water and sanitation. Given this interplay of mutually dependent social sector factors, a 'silo approach' risks losing out on the synergies that could be realised.

93. The so-called 'flagship' schemes or programmes under rural development, health and education (namely, NREGS, NRHM and SSA just to mention one major programme from each sector) seek to combine or coalesce different schemes or programmes under their respective sectors into a few 'umbrella' schemes / programmes within their own sectors. But inter-sectoral convergences are still being missed because of compartmentalised delivery of services.

94. Integrating ***medium term expenditure frameworks*** with outcome budgets would be a useful tool to provide a clear analytical link between inputs, outputs, and outcomes, ensure consistency of inter-sectoral expenditures, and maximise efficiency of public expenditure in reaching pre-determined outcomes.

95. A ***revised format for outcome*** budgets be adopted on the lines suggested in Chapter 6.

96. ***Authenticity and reliability of data*** are critical to monitoring and evaluation, both as management and policy instruments. Obtaining periodic reports and supervisory field visits by officials from time to time alone are not sufficient to verify or validate data. Mechanisms must be devised for random independent checks coupled with swift corrective action.

97. Often, cuts in expenditure result in contraction of allocations for non-salary related expenditures. Outcome budgets should therefore indicate non-salary allocations for different programmes.

98. Currently, only outlays are shown in the format for outcome budgets under the heading outlays, further subdivided into non-plan budget, plan budget and complementary EBR. The (operational) staff component attributable to a programme is not shown, which is also an important input, and what is even more important how many of the staff are actually in place and how many vacant posts exist. Broad numbers of vacant and filled posts could be misleading unless vacancy is shown as a percentage of person-months of sanctioned staff.

99. The number of ***indicators*** should be modest, manageable and not too large; otherwise, it could lead to 'indicator creep' with the focus getting diffused. They should be SMART i.e ***S***pecific, ***M***easurable, ***A***ttainable, ***R***elevant, and ***T***rackable.

100. A differentiated approach in regard to ***monitoring and evaluation*** of outputs and outcomes is called for, given that outputs are relatively more immediate as compared to outcomes, which are realised over the medium and long term.

101. Stakeholders should be associated in evaluations. Evaluations should invariably be independently carried out. Government could think of accrediting a panel of evaluators, by sector if need be, from which evaluators could be chosen by rotation or other means.

102. Outcomes assessment must be used to cut back or shelve programmes that don't deliver results, to merge those that have convergent or overlapping objectives and strengthen those that fulfil the desired objectives or outcomes. It should truly be a policy instrument for enhancing allocative efficiency.

103. While setting of goals may be centralised, implementing agencies should be given sufficient operational flexibility.

104. Many OECD countries have as part of results based budgeting adopted ***accrual accounting***, which provides a more accurate cost of government programmes, apart from leading to greater transparency and efficiency in public spending. It is learnt that the Comptroller and Auditor General / Controller General of Accounts are already engaged in charting out a road map for accrual accounting. It is recommended that this be done expeditiously.

105. ***Benchmarking*** performance, with or without prescribing minimum standards of service delivery, would give added impetus to results based budgeting.

106. ***Performance related incentives*** to individual functionaries might be misconceived. It would be more logical to devise incentives for team or organisational effort, like for instance, carry forward of unspent balances (non-lapsing authorisations), which would dissuade year-end spurs or spikes in expenditures; flexibility in budgeting; retention of collected revenues; delegation for greater operational flexibility; and the like.

107. A major problem often commented upon and documented is the absence of teachers, doctors and paramedical staff at their posts. A generalised scheme of incentives (but aimed at individuals) could be considered. For example, preferential allotment of seats in post-graduate medical colleges for doctors serving a minimum of two or three years in rural areas as has been tried by some states (Andhra Pradesh and a few others). One could also consider scholarships

and other incentives for paramedical staff for acquiring higher professional qualifications (nursing degrees for example).

108. In deference to the principle of subsidiarity, ***State level incentives*** by the finance commission could be linked to implementation of the 73rd and 74th Amendment of the Constitution. A 'milestone' approach could be considered whereby releases of incentives could be staggered linked to achievement of (annual) milestones.

109. ***Direct transfers to local bodies*** or implementing agencies is gaining ground in many centrally sponsored schemes to accelerate release of funds, bypassing State governments. A major objection to this is that it dilutes accountability and State supervisory control. Besides, audit reports by CAG point to irregularities. Sufficient checks and balances need to be put in place so that accountability is not compromised and State supervisory role is not diminished.

110. The Finance Commission would need to strike a balance to ensure that efficiency in public spending is not penalised in that States with superior performance are not disadvantaged even indirectly.

111. Outcome level indicators could be chosen in each of the three sectors of rural development, education and health. Six of the eight MDGs relate to these sectors, one to poverty reduction, two to education and three to health, which readily offer themselves and should have general acceptance across all States.

112. Since outcomes are manifest in the medium to long term, performance of States could be reckoned over five year periods. Having regard to the levels of achievement by States in each of these outcome indicators in a base year, a minimum base level of outcome achievement could be the minimum standard or benchmark; say, for example, the median value.

113. States would be awarded points based on their incremental performance over the base year in relation to their initial condition and a predetermined benchmark or standard.

114. ***Outcome based incentives to States*** would be based on a methodology predicated on the assumption that the higher (or better) the initial condition in relation to the benchmark, incremental improved performance would be that much more difficult to achieve and would therefore deserve to be suitably or appropriately rewarded.

115. The methodology is explained in detail in paragraphs 24 to 60 of Chapter 7. Alternative formulations and formulae are also discussed with illustrative calculations.

116. For ***data*** relating to physical achievements in terms of outputs and outcomes, one can think of no better sources than (i) the Planning Commission and its subject matter and sector divisions that are storehouses of diverse and voluminous data as they monitor and / or gather information on all important programmes in the Centre and States; and (ii) line ministries in the Centre that closely monitor programmes and schemes of relevance to them.

Chapter 1. Introduction

1. The terms of reference of Thirteenth Finance Commission enjoin it to have regard, among other considerations, to the need to improve the quality of public expenditure to obtain better outputs and outcomes[1]. Its genesis can be traced back to the 2005-06 budget speech of the Finance Minister where he observed:

"The Prime Minister has repeatedly emphasized the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, together with the Planning Commission, we shall put in place a mechanism to measure the development outcomes of all major programmes."[2]

2. It is in this context that this study has been entrusted to the Administrative Staff College of India (ASCI)

A. Scope of Study

3. The terms of reference indicate that the study would broadly cover the following:

"

1. The study should cover the Rural Development, Health and Education sectors.
2. The institute has to work closely with M/o Rural Development, M/o Human Resource Development and m/o Health and Family Welfare as well as State Governments some of whom have already adopted evaluation procedures for measurement of outcomes. It is to be seen how these procedures are working and whether they need to be improved upon or reoriented. The study could also consider whether the legal framework planned to be put in place is adequate to achieve the desired outcomes e.g. Right to Education, Social Security etc.
3. The recent experience with outcome Budgets in Central Ministries – relevance & sustainability of these efforts to link outlay with outcomes.
4. Relevance of international experience on outcome monitoring – for example the US "Performance & Results Act".

1. Deliverables

5. On conclusion the following outputs should be generated from the study: -
   i. An outputs, intermediate outcomes and final outcomes matrix for the three areas – Rural Development, Health and Education in both the Central and State government sectors.
   ii. The existing position of various government programmes against such a matrix and steps to be taken to move to an outcome oriented path.
   iii. Designing an incentive mechanism for Programme Managers of State and Central Government to adopt such a path. This would also include the necessary exogenous steps to be taken.

6. The first draft of the study should be submitted to the commission by December, 2008 and the Final Report shall be submitted incorporating comments of the peer reviewer to be appointed by the Commission and the Finance Commission be submitted by 31st March, 2009."

[1] Paragraph 3 (vii) of the Terms of Reference constituting the Thirteenth Finance Commission.
[2] Paragraph 100 of Finance Minister's 2005-06 budget speech.

B. Methodology

4. The study does not claim or attempt to provide an evaluation of programmes in these three sectors. There are other agencies or mechanisms for this. The terms of reference clearly do not envisage an evaluation or assessment of the programmes of the concerned ministries and their counterparts in the states, which is beyond the scope (and resources) of this study. The remit of the study is limited to focussing on systems improvement aimed at enhancing the quality of public spending reflected in outputs and outcomes. To this end, it is to undertake an evaluation of procedures and mechanisms in place, having regard to international experience and the legal framework enveloping these programmes.

5. The methodology for this study consisted of: (i) desk review of some of the available literature relevant to the topic; (ii) desk review of data collected from the Government of India (GoI) and State governments; (iii) discussions with officials of the GoI, State governments and others; and (iv) a workshop involving different stake holders. Accordingly, a workshop was conducted on 15 November 2008 in Hyderabad. The background note circulated for the workshop can be seen in *Appendix A* and a report on the workshop at *Appendix B.* The report is also informed by the comments on the draft report of the peer reviewer and the Finance Commission.

6. The object of the study, as is evident from the title, is to improve the quality of expenditure for better outputs and outcomes. Since outputs and outcomes are influenced by and result from both plan and non-plan expenditures[3], we look at the totality of expenditures and not at segmented plan or non-plan expenditures.

7. The persons engaged in the Study were:

    1. Dr. S. K. Rao, Director General ASCI
    2. Ambassador S. Narayanan, Honorary Visiting Faculty
    3. Shri Narayan Valluri, Adviser (Principal Author)
    4. Dr. Paramita DasGupta, Dean of Training and Conferences, ASCI
    5. Ms. Ashita Allamraju, Associate Professor, ASCI
    6. Ms. Navika Harshe, Research Assistant

8. The draft report was submitted in the latter half of December 2008. The comments of the peer reviewer were received (through the Finance Commission) in the first half of March 2009 and those of the Finance Commission in the latter half of March 2009. However, as the principal author of the report was away abroad for over four months and resumed only on April 27, 2009 the final report taking note of the comments of the peer reviewer and the Finance Commission could only be presented in the first half of May 2009.

C. Limitations & Constraints

9. Given the constraints of time and resources, it was obviously not possible to cover the full gamut of functions and activities of the rural development, education and health sectors at the Centre and in States. Perforce, a selective approach was adopted.[4] In so far as the Centre was concerned (Ministries of

[3] For example, the expenditures on old schools or hospitals (i.e. those completed under a previous plan, which are classified as non-plan expenditure) influence education and health outputs and outcomes respectively as do expenditures on new schools and hospitals under a current plan period.

[4] The same view was echoed at the workshop organised by ASCI on the Study.

Rural Development, Health and Education) the choice of programmes for this study was determined by the importance of programmes and schemes, either in terms of magnitude of expenditure (covering about 75 % to 80 % of the budget of the ministry) or intended impact of the programmes.

10. As for the States, the selection was influenced by (i) their performance in selected indices relating to poverty alleviation, education and health as observed from the National Human Development Report 2001, having regard to good, average, and poor performing States (ii) expenditures on education and health as percentages of GSDP, (iii) expenditures on education and health as percentages of total outlays[5], and (iv) per capita expenditures on education and health.

11. The paramount function of finance commissions as enshrined in the Indian Constitution (from which it derives its existence) is the distribution of revenues between the Centre and States to redress the inherent imbalance between the revenue-raising capacities of States and their expenditure obligations. Narrowly viewed therefore, quality of expenditure may seem to lie outside the remit of finance commissions. However, the quality of expenditure would impact a State's fiscal capacity and in that sense would fall within the ambit of finance commissions' purview. States which perform poorly in terms of quality of expenditure and delivery of services, with consequently poor outcomes, would have diminished fiscal capacity.

12. Effectiveness and efficiency of public expenditure cannot be gauged unless they are related to productivity with reference to monitorable indicators of outputs and outcomes. Though considerations of equity predominated in the distribution of revenues recommended by earlier finance commissions, latterly recent finance commissions have also introduced criteria of efficiency while framing their recommendations. However, efficiency criteria adopted so far have related to raising of revenue and fiscal correction rather than to effectiveness and efficiency of public expenditures and to quality of service delivery.

13. Contributing to improved fiscal management is certainly within the remit of the finance commission; and an essential component of fiscal management is improving the quality of public expenditures. Transfers linked to efficient management of resources may no doubt prod states to greater efficiency in the use of scarce resources. But the greater challenge from a long-term perspective lies in identifying systemic changes that need to be brought about. More so, since States differ in their resource endowments, revenue capacity, institutional mechanisms and support, administrative capabilities, and other factors including governance issues which impact on service delivery.

D. Arrangement of Report

14. It is important to know what factors affect quality of expenditure before attempting to identify appropriate indicators of outputs and outcomes reflective of a results-based approach to quality of public spending. Equally, it is useful and instructive to know how other countries have coped with the issue to see if their experiences and best practices could be replicated or adapted to our conditions.

15. Accordingly, this report or study is structured as follows:

[5] Total outlays being taken as revenue expenditure plus capital expenditure (both plan and non-plan) but excluding debt service, suspense accounts, etc.

i. Chapter 2 provides a general overview of the factors affecting or impinging on the quality of expenditure, on which should be founded a results-based approach to government expenditure.

ii. Chapter 3 traces the international experience of some select countries in recent years relating to performance budgeting, results-based budgeting, or outputs and outcomes based budgeting, the multifarious names by which these initiatives are known or have been variously tried.

iii. Chapter 4 deals with the outcome budgets in Central ministries (of rural development, health and education), with particular reference to the major programmes under these ministries and their underlying objectives.

iv. Chapter 5 deals with States, highlighting some of their experiences and initiatives relating to these three sectors, followed by their approach to outputs and outcomes budgets.

v. Chapter 6 delineates the way forward attempting to place outcome budgets within the framework and context of the factors which impinge on the quality of public spending.

vi. Chapter 7 discusses incentive mechanisms.

vii. Chapter 8 summarises the conclusions and recommendations.

Chapter 2. Quality of Expenditure

> A basic principle in all development projects is that they should be designed to satisfy the needs of people, not the internal needs of institutions.
>
> Norad 1999

1. Two factors principally determine the quality of expenditure: effectiveness and efficiency. Effectiveness is the relationship between the resources deployed (inputs) and the attainment of one's final objective or the intended impact of a programme. On the other hand, efficiency is a measure of the amount of inputs used to produce a given output or outcome; the lower the amount of inputs employed to produce a given result the higher is the efficiency; in other words, one strives for greater efficiency by attempting to maximise the output for a given amount of inputs or minimise the input for a given output or outcome or to put it differently to achieve the best possible performance using as few inputs as possible. Effectiveness and efficiency of public expenditure cannot be gauged unless they are related to productivity with reference to monitorable indicators of outputs and outcomes.

2. Typically, budgets are focused on inputs (money, men and material) rather than on what the expenditure produces. They do not offer any meaningful information on the cost of achieving policy objectives. Public expenditure decisions should be based on comparison of costs vis-à-vis the benefits expected to result from the expenditure. Little information on the costs and benefits of expenditure is available for making informed decisions relating to policy objectives and priorities. Generally, budgets also suffer from lack of transparency since it is not obvious what services will be provided with the money included in the budget. '*Transparency* refers to unfettered access by the public to timely and reliable information on decisions and performance in the public sector.'[6]

3. Budgets are generally driven by an 'incrementalist' approach where the concern is more with whether the increases in expenditure are affordable. Further, though priorities may change over time existing expenditure commitments being entrenched, and pre-emptive in nature, yield little space to new initiatives. Another drawback in the traditional system is that the concern is more with compliance of rules than with achievement of results. In other words, accountability is more with reference to processes rather than with results.

4. 'The key feature of the traditional model is that the control of human and financial resources is concentrated at the centre while operational responsibility for delivering services is located in spending organisations…The general direction of reform is that spending agencies are given greater flexibility in using resources in exchange for being held responsible for results.'[7]

5. Quality of expenditure must start with planning, and formulation of programmes and be informed by considerations such as value for money, cost-effectiveness,

[6] United Nations

[7] National Economic and Social Council, Dublin, 2002; *Achieving Quality Outcomes*: *The Management of Public Expenditure*; December 2002

giving choice and nurturing competition, if possible. Once programmes get off the ground arise issues of how well services are delivered and what monitoring and evaluation mechanisms are in place to provide feedback for corrective action or mid-course corrections, if need be. But all this is to take place within the superstructure of good governance predicated on functioning institutions and transparency in operations. But the bedrock of good governance is accountability in a larger sense, not just to the legislature or parliament or through the periodic electoral process but at the cutting edge level, the interface between an amorphous government and the citizen. This can only come about by empowering the citizen through stakeholder involvement, access to information, transparency in operations, report cards and social audit.

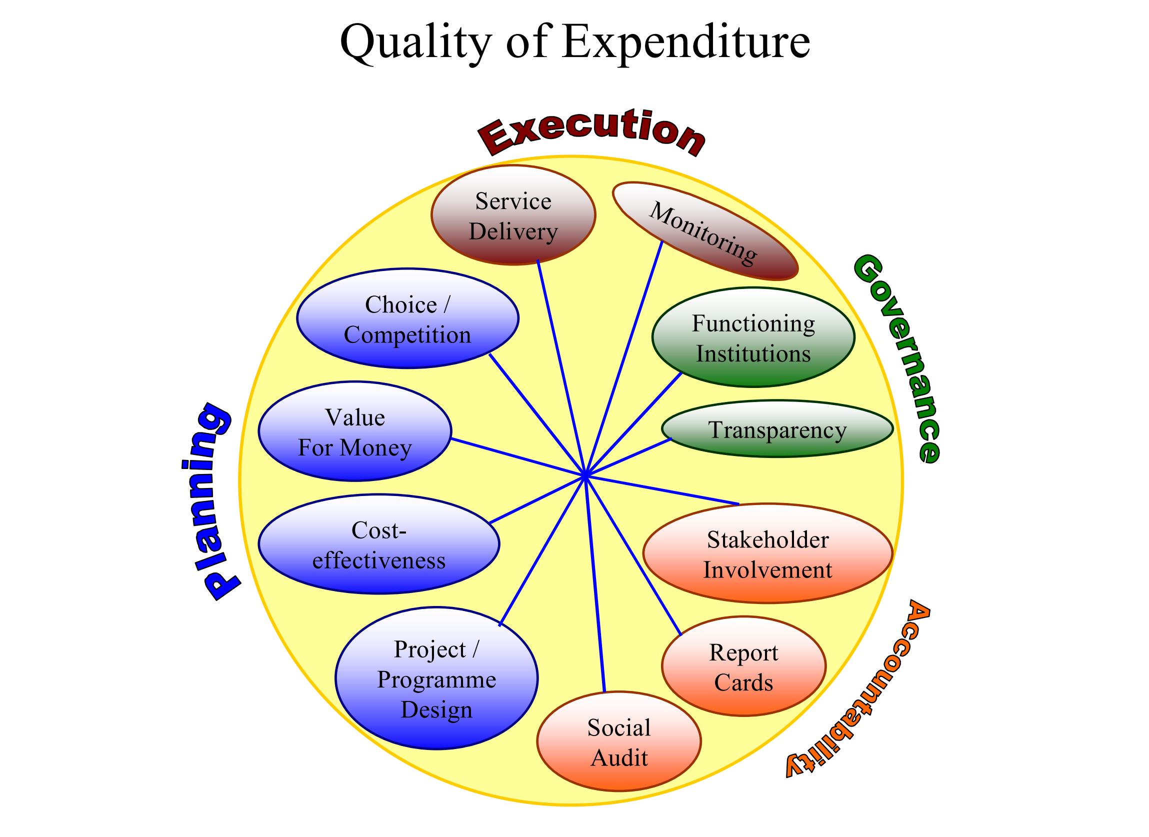
6. Many inter-related factors impinge on the quality of expenditure like planning (including allocative efficiency and appropriate design of projects or programmes / schemes), execution, governance, and accountability, each of which in turn comprises cross-cutting, inter-related elements. (See Figure 2-1))

7. Another factor that would impinge on the quality of expenditure and delivery of services is the provision made for non-salary expenditures. This is even more relevant for social service sectors, like education and health, where the bulk of expenditure is on salaries; and, any squeeze on budgetary allocations induced by resource constraints inevitably falls on non-salary expenditures, with inevitable consequences on service delivery. 'A key issue …is the growing salary burden facing governments, crowding out non-salary spending. In the health sector, for instance, salary spending ranges from 60 percent in some states to over 90% in others.'[8] (Chand 2006, p.18)

8. A related issue in this context is provision for maintenance expenditures, which are often neglected because of the *dubious* distinction between plan and non-plan expenditures.

[8] Chand, Vikram K., 2006, *Reinventing Public Service Delivery In India-Selected Case Studies*-Edited By Vikram K. Chand; The World Bank; Sage Publications

Figure 2-1: Factors Affecting Quality of Expenditure



Source: ASCI - Narayan Valluri

A. Planning:

9. A *sine qua non* for effectiveness and efficiency of public expenditure is proper planning and design of programmes.

10. The first question therefore is to formulate and design programmes keeping in mind the role of government. In this context, it would be pertinent to recall the observations of the Eleventh Finance Commission (Box 2-1)

Box 2-1: Rethinking the Role of Government

Expenditure restructuring would call for a rethinking on the role of governments itself. In general, governments may have to withdraw from a number of areas and strengthen their role in selected sectors in the overall context of economic reforms. Goods and services may be defined over a wide range from pure public goods at one extreme to pure private goods at the other. In the intermediate space, there may be goods that are basically private in nature but with different degrees of externality. Whereas public goods have to be provided by governments, in the remaining sectors the government sector should have a limited role. Even in the context of public goods, a distinction may be made between private production of public goods financed by public authorities, as compared to public production of public goods. In other words, supply and production need to be distinguished. Where the public authority is responsible for supply, it need not necessarily get into the act of production. Government needs to enter only in those areas where due to large externalities, private sector participation, by itself, would lead to sub-optimal supply.
[Para 3.59 Report of the Eleventh Finance Commission]

11. *Second,* government programmes have a tendency to perpetuate and to proliferate. As former US president Ronald Reagan once famously remarked the closest thing to immortality on earth is a government programme. There is need, therefore, periodically to review the relevance and content of government programmes, to see which programmes, if any, have outlived their utility or relevance. (Box 2-2)

"There is nothing closer to immortality on the face of this Earth than a Government program once started." *Former US President Ronald Reagan*

12. Often, multiple government programmes have similar objectives. A review could also facilitate coalescing of programmes with similar objectives, which would lead to improved allocative efficiency. What poorer reflection of allocative efficiency can there be than the admission in the Appraisal of the Tenth Five-year Plan that more irrigation potential may have been lost because of neglect of repairs and maintenance than new irrigation potential created[9]. Allocative efficiency can also be compromised when matching counter-part funds (either budgetary or institutional credit) are not forthcoming. Further, inadequate allocation of funds could lead to longer gestation periods of projects with avoidable consequences of time and cost-overruns, not to speak of diminished economic and social returns.

Box 2-2:Mortal Bureaucracy

Mortal Bureaucracy
"Mortal Bureaucracy does not propose to eliminate any particular program: it merely requires that each federal program will be subject to a speedy death after 7 years. For every 7 year period thereafter, a given program will come up for review/ratification. Practically speaking, only those programs that have widespread support will continue; the rest will die."
Extract from: Mortal Bureaucracy: A Libertarian Approach to Reengineering Government by Paul Hager

1. Allocative Efficiency

13. Schick (2001, p-13) defines allocative efficiency as "the capacity to establish priorities within the budget, including the capacity to shift resources from old priorities to new ones, or from less to more productive uses, in correspondence with the government's objectives".[10]

14. Poor allocative efficiency also results in spreading of resources thinly over projects and inadequate provisioning, with inevitable consequences of time and cost-overruns in case of projects, and inefficient delivery of services in regard to programmes. That the malaise is long-standing and quite widespread both at the Central and State government levels is amply illustrated in the observation of the Eleventh Finance Commission. (Box 2-3)

[9] Paragraph 1.20-2 Appraisal of the Tenth Plan
[10] Schick A (2001) `the changing role of the central budget office', OECD Journal on Budgeting (1)

Box 2-3 : Allocative Inefficiency

A major weakness of the budgeting process of governments in the States and also at the Centre is the practice of spreading resources over too many projects. Often only a token amount is provided in the year in which the project is announced but this commits the future budgets also for which no detailed estimates are provided in the current year's budget and the projects remain incomplete for years for lack of adequate funds. For government expenditure to be brought under the discipline of resource availability and efficiency in resource use, proper budgeting and strict discipline in matters of launching new projects is required. Also there should be a commitment to completion of projects within the stipulated period and to provide necessary funds.
[Para 3.63 Report of the Eleventh Finance Commission]

15. In this context, it is also pertinent to recall an observation on Centrally Sponsored Schemes (CSS) in the Eleventh Five Year Plan that 'most of them exist as silos planned and implemented as stand-alone schemes with little horizontal convergence or vertical integration, resulting in multiple sub-sectoral district plans, unrelated to each other.' (Also see Box 2-4)

Box 2-4: Centrally Sponsored Schemes

Centrally Sponsored Schemes (CSS) are programmes / schemes initiated by various ministries of the central government, but executed in states, for which states receive plan assistance, either wholly or partially or on a matching basis. The origin of the schemes goes back to the Second Five-year Plan. The rationale for CSS is that there exist programmes of national importance, spanning different states, which call for central intervention and initiative. However, centrally sponsored schemes have a tendency to proliferate over time.

Centrally sponsored schemes have been the subject of debate of many committees, the National Development Council (NDC), and have been commented upon by various commissions, including the Planning Commission and successive finance commissions, from time to time. The predominant view of all these has been that centrally sponsored schemes should be reduced in number and the resultant savings of funds should be passed on to the States.

Commenting on centrally sponsored schemes, the Tenth Finance Commission observed: "their continuance makes for large and sprawling bureaucracies and the centre dealing with what are primarily state subjects-e.g. agriculture, rural development, education and public health. Given adequate decentralisation it should be possible to effect considerable economies in such schemes." (paragraph 15.7, page 63 of the report of the Tenth Finance Commission)

The Twelfth Finance Commission recommended that a state should be given its total entitlement of grants and allowed to select its own mix of CSS within the limit of the total grant. 'Centrally sponsored schemes would then start competing among themselves and pressure would come on the ministries to design schemes that are in demand. This would do away with the present supply-driven approach where schemes are characterised by large numbers, duplication and lack of monitoring. The CS schemes have been the subject of study by many committees. The general consensus has been towards reducing their number, but the follow-up action has been weak.' (Paragraph 4.70 of the report of the Twelfth Finance Commission.)

16. Other factors that would need to be borne in mind while designing and formulating programmes are: cost-effectiveness and value for money, and competition and choice by sharing space with the private sector.

2. Competition / Choice

17. There is no gainsaying the fact that competition and choice spur improvement in the quality of service. The recommendations of the Administrative Reforms Commission bear mention in this context:

- *Each Ministry/Department may undertake an immediate exercise to identify areas where the existing 'monopoly of functions' can be tempered with competition. A similar exercise may be done at the level of State Governments and local bodies. This exercise may be carried out in a time bound manner, say in one year, and a road map laid down to reduce 'monopoly' of functions. The approach should be to introduce competition along with a mechanism for regulation to ensure performance as per prescribed standards so that public interest is not compromised.*
- *Some Centrally Sponsored schemes could be restructured so as to provide incentives to states that take steps to promote competition in service delivery.*
- *All new national policies on subjects having large public interface (and amendments to existing policies on such subjects) should invariably address the issue of engendering competition.*

(Paragraph 6.2.5 of the Fourth Report of the Administrative Reforms Commission- Ethics in Governance)

18. Services provided by the public sector as opposed to those of the private sector differ in one major aspect. A customer dissatisfied with the service provided by the private sector can show his or her dissatisfaction by 'voting with their feet' or exercising an 'exit' option, because of availability of choice in a competitive market environment. However, an 'exit' option is not always available for services in the public sector, as in many cases they operate as monopolies or near-monopolies and the scope for introducing a competitive market environment may be limited. Hence, the importance of 'voice': public pressures exerted through feedback on the usefulness, effectiveness and efficiency of public services can make up to some extent the absence of choice and competition.

B. Execution

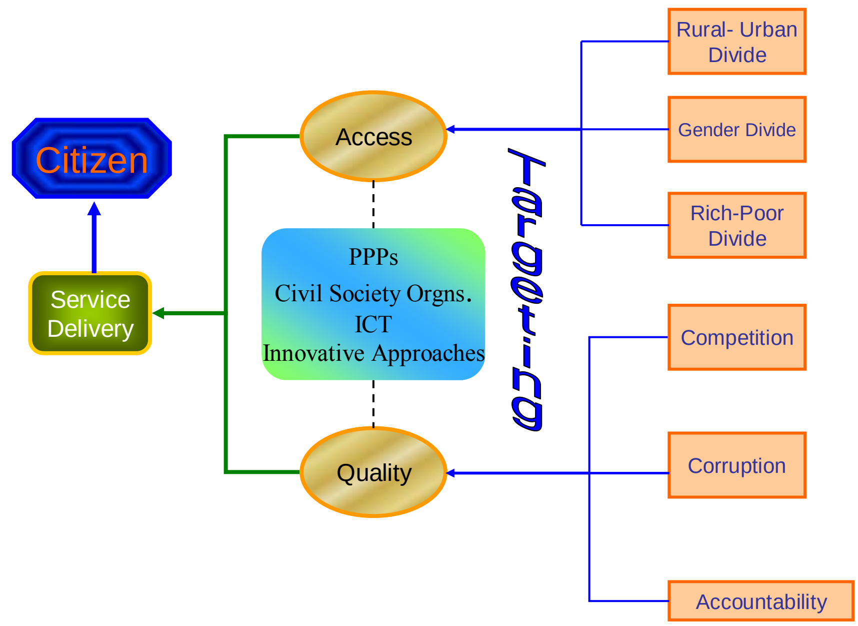
19. Execution of programmes comprises two major elements: service delivery; and, monitoring and evaluation (M & E).

20. Many factors affect service delivery, which can be grouped under two broad headings: access and quality, each of which in turn depends on several factors. Access involves issues of rural-urban divide, gender divide, and rich-poor divide; and quality is dependent on competition, corruption and accountability. Cross-cutting factors like involvement of the private sector (public private partnerships –PPPs), engagement of civil society, e-governance, innovative approaches, and improved targeting could also influence and improve both access and quality.

1. Service Delivery

21. The two important factors that have a bearing on service delivery are access and quality; while quality is positively affected by competition and accountability, corruption has a negative impact. (Figure 2-2)

Figure 2-2: Service Delivery



Source: ASCI - Narayan Valluri

22. Involvement of the private sector could take the shape of public-private-partnerships which could help leverage the resources of government.

a) Leveraging Government Expenditure- Public Private Participation (PPP)

23. Public private partnerships (PPPs) have developed in part because of paucity of financial resources in the public sector. PPPs have demonstrated the ability to harness financial resources and operating efficiencies inherent to the private sector.[11] (European commission, 2003)

24. Public private partnerships and / or privatisation does not necessarily mean or involve selling off government assets. Areas or activities best performed by the private sector should be left to them. Working together with the private sector (PPPs) can take many forms. Many public services are monopolies or near monopolies; engagement of the private sector can lead to competition and more cost-effective solutions or services. International interest in public private partnerships is generally attributable to three main drivers namely: investment in infrastructure; greater efficiency in the use of resources; and generating commercial value from public sector assets.

25. The four principal roles of PPPs are:

[11] European Commission, 2003; *Guidelines for Successful Public Private Partnerships*

- to provide additional capital;
- to provide alternative management and implementation skills;
- to provide value added to the consumer and the public at large; and
- to provide better identification of needs and optimal use of resources. (European Commission 2003)

PPPs can take many forms, a few of which can be seen in Box 2-5.

Box 2-5: Some Examples of PPPs

- Service Contracts
- Operation and management contracts
- Leasing
- Build Operate Transfer (BOT)
- Design-Build-Finance-Operate (DBFO)
- Build Own Operate (BOO)
- Divestiture
  - Complete
  - Partial

26. Though PPPs may have many advantages, the schemes may be complex to design, implement and manage. Public Private Partnerships may, therefore, call for a change in the role of the public sector from that of a service provider to manager or monitor of private contractors. Guaranteeing and enhancing public benefit from PPPs will depend to a large degree on effective management and monitoring systems, as also developing capacity in the public sector to design and formulate PPPs, and negotiating them. They need not necessarily be the only or preferred option; they should be considered *only if*: it can be demonstrated that they will achieve additional value compared with other approaches; there is an effective implementation structure; and the objectives of all parties can be met within the partnership. (European Commission, 2003)

b) Voluntary Sector

27. Association of the voluntary sector through public voluntary-sector partnerships (PVSPs) and non-governmental organisations (NGOs) can play a supportive role and hold potential for innovation and improvement in service delivery. They have two advantages: first, they are inspired more by a sense of pubic service than private profit; and secondly, because they work closely with beneficiaries of services they have a more intimate knowledge of the challenges faced by citizens, and further they have an ‘information advantage’ over government. These could help find more pragmatic solutions.

28. Failure to give operational autonomy to service providers may detract from the effectiveness and quality of service. Stakeholder involvement too is essential to successful service delivery. No reform is likely to succeed without administrative and political will. Chand (2006) identifies seven key instruments for improving service delivery. (Box 2-6)

Box 2-6: Instruments for Improving Service Delivery

Seven Key Instruments For Improving Service Delivery Are:

- Promoting competition
- Simplifying transactions
- Restructuring agency processes
- Reinforcing provider autonomy
- Fostering community participation and decentralisation
- Building political support for programme delivery, and

- Strengthening accountability mechanisms

(Source: Institutional Innovations In Public Service Delivery In India: Cases And Lessons-Vikram K. CHAND)-Reinventing Public Service Delivery In India-Selected Case Studies-Edited By Vikram K. Chand

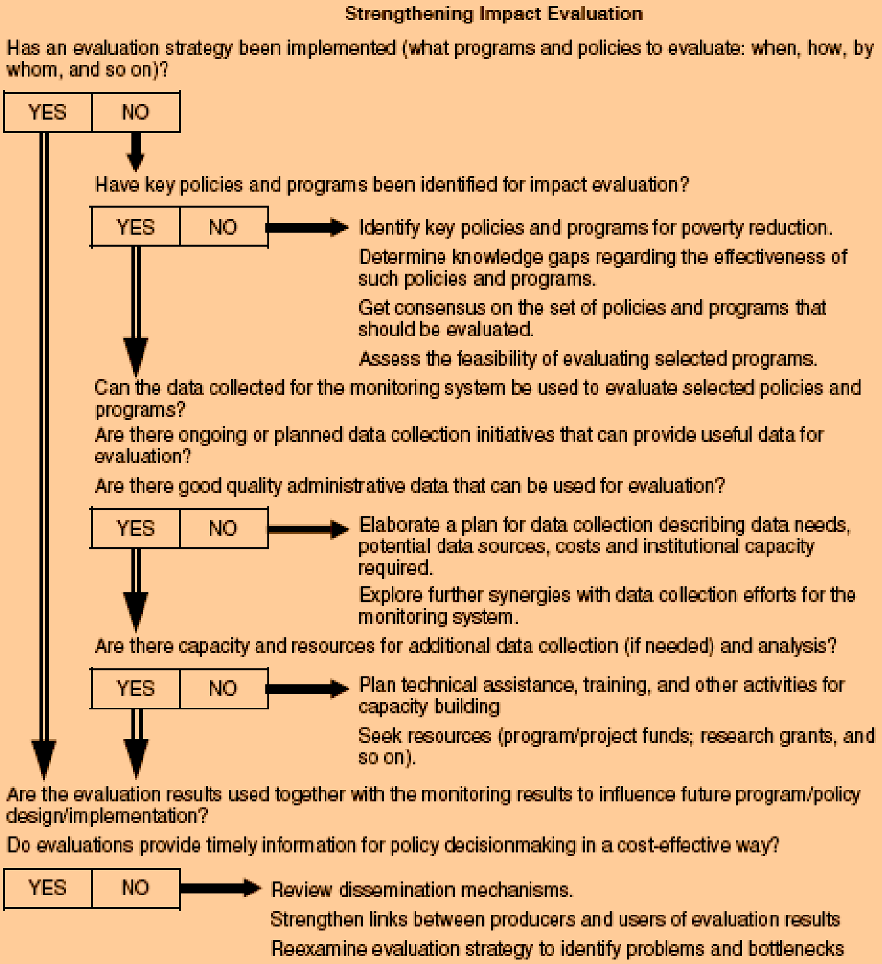
3. Monitoring and Evaluation

> "Evaluation quality depends on an approach that balances timeliness, usefulness, methodological purity, client requirement and cost."
>
> *-Robert Lahey, Centre of Excellence for Evaluation, Canada*

29. Monitoring is a continuous process while evaluation occurs from time to time. Need for formal evaluation increases as resources become scarcer and identification of priorities becomes more important. The Eleventh Five-Year Plan says that emphasis would be laid on effective monitoring of outcome at all levels. Recognising the importance of monitoring, the Five-Year Plan notes that while monitoring is an internal activity of programme management, evaluation assesses the appropriateness of design and implementation of ongoing projects and programmes, which can be done either internally or independently or concurrently along with an external agency. The Five-year Plan points out that absence of baseline data for many schemes / programmes could be a serious bottleneck in measuring the performance indicators of outcomes and impacts; hence, the importance of appropriate identification of process and outcome indicators, not to mention follow-up action on results of monitoring and evaluation. This may call for changes in procedures of various government departments.

30. Periodic evaluation of some programmes, both at the Centre and in States, is carried out. One needs to examine what the impact of such evaluations is and whether any methodological changes are needed. (See Box 2-7). A participatory approach to evaluation of outputs and outcomes would better serve the interests of accountability and contribute to improved interventions by government.

Box 2-7: Impact of Evaluations



Source: Figure 3.3, World Bank, 2002, *'Chapter 3: Monitoring and Evaluation', in PRSP Sourcebook*, World Bank, Washington, D.C.

31. Monitoring and measurement of indicators is only as good as the reliability of the underlying data and faithfulness and integrity of reporting systems. Chand (2006) [12] says that 'Finance departments in many States lack the capacity to engage with line departments on setting and monitoring performance targets.'

C. Governance

"The object of government in peace and in war is not glory of rulers or of races but the happiness of the common man."
Sir William Beveridge (1942)Social Insurance & Allied Service, London: His Majesty's Stationery Office

32. Two major factors affecting the quality of governance are functioning institutions and transparency. Better governance has an impact on the delivery of services and

[12] Chand, Vikram K., 2006, *Reinventing Public Service Delivery In India-Selected Case Studies*-Edited By Vikram K. Chand; The World Bank; Sage Publications,

outcomes. A finding of relevance to this study is that of RajKumar and Swaroop, who observe that public health spending lowers child and infant mortality rates *in countries with good governance*; further, *as countries improve their governance*[13], public spending on primary education becomes effective in increasing primary education attainment.[14]

1. E-governance

> "E-Government requires that we fundamentally rethink all aspects of governance and service delivery to see how we can take advantage of technology and new business models to improve the efficiency of internal processes, and change how the government interacts with individuals and businesses."

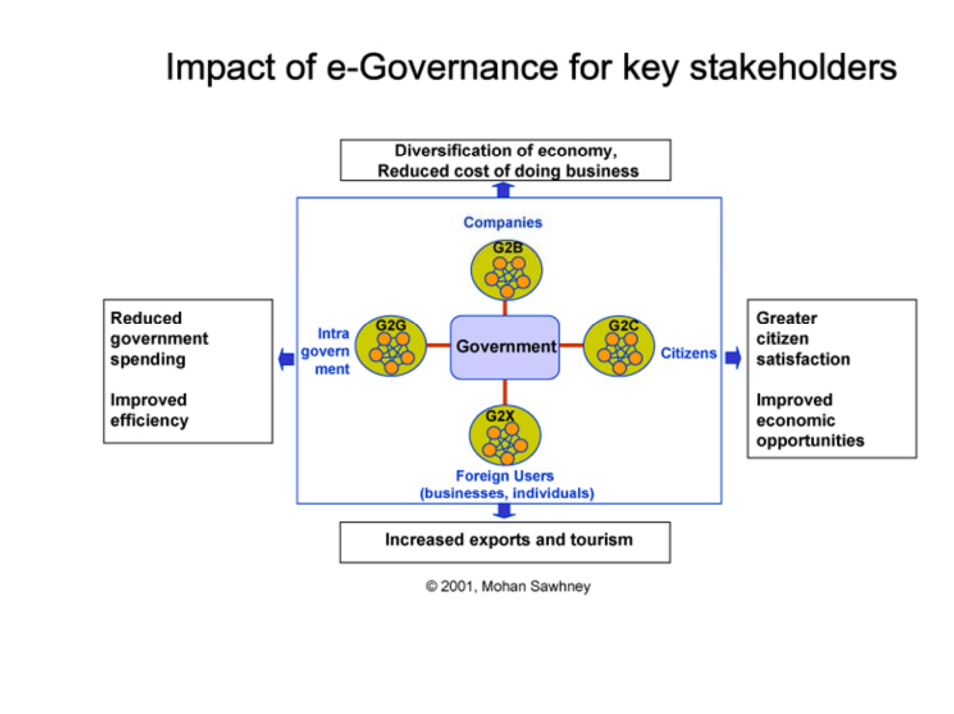
33. Technological developments, with increasing spread of ICT, provide an important plank for better governance through e-governance. The Eleventh Five Year Plan recognises the importance of e-governance when it says that 27 major areas were adopted to assist, improve delivery of services and digitisation of information. Of immediate relevance to this study is the mention that initiatives on participatory governance were introduced under the NREGA and NRHM (apart from other measures).

34. The Eleventh Five-year Plan talks of citizens-centric governance, creation of a common platform/program delivery through unique ID(UID), and issue of smart cards with memory partitioned into distinct modules representing different entitlement groups[15]

35. E-governance can have multi-dimensional impact on various stakeholders or players in the economy, ranging from citizens (G2C) to companies or businesses (G2B) to intra-governmental operations (G2G) and the wider economy (G2X). (Figure 2-3)

[13] Emphasis added by authors of this study
[14] Rajkumar, A.S. & Swaroop, Vinaya; 2002; *Public Spending and Outcomes: Does Governance Matter?* World Bank Policy Research Working Paper No. 2840
[15] Paragraphs 10.46 and 10.51 of the Eleventh Five Year Plan

Figure 2-3: Impact of e-governance on Key Stakeholders



(Source: Mohan Sawhney, Kellog School of Management, 2001)

36. A study of 18 community telecentre projects in India, which use information and communications technology for poverty alleviation and good governance, was undertaken to identify the conditions under which rural ICT projects for poverty alleviation can be scaled up for wider implementation. The evaluation was done with reference to (i) project design (ii) community participation (iii) project outcomes, and (iv) contextual political economy. The central finding was that the extent to which the recipient community accepts the project in its day-to-day life would determine how successfully the project could be scaled up. Community acceptance in turn depends on the quality of the project staff with whom the community interacts. Therefore, higher priority needs to be given to the selection, training, support and development of the project staff if the rural ICT projects for poverty alleviation are to be eventually scaled up for wider implementation.[16] (Harris & Rajora, 2006)

37. Use of technology for simplifying the delivery of service like e-governance offers dividends but reform without re-engineering the processes through which services are delivered may not yield the desired results.

38. In his bid for election, President Obama (of the US) exemplified the power of leveraging ICT for expanded reach and accessibility.

[16] Harris R. & Rajora R., 2006; *Empowering the poor. Information and communications technology for governance and poverty reduction: a study of rural development projects in India;* Asia-Pacifiic Development Information Program , 2006

4. Corruption

39. If corruption and apathy are to be countered strong accountability mechanisms should be in place. Klitgaard (1998) defined corruption in a simple one-line formula as “Corruption equals monopoly plus discretion minus accountability” or C = M + D – A; he observes that corruption is a ‘crime of calculation’ and advocates systemic changes to combat corruption. (Box 2-8)

Corruption is a term with many meanings. The beginning of wisdom on the issue is to subdivide and analyze its many components. Viewed most broadly, corruption is the misuse of office for unofficial ends. The catalogue of corrupt acts includes—- but is not limited to—bribery, extortion, influence peddling, nepotism, fraud, the use of “speed money” (money paid to government officials to speed up their consideration of a business matter falling within their jurisdiction), and embezzlement. Although people tend to think of corruption as a sin of government, it also exists in the private sector. Indeed, the private sector is involved in most government corruption.

Box 2-8: Corruption

Whether the activity is public, private, or nonprofit, and whether it is carried on in Ouagadougou or Washington, one will tend to find corruption when an organization or person has monopoly power over a good or service, has the discretion to decide who will receive it and how much that person will get, and is not accountable.

Second, corruption is a crime of calculation, not passion. True, there are both saints who resist all temptations and honest officials who resist most. But when bribes are large, the chances of being caught small, and the penalties if caught meager, many officials will succumb.

Combating corruption, therefore, begins with designing better systems. Monopolies must be reduced or carefully regulated. Official discretion must be clarified. Transparency must be enhanced. The probability of being caught, as well as the penalties for corruption (for both givers and takers), must increase.

(Klitgaard 1998)

40. Corruption is a hydra-headed cancer, which gnaws into access, dilutes quality, and whittles down accountability. Corruption has both a fiscal and direct impact on the delivery of services.

41. The fiscal impact of corruption can be felt both from the revenue side as well as the expenditure side. Corruption leads to private gain at the expense of public coffers; the reduced revenue flows starve social service sectors of adequate funding. On the expenditure side, opportunities for rent seeking direct spending towards big-ticket items and sectors, again paring allocations for social sector spending.

42. Corruption also directly affects the delivery of services. The poor often have to pay bribes to gain access to services they are entitled to. The bribes the rich pay are generally for speedier and better service than for access. Corruption exacts a higher toll on the poor than on the rich, as it claims a larger proportion of their income. Corruption in procurement of goods and services has a direct bearing on the quality and delivery of services, like for instance poor quality medicines and equipment for delivery of health services. Corruption erodes authority and undermines accountability.[17]

[17] Valluri 2005

5. Principle of Subsidiarity

Box 2-9: Principle of Subsidiarity

"The principle of subsidiarity must become the guiding principle in the governance. This would imply doing things at the level at which they can be best done. Thus as much of legislative, executive and administrative actions must be decentralised as possible. No decisions must be taken at levels higher than the level at which they ought to be appropriately taken. Decentralisation of powers and functions must be adjudged on the basis of this criterion. "

(Source: Dr. Madhav Godbole, Report of the One Man Committee on Good Governance) July 2001

43. In a tacit endorsement of the principle of subsidiarity (Box 2-9), the Eleventh Five Year Plan concedes that: 'Local governments are in a better position to appreciate problems holistically and come out with cross-sectoral solutions…As local governments are closer to the people, they are capable of identifying local priorities and entering into partnership with communities for the management of assets and facilities.'[18] Further, it adds (in what again is of topical relevance for this study) that the centrally sponsored schemes (CSS) which, among others, lend themselves to effective grass roots level planning are: poverty reduction programmes like the SGSY, SGRY, National Rural Employment Guarantee Scheme (NREGS) and human development schemes like SSA, Mid-day Meals, Literacy, Rural Health Mission, ICDS.[19]

D. Accountability

44. Accountability in public sector has two dimensions: At the macro level, where the national or state governments can be held responsible through elections, legislative answerability, public audit, etc.; and at the micro level, i.e. at the local level, which is the point of delivery of public services. Hence, a two-pronged approach is necessary: of strengthening existing (institutional) macro level mechanisms; and devising effective tools for accountability at the micro level. [20] (Paul, 1995)

45. 'The general weakness of accountability mechanisms is a barrier to improving services across the board. Bureaucratic complexity and procedures make it difficult for ordinary citizens to navigate the system for their benefit. The lack of transparency and secrecy that shrouds government operations and programmes provides fertile ground for corruption and exploitation.' (Chand 2006, p.19)[21]

46. Access to information is central to any strategy aimed at empowering the public or clients (see Figure 2-4) vis-à-vis service providers. Information as a tool to enforce accountability is well illustrated in the cases of Delhi and Rajasthan. Citizens' charters may help inform customers of their rights and entitlements, but may not by themselves result in better service unless based on stakeholder consultation and they lay down minimum service standards and procedures for redress of grievances. (Chand, 2006)

---

[18] Paragraph 10.13 Eleventh Five Year Plan

[19] Paragraph 10.15 Eleventh Five Year Plan

[20] Paul, Samuel ,1995 *Strengthening Public Accountability – New Approaches and Mechanisms*; Public Affairs Centre, Bangalore

[21] Chand, Vikram K., 2006, *Reinventing Public Service Delivery In India-Selected Case Studies*-Edited By Vikram K. Chand; The World Bank; Sage Publications

Figure 2-4: Empowering Citizens

World class systems put more power in the hands of citizens and public service professionals but they also leave an important role for central government to make sure that the right incentives, behaviours and cultures are in place to ensure that improvement becomes self-sustaining:

- **Citizens are empowered to shape the services they receive**
- **Public service professionals act as the catalysts of change**
- **Government provides strategic leadership**

Source: Cabinet Office UK, 2008

47. Accountability can be enhanced by appropriate stakeholder involvement at different levels and feedback about the effectiveness and efficiency of programmes through report cards and surveys, right to information and social audit. Examples exist of how individual and civil society organisations (including NGOs) have brought about increased accountability, but the challenge lies in scaling up and institutionalising these isolated endeavours.

1. Stakeholder Involvement

48. In the final analysis all services are directed at citizens. Citizens can be empowered by: (a) giving them greater choice; (b) their having a greater say in local services through participation (Box 2-10), including through feedback on customer satisfaction and success of services; and, (c) improving the quality and availability of information on the performance of services.

Box 2-10: What Does Participation Entail?

The Meaning of Participation

Participation has been used to mean different things in different contexts. One important distinction is whether it is interpreted to involve 'empowerment', implying significant control over decision-making, or whether it simply means rudimentary levels of consultation, where little delegation of decision-making powers occurs. Another distinction is between whether it is viewed as a means or an end. An instrumental approach views participation as a means to improving implementation, efficiency and equity, while an empowerment approach values the process of increasing participation as an important end in itself. At a minimum, participation clearly requires that individuals and groups are, in some way, involved in the decision-making process. This engagement can assume any of a number of points along a spectrum, which has been defined as ranging from: (1) information-sharing (2) consultation (3) joint decision-making to (4) initiation and control by stakeholders. At one end 'information sharing' involves very limited decision-making powers but potentially important knowledge transfer. At the other end lies 'initiation and control', which implies a high degree of citizen control over decision-making. In between, 'consultation' exists when participants are able to express opinions but their perspectives are not necessarily incorporated into the final product; 'joint decision-making', on the other hand, gives participants the shared right to negotiate the content of strategy. The boundaries of this classification are of course not clear-cut.

Frances Stewart and Michael Wang, Do PRSPs empower poor countries and disempower the World Bank, or is it the other way round? Queen Elizabeth House Centre for Development Studies, University of Oxford, QEH Working Paper Number 108. http://www2.qeh.ox.ac.uk/pdf/qehwp/qehwps108.pdf
(Source: Harris & Rajora, 2006)

6. Report Cards

49. A scorecard breaks down goals into measurable metrics and then measures and records progress in reaching them. A balanced scorecard seeks to measure performance by decomposing an organisation's strategic objectives into a useful set of performance metrics, and serves as supplementary feedback on the results of programmes.

50. The initiatives of Public Affairs Centre (PAC) Bangalore, a non-profit organisation, illustrate how a report card on public services in Bangalore (now renamed Bengaluru) galvanised citizens to create greater public awareness of inefficiency and corruption in the delivery of public services and prodded public service providers to be more responsive to customers. (Paul, 1998). A report card on New York schools is another example. (Box 2-11)

Box 2-11: New York Schools - Report Card

New York school report cards

Schools in New York City are now issued with annual 'report cards' setting out the performance of the school on a variety of key indicators and giving the school an overall grade. The reports give each school a letter grade–A, B, C, D or F–based on the academic achievement and progress of students as well as the results of surveys taken by parents, students, and teachers. These Progress Reports are the centrepiece of the City's effort to arm educators with the information and authority they need to lead their schools and to hold them accountable for student outcomes. The reports also provide parents with detailed information about school performance, both to hold their schools accountable and to inform family decisions. Each school's grade is based on its score in three categories: school environment, student performance and student progress, with schools that do an exemplary job in closing the achievement gap being able to earn additional credit. (See www.nystart.gov/publicweb/)
Source: Cabinet Office, 2008; Govt. of UK

7. Surveys

51. Where institutions and accountability systems are weak, budgetary allocations alone may not be a true index of services being delivered to intended beneficiaries. Public Expenditure Tracking Surveys (PETS) and Quantitative Service Delivery Surveys (QSDSs) provide additional mechanisms for gauging the efficacy and efficiency of public spending.

a) Public Expenditure Tracking Survey (PETS)

52. PETS is a useful tool for tracking the flow of resources from its origin to the final intended beneficiary, across the different stages or levels it passes through. It helps locate delays and leakages in the passage of funds, as also identifying any problems in the deployment of (non-financial) resources.

b) Quantitative Service Delivery Survey (QSDS)

53. The primary aim of a QSDS is to examine the efficiency of public spending and incentives and various dimensions of service delivery in provider organizations,

especially on the frontline. The QSDS can be applied to government as well as to private for-profit and not-for-profit providers.[22]

8. Right to Information

54. Access to information is essential if service providers and government are to be held accountable. If the Government of India and State governments have now legislated on the right to information, it owes not a little to the revolutionary and indefatigable efforts of the Ms. Aruna Roy and the Mazdoor Kisaan Shakthi Sangathan (MKSS) since the early 1990s.

> *The most important feature that distinguishes the movement for the people's right to information in India from that in most other countries, whether of the North or the South, is that it is deeply rooted in the struggles and concerns for survival and justice of most disadvantaged rural people. The reason for this special character to the entire movement is that it was inspired by a highly courageous, resolute, and ethically consistent grassroots struggle related to the most fundamental livelihood and justice concerns of the rural poor. This inspiring struggle in the large desert state of Rajasthan was led by the Mazdoor Kisan Shakti Sangathan (MKSS), as part of a people's movement for justice in wages, livelihoods and land.*
>
> *The story of the MKSS, enables a deeper understanding of why the movement for the people's right to information in India has developed as part of a larger movement for people's empowerment and justice.* (Mander and Joshi, 1999)

55. Access to information is central to any strategy aimed at empowering the public or clients vis-à-vis service providers. Citizens' charters may help inform customers of their rights and entitlements, but may not by themselves result in better service unless based on stakeholder consultation and lay down minimum service standards and procedures for redress of grievances.

[22] World Bank, Ritva Reinikka

9. Social Audit (Box 2-12)

56. The 'report card' initiative by the PAC in Bangalore, and the examples of Development Initiatives for Social and Human Action (DISHA) in Gujarat, and of the Mazdoor Kisaan Shakthi Sangathan (MKSS) in Rajasthan (Box 2-13) are notable instances of participatory social audit. They demonstrate the use of 'collective voice' of the target-citizenry of public services to demand attention and responsiveness to their needs.

Box 2-12: Social Audit

"It is necessary to underline that the only justification for any government activity is that it subserves the interests of society, and particularly its economically and socially weaker sections. In this light, it is necessary that the work of all wings of the government is reviewed periodically and audited by the stakeholders themselves. It is obvious that this function is not done adequately by the audit of Comptroller and Auditor General of India (C&AG) which concentrates excessively on compliance with the formalities laid down for incurring the expenditure and neglects the output generated by such expenditure. It is suggested that the government should immediately announce its intention of conducting social audit of some of its main spending departments through well respected, knowledgeable and non-political bodies of individuals. Special care will have to be taken to see that the composition of the social audit committees will command universal respect and will be above any party politics."
(Source: Dr. Madhav Godbole, Report of the One Man Committee on Good Governance) July 2001

Box 2-13: Social Audit - Rajasthan: MKSS

Participatory social auditing is the process of verifying expenditures actually made in relation to stated social aims. In Rajasthan, an activist group, Mazdoor Kisaan Shakti Sangathan (MKSS), have introduced a process of participatory social auditing as a way of ordinary people seeking and using their right to information in a collective fashion. This has involved initiating public hearings, in which detailed accounts derived from official expenditure records and other supporting documentation are read aloud to assembled villagers. The meetings are organised independently and are presided over by a panel of respected people from within and outside the area.
Officials are invited to attend and local people are asked to give testimonies, highlighting discrepancies between official records and their own experiences (as labourers on public work projects, applicants for means-tested anti-poverty schemes, consumers in ration shops etc.) The activity of MKSS has demystified budget expenditure tracking by taking a surgical look at how funds were spent in local government in Rajasthan. It has lead to the exposure of the misdeeds of local politicians, private engineers, government contractors, leading in a cumber of cases to voluntary restitution.
Source: www.worldbank.org/participation/web/webfiles/cepemcase4.htm. / Administrative Reforms Committte, Government of Maharashtra, 2002

57. The Public Affairs Centre (PAC), Bangalore (2002)'s "Millennial Survey of India's Public Services" (Box 2-14) finds that the central and state governments seem to focus more on extending access to public services than paying adequate attention to the quality, reliability and effectiveness of the services. This, it concedes, is perhaps due to the compulsions and pressures of a democratic polity, but the report emphasises nonetheless that ensuring effectiveness and quality in the delivery of services should demand greater attention of States. While extending access to service calls for investment in physical and administrative infrastructure, improving quality and effectiveness demands attention to management systems, and responsiveness to the problems of citizens and communities.

58. PAC's millennium survey (Box 2-14) concludes that governance is not 'primarily a function of the income levels of states' but that political leadership, stability of regimes, discipline in the bureaucracy and a more active "local voice" are more likely responsible for better outcomes.

Box 2-14: Millennium Survey - Public Accounts Committee

The Public Affairs Centre, Bangalore is an independent organisation dedicated to improving the quality of governance in the country. It gained prominence with its 1993 initiative to introduce a "report card" system to create greater public awareness about the performance of public service providers and to make them more responsive to citizens' (customers') needs.

The Millennium Survey by the PAC undertook a nation-wide, independent study of user-feedback focussing on five basic public services: drinking water, health and sanitation, education and child care, public distribution system (fair price shops) and road transport.

Three key objectives of the study were to: (i) provide a well focussed and independent assessment of key pubic services; (ii) create an independent database and benchmarks to help measure progress and performance of services over time; and (iii) stimulate public debate on critical issues affecting users of public services.

The survey covered 36,542 households in 115 districts spread over 24 states. ORG-MARG assisted in the design of the field research, execution of the survey and analysis of the findings.

The project was financed from the internal resources of the PAC and a grant from the Ford Foundation.

(Source: Valluri, 2005)

E. Wrapping Up

59. To wrap up, there are six major trends (Figure 2-5) for transforming government performance, which are summarised below:

"

i. *Changing the Rules.* The first trend transforming government has been the ongoing effort to change the *rules of the game* of government: the formal laws, administrative requirements, and organizational structures that create and shape the actions of civil servants and citizens. In many ways, this trend is a common thread through the other five. By changing the rules of the game, managers gain more flexibility, which allows them to more effectively use performance management; provide competition, choice, and incentives; perform on demand; engage citizens; and use networks and partnerships. This trend also aims to remove impediments to achieving high performance in government.

ii. *Using Performance Management.* A second key trend, perhaps the linchpin, is the increased use of performance management in governments across the world.

iii. *Providing Competition, Choice, and Incentives.* Use of market-based approaches, such as competition, choice, and incentives.

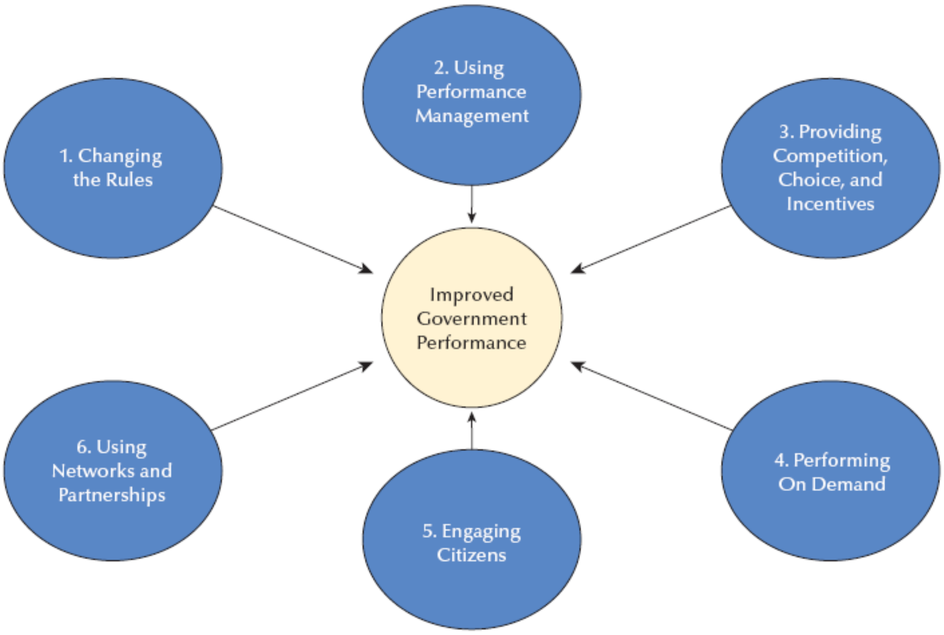
iv. *Performing On Demand.* In terms of performance, governments are being pushed like never before to measure and improve program performance. In terms of responsiveness, government organizations across the world know they have to be much better at sensing and responding to economic, social, technological, and health changes or crises

v. *Engaging Citizens* is also contributing to the transformation of governments at all levels. Research shows that when citizens are directly engaged with government, policy and service-level decisions are seen as more legitimate and challenged less frequently, and policy and program initiatives have a greater success rate. In addition, by actively engaging citizens, research has shown that trust in government increases.

vi. Using *Networks and Partnerships"*

(For a more detailed exposition see Abramson Mark A.; Breul Jonathan D.; Kamensky John M.,2006; *Six Trends Transforming Government;* IBM Center for The Business of Government)

Figure 2-5: Six Trends Transforming Governments



(Source: Abrahamson et al 2006)

60. This provides the framework and the touchstone for judging the quality of expenditure in the chapters that follow.

Chapter 3. International Experience

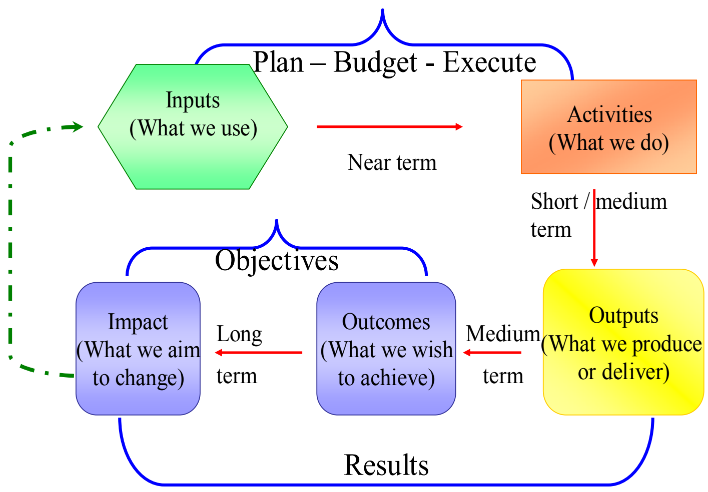
A. Preamble

1. Increasingly, governments around the world are recognising and realising the importance of the quality of expenditure. It is not enough merely to 'throw' money at a problem but moneys should be spent effectively and efficiently. As already stated, effectiveness implies that the objectives of programmes are met or fulfilled, while efficiency demands that one receives value for money in terms of cost-effectiveness. Thus, there is a shift in focus from what the role of government is to how effectively and efficiently this role is being performed.

2. The relationship between the resources used by government for delivery of its services to attain the objectives it seeks to achieve is neatly encapsulated in the following diagram (Figure 3-1). Governments use inputs or resources (financial, manpower, etc.) to engage in activities intended to produce outputs (goods and services) to achieve certain outcomes or produce a desired impact. Five 'whats' summarise the flow:

   - What resources (financial, manpower and other) we use (inputs)
   - What we do (activities)—in the near term
   - What (good and services) we produce or deliver (outputs) —in the short / medium term
   - What we wish to achieve (outcomes) —in the medium term
   - What we aim to change (impact) —in the long term

Figure 3-1: Inputs - Outputs - Outcomes- Impact



Source: ASCI - Narayan Valluri

3. The 1990s witnessed many OECD countries undertaking extensive public sector reforms in response to economic, social and political pressures. These manifested themselves in lack of public confidence in government, demands for better and more responsive services and better accountability in regard to the use of public moneys. Phrases such as "reinventing government", "doing more with less", and "demonstrating value for money" became catchphrases.

4. Though there were variations in the package of reforms introduced by the different countries, aspects common to most countries were: focus on performance issues (e.g. efficiency, effectiveness, quality of services); devolution of management authority and responsibility; orientation to customer needs and preferences; participation by stakeholders; reform of budget processes and financial management systems; and application of modern management practices.[23]

5. "A results based approach aims at improving management effectiveness and accountability by defining realistic expected results, monitoring progress toward the achievement of expected results, integrating lessons learnt into management decisions and reporting on performance".[24] (See Box 3-1 for results based management)

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[23] Results Based Management in the Development Cooperation Agencies: A Review of Experience – Background Report; page 5

[24] Results Based Management in Canadian International Agency, CIDA January 1999

Box 3-1 Results Based Management

Elements of Results Based Management System

1. Formulating objectives: Identifying in clear, measurable terms the results being sought and developing a conceptual framework for how the results will be achieved.
2. Identifying indicators: For each objective, specifying exactly what is to be measured along a scale or dimension.
3. Setting targets: For each indicator, specifying the expected or planned levels of result to be achieved by specific dates, which will be used to judge performance.
4. Monitoring results: Developing performance monitoring systems to regularly collect data on actual results achieved.
5. Reviewing and reporting results: Comparing actual results vis-à-vis the targets (or other criteria for making judgements about performance).
6. Integrating evaluations: Conducting evaluations to provide complementary information on performance not readily available from performance monitoring systems.
7. Using performance information: Using information from performance monitoring and evaluation sources for internal management learning and decision-making, and for external reporting to stakeholders on results achieved. Effective use generally depends upon putting in place various organizational reforms, new policies and procedures, and other mechanisms or incentives.

The first three phases or processes generally relate to a results-oriented planning approach, sometimes referred to as strategic planning. The first five together are usually included in the concept of performance measurement. All seven phases combined are essential to an effective results based management system. That is, integrating complementary information from both evaluation and performance measurement systems and ensuring management's use of this information are viewed as critical aspects of results based management.
(Source: Adapted from The Development Assistance Committee (DAC) Working Party on Aid Evaluation; Results Based Management in the Development Cooperation Agencies: A Review of Experience – Background Report November 2001)

B. Evolution & Experience

6. As already stated, over the last two decades budgetary reforms in OECD countries have seen increasing emphasis both on outputs and outcomes, without ignoring inputs. This has called for a change from the traditional focus on administrative controls and procedures. (See Box 3-2)

Box 3-2: OECD Model of New Public Management

The OECD model has the following elements:

- Devolving authority, providing flexibility;
- Ensuring performance, control and accountability;
- Developing competition and choice;
- Providing responsive service;
- Improving the management of human resources;
- Optimising information technology;
- Improving the quality of regulation;
- Strengthening steering functions at the centre

McCourt 2002

7. Historically, results – oriented budgets can be traced back to the introduction of PPBS in post war United States. More recently, focus on results harks back to the early 1990's when the United States introduced the Government Performance and Results Act, 1993. Other countries to follow this path were Australia, Canada, New Zealand and United Kingdom, which sought to link outcomes to the allocation of resources. New Zealand was initially considered the world leader in reform when it adopted an output focus in the late 1980s. However, in recent years they seem to have been overtaken by other OECD member states.

8. The reforms also included development of systems for improving technical strengths and rolling out programmes across further areas of government, including agencies and sub-central government. Efforts are made on a continual basis to link outputs to outcomes and outcomes to resources, as also to the development of appropriate accounting systems to buttress the reform process. (See *Appendix C* for a summary of results-oriented budgeting in selected OECD countries).

9. The United States saw the passage of the 1993 Government Performance and Results Act. In the United Kingdom, a White Paper was published in 1995 on Better Accounting for the Taxpayers ' Money, a key milestone committing the government to the introduction of resource accounting and budgeting. The main driver for change in Australia was the introduction of Accruals-Based Outcome and Output Budgeting. The prime movers of reforms in Canada were the office of the Auditor General and the Treasury Board Secretariat.

1. United States

10. A series of performance measuring initiatives mark the progress of the United States towards a results-oriented budgeting system, a decades' long journey from performance budgeting in 1949 to the Government Performance and Results Act (GPRA), 1993 (*Appendix D*) and the National Partnership for Reinventing Government (NPR, formerly the National Performance Review).

11. In 1949, a federal commission recommended introduction of performance budgeting, which laid down that the federal budget should be based on functions, activities and projects and that performance information should be provided along with financial reports. Though performance budgeting was introduced in the federal government and variations of it were adopted in states, it was found that performance budgeting reforms were superficial and not particularly successful.

12. The major attempt at reforming budgeting in the US was the development of the Planning Programming Budgeting (PPB), the focus of which was strategic planning in the budget cycle as also achieving the traditional budgetary goals of control and management.

13. PPB was first developed in the Department of Defence (Box 3-3) and later extended to all federal agencies in the mid-1960s. PPB required clear identification of the goals and objectives of each area of government activity, emphasising the importance of a multi-annual approach to budgeting, in terms of both planning for the achievements of objectives and the long-term costs associated with current decisions. A crucial element of PPB was analysis of different options of achieving policy objectives and achieving them at least cost. However, PPB was not particularly successful and was succeeded by Management by Objectives (MBO) followed by Zero-Base-budgeting (ZBB) though these too were not successful either. However, interest in performance budgeting did not wane and was rekindled by Osborne and Gaebler's bestselling book *Reinventing Government,* which advocated 'results-oriented' budgeting. The new approach to performance budgeting *places more emphasis on outcome measures, a departure from the earlier concentration on activities or direct inputs.*

Box 3-3: PPBS

PPBS was initially adopted in the US during World War II at the level of local government (in the department of Agriculture then extended to the Department of Defence under Robert McNamara in 1961). PPBS continued to be used in the Department of Defence in the 1990s, with only marginal changes since the 1960s. It was also used in France and Canada.

A former of member of Parliament in UK, John Garrett described PPBS as "a planning system in which expenditures are displayed in ways which relates them to major policy objectives and in which analysis is carried out on the costs and benefits of alternative routes to those objectives".

However, in spite of its advantages and improvements over earlier budgetary practices, they were several criticisms too like: things did not really change; did not lead to budget decisions; few success stories; etc.

Source: Adapted from: Rose, Aidan Results – Orientated Budgets Practice in OECD Countries – Overseas Development Institute February 2003

14. The Government Performance and Results Act (GPRA), 1993 reportedly drew inspiration from the apparent success of performance management initiatives in other OECD countries, such as Australia and New Zealand. The GPRA requires agencies to prepare strategic plans, annual performance plans (setting performance goals) and annual performance reports. Though the legislation was passed in 1993 there was a long phase-in period of implementation, with federal agencies submitting annual performance reports only in 2000 for the first time.

15. Along with the GPRA was another significant parallel initiative, the National Partnership for Reinventing Government. The NPR has several dimensions, including the establishment of customer service standards, performance agreements between the President and Cabinet Secretary or head of independent agency and performance partnerships between the federal government and other levels of government. The NPR saw a high level of political commitment.

16. A recent major initiative to strengthen its performance is the Performance Assessment Rating Tool (PART), which is managed by the Office of Management and Budget (OMB). It attempts to provide a standardized methodology for rating all 1,000 government programmes, and for identifying

needed improvements to these programmes, apart from giving an information base to assist government decisions on programme budgets.[25](Box 3-4)

Box 3-4: Programme Assessment Rating Tool (PART)

'The Program Assessment Rating Tool (PART) was developed to assess and improve program performance so that the Federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses to inform funding and management decisions aimed at making the program more effective. The PART therefore looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. Because the PART includes a consistent series of analytical questions, it allows programs to show improvements over time, and allows comparisons between similar programs.'

(Source: Office of Management & Budget, United States of America; http://www.whitehouse.gov/omb/part/)

2. New Zealand

17. The new public management embraced by New Zealand was based on the principle that chief executives are directly responsible for the outputs produced by departments while ministers choose which outputs should be produced, thereby taking responsibility for outcomes. Under the current system adopted in 1984, The Budget Policy Statement is required to specify broad strategic priorities, which are issued as Key Government Goals to Guide Public Sector Policy and Performance. By and large, ministerial scrutiny of expenditure is concentrated on new spending proposals and their likely contribution to achieving outcomes. The New Zealand system is based on precise identification of principal – agent relationships and clarification of the roles of key actors in setting and meeting performance incentives and expectations. `Chief Executives are required to sign performance agreement covering aspects including departmental performance, personal performance, reporting requirements and performance review'.

18. The thrust of New Zealand's reforms was to shift the focus from how much money was spent to what it was spent on and why. Under the New Zealand system responsibilities between ministers and chief executives are separated: ministers are responsible for outcomes whereas chief executives are accountable for outputs.

> *The approach taken in the New Zealand financial management reforms is to require chief executives to be directly responsible for the outputs produced by the departments, while the ministers choose which outputs should be produced and should therefore have to answer directly themselves for the outcomes.* (Scott, Bushnell and Sallee)

19. Five core principles characterize the public management system of New Zealand: clarity of objectives; freedom to manage; accountability; effective assessment of performance; and adequate information flows. (Box 3-5)

[25] The World Bank Group- http://www.worldbank.org/ieg/ecd/part.html

Box 3-5: Core principles underpinning the New Zealand public management system

• *Clarity of objectives* – The initial element of a management process must be as clear a specification as possible of the objectives which managers are responsible for achieving. This implies both a clear identification of individual objectives – objective performance targets in areas where that is possible, for example – and the avoidance of multiple, conflicting objectives.

• *Freedom to manage* – Once objectives are clearly stated, managers must be given the power to make their achievement possible. Managers should, for example, have freedom to make resource allocation decisions on a basis which enables the most efficient attainment of objectives. Controls over inputs are in general likely to prevent such a process.

• *Accountability* – Freedom to manage is not itself a sufficient precondition for good management. Incentives and sanctions must be in place to modify the behaviour of managers to ensure that they do act to meet established objectives rather than pursuing independent goals of their own. For this to be achieved, managers must be accountable for the decisions they make, and those on whose behalf they act must have the means to make that accountability "stick'.

• *Effective assessment of performance* – If managers are to be accountable for their performance, those to whom they are accountable must have the means to establish the quality of that performance. How well have managers met stated objectives? Are any deficiencies the result of poor management or of external factors over which the managers concerned had no control?

• *Adequate Information Flows* – If emphasis is to be placed on performance assessment, a sufficient quantity and quality of information concerning performance will be required. If managers are to be given a goal of efficient resource use, for example, accounting systems must provide the information to enable an adequate assessment of the quality of resource decisions.

(Source: "Managing for Outcomes" in the New Zealand Pubic Management System- Anna-Luis Cook; New Zealand Treasury Working Papers 04/15)

20. While reform in New Zealand is still under way and is a continuing process, successes in moving to outcome focus is said to have been achieved through the generation of quality information, particularly through introduction of accrual accounting. However, the World Bank doubts the replicability of the New Zealand model in other countries, particularly in developing countries: "what is feasible in New Zealand may not be workable in many developing countries". [26]

21. Rose (2003) summarizes as follows: `there is wide spread recognition of the shortcomings of traditional budgetary approaches and that there is much to be learnt from the experimentation with new approaches. The experience of PPBS alerts us to a number of technical difficulties that need to be overcome, for example the need to define goals properly and overcome departmental resistance by ensuring that incentives and rewards systems are in place'.

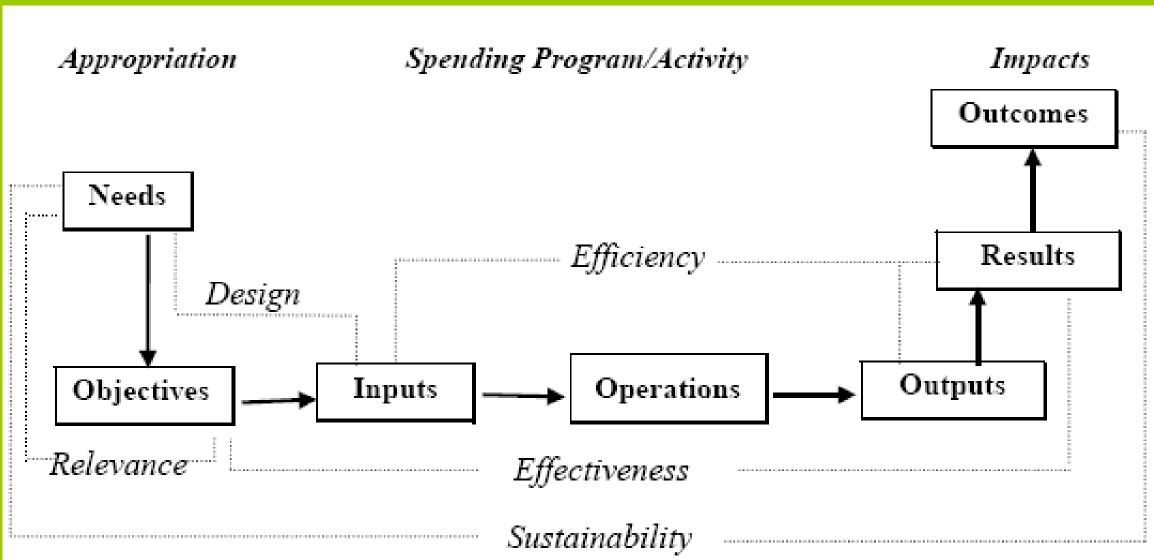
22. In the 1990's many countries, both industrialized and developing tried to draw from the experience of New Zealand's reforms in public management by adopting output budgeting. While this remains a core element, recent years have seen increasing focus on outcomes. The legislative basis for New Zealand's output budgeting model was the Public Finance Act 1990 which sought to

[26] World Bank report 1997: The State in a Changing World, p-87.

establish accountability of public sector departments and agencies for outputs and ministerial responsibility for determining outcomes. There is broad agreement that overall efficiency has improved substantially as result of public management reforms. The New Zealand public sector is not alone in recent years in striving to achieve effective application of outcome concepts; United Kingdom among others is another example.

23. All budgetary and expenditure management systems, whatever appellations they may go by, are concerned with ensuring that public expenditure agencies use public funds effectively; in other words deliver value for money in implementing government policy. The inter-relationships from inputs to impacts in the flow of results, in the context of budgetary framework is diagrammatically presented in Figure 3-2 below.

Figure 3-2: The Expenditure Management Process



Source: David Webber, 2004; "Wrestling with Outcomes: The New Zealand Experience"- Figure 2

24. The figure reveals a clear logical hierarchy of performance measures that flow upwards towards results and finally outcomes. This framework makes it easier to assign clear objectives and give an explicit focus for evaluation of public expenditure.[27]

25. In the budgeting process, the government sets the highest level outcome goals under the Fiscal Responsibility Act (1994) which, under the Budget Policy Statement require it to 'specify the broad specific priorities by which the Government will be guided in preparing the Budget for that financial year.'

26. Since the mid 1990s this requirement has been met by various sets of goals under various names like, "Strategic Result Areas", "Strategic Priorities and Overarching Goals", and currently "Key Government Goals to Guide Public Sector Policy and Performance". In general, these goals are more statements of broad direction than goals.

27. Ministerial scrutiny of expenditure in the budget process is concentrated on new spending proposals, though they may constitute less than 5% of total expenditure. The instrument for prioritizing new spending proposals is called the fiscal

[27] *Wrestling with Outcomes : the New Zealand Example*-David Webber 2004

provisions. Each year the government has to outline how much it intends to spend that year and in the following two years. 'Informally, this statement of fiscal intentions is built upon a fiscal provisions framework that sets the level of additional discretionary government expenditure.' The fiscal provisions combined with the Key Government Goals are a powerful prioritization tool, which sets a transparent budget constraint and outlines what the highest priorities are within that constraint. This is practical since invariably demand for funds exceeds supply and it compels ministers to demonstrate that the new spending that is proposed is worthwhile and will contribute to government's outcomes. Thus, at least from a macro planning perspective outcome goals inform the budget, at least at the margin of new expenditure.

28. Chief executives are accountable for delivering on key priorities that are part of the Chief Executive's Performance Agreement. The key priorities are supposed to be SMART-***S***pecific, ***M***easurable, ***A***chievable, ***R***esults-focused, and ***T***ime-bound.

29. The focus on outputs at the department level follows from the distinction between the responsibilities of ministers and chief executives. In general, it is more difficult to hold managers accountable for outcomes rather than outputs because of difficulties in determining causality accurately, significant time lags, and lack of information and information asymmetries.[28]

3. United Kingdom (UK)

30. Three distinguishing features of a results based approach in the UK are Citizen's Charters, Public Service Agreements (PSAs) and Service Delivery Agreements (SDAs).

31. The Citizen's Charter programme was introduced in 1991, which requires government agencies to set out their service commitments and publish performance information against the standards set. The Charter is based on six key principles: (i) standards; (ii) information and openness; (iii) choice and consultation; (iv) courtesy and helpfulness; (v) putting things right; and (vi) value for money. The most important feature of the Citizen's Charter programme was the creation of individual charters for public services. Levels of service provision that the public could expect to receive were set out—creating awareness among the public about what they were entitled to, and making it clear to service providers the standards they were committed to meet.

32. Assessment of the Citizen's Charter was positive and this has been re-launched as Services First. (Box 3-6)

[28] Ussher and Kibblewhite, 2001

Box 3-6: Citizen's Charter & Services First

A series of proposals aimed at improving public services in the UK was unveiled by Conservative prime minister John Major in 1991. Major's 'programme for a decade' covered the activities of a range of public-sector bodies, including the police, the health service, schools, local authorities, and public and private utility companies. It promised better quality for consumers through the publication of service standards, the right of redress, performance monitoring, penalties for public services, tighter regulation of privatized utilities, and the increased pressures resulting from competition and privatization. Published charters set out the standards of service that consumers could expect and, in some cases, compensation could be claimed if performance was deficient. 'Charter marks' were awarded to the most successful providers of services. The guiding principle of the charter notion, borrowed from the private sector, is that 'the customer is king.'

The Labour government of Tony Blair sought to refocus the charter programme through its Service First agenda for public service delivery introduced from 1998.

(source:http://www.tiscali.co.uk/reference/encyclopaedia/hutchinson/m0034206.html)

In July 1999 the Labour Government replaced the citizen's charter with the Service First programme to improve public services.

By 2002 Service First incorporated at least 200 national citizen's charters covering all major areas of public service.

Charter marks continue to be awarded to public sector divisions demonstrating high levels of customer service and efficiency.

(Source: BBC)

33. A significant reform in recent years in the UK is the introduction of Public Service Agreements (PSAs). These were first introduced in 1998 along with departmental spending plans for the next three years. In exchange for spending commitments the departments are required to commit themselves to achieving tangible results that are set out in the PSAs. The PSAs include aims, objectives and high-level targets. A cabinet committee monitors progress towards targets set in the PSAs. There is also a public service productivity panel to help departments improve productivity.

34. However, PSAs were subject to considerable criticism including from John Garrett a former Labour MP, who argued that the targets were over ambitious and lacked focus. Further, in some cases the PSA targets were said to have a counter-productive effect. A new refined set of PSAs along with spending plans were published in July 2000, and were complemented by more detailed Service Delivery Agreements (SDAs) which indicate in detail how the targets are to be achieved. A noteworthy feature of the new PSAs is the inclusion of floor targets. PSAs and the associated annual reports are seen as a mechanism for measuring the extent to which increases in expenditure are translated into improvements in public services. However, a lacuna of PSAs is the absence of provision for independent assessment of progress in meeting targets.

4. Australia

35. Two features that distinguish the reform in Australia in regard to performance related expenditure management are forward estimates and accrual accounting.

36. The Financial Management Improvement Programme (FMIP) devolves more authority to spending departments and agencies, coupled with greater flexibility in the use of resources. Further, additional flexibility can be negotiated by the

departments or agencies through resource agreements which may allow them to retain revenue from charges or link additional spending to increases in workload.

37. ***Forward estimates*** are considered an important reform that has helped the system to allocate resources in relation to strategic priorities. Forward estimates are three-year rolling forecasts of the costs of existing policies, which also adjust for changes in inflation, unemployment and the exchange rate.

38. Many advantages are seen to flow from the system of forward estimates. It has allowed ministers to devote more time to policy changes; attention is given to impact on expenditure resulting from policy changes over the three-year period covered by forward estimates; departments and agencies have greater certainty over budgetary allocations; and greater transparency in budget documentation. Budget documents are required to reconcile the current year's estimate with the forward estimate from the previous year.

39. Australia is considered to be a pioneer in the development of accrual accounting and budgeting, with the introduction of full accruals-based budget within an output and outcomes framework in 1999-2000. It is designed to sharpen the focus on developing a performance culture since appropriations are made against outcomes. A series of outputs (services to be delivered) are then identified in the Portfolio Budget Statements produced by each government agency. Agencies are required to show how information on planned performance and actual performance relate to each other.[29]

40. Initially, unlike in the UK and New Zealand the process of reform did not seek to 'de- couple' policy-making and service delivery. However, subsequently Australia too has veered to the view that the separation of policy and service delivery could provide important benefits like greater choice, flexibility and improved accountability.

41. The new approach also requires departments and agencies systematically to review all their activities by assessing the appropriateness of continuing an activity or devolving it to another level of government. If the activity is to be continued, consideration has to be given to whether performance can be improved through market-based approaches, including competitive tendering; benchmarking performance against best practice in private and public sectors; use of purchaser / provider agreements; and so on. One other development in recent years is the introduction of service charters, drawing from UK's experience with Citizen's Charter.

42. As in other countries, the process of public service reform in Australia is a continuing one. Widespread use of evaluation is another distinctive of Australian reform.

5. Canada

43. Canada introduced a new expenditure management system in 2007, which was designed with a view to improving performance and value for money in public spending. Unlike in most typical cases, this did not take place in a period of fiscal difficulty but after a long period of budget surpluses.

44. Canada has been producing performance information for quite some time, with the first formal programme evaluations in the late 1970s and early 1980s. The

[29] (National Economic and Social Council, Dublin, 2002; *Achieving Quality Outcomes*: *The Management of Public Expenditure*; December 2002;p. 63-64).

information on results served two purposes, namely, for internal management and for reporting to parliament.

45. As in most countries, historically, Canada had an incremental approach to budgeting, without reference to the performance of existing programmes. When expenditures were thrown out of kilter in relation to revenues, leading to unsustainable deficits, the government would embark on *ad hoc* expenditure reviews and reductions. However, an improved fiscal situation over more than ten years has resulted in an increase in unsustainable levels of programme spending, and the sense that programmes are not achieving sufficient results.

46. This led to the most recent initiative in 2007 of a new "strategic review" process. Strategic reviews undertake assessment of large spending programmes to generate performance information with a view to informing budget-related decision-making. This falls into the performance-informed budgeting categorization of the OECD. (Box 3-7) 'Canada does not expect to achieve "direct performance budgeting" in the literal sense that budget decisions are largely based on performance metrics. Rather, the aim is to provide performance information to senior officials to support them as they make budget-related decisions.' (Stacy, 2008)[30]

Box 3-7: Categories of Performance Budgeting

The OECD places countries in the performance budgeting spectrum under three categories:

• Presentational performance budgeting – performance information is found in government documents but has little or no role in decision-making;

• Performance-informed budgeting where performance information is important in budget decision-making, but it does not determine budget allocations and it does not have a predefined weight in the decisions; and

• Direct performance budgeting, a rare phenomenon where performance metrics actually determine budget allocations (this is used only in a few OECD countries in a limited number of sectors).

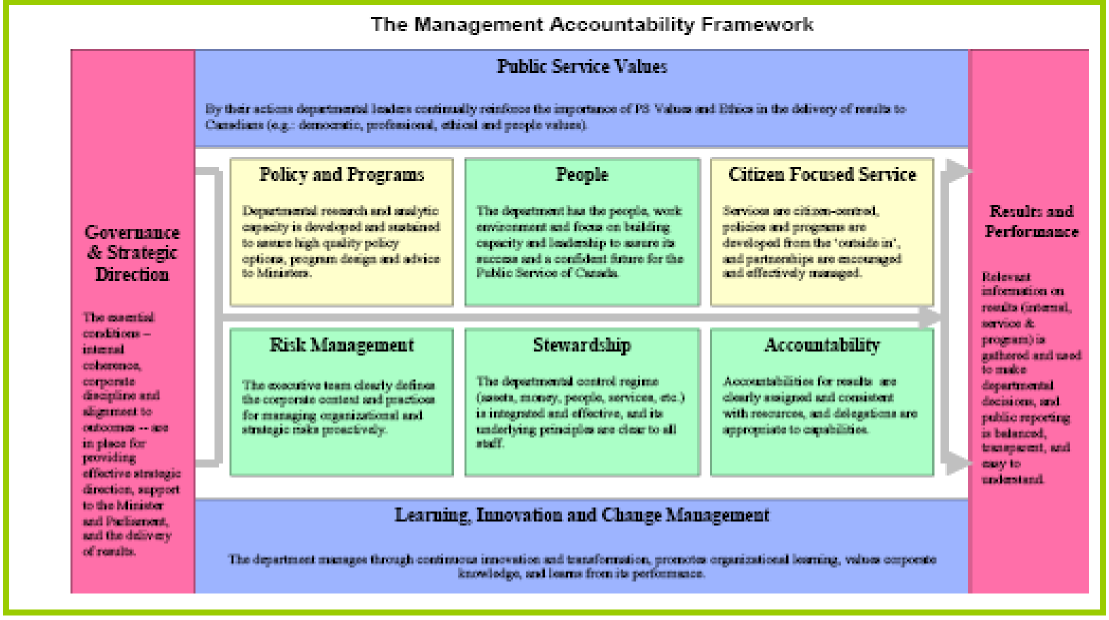
(Source: OECD Policy Brief on Performance Budgeting: A User's Guide, OECD, 2008, p.2.)

47. The new expenditure management system is built on three pillars: (i) up-front discipline on spending proposals for new programmes; (ii) strategic reviews of the ongoing programme base; and (iii) managing for results. Alongside the strategic review system, attention is also being given to capacity building in the departments for performance measurement. (Stacy, 2008)

48. Accountability between departments and the Treasury Board is sought to be achieved on the basis of a Management Accountability Framework, which sets out the expectations for management performance. Departments are assessed against a set of indicators that *inter alia* consider the quality of management, resources and results structures; the capacity to undertake and use programme evaluations; and the overall quality of reports to Parliament. Discussions are held between senior officials to identify priorities for improvement of management.(See Figure 3-3)

[30] Extracted from the paper on *Institutional Foundations for Performance Budgeting: The Case of the Government of Canada,* Bruce Stacy, Executive Director, Results-based Management Treasury Board, Canada- International Conference on Performance Budgeting, Mexico City, June 9 and 10, 2008

Figure 3-3: Management Accountability Framework



C. Lessons

49. "A consistent theme running through the reforms is a desire to place more emphasis on the outputs to be produced or results of government activity rather than detailed control of the inputs used by government."[31]

50. One of major challenges in managing public expenditure is linking annual public expenditure allocations to the achievement of strategic policy objectives. Different countries have adopted different approaches. However, a common theme that emerges is that centralised control of inputs is not the most effective way if public expenditure is to achieve the underlying cause of public spending. While spending agencies need to be given greater flexibility in the use of resources this has to be accompanied by greater accountability on their part for achieving results. Emphasis on results in managing public expenditure involves both financial management and performance management: financial management is essentially management of expenditure, while the focus in performance management is on results; and there is need for a degree of integration between the two.

51. Another feature of public expenditure reform is the use of alternative delivery mechanisms, like contracting out delivery of services to the private and voluntary sectors and partnership with them.[32]

52. Some of the lessons emerging from the continual effort of countries to improve the quality of their expenditures and delivery of services, and to bring about outcomes and impact consistent with the basic objectives underlying their spending decisions are: (i) an outputs and outcome focus; (ii) performance agreements to hold officials or agencies accountable for results; (iii) choosing appropriate indicators; (iv) a multi-year approach and focus; (v) change in accounting procedures; and (vi) mandating minimum standards of service delivery, wherever feasible.

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[31] Chapter 3 p.58. National Economic and Social Council, Dublin, 2002; *Achieving Quality Outcomes*: *The Management of Public Expenditure*; December 2002

[32] National Economic and Social Council, 2002

1. Focus on Outputs or Outcomes

53. Budgeting focused on performance and results should form an integral part of any reform package in order to bring about a performance culture in public administration. Accountability of managers must be on outputs and less on outcomes as the latter may be influenced by exogenous and external factors. This does not, however, mean that outcomes need not be monitored. Transparency of the budget process and documentation, and citizens' evaluation of outputs would help in improving budgetary outcomes.[33] (Shah, 2005)

54. Shifting the focus to outcomes calls for a change in thinking as well as in measurement. One needs to think about outcomes in the context of which mix of activities and outputs are required to maximise the impact of programmes. However, outcomes receive less attention in spite of their being central to the very concept of a results-focused approach to performance. This is because outcomes are generally perceived to be more difficult to measure and monitor. They are more difficult to quantify than activities or outputs, for outcomes generally result from not a single intervention of one programme in isolation but from an interaction of a number of different factors and interventions, both planned and unplanned. Besides, outcomes are seen as being remote in time and space from the programme in question, and could result from interaction of other factors as well. There is therefore a tendency to fall back on what is easier to measure namely outputs, even if they are in the long run less important than outcomes. However, this could lead to a negation of the very purpose of results-based reform, which is to concentrate efforts on the impact of the underlying programmes. However difficult it may be, it is necessary to focus more on outcomes and on the development of the required supporting systems, structures and availability of expertise. (Michael Ruffer)[34]

55. As focusing solely on outputs can result in insufficient attention being given to how outputs contribute to outcomes, a number of countries are giving increasing attention to outcomes. Outcome targets necessarily concern the success of policies. 'Setting targets at the outcome level goes beyond management *per se* and enters into the domain of policy making.' How well outputs are contributing to outcomes indicates not only how successful policy implementation is but also how successful policy making is. (Ruffner)[35]

56. Michael Ruffner (Governing for Results, OECD) says:

"Defining outcomes and measuring them is a daunting task. Most governments that have embarked on this development of the budgeting and management systems have year long experiences with output focused approaches and acknowledge that introducing an outcome approach, though following logically from having worked with outputs for a period, will take time to get right."

2. Performance Agreements

57. Some of the reforms were aimed at shifting budgetary control from line-items to measurable goals for output and outcomes. In many countries (of the OECD) this change of focus entailed introduction of "performance contracts" that sought to establish a link between the inputs or outlays and the quantity and quality of services (output) and results (outcome). Administrators of programmes are the

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[33] Shah, Anwar, 2005; *Budgeting for Results;* Conference on Fiscal Responsibility and Intergovernmental Finance, ASCI, Hyderabad, June 24, 2005

[34] Michael Ruffner, Governing for Results, OECD

[35] Michael Ruffner, Governing for Results, OECD

responsible for delivering the contracted outputs or results, based on which future budgetary allocations are to be decided, at least theoretically. Thus, the goals of government programmes are to be clearly spelt out, measures developed to assess and monitor performance, which information is then to feedback into the budget decision making. The underlying philosophy of such reform is to give programme administrators adequate flexibility in the use of resources in order to ensure that policies are delivered effectively and efficiently.

3. Appropriate Indicators

58. Choice of appropriate indicators may present practical difficulties in that there may be no ideal performance indicator. Perhaps, the guiding principle should be that indicators provide managers with the information they need to perform their jobs efficiently and effectively. In a set of criteria developed by Price Waterhouse for good performance measures for US government agencies (*Who Will Bell the Cat? A Guide To Performance Management in Government, 1993*), the underlying principles were that the indicator should be: (Box 3-8)

Box 3-8: Characteristics of Indicators

- objectivity linked – i.e. directly related to clearly stated objectives;
- Responsibility linked – i.e. matched to specific organisational units that are responsible for, and capable of, taking action to improve performance;
- Organisationally acceptable – valued by all levels in the organisation, used as a measurement tool, and viewed as being "owned" by those accountable for performance;
- Comprehensive – inclusive of all aspects of programme performance, for example, measuring quantity but not quality provides incentives to produce quickly, but not well;
- Credible – based on accurate and reliable data sources and methods, not open to manipulation or distortion;
- Cost-effective—acceptable in terms of costs to collect and process;
- Compatible – integrated with existing Information Systems;
- Comparable with other data – useful and making comparisons; for example performance can be compared from the data period, with peers, to targets, etc;
- Easy to interpret – presented graphically and accompanied by commentary.

59. These general principles could inform the choice of indicators. To borrow from ITAD (*Monitoring and the Use of Indicators*, EC Report, 1996) a popular acronym for remembering the characteristics of good indictors is SMART:

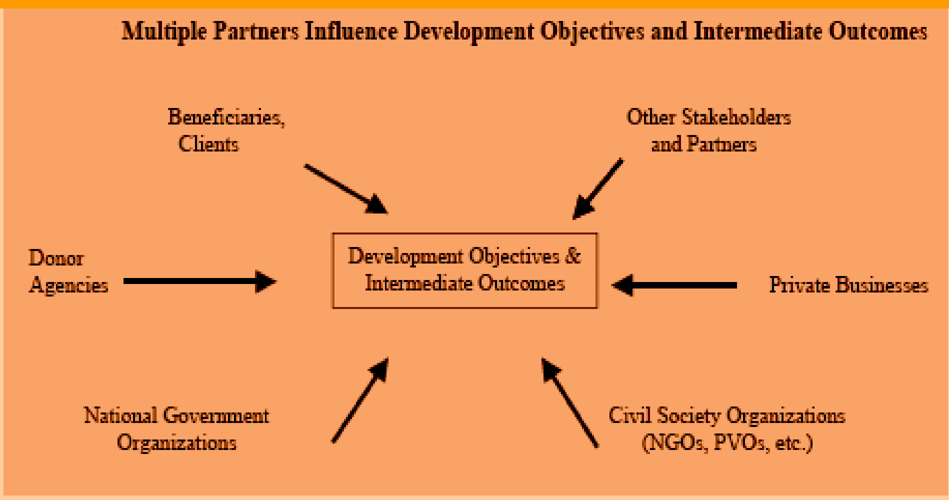
S – Specific
M – Measurable
A – Attainable
R – Relevant
T – Trackable

60. Another issue in the choice of indicators is that of quantitative indicators versus qualitative indicators. Quantitative indicators can be objectively or independently verifiable numbers or ratios, whereas qualitative indicators are subjective descriptions or categories. Whether to choose quantitative or qualitative indicators would depend on the nature of the project or programme. Service delivery sectors like education, health and so on are more amenable to quantitative indicators whereas assessment of performance in certain areas like democracy, governance, policy reform, etc. can by their very nature be only subjective or qualitative.

> ***"We make important what can be measured, because we cannot measure what is important"***
> Colin Talbert; *Performance Management*, The Oxford Book of Public Management, p 503

61. For meaningful development objectives and indicators of outputs and outcomes to emerge there should be interaction between different stakeholders. (Box 3-9)

Box 3-9: Involvement of Stakeholders



Source: Box 26: from The Development Assistance Committee (DAC) Working Party on Aid Evaluation; Results Based Management in the Development Cooperation Agencies: A Review of Experience – Background Report November 2001)

62. Where appropriate or possible, indicators should be disaggregated by gender, geographic area, and social group (for example, in India this could be by scheduled castes, scheduled tribes and so forth).

63. Indicators could be input indicators, process indicators, output indicators or outcome indicators depending on what is sought to be measured. Besides,

indicators are sometimes used as proxies of a general trend. For example, improvements in national literacy rates could be taken as evidence of realization of the right to education. Likewise, indicators such as hospital beds per 100,000 people, percentage of governmental expenditure on the national healthcare system, and number of doctors per hospital could be treated as measures of provision of healthcare resources, but none of these indicators actually measures the denial of access to healthcare services. Further, there may be trade-offs between the different types of indicators. ‘Those that achieve global coverage tend to have a higher level of abstraction and may not provide the kind of differentiation required for policy analysis or policy decision-making.’[36]

64. Apart from identifying appropriate indicators for outputs and outcomes and monitoring them, evaluation of performance against benchmarks and pre-determined standards could be considered.

4. Multi-year Focus

65. Medium Term Expenditure Framework (MTEF) typically links annual budgets with medium term priorities over a rolling three-year time horizon. It provides an important management tool for review of government operations, with a certain predictability of, but not necessarily guaranteed, funding.

66. An MTEF is integral to public expenditure management that has three principal focus areas; namely, aggregate fiscal discipline, allocative efficiency, and operational efficiency. Aggregate fiscal discipline can be achieved by setting credible ceilings on both aggregate and sectoral expenditures to curb the tendency of line ministries to propose as many projects as possible, which could result in unsustainable deficits. Allocative efficiency is enhanced by forcing line ministries to disclose their spending programmes over a three-year period along with cost estimates. Operational efficiency results from line ministries having reasonable assurance and predictability of funding, which would make for more efficient delivery of services.[37]

67. While MTEF has much to commend it, it is not entirely without drawbacks. It could degenerate into a mechanical exercise using an incremental approach without a serious look at government operations; it can give rise to a sense of entitlement and lead to resistance to change even in the face of compelling external circumstances; and its effectiveness could be compromised in the absence of effective oversight mechanisms.[38]

5. Accounting

68. A number of budget and accounting reforms, with differing aims, have taken place in recent years including output and outcome budgeting, accrual accounting, and so on, some of which are related to New Public Management, but not necessarily so.

69. The argument in favour of accrual accounting is that it would increase transparency in the use of public funds and assets leading to improved government accountability and allocative efficiency. In the absence of such information, it would be difficult to determine whether a programme is too

[36] Dr. Todd Landman, Map-Making and Analysis of the Main International Initiatives on Developing Indicators on Democracy and Good Governance; University of Essex, Human Rights Centre 2005 , p.6

[37] The Governance Brief, Issue 2, Asian Development Bank.

[38] Shah, Anwar (2007); *Budget Methods and Practices*; Presentation at Workshop on Pubic Sector Governance in India, New Delhi, 30 October 2007

expensive or ineffective or inefficient. Accrual accounting in Australia and New Zealand was supposed to put in place a system of measurement of performance and outcomes in relation to the cost of achieving the desired outputs and outcomes over time.[39]

70. In most leading countries, the focus on results is accompanied by a shift to accrual accounting, which enables better links to be made between costs and outputs and with a longer-term focus.[40]

6. Benchmarking an Minimum Standards of Service Delivery

71. Value for money is generally the driving force for benchmarking, which can be with reference to standards, processes, or results. With mounting pressure on the public sector to deliver high quality services to the public within increasingly limited resources, the use of the three main aspects of benchmarking assume considerable importance.[41]

72. Setting minimum standards of service, which would in a sense be public entitlements or guarantees would be meaningless unless they are enforceable and are coupled with mechanisms for redress. Also, there is the danger that the bar may be set too low. Hence, the need for benchmarking. However, it needs to be recognised that rights or entitlements to public service cannot exist in vacuum. If they are to be credible there must be realistic recognition that there are limits to resources available for public service provision. 'Setting entitlements to public services will often be a difficult task, as it will involve making political judgements about the standard of service provision to be guaranteed to all service users'.[42] It may desirable therefore to have stakeholder consultations before minimum standards are set rather that afterwards. Once standards are set (in the form of Public Service Guarantees as in UK) people should be able to claim redress if the relevant standard is not met.

[39] Rubin S. Irene & Kelly, Joanne; *Budget and Accounting Reforms*; The Oxford Handbook of Public Management, 2005; Chapter 24
[40] Rose (2003) p.24
[41] Cowper, Jeremy and Samuels, Martin; Performance Benchmarking In The Public Sector: The United Kingdom Experience; Cabinet Office, United Kingdom
[42] House of Commons (2008); *From Citizen's Charter to Public Service Guarantees: Entitlements to Public Services*; Twelfth Report of Session 2007-08 Public Administration Select Committee; Twelfth Report of Session 2007–08;

Chapter 4. Outcome Budgets in Central Ministries

1. Under the terms of reference of the study, the evaluation procedures for measurement of outcomes already in place are to be examined to see how they are working, and whether they need to be improved upon or reoriented.

2. Before doing so, the major (or the so-called flagship) programmes under the ministries of rural development, education and health are briefly reviewed, with no attempt, however, at providing any assessment or evaluation of the programmes per se, which is beyond the remit of this study. At the same time, an overview of the programmes, their underlying objectives and a mention of some of the observed drawbacks would help place their outcome budgets in perspective. This overview is preceded by the guidelines issued for preparation of outcome budgets.

3. Without entering into a debate over the merits, desirability and tentacular spread of centrally sponsored schemes (Box 4-1), it needs to be mentioned, however, that considerable expenditures are incurred by the central government over subjects primarily in the domain of states; in particular, subjects such as rural development, education and public health. Many flagship programmes of these central ministries with huge and increasing outlays relate to these sectors. A viewpoint has, however, been expressed that classification of subjects into the Central, State and Concurrent lists is only with a view to legislation and taxation (the concurrent list does not however contain any taxation powers) and 'does not preclude the whole country from being treated as a common economic space for the centre and the States to operate in the *(sic)* combined manner for the benefit of the nation.'(VK Srinivasan)

4. In this context, it would, however, be pertinent to recall that the Twelfth Finance Commission observed that on an average 9.6 % of the total expenditure of the Centre was on subjects in the State List (7.4 % plan expenditure and 2.2 % non-plan) and an average of 9.4 % of expenditure on subjects in the Concurrent List (3.8 % plan and 5.6 % non-plan), which means that on an average almost a fifth of the total expenditure of the Centre is on subjects in the States' domain. It is very likely that these percentages have increased since then. While one does not wish to be dismissive of the importance or need for centrally sponsored and central sector schemes it would not be correct either to be unmindful of the 'principle of subsidiarity', namely that the levels of government closer to the administered are likely to be more sensitive to their needs. It would bear repetition at this point to recall once again the observation in the Eleventh Five Year Plan: 'Local governments are in a better position to appreciate problems holistically and come out with cross-sectoral solutions…As local governments are closer to the people, they are capable of identifying local priorities and entering into partnership with communities for the management of assets and facilities.'[43]

5. Another important development in Indian fiscal federalism is the expanding resort to scheme based discretionary transfers, which are in addition to the centrally sponsored schemes.[44] (Govinda Rao, 2007). One other important

[43] Paragraph 10.13 Eleventh Five Year Plan

[44] The normal central assistance for state plans, which is formula-based, was more than 90 per cent in 1991, but constituted less than one-third of the total plan assistance in 2006-07. Important among the grants not based on any formula within the state plan assistance are for schemes such as the Jawaharlal Nehru Urban

development is the direct transfers to various autonomous bodies amounting to Rs.49,607 crore in 2007-08 — among which Rs.9760 crore on Sarva Shiksha Abhiyan, Rs.4408 crore on National Integrated Disease Control Programme, Rs.10,738 crore on National Rural Employment Guarantee, Rs.4054 crore on Rural Poverty Alleviation, Rs. 3500 crore on Rural Roads, Rs.3629 crore on Indira Awas Yojana, and Rs.2009 crore on Accelerated Rural Water Supply. (Govinda Rao, 2007) The ostensible reasons for such direct transfers are poor service delivery and avoidable delays if the funds were routed through State governments. But the contrapuntal arguments of dilution of accountability and state supervisory authority would need to be kept in mind too and sufficient safeguards taken.

Box 4-1: Centrally Sponsored Schemes

Centrally Sponsored Schemes (CSS) are programmes / schemes initiated by various ministries of the central government, but executed in states, for which states receive plan assistance, either wholly or partially or on a matching basis. The origin of the schemes goes back to the Second Five-year Plan. The rationale for CSS is that there exist programmes of national importance, spanning different states, which call for central intervention and initiative. However, centrally sponsored schemes have a tendency to proliferate over time.

Centrally sponsored schemes have been the subject of debate of many committees, the National Development Council (NDC), and have been commented upon by various commissions, including the Planning Commission and successive finance commissions, from time to time. The predominant view of all these has been that centrally sponsored schemes should be reduced in number and the resultant savings of funds should be passed on to the States.

Commenting on centrally sponsored schemes, the Tenth Finance Commission observed: “their continuance makes for large and sprawling bureaucracies and the centre dealing with what are primarily state subjects-e.g. agriculture, rural development, education and public health. Given adequate decentralisation it should be possible to effect considerable economies in such schemes.” (paragraph 15.7, page 63 of the report of the Tenth Finance Commission)

The Twelfth Finance Commission recommended that a state should be given its total entitlement of grants and allowed to select its own mix of CSS within the limit of the total grant. ‘Centrally sponsored schemes would then start competing among themselves and pressure would come on the ministries to design schemes that are in demand. This would do away with the present supply-driven approach where schemes are characterised by large numbers, duplication and lack of monitoring. The CS schemes have been the subject of study by many committees. The general consensus has been towards reducing their number, but the follow-up action has been weak.’ (Paragraph 4.70 of the report of the Twelfth Finance Commission.)

A. Guidelines for Preparation of Outcome Budgets

6. Following the recommendations of the Administrative Reforms Commission performance budgeting was introduced in 1969 for ministries handling development programmes. However, certain weaknesses were observed such as lack of clear one-to-one relationships between the financial budgets and the performance budgets, and inadequate setting of targets in physical terms for the following year. Further, it was realized that it was not sufficient to track just the intermediate physical `outputs’ that are easily measurable but also necessary to

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Renewal Mission, backward regions grant fund, accelerated irrigation and power development programmes, MPLAD programmes and multilateral fiscal adjustment assistance to states. These scheme-based and discretionary grants are in addition to the centrally sponsored schemes. Thus, of the Rs 65,554 crore estimated plan grants to states in 2007-08, the formula grants account for Rs 15,408 crore or 23.5 per cent.

look at `outcomes' which are final objectives of policy interventions. Thus, a move to outcome budgets was made in 2005-06 in pursuance of the finance minister's announcement in his budget speech for 2005-06. With the introduction of outcome budgets, performance budgets were being phased out and ultimately subsumed in the outcome budgets from 2008-09.

7. In preparation for outcome budgets for 2007-08 guidelines were prescribed for each ministry / department, except those that were exempted on security and other considerations.

8. The guidelines prescribed a broad format for outcome budgets consisting of an executive summary that not only summarizes the salient features from the relevant chapters but also prominently highlights the details of the monitoring mechanism and public information system put in place by the ministry/department for regular monitoring of physical and financial progress. Broadly, apart from the executive summary, outcome budgets are to contain the following: -

- *Chapter 1:* A brief introductory note on the functions of the ministry/department, organizational set up, list of major programmes/schemes, its mandate, goals and policy framework.
- *Chapter 2:* A tabular format showing the budget estimates separately for different demands / appropriations, the objective being to establish a one-to-one correspondence between the financial budget and the outcome budget.
- *Chapter 3:* Outlining reform measures / policy initiatives, if any taken by the ministry, indicating how they relate to the intermediate outputs and final outcomes.
- *Chapter 4:* Review of past performance indicating the performance up to the third quarter of the financial year preceding the year for which the outcome budget is presented, and the performance during the financial year immediately preceding that.
- *Chapter 5:* Financial review covering over all trends in expenditure vis-à-vis budget estimates / revised estimates in recent years, with the data segregated by scheme, object-head, and by institution in case of autonomous institutions.
- *Chapter 6:* Review of performance of statutory and autonomous bodies under administrative control of the ministry.

9. The guidelines recognize that preparation of outcome budgets is an evolving and dynamic process calling for detailed scrutiny in each year. Further, it is also recognized that the value of an outcome budget lies in its utility as a policy instrument to establish effective linkage with allocation and disbursement of public funds on the basis of measurable performance.

10. Similar guidelines were issued for preparation of outcomes budgets for 2008-09, which *mutatis mutandis* reproduce, practically verbatim, the earlier year's guidelines.

11. The guidelines talk of: the outcome budget being an evolving and dynamic process; putting in place systems of data collection with the help of specialised agencies, where necessary; developing measurable indices of performance; developing norms of standard unit cost of delivery of a service; its utility as a policy tool to establish effective linkage with allocation and disbursement of public funds on the basis of measurable performance; progressing to the next logical step of linking release of funds with progress in achieving monitorable

physical progress against commitments made in the outcome budget; and so on. However, one fears that outcome budgets could well settle into a routine exercise, just as performance budgets had.

B. Rural Development

1. Preamble

First they were asking for food and water. Then bus service, railway station, radio, TV, phone. Now they want a cellphone, a computer etc. But still they are on the verge of starvation!

RK Laxman "You Said It"

Times of India 13 Sep 08

12. 'Poverty is a multi-dimensional phenomenon. Income poverty is central but it is just one aspect. There are also other aspects such as powerlessness, lack of voice, vulnerability and fear (especially for women) as well as the deprivation of basic capabilities and the lack of access to education, health, natural resources, employment, land and credit, political participation, services and infrastructure. Solutions to these conditions imply a level of social restructuring that goes far beyond economic opportunities and increases in incomes.' (Harris & Rajora, 2006)

13. Poverty alleviation programmes are the main thrust of rural development strategy. Among the most important programmes under rural development are the National Rural Employment Guarantee Scheme (NREGS), the Swarnjayanti Gram Swarozgar Yojana (SGSY) and the Indira Awaas Yojana (IAY) another important element.

14. Another important plank on which rural development rests is creation of infrastructure, both physical and social. The six components of the Bharat Nirman programme are designed to address this issue.

a) NREGS

15. Workfare programs form an important plank of government interventions aimed at poverty alleviation in India and elsewhere in developing countries. The NREGS has its roots in the Jawahar Rojagar Yojana begun in 1989. Wage employment programmes implemented by State governments with Central assistance were self targeting, the objective being to provide enhanced livelihood security, especially to those dependent on casual manual labour. The cumulative experience from these programmes led to the enactment of the National Rural Employment Guarantee Act (NREGA) to reinforce the commitment towards livelihood security in rural areas. The Act was notified on 7 Sept 2005, the significant feature of which is that it creates a rights-based framework for wage employment programmes, with the government legally bound to provide employment to those seeking it.

16. Provision of employment is dependent on the person exercising the choice to apply for registration, obtaining a job card, and then seeking employment through a written application. The legal guarantee is to be fulfilled within the time limit prescribed, and this mandate is underpinned by the provision of unemployment allowance. The Act is designed to offer an incentive structure to States for providing employment; 90 percent of the cost for employment provided is borne by the Centre, and there is a concomitant disincentive for not providing employment, if demanded, for in that case the States have to bear the double

indemnity of unemployment and the cost of unemployment allowance. The NREGA is not supply driven but demand driven.[45]

17. The key issues identified under the programme are: (1) articulation of demand for employment (2) preparing a labour budget, annual shelf of projects, and perspective plan (3) record of work done and payment of wages (4) vigilance and transparency (5) public accountability (6) redress of grievances (7) strengthening administrative systems, and (8) financial management. Most of these are measurable outputs.

18. The NREGS differs from earlier government employment programmes, which tended to be paternalistic in approach whereas the NREGS confers employment as a right and the programme is designed to be demand-driven.[46]

b) SGSY

19. The SGSY is aimed at creating widespread income generating activities through the intermediation of self-help groups (SHGs). It is being implemented since 1999 and close to 2.6 million SHGs have been formed under it since inception. Availability and flow of credit is a very important issue under the programme.

c) IAY

20. Housing is a basic human need. The conference of Chief Ministers in 1996 included housing as one of the seven basic minimum services requiring attention on priority. The basic minimum services programme (BMS) became a part of the Ninth Five Year Plan. Later, the National Housing and Habitat Policy 1998 had 'Shelter to all' and better quality of life for all citizens as a policy goal. The Indira Awaas Yojana (IAY) had its roots in these endeavours; the government started implementing its major housing scheme of IAY as an independent programme only from 1st January 1996.

21. Some of the key issues for strategic interventions under the programme are (1) selection of beneficiaries (2) adequacy of unit cost (3) structural facilities and provision of infrastructure, and (4) ownership issues. Flow of funds and incentivising lending institutions are also important elements of the programme.

d) Bharat Nirman

22. Recognising the important role played by infrastructure development in removal of poverty, the government launched a time bound plan under Bharat Nirman for implementation during the four-year period 2005 – 09. The programme spans two five-year plans, the first half falling in the Tenth Five-Year Plan and the latter half falling in the Eleventh Plan period. The programme comprises six components: irrigation, drinking water, electrification, roads, housing, and rural telephony. Physical targets have been set under each of the components, which are amenable to monitoring and measurement of outputs.

23. Coupled with the Bharat Nirman programme are some flagship programmes of social inclusion, with particular emphasis on livelihood opportunities, education, health and other basic public facilities. These programmes include NREGP, NRHM, Integrated Child Development (ICDS), Sarva Shikha Abhiyan (SSA), Mid-day Meal Scheme, (MDMS) etc., which are discussed elsewhere in this study.

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[45] Paragraph 4.38 of the Eleventh Five Year Plan

[46] Chandrasekhar C.P. & Ghosh. Jayati; *Implementing the NREGS;* The Hindu Business Line; 23 September 2008

2. Structure of Outcome Budgets

24. The Ministry of Rural Development broadly follows the guidelines issued by the Department of Expenditure in the Ministry of Finance relating to outcome budgets. In addition to the overall outcome budget covering the major programmes, it also brings out gender and SC/ST budgets separately. However, there is no separate quantification by gender and SC/ST categories except in very general terms. Though the financial and physical progress are shown in separate statements up to the end of the third quarter of the preceding financial year and for the full year relating to the year before the preceding financial year, there is no mention of the unit cost, wherever feasible, for providing the services or achievements made.

3. Monitoring & Evaluation Mechanisms

25. There is a section / chapter on monitoring mechanism in the output budget of the department. The various measures for monitoring the programmes of the department can be broadly classified under the heads: (i) guidelines (ii) periodical progress reports (iii) visits (iv) committees (v) evaluation/impact assessment studies.

- Guidelines:
    - The guidelines for each scheme are said to contain an inbuilt mechanism for ensuring that the objectives of the scheme are achieved.
- Periodical Progress Reports:
    - Periodical Progress Reports from the State governments indicating financial and physical progress of programmes (and their online submission).
    - Furnishing of utilizing certificates / audited accounts as pre-condition for release of subsequent instalments.
    - Reports from nodal officer who is required to coordinate with all concerned departments for implementing the programme.
- Visits:
    - Visits by ministers and officials of the central / state governments concerned with implementation of the programmes.
    - Field visits by officials under the `Area Officers Scheme' introduced by the ministry aimed at monitoring major programmes with special reference to quality adherence, implementation schedule, flow of funds, proper utilization of funds, and achievement of physical and financial targets.
- Committees:
    - Programme Review Committee under chairmanship of Secretary, Rural Development to review performance of various programmes and to take corrective action where necessary.
    - Vigilance and monitoring committees consisting of Members of Parliament, MLA's and other elected representatives.
    - Panel of National Level Monitors involving ex-servicemen and retired civil servants
- Evaluation/Impact Assessment Studies:

- Concurrent evaluation studies by reputed individual research institutions/ organizations from time to time.
- Village based impact assessment studies to assess the collective impact of all programmes of the ministries, which are also intended to help redesign the programmes where necessary.

26. Some of the recent and important initiatives to improve the delivery of the National Rural Employee Guarantee Scheme (NREGS) are:

- Evaluation studies through independent research institutions so that mid-course correction could be effected where necessary.
- Greater transparency in disbursement of wages and reduction of leakage by introducing payment of wages through bank / post offices (Andhra Pradesh, Karnataka and Jharkhand).
- Creation of a knowledge network (NREGANET) and knowledge sharing initiatives to help disseminate local solutions.
- Greater focus on capacity building of village community for social audit.

4. Critiques

27. The elaborate guidelines on monitoring notwithstanding many deficiencies in implementation have been observed.

28. In a critique-cum-appraisal of the NREGS, Santosh Mehrotra (Economic and Political Weekly, August 2nd 2008) says that the NREGS has generated more man-days of employment than the earlier employment generation programmes like the SGRY and National Food for Work Programme (NFFWP). However, there were wide differentials in the performance of individual states. But he adds that targeting is working. Operationalising the monitoring and information system is also said to be carried out more effectively under NREGS than under most other older rural development programmes, aided by computerisation which is reportedly proceeding apace. External and internal agencies are also being involved in field verification in the monitoring process. Mehrotra refers to the comprehensive evaluation (with World Bank support) that is said to be underway to assess the socio-economic impact at the household level and the quality of assets created in select states.

29. While Andhra Pradesh and Rajasthan are said to be leading in social audit and muster roll verification, greater efforts are reportedly needed in other states. Addressing the lack of awareness of guarantee is another area that needs attention, according to Mehrotra.

30. Mehrotra also raises the issue of convergence in that some of the other programmes (like the IAY and Pradhan Mantri Sadak Yojana) could be dovetailed into the NREGS, which could lead to greater synergy provided the rigid condition that only eight types of works can be undertaken under NREGS is relaxed. He also refers to the possibility that the Central government may, instead of releasing funds for the NREGS directly to districts (as was done in the last two years), allocate them to the States, which would lead to greater efficiency in the use of funds.

31. Mehrotra recalls that the Comptroller and Auditor General's report points out that NREGS is being run for all practical purposes with very little professional input. In conclusion, he points out that if NREGS continues along the "business as

usual" manner, the program runs the risk of going the way of most previous wage-employment programmes.

32. Performance audit of NREGA carried out (by the Comptroller & Auditor General) between May and September 2007 of NREGA revealed that record maintenance at the gram panchayat level was poor, reflecting lack of reliability and authenticity. Further, applications for demand for work were not documented or dated and dated receipts were not issued suggesting that there might be only partial capturing of demand for work. Instances of delayed payment of wages for which no compensation was paid. There were several cases of delayed payment of wages, for which no compensation was paid, besides, non-payment of unemployment allowance to work-seekers not provided with work. No punitive action was taken for violations of the Act, indicating ineffective mechanisms for redress of grievances. Systems for financial management and tracking were also said to be weak and deficient. The status of inspection of works, and holding of Gram Sabhas to conduct Social Audit Forum was also not up to the mark.[47]

    i. *The audit of the implementation of the scheme countrywide displayed weak internal controls and monitoring. The provisions for programme evaluation and regular monitoring and inspections in the scheme design, were not effectively followed nor the results analysed for review of errors and introduction of changes on the basis of lessons learnt. The steering and monitoring committees set up by the Ministry to monitor the scheme at national and State level did not meet regularly. While at the national level, the committee met only twice since its inception in 2005 against the scheduled five meetings, the States fared even worse.*
    ii. *In most of the schools sample checked in audit, regular inspections were not carried out to ensure the overall quality of midday meal served nor were basic records such as issue and receipt of food grains, meal quality and evidence of community participation (through village education committees and parent teacher associations) maintained.*
    iii. *Audit of the implementation of the scheme in the states disclosed leakages, deficient infrastructure, delayed release of funds and inflated transportation costs etc.*
    iv. *The Ministry failed to put in place an effective system to ensure that teachers are not assigned the responsibilities that would interfere with teaching activities. Many instances of the teachers spending considerable teaching time in supervising the cooking and serving of meals were noticed, resulting in loss of teaching hours.*

33. In a recent article Dreze and Khera, (2008) point out: 'Bank payments of NREGA wages were recently introduced on a mass scale, and projected as a foolproof remedy against corruption. Recent evidence, however, suggests that the banking system itself is not above corruption — corrective steps are urgently needed.' They point to many significant drawbacks in the system of payments through banks, including the introduction of new players in the 'corruption game'.

[47] Comptroller & Auditor General of India, *Performance Audit Report No.11 of 2008*

5. Improvements Suggested

34. One of the major features of the NREGS is payment of compensation for inability to provide employment on demand. There is no indication in the outcome budget of instances or amounts of compensation paid, if any, for inability to provide employment on demand. In this context, the observations of the Comptroller and Auditor General are pertinent. It has been pointed out that adequate records of requests for provision of wage employment have not been maintained and that no compensation was paid in spite of inability to provide employment on demand.

35. Though details of releases of funds under different programmes are provided there is no indication whether these have been released in a timely manner. This assumes importance in the context of large unspent balances of Rs.11,375 crore reportedly lying with different states as on 31.12.2007[48].

36. While various steps have been mentioned for monitoring and evaluation of programmes, including external and internal monitoring, social audit and so on, reports relating to these are vague and in general terms. There is no mention of deficiencies noticed or of corrective action taken; it cannot be that there were no lapses or lacunae. For example, it is mentioned that during 2006-07 and 2007-08 (up to 4th Feb. 2008) vigilance and monitoring committee meetings were held in 593 and 362 districts, and 475 meetings at the district level, but there is absolutely no mention of what lapses were observed and what corrective steps were taken. Likewise, details are given relating to national level monitors, but no mention of what has emerged from these. Also, it is mentioned that 185 impact assessment studies were taken up through independent research institutions in 185 districts of 27 States and the only mention of the outcome of the studies is to say that there was visible impact of rural development programmes!

37. The very first millennium development goal is eradicating extreme poverty and hunger with the target of halving between 1990 and 2015 the proportion of people whose income is less than one dollar a day. The indicators identified for monitoring progress in this regard are: (i) proportion of population below $1 (PPP) per day; (ii) poverty gap ratio [incidence x depth of poverty]; and (iii) share of poorest quintile in national consumption. A large proportion of India's population lives in rural areas and one of the main objectives of rural development programmes is alleviating rural poverty. Yet in the outcome budget there is no (explicit) linking to the MDG and progress towards it.

38. One of the major contributors to poor delivery of service is the number of vacant posts at the operational level, not to speak of absenteeism. A noticeable omission, therefore, is absence of any reference to the operational staff engaged on different programmes and vacant posts, preferably in terms of person-months.

39. While noteworthy monitoring mechanisms have been put in place and laudable steps taken to bring about greater transparency in operations, reduce scope for corruption, and enhance accountability, there are obviously many 'get rounds' and malpractices that escape attention or are allowed to slip through either because of lax or collusive supervision.

6. Relevance and Sustainability

40. What needs to borne in mind is that budgets are after all only instruments for efficient allocation of resources, and for their effective and efficient use. Their relevance and sustainability have to be judged in the context of how well they

[48] Statement IV, page 117

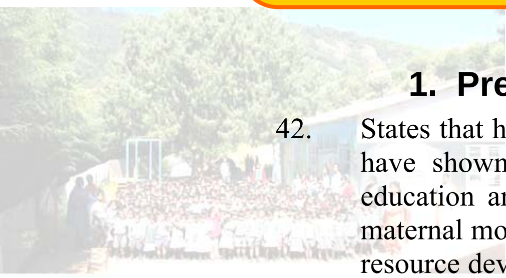
serve as a management tool and as a policy instrument. Though the department has followed the guidelines for preparation of outcome budgets, it would seem it is more in letter than in spirit, judging from the lacunae pointed out above.

7. Legal Framework

41. The legal framework for the NREGS is the National Employment Guarantee Act , (NREGA) salient features of which can be seen in *Appendix E*. However, to repeat a truism, an act is only as good as its implementation and enforcement. Mention has already been made above of many lapses in this regard.

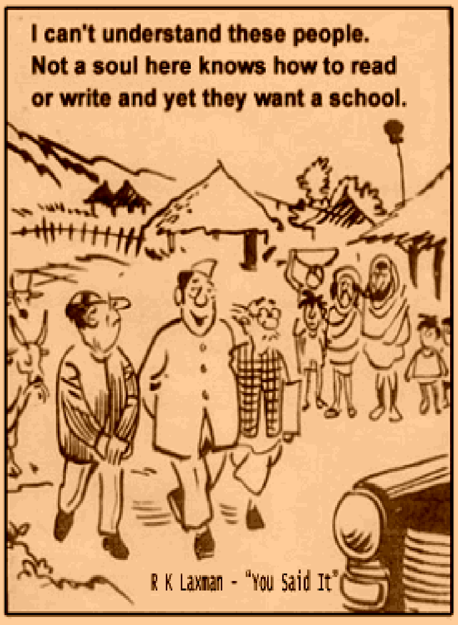
C. Education

> "All agree that the single most important key to development and to poverty alleviation is education," — *James D. Wolfensohn, World Bank President, 1999.*
> "Education can be the difference between a life of grinding poverty and the potential for a full and secure one" — *Nelson Mandela and Graca Machel, Washington Post, May 1, 2002*



1. Preamble

42. States that have given high priority to investment in education and health sectors have shown greater economic progress in recent years. It is perceived that education and major indicators of health like birth-rate, death rate, infant and maternal mortality rates are not only interlinked but are critical inputs for human resource development and economic growth. It is in recognition of this that three of the eleven monitorable targets of the Tenth Five Year Plan focused on elementary education and literacy. Major components in the drive towards achieving the targets under these are the Sarva Shiksha Abhiyan (SSA) launched in 2001 and the Nutritional Support to Primary Education (commonly known as the Mid-day Meal Scheme).



43. SSA and Mid-day Meal Scheme (MDMS) are two major programmes of the department and account for more than 75 % of the department's expenditure.

44. SSA combines the major elements and components of its predecessor programmes comprising Universal Elementary Education (UEE). Universalisation of elementary education was based on five parameters of (i) universal access (ii) universal enrolment (iii) universal retention (iv) universal achievement and (v) equity. SSA is 'the culmination of all previous endeavours and experiences in implementing various education programmes'. While each of the earlier programmes had a specific focus area, SSA is the single largest 'holistic programme' aimed at all aspects of elementary education

covering one million elementary schools, the Education Guarantee Centre (EGC) / Alternative and Innovative Educational (AIE) Centres and about 20 crore children.[49]

45. The States of Uttar Pradesh (19%), Madhya Pradesh (10%), Rajasthan and Bihar (7% each), Maharashtra and West Bengal (6% each), Andhra Pradesh, Tamil Nadu and Karnataka (5% each) accounted 70 percent of the total expenditure incurred by the Central and State governments under SSA during the Tenth Plan.

46. Mid-Day Meal Scheme (MDMS) was launched in 1995 with the twin objectives of enrolment, retention and participation of children in primary schools, and improving their nutritional status. The Eleventh Five Year Plan says that a review of MDMS indicates absence of proper management structure in many States, but adds that in spite of its shortcomings MDMS appears to have had a positive impact on school attendance and nutritional status of children.

47. Education is a state subject; and States incur substantial expenditures on education, most of which is on the non-plan side. Two factors that could impact on the outcomes under SSA are (a) the inability of some major States to absorb the resources under SSA, and (b) some other major States not providing their mandatory 25 per cent share under SSA.[50]

48. The Eleventh Plan claims that the quality of education imparted in primary and upper primary schools (UPS) would improve through a range of coherent, integrated and comprehensive strategies with clearly defined goals that help in measuring progress.

2. Structure of Outcome Budgets

49. The outcome budget of the Department of School Education and Literacy follows the format prescribed for presentation of outcome budgets. However, the outputs, outcomes and processes / timelines are in some cases vague and in general terms. No mention is made of monitoring and evaluation mechanisms.

50. Two of the eight millennium development goals relate to education: namely, (i) achieving universal primary education, with the target of ensuring that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling; and (ii) promoting gender equality and empowering women, with the target of eliminating gender disparity in primary and secondary education, preferably by 2005, at all levels of education no later than 2015. There is neither specific mention of the MDGs nor any linking of outputs and outcomes to them.

51. The outcome budget of the Department of Higher Education (Ministry of Human Resource Development) conforms in its presentation to the prescribed guidelines but the output and outcome indicators, process timelines, and the remarks and risks columns are more often than not rather vague and in very general terms to be of any value for monitoring.

3. Monitoring & Evaluation Mechanisms

52. As already stated, there is no mention of monitoring and evaluation mechanisms in the outcome budget documents. Besides, if outputs and outcomes are indicated in vague and general terms (as is the case under many entries) no meaningful monitoring or evaluation is possible vis-à-vis the intended results; consequently,

[49] Paragraph 1.1.7 Eleventh Five Year Plan, vol II
[50] Mid-Term Appraisal of the Tenth Five Year Plan, paragraph 2.1.12

the basic purpose of an outcome budget as a management tool and a policy instrument is defeated.

4. Relevance and Sustainability

53. The relevance and sustainability of outcome budgets would be undermined unless driven by a sense of purpose to use them (i) as veritable tools for efficient and effective service delivery; and (ii) as vehicles for disseminating information about government programmes, their true costs and efficacy, with a view to transparency and efficiency in operations. This is currently not evident, failing which they could degenerate into routine annual exercises.

5. Critique

54. In a performance audit on the MDMS, the Comptroller and Auditor General's report *inter alia* observes:

> *Even after more than a decade of running the programme, there is a lack of clarity regarding the objectives to be achieved by the scheme. There was a qualitative shift in the focus of the Scheme in September 2006 from education (with its emphasis on enrolment, learning levels and attendance) to nutrition and health…*
>
> *Ministry had not assessed the impact of the programme in terms of increase in enrolment, attendance and retention levels of children...*
>
> *The Ministry has been unable to establish a system of reliable data capture and reporting by the states. Many states resorted to over reporting of the enrolment while projecting the requirement of funds. There was no system of cross checking the data of enrolment furnished by the state Governments…*
>
> *One of the objectives of the scheme was to positively impact the nutritional and health levels of primary school children; which was the main objective of the revised scheme in September 2006. The Ministry was yet to collect data on the nutritional status of children covered under the midday meal scheme. Nor were linkages with the Ministry of Health and Family Welfare for the health checks prescribed under the scheme followed up by the Ministry.*[51]

55. It *inter alia* recommended that:

i. The Ministry should prescribe outcome indicators to measure and report on improvements in education, health and nutrition and use / analyse the data received from the states for such an evaluation.

ii. The Ministry should vigorously coordinate with the state governments to ensure that the data on enrolment, attendance and retention flows from the school level to state level in a transparent manner with records of compilation maintained at each level. Periodical checks should be arranged to crosscheck the data for accuracy. It should provide for analysis of feed back received and take remedial action, when required.

iii. The analysis of outcome indicators and reporting should be brought into an online periodic MIS as far as possible, so that the evaluation flows easily from the data available in real time.

iv. The Ministry needs to establish a system to ascertain the improvement in nutritional levels of the children. The Ministry should coordinate with the

[51] Comptroller & Auditor General of India, *Report No. PA 13 of 2008*

state governments and ensure maintenance of health cards in all the schools to monitor the health status of the children.

v. *The Ministry/States should ensure that adequate infrastructure viz. provisions of kitchen sheds, kitchen devices and facility of drinking water are available in all schools. It should put in place a system to ensure that the teaching time of the teachers is not lost in connection with the midday meal and there is no adverse impact of the scheme on the primary objective of education. The Ministry / State governments need to strengthen the internal controls as well as the inspection and monitoring mechanism at all levels. Accountability for maintenance of records at various levels should be prescribed and monitored.*[52]

6. Improvements Suggested

56. The presence of the private sector in education is quite substantial and education outcomes are dependent as much on the pubic as the private sector, though the prime responsibility in primary and secondary education is that of the State. But sadly even the poor often prefer the private sector because of the poor quality of the public sector service. There is need therefore to highlight indicators of outputs relating to access and quality.

7. Legal Framework

57. The right to education bill has been hanging fire for several years now. The union cabinet considered and approved a final version of the education bill in October / November 2008 but unfortunately it remained to be passed into an act during the tenure of the present parliament. (Many States have enacted legislation enshrining the right to education, which will find mention in the next chapter)

D. Health & Family Welfare

1. Preamble

58. As already stated, there is strong correlation between health outcomes and economic development and growth. There is no gainsaying the strong linkage between poverty and ill health.

59. India compares poorly with countries similarly situated in regard to major indicators of health like IMR, Life expectancy, MMR and TFR. It will be seen that in regard to IMR not only is India understandably way behind countries like Japan and Korea but even Vietnam. Even a poor country like Bangladesh fares better than India. The only country behind India is Pakistan. As for life expectancy, here again India is only marginally better than Nepal and Bangladesh. Our performance in MMR too compares unfavourably with most countries, except Bangladesh, Pakistan and Nepal. TFR in another indicator where India is ahead of only Bangladesh, Nepal and Pakistan. (Table 4-1)

[52] Comptroller & Auditor General, Performance Audit Report 13 of 2008

Table 4-1: Health Indicators - Selected Countries

Health Indicators among Selected Countries				
Country	IMR per 1000 births	Life Expectancy Male/Female in years	MMR per 10^5 Births	TFR
India	58	63.9/66.9*	301	2.9
China	32	70.6/74.2	56	1.72
Japan	3	78.9/86.1	10	1.35
Republic of Korea	3	74.2/81.5	20	1.19
Indonesia	36	66.2/69.9	230	2.25
Malaysia	9	71.6/76.2	41	2.71
Vietnam	27	69.5/73.5	130	2.19
Bangladesh	52	63.3/65.1	380	3.04
Nepal	58	62.4/63.4	740	3.4
Pakistan	73	64.0/64.3	500	3.87
Sri Lanka	15	72.2/77.5	92	1.89
Source: Eleventh Five Year Plan, Vol.II Table 3.1.1.				

60. What the foregoing underscores is that India has much leeway to make up in regard to major health indicators.

61. The National Rural Health Mission (NRHM) was launched to address infirmities and problems in primary health care and to bring about improvement in the health system and health status, particularly of those in rural areas. The Mission is expected to achieve the goals set under the National Health Policy and Millennium Development Goals (MDGs)–*Appendix F*. The Mission rests on 5 planks (Box 4-2)

Box 4-2: Five Planks of NRHM

The Mission is expected to address the gaps in the provision of effective health care to rural population with a special focus on 18 States, which have weak public health indicators and/or weak infrastructure.

The Mission is a shift away from the vertical health and family welfare programmes to a new architecture of all inclusive health development in which societies under different programmes will be merged and resources pooled at the district level.

The Mission aims at the effective integration of health concerns with determinants of health like safe drinking water, sanitation, and nutrition through integrated District Plans for Health. There is a provision for flexible funds so that the States can utilize them in the areas they feel are important.

The Mission provides for appointment of ASHA in each village and strengthening of the public health infrastructure, including outreach through mobile clinics. It emphasizes involvement of the non-profit sector, especially in the under-served areas. It also aims at flexibility at the local level by providing for untied funds.

The Mission, in its supplementary strategies, aims at fostering PPPs; improving equity and reducing out of pocket expenses; introducing effective risk-pooling mechanisms and social health insurance; and taking advantage of local health traditions.

(Source: Eleventh Five Year Plan; Vol. II; Box 3.1.4

62. Some of the measures identified in the Appraisal of the Tenth Five Year Plan and in the Eleventh Five Year Plan for strengthening the health system are: accessibility, especially in rural areas and dispersed habitations; enabling pregnant women to have hospital attendance at birth and to receive nutrition

supplements; availability of essential drugs and vaccines, medical equipment along with basic infrastructure, like electricity water supply, telecommunications and computers for maintaining records; and special attention to tribal population.

63. Convergence of lateral programmes like supply of clean drinking water, and sanitation (lack of which is directly responsible for several water borne diseases) is another aspect that would bear attention.

64. In the continuing endeavour to enlarge access and improve the quality of service delivery, many initiatives have been taken both at the instance of the Government of India and on their own by States. If a few of these find mention both in this chapter and in the next, (in all the three sectors of rural development, education and health) it is only by way of illustration and not to suggest that other States have been negligent in this respect.

65. Another focus area for improving health care is health insurance, whose coverage in India is extremely poor. An initiative in this regard is Community Based Health Insurance (CBHI). CBHI is 'any not-for-profit insurance scheme aimed primarily at the informal sector and formed on the basis of collective of pooling of health risks and members participating in its management'[53] The Eleventh Five Year Plan recalls that evidence suggests that well-designed and well-managed CBHI schemes in conjunction with behaviourial change campaigns and other interventions contribute to increase in quality of health care.

66. Under the RCH programme new born and child health services are implemented in the country with the aim of reducing neonatal, infant and child mortality. For efficient delivery of health services it is also necessary to strengthen human resources.[54] Preventive health care is as important if not more than curative aspects of health care.

67. Some innovative initiatives have been taken in regard to health financing by the Centre and States.[55] The thrust areas identified in the Eleventh Plan for being pursued in the health sector are: improving health equity; adopting a system-centric approach rather than a disease-centric approach; increasing survival; taking full advantage of local enterprise for solving health problems; preventing indebtedness due to expenditure on health; decentralising governance; establishing e-health; improving access to and utilization of essential and quality health care; increasing focus on health human resources; focusing on excluded and neglected areas; enhancing efforts at disease reduction; providing focus to health and bio-medical research.[56]

68. The Eleventh Five Year Plan recognizes the paramount importance of focusing on health outcomes rather than health outlays and says that norms and indicators for outputs and outcomes would be developed.

2. Access

69. The importance of physical access to health care should not be underestimated. The India Health Report (2003) attributes the superior performance of Kerala to proximity of health care providers. The percentage of people who did not access health care is higher in the poorly performing States, it says. The report concludes that a key lesson for States, therefore, is 'the pressing need to remove locational and infrastructural inequities that push up health costs'.

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[53] Paragraph 3.1.93 Eleventh Five Year Plan
[54] Eleventh Five Year Plan; Box 3.1.19
[55] Eleventh Five Year Plan; Box 3.1.21 also see Box 5.8 Chapter 5 of Study
[56] Paragraph 3.1.205 Eleventh Five Year Plan

70. Better access depends on a number of factors. At the policy level, these include strategy and plans that prioritise health needs and allocate resources; at the operational level it would depend on: motivated and properly trained personnel, good supporting infrastructure including communications; and finally, well-informed clients and their representative bodies. (Eldis, Health Service Delivery)

71. 'Physical access to services can only be increased by enlarging their scope and reach, and by allowing the private and voluntary sectors (including NGOs) to supplement publicly delivered services. Public delivery of services would have to be expanded by larger investments in the services themselves and by improving the supporting and enabling infrastructure, with accent on effective and efficient use of resources. Accountability of those entrusted with service delivery would also need to be heightened.

72. Breaking down of socio-economic barriers, which impact on access to and quality of service, would have to be tackled by better targeting, including targeting of subsidies; general uplift in the economic well being of the people; community involvement in the delivery of services; and by transformation of social mores.

73. Participation of the private and voluntary sectors in the delivery of services can expand access to services, apart from affording users greater choice and thereby generating competition too. Issues of affordability by the poor and equity in regard to services available through the private sector can be tackled through appropriate state interventions, vouchers, and the like.'[57]

74. Jan Swasthya Sahyog (JSS) is an initiative to make health care affordable, to expand access and to improve service delivery. (Box 4-3)

Box 4-3: Making Health Care Affordable

Making Health Care Affordable—
The Experience of *Jan Swasthya Sahyog* (JSS)
For the last seven years, a group of dedicated young doctors from institutes like CMC, Vellore and AIIMS have been working to make health in the hinterlands, available, accessible, and affordable. The JSS team has given up lucrative jobs, sparkling city lights, and hefty pay packets to develop cheap, accurate and easy-to-use technology that can be used for prevention, diagnosis, and treatment of diseases in remote, tribal areas of Bilaspur and Chhattisgarh. So, the JSS method for early detection of UTIs costs less than Rs 2 per test, anaemia Re 1, diabetes Rs 2, pregnancy Rs 3. They have also developed low cost mosquito repellent creams, breath counters for detection of pneumonia among children, easy-to-read BP instruments to prevent preeclampsia, and a simple water purification method whereby one can cycle for 15 minutes and get a bucket of potable water treated by UV light. Low cost delivery kits with everything needed for the mother and child in the first 24 hours—gloves, large plastic sheets, soap, disinfectant, blade, gauze, sterilized threads, cotton cloth to wrap the baby, thick sanitary pads for women—are available for just Rs 40. These simple techniques are so designed that they can be used by illiterate and semi-literate village women and school students. Then there are the more complicated tests like sputum concentration system for increasing the sensitivity of microscopic diagnosis of tuberculosis and electrophoresis for detection of sickle cell anaemia, a common malady in the area. While electrophoresis costs Rs 300 in the market, using JSS technology it costs just Rs 20. The most innovative strategy put in place by JSS, however, is the malaria detection system. They have trained village health workers in taking blood smears. These are labelled and neatly packed in small soap cases which are handed over through school children to bus drivers. On their way to school, the drivers drop the smears at the Ganiyari hospital run by JSS. Here they are immediately tested and the reports are sent back through the same buses on their return trip. This courier system has been operational in 21 villages in the area for the last 5 years and has saved many lives. It is now being extended for tuberculosis detection. These simple, innovative technologies developed by JSS can be used by all health workers to make diagnosis in peripheral, remote areas more rational and decrease

[57] Valluri, 2005

misuse of drugs.
Source: Eleventh Five Year Plan, Vol. II. Box 3.1.11

75. ***Telemedicine***[58] is an endeavour to harness information and communication technology (ICT) for better service delivery. Narayana Hrudayalaya is a notable and acclaimed example of telemedicine. The telemedicine network began almost with the beginning of the organisation. With the aim of providing cardiac care to the rural population Dr.Devi Shetty (of Bangalore) set up the telemedicine network. It is a non-profitable project sponsored by Asia Heart Foundation, Kolkatta and Narayana Hrudayalaya Bangalore, Indian Space Research Organization and state Governments. Asia Heart Foundation at Kolkata and Narayana Hrudayalaya at Bangalore are the main hubs for telemedicine linking seven states. The specialists at both the institutions offer their services for this project entirely free.[59]

76. Typically, telemedicine puts a doctor in a remote location in contact with a specialist at another location for consultation and advice. However, the Andhra Pradesh model brings together doctors and patients through a combination of Health Information Help Line (HIHL) and transporting patients to a medical facility.[60]

77. In its Appraisal of the Tenth Plan, the Planning Commission points out that the use of new technologies and scientific knowledge in the delivery of education and health services can have a significant impact on the quality of life.

3. Structure of Outcome Budgets

78. The outcome budget of the Ministry of Health & Family Welfare is comprehensive and faithful to the presentation format of the guidelines.

4. Monitoring & Evaluation Mechanisms

79. A revised integrated monitoring and evaluation scheme (MIES) has been introduced with a new reporting format to cover all aspects (both process and impact indicators). Besides monitoring physical performance, MIES strategy is also intended to evaluate the quality of services and assess institutional arrangements for delivering services. MIES consists of three distinct components of programme inputs, monitoring and tracking, quality assessment for review and evaluation.

80. Assessing and ensuring continuous improvement in the quality of services is one of the thrust priorities of NRHM / RCH II programme. To start with a few select indicators of reproductive and child health programme would be taken up for quality assessment in some selected districts before scaling it up to the national level.

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[58] Telemedicine is a rapidly developing application of clinical medicine where medical information is transferred via telephone, the Internet or other networks for the purpose of consulting, and sometimes remote medical procedures or examinations. Telemedicine may be as simple as two health professionals discussing a case over the telephone, or as complex as using satellite technology and video-conferencing equipment to conduct a real-time consultation between medical specialists in two different countries. Telemedicine generally refers to the use of communications and information technologies for the delivery of clinical care. (Wikipaedia)
[59] Narayana Hrudalaya website; (http://www.narayanahospitals.com/tele_medicine_network.html accessed on 1 Dec. 08)
[60] By dialing telephone numbers '104' and '108'

81. MIES under RCH–II / NRHM also envisages validation of data by triangulation to minimize the potential for misreporting. Further, regional evaluation teams are responsible for monitoring and evaluating programme implementation of health and family welfare services provided to the community and to check the reliability of information. Apart from these in-house mechanisms, surveys are also conducted for obtaining a feedback on the delivery and quality of services. Information Technology is also being used for speedy and online transmission of data.

82. A Common Review Mission (CRM) consisting of 52 members including officials from Central and State government and public health experts conduct review and concurrent evaluation of NRHM on 24 parameters relating to core strategies and central areas of concern for effecting mid-course correction.

83. The low utilization of public health facilities in spite of steady increase in public health care infrastructure is an indicator that would bear looking into.

5. Relevance and Sustainability

84. Various shortcomings have been documented from time to time in the delivery of health services, which have been referred to elsewhere in this study and in the next chapter too: like, absenteeism among medical and paramedical staff; lack of medicines; unregulated growth of health services in the private sector, particularly of unregistered medical practitioners; absence of mechanisms for enforcing compliance by the private sector of promises made in lieu of grant of fiscal and other concessions; resort to private sector services by the poor because of inadequacies of public sector service delivery and consequent relatively heavier drain on their already strained finances.

85. Unless some of these lacunae are captured in the operational indicators of outputs and timely remedial action taken, in regard to absenteeism, vacancies in sanctioned operational staff, allocations for non-staff (operational) expenditure, steps to curb proliferation of unregistered medical practitioners, outputs and outcomes are likely to suffer.

6. Critique

86. The Eleventh Five Year Plan identifies certain drawbacks in the public health system of our country: centralization of conceptualisation and planning of all programmes; absence of incentives for those who work and check on those who do not; lack of quality assurance at all levels owing to lacunae in implementation; all of which lead to a dysfunctional health infrastructure. (Box 4-4)

Box 4-4: Drawbacks of Public Health System

Drawbacks of the Public Health System

- Centralized planning instead of decentralized planning and using locally relevant strategies
- Institutions based on population norms rather than habitations
- Fragmented disease specific approach rather than comprehensive health care
- Inflexible financing and limited scope for innovations
- Semi-used or dysfunctional health infrastructure
- Inadequate provision of human resources
- No prescribed standards of quality
- Inability of system to mobilize action in areas of safe water, sanitation, hygiene, and nutrition (key determinants of health in the context of our country)—lack of convergence
- Inability to mobilize AYUSH and RMPs and other locally available human resources

(Source: Eleventh Five Year Plan; Vol. II; Box 3.1.1

87. In recent years the Centre and States have initiated a number of PPP arrangements to meet peoples growing health care needs. The Eleventh Five Year Plan recognizes the urgent need to take a fresh look at how private sector can be better utilized for providing secondary and tertiary health care. Though the growth of private hospitals and diagnostic centres is encouraged by Central and State governments through tax exemptions, land at concessional rates etc. in return for provision of free treatment for the poor, there is little, if any, monitoring and regulation to ensure that these commitments are being adhered to.

7. Improvements Suggested

88. The presence of the private sector in health is quite large and health outcomes are influenced as much by the pubic as the private sector. There is need therefore to harness and leverage the potential of the private sector through regulation (including of rapacious practices, if any) and mutually gainful PPPs. It might be useful if some indicators could reflect these aspects.

8. Legal Framework

89. The Indian Constitution does not list health as a fundamental right. The recommendatory Directive Principles of State Policy enjoin the state to raise the level of nutrition and standard of living, and improve public health (Article 47). But many court rulings have interpreted the fundamental right of protection of life and liberty (Article 21) as inclusive of the right to health, implying state obligation to protect citizens from medical negligence. (India Health Report, 2003)

90. Many countries have over time attempted to enshrine access to health and education into a legal framework. (Box 4-5)

Box 4-5: Right to Health and Education

"Human rights are increasingly important in international development discourse, particularly in the areas of health and education. The legal foundations for those rights are the Universal Declaration of Human Rights, 1948, and the International Covenant on Economic, Social and Cultural Rights, 1966. In addition, references to the right to education and health care are found in the European Social Charter, 1961, the African Charter on Human and Peoples' Rights, 1981, and the Convention of the Rights of the Child, 1989. A number of international and bilateral development agencies have endorsed a human rights orientation in the provision of health care and education in developing countries. Social rights are also important at the national level. One analyst found that 110 national constitutions make reference to a right to health care (Kinney 2001). A review conducted for this paper assessed constitutional rights to education and health care in 187 countries. Of the 165 countries with available written constitutions, 116 made reference to a right to education and 73 to a right to health care. In addition, 95 stipulated free education and 29 free health care for at least some population sub-groups and services."

(Source: Gauri, Varun, "Social Rights and Economics Claims to Health Care and Education in Developing Countries" *World Bank Policy Research Working Paper 3006, March 2003)*

E. General Observations

> "Human development indicators such as access to basic education and health services have a strong linkage with eradication of poverty and economic progress."
>
> *Planning Commission*
> *Mid-term Appraisal of the Tenth Plan*

91. The Eleventh Five Year Plan admits that in spite of stated objectives aiming at the quality of outputs and outcomes, there is not enough outcome-based evaluation and programmes are mostly monitored on an expenditure basis.

92. There is little attempt to explicitly link outputs and outcome indicators to MDGs even though two of the eight MDGs relate to education and three to health.

93. Multi-year perspective is conspicuously absent. As stated elsewhere in this report, outcomes (and even some outputs) are realised over the medium term. A three rolling ***medium-term expenditure framework*** would, therefore, establish a clearer link of budgetary allocations with outputs and outcomes.

94. While one may provide legal or constitutional rights to health and education, enforcing them could be fraught with administrative complications and interpretational conflicts. However, the importance of access to health care and education cannot be over-emphasised, more so in the modern world. Enjoying a healthy, vigorous life and being well educated are not only desirable in contemporary societies worldwide but also a *sine qua non* for advancement.[61]

95. Results oriented budget approach (in India) is not entirely new. Performance budgets were introduced in the Govt. of India and in some States. With the move to outcome budgeting in GoI, performance budgets have now been discontinued, one suspects because of 'desuetude', assuming they were ever actually used in performance monitoring and evaluation, and for feeding back into project / programme formulation and planning. One should, therefore, guard against outcome budgets becoming routine production of additional documents scantily, if ever, used for assessing the results of public spending.

[61] Valluri, 2005

Chapter 5. States

A. Overview

1. Considerable emphasis is placed in the States on the ‘flagship’ Central programmes in the three sectors of rural development, education and health. These programmes though sponsored and significantly funded by the Centre are understandably and inevitably implemented in the States. So that the discussion in this chapter is not repetitive, more attention is devoted to innovative initiatives in the States relating to access and quality of service delivery. It would bear reiteration that the instances cited here are only illustrative and that want of mention of initiatives by other States is in no way a reflection of inaction on their part.

2. Second, another disclaimer would be in order. Later in this chapter and in the previous one as well, some critiques highlighting deficiencies and irregularities in service delivery and execution of programmes have been cited. These again are only intended to be illustrative of the drawbacks noticed in some cases and are in no way an indictment of the States mentioned nor an exoneration of those that do not find mention.

3. It is seen that the monthly per capita consumption expenditure (MPCE)—which can be treated as a proxy for income levels—has a fair correlation with human development indices. (Table 5-1). The figures for 2004-05 show that the rank correlation between MPCE and IMR is (-) 0.63294 unsurprisingly indicating that there is an inverse correlation between MPCE and IMR, i.e. higher the MPCE the lower the IMR. For life expectancy, the rank correlation is 0.648531 suggesting higher life expectancy with rising expenditures (incomes); that for Adult literacy is 0.612546, and for schooling 0.60694. Though there is a correlation between rising incomes reflected in rising consumer expenditure and indices of human development, it is not overwhelming.

Table 5-1: HDI across Major Indian States

Human Development Indicators across Major States in India										
	MPCE*		IMR		Life Expectancy		Adult Literacy		Schooling	
State	1993-94	2004-05	1993-94	2004-05	1993-94	2004-05	1993-94	2004-05	1993-94	2004-05
Andhra Pradesh	224	261	70	53	61.8	63.9	41.5	50.9	65.9	87.6
Assam	226	277	88.7	66	55.7	59.9	66.3	74.8	75.5	87.1
Bihar	179	201	89.2	62	59.3	65.2	37.7	48.4	53.3	65.2
Gujarat	263	322	69	50	61	63.6	59.1	68.2	74.7	85.6
Haryana	275	344	73	42	63.4	67	53.4	64.9	77.2	87.2
Himachal Pradesh	270	343	56	36	63	65	60.4	74.1	87	95
J & K	316	354	45	45	62	63	56.3	59.8	81.2	88.1
Karnataka	218	255	65	43	62.5	64.4	51	61.8	73.3	88.3
Kerala	279	420	24	15	72.9	73.3	90.2	90.6	93.4	97.6
Madhya Pradesh	221	202	85	70	54.7	58.6	43.1	54.4	61.1	78.4
Maharashtra	210	304	51	38	64.8	68.3	63	72.9	82.4	89.1
Orissa	201	176	112	65	56.5	59.9	46.7	58.8	64	80.2
Punjab	316	374	54	42	67.2	70.9	56.7	68.5	80.2	89
Rajasthan	252	254	73	65	59.1	62.5	38.5	47.6	58.5	78
Tamil Nadu	218	294	68	31	63.3	68.4	61.3	70.7	82.4	96.1
Uttar Pradesh	216	278	100	73	56.8	63.8	42.8	52.2	60.6	77.5
West Bengal	235	274	75	48	62.1	67.7	60.7	67.5	67.9	82.9
All-India	201	416	79	57	61.8	65.4	52.1	61.8	68.5	82.1
Source : Andhra Pradesh Human Development Report 2007; Table 2.1										
*MPCE- Monthly Per Capita Consumption Expenditure										

4. As will be seen from some of the tables that follow later, though expectedly there is a correlation between higher public expenditures on poverty alleviation, health and education and their outcomes, the correlation is not very strong or significant. It is not sufficient, therefore, to enlarge public spending in these areas but also, and more importantly, necessary to improve the quality of spending for producing better outcomes. In this context, it would be relevant to see what measures States have taken to provide better services and give value for money. (Some of the examples cited below are only illustrative and not exhaustive; they are not intended to suggest that other States are negligent in that regard or do not have similar schemes or strategies.)

B. Rural Development

5. As mentioned earlier, the major flagship programmes under rural development are the National Rural Employment Guarantee Scheme (NREGS), the Swarnajayanti Gram Swarozgar Yojana (SGSY), the Sampoorna Gramin Rozgar Yojana (SGRY), the Pradhan Mantri Gram Sadak Yojana (PMGSY) and the Indira Awas Yojana (IAY). The latter two programmes are part of Bharat Nirman.

6. The main thrust of the programmes under rural development in the States is in regard to the flagship programmes of the Central government. The design of the schemes is such as to provide for greater transparency in terms of (public) access to information, and social audit for greater accountability and reducing the scope for corruption.

7. A major component of SGSY is organisation of the poor into Self Help Groups (SGHs). The Rural Poverty Reduction Project (RPRP) in Andhra Pradesh is a programme with convergent objectives. Centre for Economic and Social Studies (CESS, 2008) was entrusted a mid-term appraisal study to assess the impact of the RPRP interventions on the different dimensions of poverty. The main objective of the project is to enhance the assets, capabilities and the ability of the poor to cope with shocks and risks. Two major assumptions of the project are: the livelihood strategies and income levels of the poor are insufficient due to lack of financial capital as well as low / lack of physical and human capabilities; and that empowerment of poor women should precede access to financial capital. The study *inter alia* found that:

- There is need to strengthen the implementation of the programme as its impact is not uniform in the entire project area.
- The poor are successful in negotiating with formal institutions in matters relating to education, health, PDS, antipoverty programmes and finances. The demand-driven efforts of the poor have brought about changes in these public institutions. However, the increased resort to private education and health point to the need for improvement in these sectors, as it is leading to extra expenditures on education and health from out of their increased incomes.

8. Kerala is formulating an Anti-Poverty Sub-Plan[62] integrating components from different sectoral programmes:

- NREGS – for wage employment;
- SGSY and Kudumbashree[63] – for skills development and self employment;

[62] Vijayanand and Jitendran (Govt. of Kerala)

- SSA, NRHM ICDS – for human development;
- Annapoorna and Anthyodaya Anna Yojana - for food security;
- IGNOAPS, Asraya of Kudumbashree and Healht Insurance – for social security;
- IAY and People's Plan[64] – for minimum needs infrastructure.

C. Education

9. The National University for Planning and Administration (NUEPA) has developed an Education Development Index[65] taking into account 22 variables covering access, infrastructure, teachers and outcomes. (See *Appendix G*). Among the major states Kerala and Tamil Nadu lead the rest in 2006-07, followed by Karnataka, Gujarat Maharashtra, and Andhra Pradesh, while Madhya Pradesh, West Bengal, Jharkhand and Bihar are at the bottom of the heap. (Table 5-2)

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[63] Self-help groups of women were organised under the Kudumbashree project, which aims to eradicate poverty from the State within 10 years [incidentally by 2008] through all round development of those below the poverty line. Kudumbashree has attracted national level attention. (http://www.kerala.gov.in/dept_panchayat/index.htm; accessed on 27 Nov.08)

[64] People's Plan refers to the efforts made to involve the masses in the process of decision making in the field of local self government by the Left Democratic Front government of Kerala (1996-2001) headed by Sri. E.K.Nayanar. It involved chalking out the priorities of an area by the ward sabhas comprising the entire electorate of the ward of a local self government institution such as a Panchayat, Municipality or Corporation. The plan chalked out by the ward sabhas would be implemented by a committee selected by the ward sabha and its implementation would be scruitinsed by the ward sabha from time to time. It was conceptualised by late E M S Namboodiripad, the foremost leader of the Communist Party of India(Marxist) in Kerala. (Retrieved from "http://en.wikipedia.org/wiki/People%27s_Plan")

[65] The Education for All (EFA) Development Index (EDI) developed by UNESCO is a composite using four of the six EFA goals, selected on the basis of data availability. The goals are: universal primary education (UPE), adult literacy, quality of education, and gender.

Table 5-2: EDI and Per Capita Education Expenditure

Ranking of States on Per Capita Expenditure on Education											*Ranking by Education Development Index Primary Education 2006-07*		
States	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Average 1999-2007	Rank wrt Avg	States	EDI Value	Rank
Andhra Pradesh	442	496	509	522	598	681	671	876	599	13	Andhra Pradesh	0.670	7
Assam	641	742	697	730	849	1129	874	1316	872	5	Assam	0.477	15
Bihar	432	401	365	381	414	467	490	590	443	15	Bihar	0.321	17
Gujarat	714	764	637	699	699	763	791	858	740	10	Gujarat	0.677	5
Haryana	643	673	691	669	696	797	871	1027	758	7	Haryana	0.612	10
Himachal Pradesh	1271	1348	1499	1545	1605	1693	1897	2114	1621	1	Himachal Pradesh	0.707	3
Jammu And Kashmir	801	872	917	909	904	972	1097	1174	956	4	Jammu & Kashmir	0.633	9
Karnataka	585	670	659	663	691	816	875	1056	752	9	Karnataka	0.680	4
Kerala	824	817	779	923	946	1102	1046	1467	988	2	Kerala	0.772	1
Madhya Pradesh	387	346	348	371	373	419	445	541	404	17	Madhya Pradesh	0.481	14
Maharashtra	806	1034	960	901	938	1003	1041	1206	986	3	Maharashtra	0.677	6
Orissa	544	491	475	508	501	512	595	652	535	14	Orissa	0.487	13
Punjab	780	790	747	842	826	977	893	1067	865	6	Punjab	0.654	8
Rajasthan	584	614	603	570	613	673	758	784	650	11	Rajasthan	0.582	11
Tamilnadu	708	714	689	659	667	721	811	1074	755	8	Tamil Nadu	0.741	2
Uttar Pradesh	342	363	362	357	360	429	500	601	414	16	Uttar Pradesh	0.526	12
West Bengal	639	579	564	537	544	623	652	762	613	12	West Bengal	0.458	16
Source: ASCI Team- Ms N. Harshe; Data sources: RBI State Finances and Census of India)											Source: National University for Education Planning & Administration- Ranking rearranged for these states		
The Spearman's rank correlation coefficient is 0.598 which is not very significant. Thus the per capita expenditure on education by itself has little impact on education outcomes.													

10. The top three States in terms of average per capita expenditure on education (in rupees) during 1999-2007 are Himachal Pradesh, Kerala and Maharashtra while they rank third, first and sixth in terms of education development index (EDI), which could be taken as a proxy for education outcomes. And the bottom three States in per capita expenditure on education are Madhya Pradesh, Uttar Pradesh and Bihar, while in terms of EDI they rank 14th (fourth from the bottom), 12th (sixth from the bottom) and Bihar 17th (the bottom most). The Spearman rank correlation[66] coefficient of 0.598 is not very significant.

11. When one compares the expenditure of States as a percentage of GSDP with the EDI the picture is not significantly different. States with high percentage of expenditure on education as a percentage of GSDP have low EDI scores and those with high EDI ranks have comparatively much lower expenditures on education as percentage of GSDP. In fact, the Spearman rank correlation coefficient is negative though the ratio is not very significant. (Table 5-3).

12. What both these tables go to show is that expenditure on education by itself does not necessarily lead to better education outcomes. Hence, it is the quality of expenditure that really matters.

[66] To track how closely the per capita expenditure is linked with the performance indicators we calculate the Spearman's Rank Correlation. The notion does not necessarily imply causation since no direction of influence is known or can be assumed. A high degree of positive correlation would suggest that high per capita expenditure is associated with better performance indicators. However, a high negative correlation would indicate that despite the high per capita expenditure the performance indicators are low and hence the efficiency of expenditure is low.

Table 5-3: EDI and Education Expenditure as % of GSDP

Expenditure on Education as Percentage of GSDP											Ranking by Education Development Index Primary Education 2006-07		
STATES	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Average 1999-07	Rank wrt Avg			
Andhra Pradesh	2.56	2.58	2.46	2.40	2.45	2.56	2.28	2.63	2.49	15	Andhra Pradesh	0.67	7
Assam	4.79	5.28	4.89	4.60	5.00	6.04	4.38	5.92	5.11	4	Assam	0.48	15
Bihar	8.49	7.00	5.32	5.01	5.39	5.62	5.55	5.74	6.01	2	Bihar	0.32	17
Gujarat	3.11	3.32	2.64	2.57	2.20	2.20	1.99	1.99	2.50	14	Gujarat	0.68	5
Haryana	2.47	2.30	2.26	2.01	1.87	1.92	1.87	1.89	2.07	17	Haryana	0.61	10
Himachal Pradesh	5.96	5.78	5.36	5.06	4.85	4.66	4.77	4.83	5.16	3	Himachal Pradesh	0.71	3
Jammu And Kashmir	5.02	5.19	5.19	4.70	4.40	4.45	4.45	4.45	4.73	5	Jammu & Kashmir	0.63	9
Karnataka	4.41	4.84	4.53	4.14	3.93	4.21	4.11	4.50	4.33	6	Karnataka	0.68	4
Kerala	3.30	3.33	2.87	3.44	3.01	3.40	3.01	3.86	3.28	9	Kerala	0.77	1
Madhya Pradesh	8.93	8.61	6.07	6.05	5.59	4.78	4.68	5.24	6.24	1	Madhya Pradesh	0.48	14
Maharashtra	2.95	3.76	3.46	2.99	2.80	2.70	2.49	2.49	2.95	11	Maharashtra	0.68	6
Orissa	4.52	4.05	3.74	3.79	3.09	2.75	2.95	2.81	3.46	8	Orissa	0.49	13
Punjab	2.72	2.49	2.30	2.54	2.32	2.56	2.10	2.26	2.41	16	Punjab	0.65	8
Rajasthan	3.74	3.99	3.77	3.76	3.27	3.55	3.78	3.48	3.67	7	Rajasthan	0.58	11
Tamilnadu	3.24	3.00	2.88	2.63	2.42	2.31	2.36	2.86	2.71	13	Tamil Nadu	0.74	2
Uttar Pradesh	3.27	3.40	3.20	2.96	2.78	3.11	3.26	3.57	3.19	10	Uttar Pradesh	0.53	12
West Bengal	3.71	3.19	2.90	2.62	2.39	2.52	2.36	2.36	2.75	12	West Bengal	0.46	16

Note: GSDP figures were not available for Gujarat (06-07),for J &K (05-06 and 06-07) and for Maharashtra (06-07). In each of these cases the figure for the previous year was repeated.

Source: ASCI team - Ms. N. Harshe: RBI State Finances for expenditure, CSO for GSDP

The Spearman rank correlation coefficient is (-)0.4795 which shows there is negative and not significant correlation between EDI and expenditure as % of GSDP

Source: National Univ. for Education Planning and Administration- Ranking rearranged for these states

13. Studies show that the link between public spending on elementary education and enrolment rates does not appear to be strong. However, given efficiency and demand-side factors, public spending does have an impact on the rate of enrolment and quality of education as measured by teacher-pupil ratio. Availability of school within the habitation and incentives for attending school (mid-day meal, textbooks, uniform) are found to reduce household expenditure considerably and, hence, may affect demand for schooling positively. (Pradhan & Singh, 2004)

14. Though public education may be free, there are associated indirect costs that inhibit enrolment and retention, like for instance uniforms and textbooks. Andhra Pradesh and Tamil Nadu are among those States that have tried to overcome this inhibiting factor by providing free textbooks and uniforms, among other incentives. (Box 5-1). In fact, Tamil Nadu appears to have pioneered the schools' meal programme, which has now been nationally adopted as the Mid-day Meal Scheme.

Box 5-1: Tamil Nadu - Incentives for Enrolment

Tamil Nadu has been a pioneer in the introduction of various schemes to enhance enrolment of children in elementary education. The most important of these schemes is the Noon Meal Scheme (NMS). In July 1982, the government introduced this massive programme to cover all rural children in the age group 2 to 9. This scheme was extended to urban areas and to the age group of 10 to 15 (both rural and urban), that is up to Class X, in September 1984. The main objective of the scheme was not only to ensure nutritional support to children but also to act as an effective incentive to achieve universal enrolment and retention in primary school. There are 40,437 school meal centres which cover nearly 6.4 million children in the age group 5 to 14.

The State Government provides textbooks free to all children studying up to Class VIII in the government and government-aided schools. Another scheme that aims to reduce the economic cost of sending a child to school is the free provision of uniforms to all beneficiaries under the Noon Meal Scheme. A total of 6.04 million beneficiaries are covered under the scheme with a budget provision of Rs 250 million.

Though there have been improvements in attendance after the introduction of these schemes and drop

out rates have decreased, there are no scientific studies that assess the exact extent of their impact on the universalization of education.
Source: Tamil Nadu Human Development Report 2003, Box 5.2

15. Andhra Pradesh has identified fictitious enrolment as one of the reasons for high drop out rates and has proposed house-to-house survey to curb this. (Govt. of Andhra Pradesh- HDR 2007).

16. Other factors that could militate against school enrolment and retention are provision of toilets (even more important for girl students) and drinking water. It will be seen (Table 5-4) that in most of the indicators, Kerala is either leading or among the top performers.

Table 5-4: School Related Statistics- Select Inter-state comparisons

Some (Rural) Schools Related Statistics							
	Percentage of					Median teacher-pupil ratio @	
States (2007) Rural	Appointed teachers attending	Enrolled children attending	Schools that had water which was usable	Schools that had toilets which were usable	Schools with mid-day meals	1st- 4th/5th	1st - 8th
Andhra Pradesh	85.6	76.2	71.1	57.1	98.4	30.5	23.0
Himachal Pradesh	89.7	88.9	81.5	46.1	97.8	17.7	18.0
Kerala	89.8	90.4	94.3	96.1	98.3	20.4	21.5
Madhya Pradesh	89.9	66.4	74.1	50.2	95.6	41.3	44.6
Maharashtra	92.2	92.1	69.4	79.4	98.8	28.5	28.6
Orissa	89.2	71.2	77.2	43.9	97.1	36.7	39.4
Rajasthan	88.2	70.1	73.4	75.2	98.6	35.7	37.1
Tamil Nadu	94.4	90.9	76.3	53.9	78.9	50.0	47.6
West Bengal	90.1	69.6	80.8	72.6	98.3	45.0	54.3
All India	89.7	74.1	73.7	59.1	92.2	39.0	35.0
(Extracts from relevant tables- ASER-2007) @with reference to students enrolled and teachers appointed							

17. Tamil Nadu (Tamil Nadu HDR 2003) succinctly identifies some of the areas of concern relating to elementary education and suggests some initiatives. (Box 5-2)

Box 5-2: Elementary Education - Areas of Concern and Initiatives Required

Areas of Concern	***Initiatives Required***
Enrolment	
Variations in enrolment across districts, especially in backward districts.	Strategies should be devised to help these districts break especially in backward districts through their historical backwardness and achieve universal enrolment.
Identifying pockets of non-enrolment and covering left out children.	Conduct micro-level household surveys, identify pockets of non-enrolment and bring the left out children into the primary school system.
Gender inequity in middle school enrolment.	Devise clear strategies focused at universal middle school access for girls.
Retention	
Reducing repetition rate especially in Classes I and II.	Reduce irregular attendance of children by continuous monitoring and counselling through

	mother–teacher councils; improve quality of schooling.
Drop outs	
High drop out rate among children	As this is related to poverty and low literacy levels, support systems should be designed for such children as well as the teachers to help them attend school regularly.
Non-formal Education	
Over 15 lakh drop outs in the State in the age group of 9–15.	Clear strategy should be devised to cover all these children and link them to a formal school. The coverage of NFE projects should be expanded by bringing all dropouts under its net.
Source: Tamil Nadu Human Development Report 2003; Box 5.5	

1. Innovative Approaches

18. Rajasthan came up with an innovative scheme for dealing with teacher absenteeism by tapping the services of locally resident education workers. (Box 5-3)

Box 5-3: Shiksha Karmi Project - Rajasthan

The Shiksha Karmi Project is being implemented since 1987 in Rajasthan with assistance from the Swedish International Development Authority (SIDA). Its aim is UPE in selected remote and socio-economically backward villages of the State. The project identifies teacher absenteeism as a major obstacle in achieving the objective of universalisation. It accordingly, envisages substitution of the primary school teacher in single teacher schools by a team of two locally resident educational workers called "Shiksha Karmis". To ensure appointment of local persons, educational qualifications prescribed for teachers are not insisted upon in the selection of Shiksha Karmis.
(http://www.indianngos.com/und/centralgovt.htm - accessed on April 24, 2004- by Narayan Valluri)

19. Another innovative and widely acclaimed initiative of Rajasthan is Lok Jumbish. (Box 5-4) which brings the village community, especially women, into the educational orbit; seeks to devise an educational system freeing rigidities and reducing inefficiencies; introducing a ‘school mapping’ system which depicts the schooling status of every household member in the 5-14 age group; and stressing the empowerment of women.

Box 5-4: Lok Jumbish - Rajasthan

Lok Jumbish (LJ) was initiated in 1992, with SIDA, the Government of India and the Government of Rajasthan, funding it in the ratio of 3:2:1 respectively. It began with a bold vision to transform the educational scenario in Rajasthan. One of the main challenges of LJ was to bring the village community, especially women, into the educational orbit. Another significant challenge was to devise a sound educational management system that would avoid rigidities and inefficiencies.
The technique of 'school mapping' is LJ's special contribution to the task of mobilising people for education. School mapping depicts every household in the village visually on a simple map, with small symbols indicating the schooling status of every household member in the 5-14 age group. The whole exercise is an occasion for interacting with the community. When the map is ready it is possible to see which households need special help, and to discuss the schooling facilities required in the village. Proposals based on a mapping exercise, mainly relating to need for new schools, non-formal centres and the improvement of existing ones, are sent to a block-level committee, which is the sanctioning authority.
Along with school mapping, careful micro planning at village level makes it possible to monitor the participation of every child in primary education. The LJ culture emphasises a high degree of autonomy and freedom at the block level.

LJ also stresses the empowerment of women. Suitable women are identified who can lead the mahila samooh (women's group) in the village and these women become part of all LJ deliberations. There are special facilities for women and girls who want to educate themselves but missed the chance.
Though enrolment and retention have gone up, pupil achievements in LJ schools have been modest. The goal of empowering women has also met with only partial success.
On the whole, the pace of LJ work has been slower than envisaged, but this does not detract from the value of what has been achieved.
(PROBE- pages 107-109)

20. Two of the eight millennium development goals (MDGs) relate to education: achieving universal primary education (goal 2); and, promoting gender equality and empowering women (goal 3), with the target of eliminating gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015.

2. Critique

21. The Comptroller and Auditor General report (civil) on Andhra Pradesh for the 2007-08 has pointed out that the State failed to provide adequate school infrastructure for implementing the mid-day meal scheme and inflated enrolment figures while seeking Central allotment of rice. Performance audit of the scheme reportedly revealed that utilisation of average quality food grains in preparing meals was not monitored. About 22 per cent of schools had no water facility, 67 per cent had no kitchen sheds, 84 per cent had no gas connections and no school in the eight test-checked districts was provided with utensils. The report said there was no assurance that the stipulated nutritional requirements were met and no mechanism was evolved to monitor the impact of the scheme on children's health. The important objectives of periodic health check-ups, nutritional supplementation and supply of tablets for de-worming were neglected. Evaluation of the scheme was not done.[67]

3. Legislative Framework

22. The states of Assam, Andhra Pradesh Bihar, Haryana, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Kerala and West Bengal, have legislation on compulsory elementary education[68].

23. The common themes emerging from the education acts of Assam, Goa, Karnataka and Madhya Pradesh are: compulsory elementary education for all children up to the age of 14 in a formal school to be implemented within the State; discouraging child labour with or without remuneration; and encouraging all parents to send their children to formal school. Assam has a provision to allow children from economically poor families to attend non-formal schools. Children are exempted from attending school if there is no elementary school near the residence of the child or if the child is older than 14 or has already completed elementary education. In case an elementary school is located far away then some other competent authority can teach the child. Guardians of children who are not sent to school can be punished with a fine, which can range from 50 paise per day in Assam to a lump sum fine of Rs1000 in Madhya Pradesh. There is no provision to increase the capacity of these schools in order to accommodate more students

24. No State other than Madhya Pradesh has a clear and focused plan on the need for and implementation of compulsory elementary education. Provisions for

[67] The Hindu, 6 December 2008
[68] http://education.nic.in/cd50years/x/7C/HA/7CHA0601.htm accessed on 4 Dec. 08

elementary education have been added as amendments to the main elementary education act. Madhya Pradesh is the only state, which has launched a separate programme for the achievement of compulsory elementary education, which is the Jan Shiksha Adhiniyam (JSA). Under this children will not be charged fees in any of the government schools and no child will be denied admission in a government school. The act includes specific rules and provisions for the administration and running of the programme. There are clearly defined duties for the head master, teachers and guardians of children. Provisions for parent teacher association have also been made in the act. It also tries to provide a happy learning environment for the child with strict instructions against corporal punishment. As part of the JSA, in Madhya Pradesh schools are clubbed into clusters, which will have a monitoring agency to ensure and improve quality of education.

D. Health & Family Welfare

25. The (average) per capita expenditures and (average) expenditures as percentage of GSDP on health of 17 major states are compared below with certain health outcomes. (Table 5-5)

Table 5-5: Health Expenditures and Health Outcomes

Health Expenditures and Health Outcomes							
	Average 1999-06		*2005-06*				
States	Per Cap Exp on Health	Health Exp As % of GSDP	Neonatal Mortality NNM	Postneo Natal Mortalilty PNNM	Infant Mortality IMR	Child Mortality	Under Five Mortality
Andhra Pradesh	271	0.66	40.3	13.2	53.5	10.2	63.2
Assam	159	0.82	45.5	20.6	66.1	20.2	85.0
Bihar	101	1.08	39.8	21.9	61.7	24.7	84.8
Gujarat	228	0.56	33.5	16.2	49.7	11.9	60.9
Haryana	183	0.45	23.6	18.1	41.7	11.1	52.3
Himachal Pradesh	521	1.48	27.3	8.9	36.1	5.6	41.5
Jammu And Kashmir	448	2.08	29.8	14.9	44.7	6.8	51.2
Karnataka	216	0.98	28.9	14.3	43.2	12.1	54.7
Kerala	256	0.77	11.5	3.8	15.3	1.0	16.3
Madhya Pradesh	143	1.78	44.9	24.7	69.5	26.5	94.2
Maharashtra	221	0.51	31.8	5.7	37.5	9.5	46.7
Orissa	157	0.76	45.4	19.3	64.7	27.6	90.6
Punjab	261	0.72	28.0	13.7	41.7	10.8	52.0
Rajasthan	204	0.83	43.9	21.4	65.3	21.5	85.4
Tamilnadu	303	0.64	19.1	11.2	30.4	5.3	35.5
Uttar Pradesh	108	0.65	47.6	25.0	72.7	25.6	96.4
West Bengal	185	0.70	37.6	10.4	48.0	12.2	59.6
Source: ASCI Team - Ms. N Harshe- Data sources RBI State Finances, Kerala Development Report, CSO, NFHS III ***Note: GSDP figures were not available for 2006-07 for Gujarat & Maharashtra and for 2005-06 and 2006-07 for J & K. Trend values have been used for these years.***							

26. The average per capita public expenditure on health is found to be negatively correlated with child mortality. This implies that a higher per capita expenditure on health is associated with lower child mortality (does not imply causation – causation is tested through regression). The correlation with child mortality is

(-) 0.7; that with infant mortality, under five mortality and post neo natal mortality (-) 0.6; and with neo natal mortality (-) 0.5.

27. The correlation with health expenditures as a percentage of GSDP does not reveal any significant ratios.

28. It has been found that public spending on health has little impact on child mortality reduction. Filmer and Pritchett use cross-national data to examine the impact on child (under 5) and infant mortality of both non-health (economic, cultural, and educational) factors and public spending on health. They come up with two striking findings:

(i) Roughly 95 percent of cross-national variation in mortality can be explained by a country's per capita income, the distribution of income, the extent of women's education, the level of ethnic fragmentation, and the predominant religion; and,

(ii) ***Public spending on health has relatively little impact****, with a coefficient that is numerically small and statistically insignificant at conventional levels. Independent variations in public spending explain less than one-tenth of 1 percent of the observed differences in mortality across countries.*

The findings could be of relevance to India and States within India.

29. For improving access and service delivery many States have adopted PPP relationships in the health sector, examples of which can be seen in Box 5-5.

Box 5-5: Public Private Partnerships - States - Health

Rajasthan:

Partners: Medicare Relief Society, SMS Hospital, Jaipur, and Vardhman Scanning and Imaging Private Ltd.

Services: Contracting in radiological diagnostic services in the public hospitals.
Provision of quality drugs and supplies cheaper than market rate. All this free for BPL patients above 70 years of age and freedom fighters; pre-negotiated rates for others.

West Bengal:

Partners: Government of West Bengal, Mediclue, District Health & FW Societies, Private partners, M/S Doctors Laboratory and Non Profit NGOs.

Services: CT Scan in seven medical colleges, MRI in one medical college hospital, diagnostic facilities in 30 rural hospitals, and running of 133 ambulances for emergency transport under management of NGOs/CBOs at the level of Block PHCs.

Uttarakhand

Partners: Government of Uttarakhand, DST, GoI and Uttaranchal Institute of Scientific Research, Bhimtal (NGO).

Services: Mobile Health Services—diagnostic, laboratory, and clinical services through mobile vans. Dedicated health camps in 6 districts of western part of Uttarakhand.

Karnataka:

Partners: Government of Karnataka and Apollo Hospitals Enterprises Ltd, Hyderabad Rajiv Gandhi Super Specialty Hospital, Raichur handed to Apollo Hospital under management contract.

Services: 350 bedded hospital. Free services to BPL patients, 40% beds for BPL (government reimburses the charges) and remaining patients treated under special rates.

Partners: Government of Karnataka & Karuna Trust.

Services: Contracting out adoption and management of PHCs and affiliated SCs in remote, rural, and tribal areas in the State.
24 hrs health services—OPD, emergency services, electrocardiogram (ECG), X-ray, laboratory, immunization, national health programmes, RCH programme, 20 bed patient ward, and ambulance.

Gujarat:

Partners: Government of Gujarat and private doctors (obstetricians and gynecologists).

Services: Chiranjeevi Yojana: Private doctors (obstetricians) are contracted for deliveries both normal and caesarian of BPL women at their facilities.

Arunachal Pradesh:

Partners: Government of Arunachal Pradesh & VHAI, Karuna Trust, Future Generations, and Prayas.

Services: Management of selected PHCs.

Andhra Pradesh:

Partners: Government of Andhra Pradesh and Social Action for Integrated Development Services, Adilabad (NGO)

Services: Urban Slum health care project. Contracting in (performance contract but without any public premises being handed over to the private partner).

Partners: Government of Andhra Pradesh & New India Assurance Company

Services: Arogya Raksha Scheme based on vouchers.
Funded by the government, operational management by the public sector company, and service delivery by private health service providers.

Tamil Nadu:

Partners: Government of Tamil Nadu & the Seva Nilayam Society in association with Ryder-Cheshire Foundation (NGOs).

Services: Performance contract for the provision of emergency ambulance services in the region. Ambulances are owned by the government.

Source: Eleventh Five-Year Plan Vol. II. Box 3.1.10

1. Innovative Approaches

30. Some innovative approaches adopted in the health sector are the Rajiv Aargyasri Health Insurance Scheme in Andhra Pradesh (Box 5-6), facilitating the private sector by Tamil Nadu (Box 5-7), innovative financing mechanisms by some States (Box 5-8) and motivational schemes for pregnant women in Madhya Pradesh (Box 5-9)

Box 5-6: Rajiv Aarogyasri Health Insurance Scheme

Rajiv Aarogyasri Community Health Insurance Scheme (Aarogyasri I)

Aarogyasri I is a unique community health insurance scheme being implemented in Andhra Pradesh from 1st April, 2007. The scheme provides financial protection to families living below poverty line up to Rs. 2 lakh a year for the treatment of serious ailments requiring hospitalization and surgery. 330

procedures are covered under the scheme. The scheme is being implemented through an insurance company, selected through a competitive bidding process.

The objective of the scheme is to improve access of BPL families to quality medical care for treatment of identified diseases involving hospitalization, surgeries and therapies through an identified network of health care providers. The scheme provides coverage for the systems like heart, lung, liver, pancreas, renal diseases, neuro-surgery, pediatric congenital malformations, burns, post -burn contracture surgeries for functional improvement, prostheses (artificial limbs), cancer treatment (surgery, chemo therapy, radio therapy), polytrauma (including cases covered under MV act) and cochlear implant surgery with auditory-verbal therapy for children below 6 years (costs reimbursed by the Trust on case to case basis). All the preexisting cases of the above-mentioned diseases are covered under the scheme.

The beneficiaries of the scheme are the members of below poverty line (BPL) families as enumerated and photographed on the Rajiv Aarogyasri Health Card/ BPL Ration Card. The benefit on family is on floater basis i.e. the total reimbursement of Rs.1.50 lakh can be availed of individually or collectively by members of the family. An additional sum of Rs 50,000 is provided as buffer to take care of expenses if it exceeds the original sum i.e. Rs 1.50 lakh per individual/family.cost for cochlear implant surgery with auditory verbal therapy is reimbursed by the Trust up to a maximum of Rs.6.50 lakh for each case.

The transaction is cashless for covered procedures. BPL beneficiary can go to hospital and come out without making any payment to the hospital for the procedures covered under the scheme. The same is the case for diagnostics if eventually the patient does not end up in doing the surgery or therapy. Hospitals have to conduct at least one free medical camp in a month, there by taking advanced evaluation to the doorstep of patient. All the Primary Health Centers (PHCs) which are the first contact point, Area/District Hospitals and Network Hospitals, are provided with Help Desks manned by AAROGYA MITHRAs to facilitate the illiterate patients. The Aarogyamithras were selected by the Mandal Samakhyas under Indira Kranti Patham (Self Help Group Movement).

Rajiv Aarogyasri Community Health Insurance Scheme (Aarogyasri II)

Encouraged by the success of the ongoing scheme, Government have now decided to launch with effect from 17th July, 2008, the Aarogyasri-II scheme to include a large number of additional surgical and medical diseases to enable many more BPL people who are now suffering from acute ailments, to lead a healthy life.

Aarogyasri-II scheme is an extension of the ongoing Health Insurance Scheme. The front end of the ongoing scheme viz., network hospitals, Aarogyamithras, Health Cards etc., will remain the same. Only difference would be that the pre-authorization and claim processing for the new diseases would be done by the Trust directly and funded from the C.M. relief fund.

30 groups of eminent doctors from the Government and corporate hospital sectors have through a series of discussions and in consultation with the managements of corporate hospitals finalized a list of 389 surgical and 144 medical diseases and also evolved package rates for its cashless treatment.

With the launch of Aarogyasri-II, cashless treatment of BPL population for all major diseases will become possible in Government / corporate hospitals. Diseases covered under ongoing Aarogyasri - I and those proposed to be covered under Aarogyasri-II are complimentary to the facilities available in Government hospitals and put together substantially meet the medical requirement of general population. The diseases specifically excluded from the list are:

a. High end diseases such as 'hip and knee replacement, bone morrow, cardiac and liver transplantation, gamma-knife procedures in neuro surgery, assisted devices for cardiac failures etc;
b. Diseases covered by National Programmes viz., TB, HIV / AIDS, Leprosy, infectious diseases, Malaria, Filaria, Gastroenteritis, Jaundice etc.

To the extent the scope of Aarogyasri- I is enlarged by Aarogyasri-II , it would no longer be permissible for the BPL population to approach the Government for providing relief for medical purposes from the CMRF.

Box 5-7: Facilitating the Private Sector

Facilitating Action by Private Sector

Tamil Nadu Government established a Centre of Excellence, 'Sterilization and Recanalization Training-cum-Service Centre' at Kilpauk Medical College, Chennai, in 1987 with core officers—a female gynaecologist and a male urologist. It conducts workshops and trains doctors in standard procedures of male and female sterilizations. The centre also provides services by conducting sterilization and recanalization operations for males and females. In Tamil Nadu, private sector participation is strengthened to improve family welfare programmes in the State. Private nursing homes have been approved to provide family welfare services in the State. Nearly 25% of the sterilizations are performed by voluntary and approved private institutions. Contraceptive stocks are freely supplied to these institutions to provide better services to needy couples to improve spacing between births.

Source: Eleventh Five Year Plan, Vol. II , Box 3.1.18

Box 5-8: Innovative Financing Mechanisms

Kerala:	In Kozhikode, risk pools constituted around professionals or occupational groups, SHGs or micro credit groups, weavers, fishermen, farmers, agricultural labourers, and other informal groups. Almost 90% of the population is covered under some form of network or the other.
Uttar Pradesh:	Voucher scheme for RCH services piloted in seven blocks of Agra for BPL population. The scheme was launched in March 2007 and funded by State Innovations in Family Planning Services Agency.
Jharkhand:	In order to promote institutional delivery and routine immunization, a voucher scheme was introduced in December 2005 in all 22 districts. Vouchers are issued to BPL pregnant women at the time registration of pregnancy. She is entitled to have the delivery at any government facility or at accredited private health providers.
Haryana:	Vikalp—an innovative approach to financing urban primary health care for the poor through a combination of PPPs and risk pooling using capitation fees for a package of primary health care services with the State Health Department and private providers.
Karnataka:	Yeshasvini Co-operative Health Care Scheme is a health insurance scheme targeted to benefit the poor. The scheme was initiated by Narayana Hrudayalaya, a super-specialty heart-hospital in Bangalore and by the Department of Co-operatives of the Government of Karnataka. All farmers who have been members of a cooperative society for at least a year are eligible to participate, regardless of their medical histories. The scheme provides coverage for all major surgeries.

Source: Eleventh Five Year Plan, Vol. II Box 3.1.21

Box 5-9: Motivational Schemes - Pregnant Women of weaker sections- Madhya Pradesh

Prasav hetu Parivahan evam Upchaar Yojana. This scheme was launched by the state government in 2004 with an aim to cover the transport and treatment expenses of a pregnant woman for delivery in a government hospital. The beneficiaries are all women belonging to SC/ST and all women belonging to BPL families. The scheme provides for a flat payment of Rs 300 to the pregnant woman towards transport and Rs 200 to the motivator who brings her to hospital. The delivery expenses in the hospital are taken care of by that institution through government support. This scheme was a precursor to Government of India's Janani Suraksha Yojana.

Janani Suraksha Yojana. This scheme was launched by the Government of India in all the states in 2005. Under this scheme, pregnant women are given cash incentives to cover all their expenses during delivery in a hospital. The beneficiary has to be a woman belonging to a BPL family. However, the benefit is extended up to first two children only provided the woman has married after 18 years of age.

Some conditions have been imposed for the benefit of third child as well. The quantum of benefit is different for rural and urban women. While the pregnant woman and her motivator are given Rs 1300 and Rs 600, respectively in case of rural areas, the corresponding figures for urban areas are Rs 600 and Rs 200. The benefits can be given in limited private hospitals also.

Vijaya Raje Janani Kalyan Bima Yojana. This scheme was launched by the state government with the help of United India Insurance Company in 2006. Under this scheme, all pregnant women belonging to BPL families are provided financial support up to a sum of Rs 1000 for delivery in any hospital, be it public or private.

Source: Human Development Report of Madhya Pradesh, 2007 – Box 7.2; Public Health and Family Welfare Department of Govt. of Madhya Pradesh

1. Critique

31. A DFID assessment of the Madhya Pradesh health sector as part of the Madhya Pradesh Health Sector Reform Programme shows up a predictable list of shortcomings (symptomatic and typical of most, if not all, States) of vacancies of staff and infrastructure gaps; lack of drugs and other essential supplies at local levels; weak implementation and monitoring systems; poor accountability of staff and low staff motivation and management capacity; low funding of public health leading to proliferation of unregulated and poor quality private sector; and resort to private sector medical care placing a heavy financial burden on the poor further aggravating their penurious circumstances.[69]

32. The private sector is more inclined to create 'super-speciality catering services for the rich. There is need therefore for a '*regulatory mechanism for the private health sector appropriately packaged with policy regulations, incentives and disincentives. The elements of such a package will have to take into account the needs of the poorer sections, disposal of hospital wastes, and some role in preventive health care services. Some form of taxation of private health care services should also be thought of with a view to creating a fund for preventive health care services that could supplement the existing programmes.'* (Kerala 2005)

E. Outcome Budgets

33. Not many states appear to have introduced outcome budgeting yet. The position in regard to some of the states that have responded to us is as under:

34. ***Andhra Pradesh*** has introduced outcome budgets at least in respect of some departments. The guidelines issued by the Finance Department of the State for preparation of outcomes budget in Andhra Pradesh for 2008-09 broadly conform to those in the Government of India.

35. The outcome budget of the Department of Rural Development (for 2007-08) describes the programmes under implementation; gives financial outlays provided for the year; the expenditures against past outlays and allocations; and some minimal information about past physical achievements without relating them to targets expected to have been achieved with the outlays provided. There is no attempt to link the current year's allocations under different programmes with the expected outputs and outcomes. There is no mention of monitoring and evaluation mechanisms. The prescribed outcome budget format not been faithfully followed.

[69] DFID and GoMP, 2007

36. The outcome budget of the Health, Medical and Family Welfare Department for 2008-09 broadly conforms to the guidelines issued by the Finance Department for preparation of outcome budgets, including the matrix-format for the outcome budget. However, some output and outcome indicators are a little vague. There is no mention of monitoring and evaluation mechanisms, though the guidelines do refer to them.

37. The outcome budget of the Department of School Education for 2008-09 shows minimal compliance with the guidelines. It is mostly descriptive of the programme content, financial outlays and expenditures there against, and past physical achievements. There are only two brief half-page or less of tables indicating details under the matrix-format for outcome budgets; the projected outputs and outcomes are very vague and general.

38. The outcome budget of the Department of Higher Education tries to follow the guidelines, including the matrix-format for outcome budget, but barely. The outputs and outcomes mentioned are generally quite vague. There is no mention of monitoring and evaluation mechanisms nor of any public information system put in.

39. ***Bihar*** introduced outcome budgets (in Hindi) in all departments. The outcome budgets of Department of Rural Department, Health as well as Education give the outlays (from Centre and State's contribution), describe the schemes and give the actual achievements. There is no mention of monitoring and evaluation mechanisms. The prescribed outcome budget format not been faithfully followed.

40. ***Chattisgarh*** has introduced outcome budgets in all departments.

41. The outcome budget of the Department of Panchayat and Rural Development (for 2008-09) describes the programmes under implementation; gives financial outlays provided for the year. There is no attempt to link the current year's allocations under different programmes with the expected outputs and outcomes. There is no mention of the monitoring and evaluation mechanisms. The expenditures against past outlays and allocations have not been mentioned

42. The outcome budget of the Health, Medical and Family Welfare Department for 2008-09 follows the matrix-format for the outcome budget. The budget gives the various schemes, objectives, outlays for the year and quantifiable deliverables. Again, there is no mention of past outlays and expenditures or even the outputs generated over the last year.

43. The outcome budget of the Department of School Education and Department of Higher Education for 2008-09 is also mostly descriptive of the programme content, objectives, financial outlays and expenditures there against, and quantifiable deliverables. There is no mention of the past outlays and expenditures or even the outputs generated over the last year.

44. There is no mention of the actual achievements in the outcome budgets of any of the departments

45. Further, Chattisgarh and Bihar have one single publication on outcome budgets that gives the outcome budgets of all departments in one single document. This is in sharp contrast to Andhra Pradesh where the departments bring out separate documents on their individual outcome budgets.

46. ***Himachal Pradesh*** does not prepare or present any performance or outcome budgets.

47. ***Kerala*** does not have a system of outcome budgeting; however, it has introduced performance budgeting in respect of four major departments, namely Public Works, Agriculture, Irrigations and Forests. Attempts to prepare outcome budgets along the lines of those presented by central government ministries are yet to be made. However, they are examining the possibility of presenting 'Impact Budgets' in respect of a few departments. Once the concept materialises and outcome budgets become operational, the present system of performance budgeting would be discontinued.

48. ***Maharashtra*** has, in the first stage, identified 32 flagship schemes in 12 departments for introducing outcome budgets. The work of preparing outcome budgets has been entrusted to Tata Institute of Social Sciences, Mumbai. They have been asked to give a revised report, after which it will be submitted to the Cabinet and Legislature before action to introduce outcome budgets is taken.

49. ***Orissa*** does not bring out outcome budgets or even performance budgets. However, they have what is known as 'Zero-based Investment Reviews' introduced in 2002-03. The main objective of the scheme is to prioritise ongoing projects, mainly infrastructure projects, and complete as many projects as possible within a specified time frame by allocating adequate resources.

50. ***Tamil Nadu*** has not introduced outcome budgets. However, each department of the state government brings out a Policy Note and Performance Budget along with the demand for grants. These are, however, more descriptive in nature giving details of the organisational structure of the departments and programmes under implementation, their objectives, financial outlays and selective past physical performance. There is no attempt to relate budgetary allocations to physical outputs and intended outcomes or any variance analysis of physical achievements in relation to targets, if any, set.

51. It would appear from the above that outcome budgets have not really taken off in the States and that in the few States that have introduced them they are still at an early stage, and mostly going through the motions of presenting outcome budgeting.

52. Apart from calling for their outcome budgets, States were also requested to provide information on a questionnaire (Box 5-10) indicating in parenthesis the departments from which the information should be obtained, but no response has been received from any of them so far.

Box 5-10: Questionnaire to States

Questionnaire Sent to States

1. What monitoring and evaluation mechanisms do you have for assessing the delivery and quality of services under various programmes? (Departments of Rural Development, Education and Health)
2. Reports are only as good as the authenticity, reliability and integrity of the underlying information and database. What mechanisms or safeguards, if any, do you have in place to ensure or verify or validate the authenticity of the underlying information? (Departments of Rural Development, Education and Health)
3. Do you have any institutionalized or organized system of obtaining feedback from beneficiaries (and other stakeholders) for example through surveys, report cards, social audit, etc.? If so, kindly furnish details. (Departments of Rural Development, Education and Health)
4. What are the institutional arrangements in place for using the feedback obtained through monitoring and evaluation to redesign or revamp programmes and for budgetary and other allocations? (Departments of Rural Development, Education and Health; also Departments of

Finance / Planning)

5. Are budgetary allocations based on an ‘incremental approach’ or made having regard to the intended outputs (and / or outcomes) of programmes and achievements there against?
6. Is there a periodic review of the continuing relevance of ongoing programmes with a view to weeding out or revamping or coalescing programmes with similar objectives? (Departments of Rural Development, Education and Health; also Departments of Finance / Planning)
7. What are the coordination mechanisms to ensure horizontal convergence of programmes which are multi-departmental in nature? For example, the Mid-day Meal Scheme has both an education and health (nutrition) focus. (Departments of Rural Development, Education and Health; also Departments of Finance / Planning)
8. What are the systems in place to ensure timely and regular release and flow of funds to the implementing agency level? (Departments of Rural Development, Education and Health; also Departments of Finance / Planning)
9. What coordination and supervisory systems and accountability mechanisms do you have in place to regulate orderly and proper utilisation of funds received directly by implementing agencies from the central government ministries? (Departments of Rural Development, Education and Health; also Departments of Finance / Planning)
10. What innovative or alternative delivery mechanisms, if any, do you have for improving access, delivery and quality of services? (Departments of Rural Development, Education and Health)
11. What are the systems or mechanisms for better targeting of programmes for the intended beneficiaries? (Departments of Rural Development, Education and Health)
12. What is the mechanism, if any, for continual review and revision of indicators of outputs and outcomes to better reflect the results of policy objectives and interventions? (Departments of Rural Development, Education and Health)

Chapter 6. Outcome Budgets - Going Forward

1. Focus on outcomes based management should be reflected in a continuous search for evidence of the effects of policy and other actions on results–a quest for the 'Holy Grail'. Managing for results is predicated on sound management practices based on clear expectations and periodic assessment. Recent years have seen considerable growth in public expenditures without significant diminishing of the deficiencies and shortcomings in the quality and provision of social services and infrastructure. Management of public expenditure is critical for addressing social and infrastructure deficits.

2. Merely moving to an outcomes budget system will not necessarily produce the desired results. The supporting systems should be able to back up an outcomes focus in strategic management, coordination of policies and service delivery.

3. The experience of many OECD countries shows that it is better to have a few targets for which there are many measures than the reverse. Too many targets can create information overload and make it difficult to prioritise targets, resulting in an unclear focus.

A. Conceptual Framework

4. Stated simply, the rationale for an outputs-outcome approach is to know whether moneys spent are producing the intended (ultimate) results in a cost-effective manner; in other words, effectiveness and efficiency of public spending. Not what amounts of money are being spent on what activities but how the moneys are being spent, for what purpose and with what results. An outputs / outcome budget is to serve as a management tool in the hands of managers implementing the programme or programmes and as a policy instrument for achieving allocative efficiency, given the abiding and ever-present constraint of competing demands on limited resources. Underpinning it all are issues of governance, transparency and accountability.

5. It is debatable whether producing a mass of voluminous documents—even if input, output, and outcome indicators are eclipsed in them along with their underlying assumptions and attendant risks—is likely to serve as an operational tool for management and policy interventions. If massive documentation is produced it may become an end in itself, rather than an instrument for policy formulation and execution, which after all a budget (whether financial or output / outcome) is supposed to be. Nor is one of the basic tenets of transparency met; namely, that of informing the lay and general public of government spending, to what purpose, to what effect and at what cost. Rather it serves to obfuscate and overwhelm!

6. A logical framework matrix (popularly abbreviated to 'log frame')–see Box 6-1– sets out a "temporal logical model" establishing causal links in the hierarchical results chain through a series of if-then propositions: *If* this happens with these assumptions holding *then* the following result will occur.

7. It is usually a 4 X 4 matrix with the rows setting out top-down the results chain — Activities, Outputs, Purpose and Goal (from bottom to top on the left hand side). The four columns give different types of information about the events in each row: (i)

Box 6-1: Logical Framework (Logframe)

Management tool used to improve the design of interventions, most often at the project level. It involves identifying strategic elements (inputs, outputs, outcomes and impact) and their causal relationships, indicators, and the assumptions and risks that may influence success and failure. It thus facilitates planning, execution and evaluation of a development intervention.
Source: OECD/DAC Glossary of Key Terms in Evaluation and Results-Based Management 2002

a narrative description of the events in the results chain; (ii) objectively verifiable indicators (OVIs) of the events taking place; (iii) means of verification (MoV) where information will be available on the OVIs; and (iv) the underlying assumptions (and risks). Assumptions and risks are external or exogenous factors that could, positively or negatively, influence the events described in the narrative column, including those factors that potentially impact on the success of the project, but which cannot be directly controlled by the project or programme managers. [70] (Table 6-1: Standard Logframe)

Table 6-1: Standard Logframe

	Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions / Risks
Goals				
Purposes				
Output				
Activities				

8. As stated earlier, activities occur in the near or immediate term, outputs could be realized in the near or medium term, while outcomes result in the medium to long term, and the impact of programmes can be seen only in the long term. Traditionally and typically, budgeting is done annually since appropriations are by financial year. There is thus, what one might call, a 'temporal mismatch' between financial and outcome budgets. One way to bridge or narrow down this 'mapping' of traditional (financial) budgets on to outcome budgets is to introduce an element of medium term expenditure frameworks (Box 6-2) into the matrix, on a three-year rolling basis. Obviously, the outlays shown over the three year period would only be indicative (since appropriations would continue to be annual) and not entitlements; but they would enable the implementing agencies to better plan their programmes with a greater predictability (though not certainty) of budgetary allocations, which would indubitably make for better outputs and outcomes.
9. Outcomes are medium to long-term results of public spending, while outputs can result either in the short-term or medium term. Given this, it would be logical to formulate medium-term expenditure frameworks (MTEFs) and relate them to outputs and outcomes.
10. An MTEF would link budgetary expenditures with socially desired outcomes, with a focus on getting government to allocate budgetary resources to programmes, activities and projects consistent with the strategic priorities of government.[71]

[70] Adapted from Wikipedia – Logiical Framework Approach ; http://en.wikipedia.org/wiki/Logical_framework_approach
[71] The Governance Brief, Issue 2, Asian Development Bank.

Box 6-2: Medium term expenditure frameworks - Australian Experience

When Australia embarked on its comprehensive reform program in the early 1980s a key consideration was the perceived inadequacies in the links between policies and programs and the resources allocated to their implementation. Fiscal crisis subsequently raised fundamental concerns about the affordability of current government policies. The response to this was to take the system of forward estimates which had played a peripheral role in decision making and place it at the center of both resource allocation decision making and resource use…

The "forward estimates" system evolved in Australia from the late 1970s through the 1980s. The forward estimates process develops estimates that, on a rolling basis, project the level and composition of expenditures for three years beyond the current fiscal year, assuming no policy changes. These are adjusted regularly to take account of factors such as inflation, where program expenditures are indexed, and government policy decisions that may increase or decrease estimated costs…

The practice prior to 1983-84 involved the Department of Finance collecting bids for program spending from sponsor departments without rigorously examining the basis for them, except with respect to the first year. Accordingly, these bids reflected departments' own assessments of their future needs, a practice described by M. Keating and M. Holmes (1990) as "a major cause of ... creeping incrementalism of government [expenditures]" .

Under the new approach, the Department of Finance negotiated with departments the estimates for existing programs, and then assumed responsibility for updating the forward estimates at regular intervals to reflect, as indicated above, changes in economic parameters, other technical variations and, most important, the effects of government policy decisions. The same process is followed with new policy and program proposals, for which projected costs for the full forward estimates period are required as part of the policy proposal considered by Cabinet. Thus, the Department of Finance is seen as "owning" the forward estimates.

[Source: The Australian Experience with a Medium Term Expenditure Framework: Annex 7 of China PER, by Bert Hofman; The World Bank- Website - Public Sector Govern... > Public Finance > Medium-Term Expenditure Framework (MTEF)]

B. Suggested Approach- Elements of Matrix

11. The table or matrix below (Table 6-2) tries to integrate the basic log frame matrix, a medium-term expenditure framework and the basic thrust of the format currently adopted for outcome budgets. The results chain (inputs, activities, outputs, outcomes, impact) is shown vertically in rows, while the narrative summary, objectively verifiable indicators, means of verification and assumptions / risks is shown horizontally in columns.[72] Elsewhere in this chapter (and in this study) a suggestion has been made that mention be made of the operational staff sanctioned / deployed on the programme / project (in person-months) and the vacant positions there against (in person-months). This could be shown in the narrative summary either under inputs or activities. Likewise, an indication should be available of unit costs, wherever possible.

[72] This form of presentation was adopted to fit the table in the page but if one so chooses the rows and columns may be transposed.

<table>
<tr><th colspan="7">Table 6-2: Modified Log frame for Outcome Budget</th></tr>
<tr><th colspan="3"></th><th>Narrative Summary</th><th>Objectively Verifiable Indicators</th><th>Means of Verification</th><th>Assumptions / Risks</th></tr>
<tr><td rowspan="9">Inputs / Resources</td><td rowspan="3">Non-Plan Outlay</td><td>Year 1</td><td rowspan="9"></td><td rowspan="9"></td><td rowspan="9"></td><td rowspan="9"></td></tr>
<tr><td>Year 2</td></tr>
<tr><td>Year 3</td></tr>
<tr><td rowspan="3">Plan Outlay</td><td>Year 1</td></tr>
<tr><td>Year 2</td></tr>
<tr><td>Year 3</td></tr>
<tr><td rowspan="3">Extra Budgetary Resources</td><td>Year 1</td></tr>
<tr><td>Year 2</td></tr>
<tr><td>Year 3</td></tr>
<tr><td colspan="3">Activities</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="3">Output
(Mention target groups if relevant)</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="3">Purposes
(Outcomes)
(Mention target groups if relevant)</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="3">Goals
(Impact)
(Mention target groups if relevant)</td><td></td><td></td><td></td><td></td></tr>
</table>

12. This format (Table 6-2) shows the results chain, from inputs to impact, (in the rows of left most column) sequentially in their logical order, whereas the logical sequence is not all that clearly evident in the outcomes budget format currently prescribed. (Table 6-3) Another improvement in the suggested matrix (Table 6-2) over the currently

adopted format is that the 'Objectively Verifiable Indicators' (OVI) can be seen against each item of the results chain (Inputs, Activities, Outputs, Outcomes, Impact)

13. The format for the outcome budget currently being used has a column showing processes / timelines. What is shown under this column relates mainly to the 'activity' of releasing funds and obtaining reports. In the matrix above (Table 6-2) no specific column or entry has been included for this (namely release of funds and obtaining of reports). For, it can be shown under 'Objectively Verifiable Indicators' against the row 'Activity'.

14. Not only does the currently prescribed format for outcomes budget not show the OVI separately for each link in the results chain but even the Remarks / Risk Factors column 'lumps together' everything under it, whereas the assumptions and risks can be separately seen for each item in the suggested matrix.

15. One other feature of the suggested matrix is that target groups can be shown in the same table against outputs, outcomes and goals whereas, currently, departments are asked to show separate Gender and SC / ST outcome budgets, which incidentally appear to be only (possibly politically correct) 'generalised guesstimates'.

Table 6-3: Current format for Outcomes Budget

S.No	Name of Scheme/ Programme	Objective / Outcome	Plan Outlay 2008-2009 (in Rs. crore)			Quantifiable Deliverables /Physical Outputs	Projected Outcomes	Processes/ Time Lines	Remarks/ Risk Factors
			Non-Plan Budget	Plan Budget	Complementary EBR				

1. Choosing Indicators

16. Choice of appropriate indicators may present practical difficulties in that there may be no ideal performance indicator. Perhaps, the guiding principle should be that indicators provide managers with the information they need to perform their jobs efficiently and effectively. In a set of criteria developed by Price Waterhouse for good performance measures for US government agencies (*Who Will Bell the Cat?* A *Guide To Performance Management In Government, 1993*), the underlying principles were that the indicator should be:

Box 6-3: Characteristics of Indicators

- Objectivity linked – i.e. directly related to clearly stated objectives;
- Responsibility linked – i.e. matched to specific organisational units that are responsible for, and capable of, taking action to improve performance;
- Organisationally acceptable – valued by all levels in the organisation, used as a measurement tool, and viewed as being "owned" by those accountable for performance;
- Comprehensive – inclusive of all aspects of programme performance, for example, measuring quantity but not quality provides incentives to produce quickly, but not well;
- Credible – based on accurate and reliable data sources and methods, not open to manipulation or distortion;
- Cost-effective—acceptable in terms of costs to collect and process;
- Compatible – integrated with existing Information Systems;
- Comparable with other data – useful and making comparisons; for example performance can be compared from the data period, with peers, to targets, etc;

- Easy to interpret – presented graphically and accompanied by commentary.

17. These general principles could inform the choice of indicators. To borrow from ITAD (*Monitoring and the Use of Indicators*, EC Report, 1996) a popular acronym for remembering the characteristics of good indictors is SMART:

    S – Specific
    M – Measurable
    A – Attainable
    R – Relevant
    T – Trackable

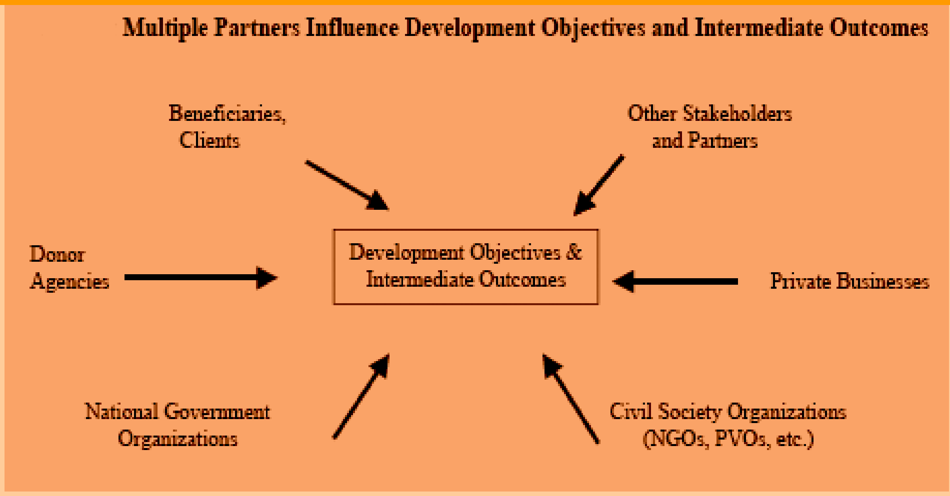
18. Examples abound of innovative initiatives (some of which have been mentioned in earlier chapters) for improving service delivery and its quality. However, many such initiatives are native to the context in which they arise and may not necessarily be replicable elsewhere. Nor do they lend themselves to quantification as indicators of outputs and outcomes.

19. Another issue in the choice of indicators is that of quantitative indicators versus qualitative indicators. Quantitative indicators can be objectively or independently verifiable numbers or ratios, whereas qualitative indicators are subjective descriptions or categories. Whether to choose quantitative or qualitative indicators would depend on the nature of the project or programme. Service delivery sectors like education, health and so on are more amenable to quantitative indicators whereas assessment of performance in certain areas like democracy, governance, policy reform etc. can by their very nature be only subjective or qualitative.

20. 'The World Bank's Performance Monitoring Indicators, 1996, offers eighteen volumes of sector specific technical annexes that provides a structured approach to selecting indicators within each sector/ program area. Most of the sectors follow a typology of indicators based on a hierarchy of objectives and provide a menu of recommended key indicators.'

21. For meaningful development objectives and indicators of outputs and outcomes to emerge there should be interaction between different stakeholders (Box 6-4). A participatory approach to evaluation of outputs and outcomes would better serve the interests of accountability and improved interventions by government. However, one should focus on a short manageable list of indicators and avoid 'indicator creep'.

Box 6-4: Involvement of Stakeholders



Source: Box 26: from The Development Assistance Committee (DAC) Working Party on Aid Evaluation; Results Based Management in the Development Cooperation Agencies: A Review of Experience – Background Report November 2001)

22. No attempt is made here to suggest individual indicators of outputs and outcomes for different programmes in the three sectors of rural development, health and education. However, it should be possible for the departments to devise suitable indicators keeping in mind the following considerations:
    - They should be truly reflective of the underlying objectives of programmes;
    - Different objectives should be captured by different indicators;
    - They should be rooted in fact, and not be subjective impressions;
    - They should be plausible, in other words, directly relatable to the programme;
    - They should be based on obtainable data; and
    - They should be amenable to objective verification.[73]
23. Metrics differ for different types of results: effort is measured for outputs; effectiveness is gauged in relation to outcomes; and impact is reflected by change.
24. However, what needs to be highlighted and emphasized is that of the eight Millennium Development Goals (MDGs) six relate to poverty alleviation, health and education. These should find explicit mention in the output and outcome indicators of the relevant departments / ministries (rural development, health and education) to the extent they relate to their departments / ministries.

C. Benchmarking and Standards

25. Benchmarking is a useful efficiency tool to measure the performance of an organization against a standard, either absolute or relative to an organization with superior performance. It helps assess performance objectively and identify areas where improvement is needed or possible. Benchmarking can be undertaken with

[73] Norad 1999; p. 54 An indicator is "objectively verifiable" when different persons using the same measuring process independently of one another obtain the same measurements.

reference to standards, processes or results.[74] Benchmarking against standards aims to set the bar for performance; setting minimum standards of performance. Process benchmarking seeks to improve the way things are done, which may call for business process re-engineering. Benchmarking for results attempts to provide better value for money.

26. Outcome budgets in the Government of India are relatively new, with only two to three years of nascent or incipient experience, which is still evolving. While international experience could serve as a broad guide on how to go about it, there may not be, at least at this stage, any standard bearers against which to benchmark. At this stage, therefore, benchmarking if any can only be against prescribed minimum standards.

27. Many states have yet to adopt outcome budgets. Even the few that have only seem to be going through the motions. There may not, therefore, be many 'peer' examples for States against which to benchmark. However, different States have devised innovative schemes for service delivery in poverty alleviation, health and education, which others may examine to what extent they could be replicable in their situations, and if possible try to integrate through indicators into their outcome budgets.

D. Monitoring and Evaluation

> "Evaluation quality depends on an approach that balances timeliness, usefulness, methodological purity, client requirement and cost."
>
> *-Robert Lahey, Centre of Excellence for Evaluation, Canada*

28. Monitoring and evaluation are instruments that assist in identifying and measuring the progress and results of projects, programmes and policies. What distinguishes monitoring from evaluation is that monitoring is an ongoing process that charts the progress of inputs, activities and outputs, while evaluation is a one-off or periodic exercise undertaken to assess the results; namely, outcomes and impact of programmes, which also helps in determining causality. Monitoring alerts managers to bottlenecks, delays and problems while evaluation arms them with information for strategic policy options. Monitoring can be used for holding managers accountable for delivery of inputs, activities and outputs; it provides a basis for corrective action, if necessary. On the other hand, evaluation assesses whether the underling objectives were met and the money was well spent. It also provides lessons in how improvements could be effected, for appropriate policy interventions.

29. Monitoring and evaluation mechanisms should be part of design of a programme, if efficiency and effectiveness, accountability, improved decision making, effective allocation of resources are to be enhanced.

30. Need for formal evaluation increases as resources become scarcer and identification of priorities becomes more important. The Eleventh Five-Year Plan says that emphasis would be laid on effective monitoring of outcome at all levels. Recognising the importance of monitoring, the Five-Year Plan notes that while monitoring is an internal activity of programme management, evaluation assesses the appropriateness of design and implementation of ongoing projects and programmes, which can be

[74] Cowper and Samuels

done either internally or independently or concurrently along with an external agency. The Five-ear Plan points out that absence of baseline data for many schemes / programmes could be a serious bottleneck in measuring the performance indicators of outcomes and impacts; hence, the importance of appropriate identification of process and outcome indicators, not to mention follow-up action on results of monitoring and evaluation. This may call for changes in procedures of various government departments.

31. Monitoring and measurement of indicators is only as good as the ***reliability of the underlying data and faithfulness and integrity of reporting systems***. A distinction is made between validation and verification of data. Validation of data is intended to assess the relevance and appropriateness of data (and by extension indicators of outputs and outcomes) to the underlying objectives of programmes while verification in meant to test the correctness and accuracy of data.

    'Validation is assessing whether data collected and measured are a true reflection of the performance being measured and having a clear relationship to the mission of the organization… Validation applies at several levels. First, it is important to establish that the goals that have been selected to measure the performance of the organization have a direct connection and relevance to the mission and desired outcomes that the organization is pursuing. Second, if that relationship is positively established, the next question to ask is whether the information that is collected clearly relates to the targets that have been set.

    Data Verification:

    Assessing data accuracy, completeness, consistency, availability and internal control practices that serve to determine the overall reliability of the data collected… Standards and procedures refer to establishing the ground rules that should be applied to all data collection efforts for a specific measure. The question is whether the rules are consistently and uniformly applied and clearly communicated to those who are responsible for grass roots data collection. If procedures vary from locale to locale or among individual collectors, results will not be comparable and may not be legitimate. For example, having no clear definition of the data to be collected, or mechanisms by which data are collected will inevitably lead to problems in interpreting results or trusting the accuracy of the information. If data definitions are clear, but individuals are not well trained for the collection effort, which may be complex, additional sources of error may be introduced. Requirements may very well differ from goal to goal, but for a single measure, the same standard should always apply. ' (Bielak, 2003)

32. Below poverty line (BPL) families are often identified as beneficiaries for many programmes. But anecdotal and other evidence suggests that the numbers of BPL families are usually bloated and many who don't qualify are included because of either flawed or corrupt identification. It would be useful to have random verification done by reputed independent agencies, which may at least minimize the abuse if not eliminate it.

Chapter 7. Incentive mechanisms

1. One of the terms of reference is to design an incentive mechanism for programme managers of State and Central government, including any exogenous steps that may be necessary.
2. The Sixth Pay Commission engaged the Indian Institute of Management, Ahmedabad (IIMA) to carry out a study on performance related incentives (PRI), which surveyed developments in this area, suggested PRI models for some ministries and organisations and provided a step by step guide for implementing PRI in government[75]. It would be superfluous, therefore, to revisit these issues here again, more so since the report is as recent as January 2008.
3. Studies by the OECD on implementation of performance related pay have found that monetary incentives by themselves are not sufficient to motivate the majority of staff, regardless of design of the incentives. Holistic job design of high performance work practices[76], multi-skilled work, new ways of organizing work, rewarding performance and greater employee participation in decision making processes are said to be central to employee motivation. A study done by USAID in a primary health centre in Zambia showed that non-monetary incentives worked better than monetary incentives, partly because of the low amounts of monetary incentives.
4. Delegation of authority is seen to be crucial for effective implementation of performance related incentives (PRI). Countries that have experienced strong relationship between performance and pay-related employee incentives are reportedly those that have the highest delegation of responsibility for human resources and budget management, and usually have position-based systems of incentives.
5. Different countries have pursued different objectives with regard to PRI, which are reflective of their needs, and inherent differences in cultural and working conditions. The Nordic countries focus on personnel development concepts, while Westminster countries try to achieve PRI objectives through motivation. Pakistan is said to have implemented PRI in the field of higher education, which has reportedly yielded results in improved quality of teaching. Singapore keeps salaries in the public sector on par with those in the private sector through PRI, thereby hoping to increase meritocracy and decrease corruption.
6. No doubt, PRI would be a spur and stimulus to better performance. However, individual performance related incentives bristle with many knotty issues: Should one replace automatic salary increase through annual increments with performance related pay? Should a performance related incentive result in a permanent increment or should it be a one-off payment to be earned on each occasion at the time of performance appraisal?
7. Staff performance assessment is a difficult process: one has to asses outputs against pre-identified objectives, which should not be too easy to achieve nor very complex or unrealistic; competencies and technical skills have to be assessed; team work, leadership qualities and management skills have to be gauged. Most of these call for qualitative judgment and do not admit of suitable quantitative indicators.

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[75] Chapter IV IIMA (2008)

[76] 'High Performance Work Practices (HPWP) is an initiative practiced by organizations that aligns human resources to the road of high organisations competitiveness. ..The key feature of HPWP is building employee competency and commitment.' p.87 IIM Ahmedabad study for Sixth Pay Commission.

8. Thus, there is large element of managerial judgment involved; the process calls for great transparency in the performance appraisal process related to PRI. Further, it may also be necessary to take into account the background culture, work environment and other factors specific to individual organizations. All of which may require a differentiated approach to PRI.

9. Many countries have therefore made the transition from the individual to team-based systems of incentives.

10. In the study entrusted to it by the Sixth Pay Commission, the Indian Institute of Management, Ahmedabad notes: “Introducing PRI in government without supporting reforms areas like work environment, decision frameworks, processes and people management may be counter productive.” It adds that appropriate delegation of powers is necessary for achieving performance levels and to make jobholders accountable. This deficiency it points out seriously affects service delivery and employee motivation.

11. Outcomes result from various factors: a combination of outputs; external or exogenous factors; convergent programmes; team effort; work culture in the organisation; and so on. Besides, outcomes arise in the medium to long term and are the cumulative effect of past effort and outputs, whereas outputs are relatively more immediate in nature. That is why many OECD countries tend to separate responsibility for outputs and outcomes, with managers being responsible only for outputs.

12. Outputs too are the culmination of collective effort of various individuals in an organisation, and may not be attributable to any single individual. Moreover, in the government set-up (in India) officials are transient; a present incumbent may reap the rewards of one’s predecessor or predecessors’ efforts or initiatives.

13. In the circumstances, ***performance related incentives*** to individual functionaries might be misconceived. It would be more logical to devise incentives for team or organisational effort, like for instance, carry forward of unspent balances (non-lapsing authorisations), which would dissuade year-end spurs or spikes in expenditures; flexibility in budgeting and operations; partial or full retention of revenues accruing additionally from local initiatives; etc. Strictly speaking, however, these would run counter to orthodox budget practices but budgeting too has to make concessions for producing results. It cannot remain a cocoon, rigidly protective of orthodoxies, unmindful of the basic raison d’être of government.

14. A major problem often commented upon and documented is the absence of teachers, doctors and paramedical staff at their posts. A generalised scheme of incentives (but aimed at individuals) could be considered. For example, preferential allotment of seats in post-graduate medical colleges for doctors serving a minimum of two or three years in rural areas as has been tried by some states (Andhra Pradesh and a few others). One could also consider scholarships and other incentives for paramedical staff for acquiring higher professional qualifications (nursing degrees, for example).

15. Apart from team level or ***team based incentives*** suggested above, which are more in the nature of process or operational incentives, the finance commission could consider State level incentives as a homage to the principle of subsidiarity.

A. Incentives to States

16. Though the 73rd and 74th Amendments to the Constitution devolve responsibilities to local bodies they lack sufficient financial empowerment, notwithstanding periodic constitution of state finance commissions and their recommendations.

17. In deference to the principle of subsidiarity, State level incentives could be linked to implementation of the 73rd and 74th Amendment of the Constitution. Indices could be devised based on percentage of transfers by States to local bodies as percentage of their total expenditure (excluding debt servicing—interest and principal payments), coupled with additionality of transfers to local bodies over a base level.

B. Outcome Based Incentives to States

18. A question that arises is whether quality of expenditure, and consequently its manifestation as better outputs and outcomes can or should influence resource transfers by the finance commission. Earlier in the report, a mention was made that States with better expenditure quality and consequently with better outcomes would have greater fiscal capacity. Ironically, their (resultant) relatively stronger fiscal capacity may place them at a disadvantage in the matter of finance commission transfers. Logically, therefore, States that show better results for their public spending should be *compensated* as it were for their efficiency induced 'inherent disability'. In other words, rather than suffering for their relatively superior performance they should be rewarded.

19. Typically, for reasons of equity, the methodology of finance commissions is to give comparatively higher 'weightage' to States with relatively lower per capita GSDP (or other indices of backwardness) in recommending their transfers. Further, finance commissions estimate future revenues and expenditures of States, albeit normatively, for arriving at the resource gap, if any, which influences even if it does not fully determine, their *inter se* horizontal transfers among States. States that show better results for their public spending have better outcomes, which expectedly would be reflected in relatively better GSDP, better tax revenue streams, and 'bigger bang for their buck' (i.e. efficiency in expenditure namely, optimal use of inputs for a given level of outputs or maximising outputs for a given level of inputs). All these factors go against them in the traditional methodology of finance commissions.

20. Apparently, the traditional approach of finance commissions militates against paragraph 3 (vii) of the considerations in the Terms of Reference of the Thirteenth Finance Commission to be borne in mind, namely "the need to improve the quality of public expenditure to obtain better outputs and outcomes". But it need not be so.

21. If States with better quality of expenditure and better outcomes are separately rewarded for their superior performance it would to some extent at least negate any disadvantages they suffer in the traditional approach of finance commissions.

22. Outcome level indicators could be chosen in each of the three sectors of rural development, education and health. As mentioned earlier, six of the eight MDGs relate to these sectors, one to poverty reduction, two to education and three to health, which readily offer themselves and should have general acceptance across all States.

23. Since outcomes are manifest in the medium to long term, performance of States could be reckoned over five year periods. Having regard to the levels of achievement by States in each of these outcome indicators in a base year (or in any one or any combination of them), a minimum base level of outcome achievement could be the benchmark; say, for example, the median value or average or a seventy-five percentile or the all-India level or whatever. In what follows the median value has been used as the benchmark, which means that half the States would be above the benchmark and half below.

1. Methodology

24. The methodology employed for awarding points to States (and determining incentives) is based on the following premises: (i) initial conditions of all States should be taken due note of; (ii) the improvement (or deterioration) in their performance over their level in the base year (initial condition) should be duly rewarded (or penalised); (iii) States that are above the benchmark level should receive a minimum level of points *plus* additional points for improved performance, if any, during the period under consideration; and (iv) the higher the level of performance in the base year over the benchmark, improvement over their base level (initial condition) would be that much harder and should therefore receive 'elevated weightage'.

25. States would be awarded points based on their incremental performance over the base year in relation to (a) their initial condition and (b) the predetermined standard or benchmark. Initial condition is defined as the (output or outcome or any other indicator) performance level of a State in the base year. Incremental performance is the difference between the performance level in the year of reckoning (terminal year) and the performance level in the base year (initial year).

26. If the performance level of a State is below the benchmark level in the base year and terminal years, it would be awarded points equal to the percentage by which it narrows the gap with the benchmark. Negative performance would earn zero points.

27. If the performance level of a State is below the benchmark level in the base year but higher than the benchmark level in the terminal year, it will receive 100 points *plus* the percentage increase of the performance level in the terminal year over the benchmark level.

28. States whose achievement is higher than the benchmark level in the base year and in the terminal year would be awarded 100 points *plus* the percentage improvement over the base year *multiplied by* the distance of their performance level in the terminal year from the benchmark as a percentage of the benchmark level. Negative performance in relation to the base or initial year but still above the benchmark would earn only 100 points. Negative performance taking a State below the benchmark (i.e. performance in terminal year less than the benchmark level) would result in the State getting zero points.

29. The points earned by States on this basis (which can be termed incentive coefficient) would be aggregated, and each State's points (incentive coefficient) would be calculated as a percentage of this aggregated total, which would be the State's incentive value or incentive percentage. States would then be eligible for incentive grants on the basis of this incentive percentage.

30. To reiterate, this methodology is predicated on the assumption that the higher (or better) the initial condition in relation to the benchmark, incremental improved performance would be that much more difficult to achieve and would therefore deserve to be suitably or appropriately rewarded.

31. The rationale is as follows: States that have attained *relatively* higher levels of performance and are at the high end of the 'performance spectrum' would have *comparatively* restricted scope for further percentage improvement over the base year level. The intention is that States that are already at a *relatively* higher level of performance and are to some extent disadvantaged by the restricted scope for incremental percentage improvement should not stand to lose. Hence, their percentage improvement in performance over the base (or initial) year should be suitably weighted to compensate them for this 'inherent disadvantage'. It is, therefore,

proposed to weight their performance by the distance of their output / outcome indicator from the median (benchmark) as a percentage of the median (benchmark).

2. Mathematical Notation

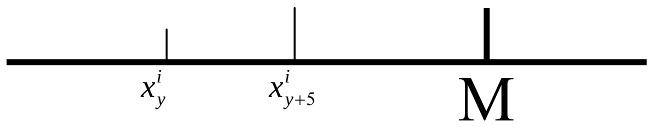
32. The above methodology is reduced to mathematical notation as follows:

x_y^i *is the outcome indicator of the* i^{th} *State in the base year (y)*

x_{y+5}^i *is the outcome indicator of the* i^{th} *State after 5 years i.e in the year (y+5)*
M is the median value of the outcome indicators of all States in the base year (y)
ICi is the incentive coefficient of the i^{th} *State*
IVi is the incentive value or incentive percentage of the i^{th} *State*

Scenario 1 $x_y^i < M$

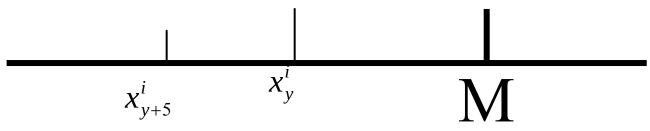
Case 1



When $M > x_{y+5}^i > x_y^i$

$$IC_i = \frac{(x_{y+5}^i - x_y^i)}{M - x_y^i} * 100$$

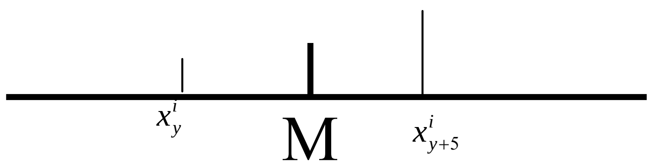
Case 2



When $x_{y+5}^i \le x_y^i$

then $IC_i = 0$

Case 3

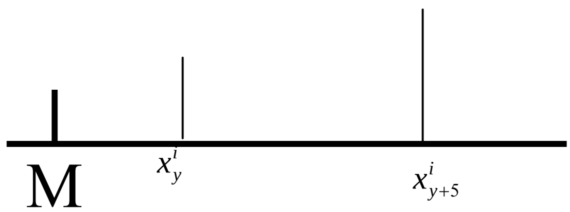


When $x_{y+5}^i > M$

$$IC_i = 100 + \frac{(x_{y+5}^i - M)}{M} * 100$$

Scenario 2 $x_y^i \ge M$

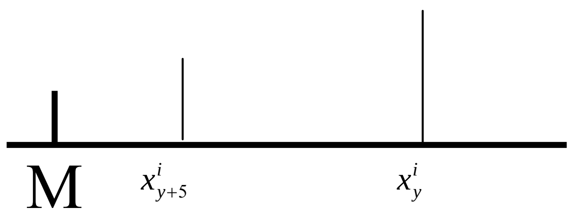
Case 1



When $x_{y+5}^i > x_y^i$

$$IC_i = 100 + \frac{(x_{y+5}^i - x_y^i)}{x_y^i} * 100 * \frac{(x_{y+5}^i - M)}{M} * 100$$

Case 2



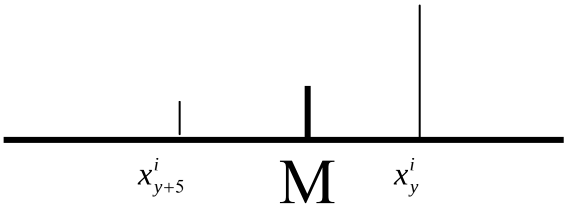
When $x_{y+5}^i < x_y^i$ *but* $x_{y+5}^i > M$

$IC_i = 100$

Case 3

$When\ x^i_{y+5} < M \le x^i_y$

$IC_i = 0$



Having arrived at the incentive coefficients for all States, the incentive value or incentive percentage is calculated as follows:

$$\mathrm{IV}^{\mathrm{i}} = \frac{IC^i}{\sum_i IC^i} * 100\ \ for\ i = 1\ to\ n\ where\ n\ is\ the\ number\ of\ \ states$$

3. Alternative Formula

33. In addition to the formula suggested in the draft report another (alternative) formulation *based on the same underlying approach (and rationale)* is proposed below.

34. The alternative formulation too is based on (i) initial condition i.e. performance level in the initial year (ii) the improvement or deterioration in performance over the period under consideration i.e. between the initial year and the terminal year (say after 5 years), and (iii) allowance for relativities in performance levels, so that those at relatively higher levels of performance and consequently with comparatively restricted scope for percentage improvement in performance do not suffer on that account. Of course, deterioration in performance in the terminal year as compared to the initial year would be suitably adjusted for, also taking into account whether or not it is still better than the benchmark.

35. In this alternative formulation the percentage improvement in performance is weighted by the mean of the percentile performance levels of each state in the initial and terminal years (instead of the distance from the benchmark level of the earlier formulation).

To illustrate and put it in mathematical notation, say:

x^i_y denotes the performance indicator of i$^{\mathrm{th}}$ state in year y;

x^i_{y+5} denotes the performance indicator of i$^{\mathrm{th}}$ state in year y+5;

p^i_y denotes the percentile position (of the performance indicator) of i$^{\mathrm{th}}$ state in year y;

p^i_{y+5} denotes the percentile position (of the performance indicator) of i$^{\mathrm{th}}$ state in year y+5;

p^i_m denotes the mean of the percentile position of i$^{\mathrm{th}}$ state of years y and y+5; *however*, where $p^i_m = 0$ it is treated as equal to 1.

IC^i denotes the incentive coefficient of i$^{\mathrm{th}}$ state; and

IV^i denotes the incentive value of i$^{\mathrm{th}}$ state

117. Then:

(i) When $x^i_{y+5} < x^i_y\ and\ p^m_i < 50$ (i.e. the state is below the median level) $IC^i = 0$

(ii) Where $x^i_{y+5} < x^i_y$ *and* $p^m_i \geq 50$ (i.e. the state is equal to or above the median level)

$IC^i = 50$

(iii) Where $x^i_{y+5} > x^i_y$

$$IC^i = \frac{x^i_{y+5} - x^i_y}{x^i_y} * 100 * p^i_m \quad s.t.\, IC^i > p^i_m$$

However should $IC^i < p^i_m$ then $IC^i = p^i_m$

In other words, where $x^i_{y+5} > x^i_y$ IC^i should have a value at least equal to p^i_m

If IC^i returns a negative value then it is equated to zero.

Having arrived at the incentive coefficients for all States, the incentive value or incentive percentage is calculated as follows:

$$\mathrm{IV^i} = \frac{IC^i}{\sum_i IC^i} * 100 \;\; for\; i = 1\, to\; n\; where\; n\; is\; the\; number\; of\;\; states$$

4. One more Alternative Formula (essentially a variant of formula one)

36. Yet another formula is suggested, based, however, on the same underlying rationale (and hence clubbed under the same methodology). The change is only in the weight used.

37. In the first formula proposed above, the weight used is the distance of their output / outcome indicator from the median (benchmark) as a percentage of the median (benchmark), subject to certain conditions, which give rise to three cases under two different scenarios.

38. In the second formula, the weight used is the mean of the percentile performance levels of each state in the initial and terminal years, subject to some conditions.

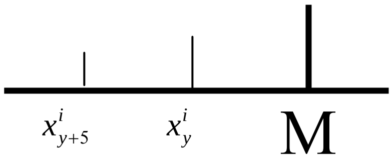
39. *The third alternative based on the same underlying rationale is essentially a simplified variant of the first formula*. Here, the improvement in the performance indicator between the initial and terminal years is weighted by the proportion of the performance indicator in the terminal year to the median value of the performance indicators in the initial year. Of course, deterioration in performance in relation to the initial year is duly adjusted for, also taking into account whether or not it is better than the median (benchmark).

40. In mathematical notation, the formula would be as under:

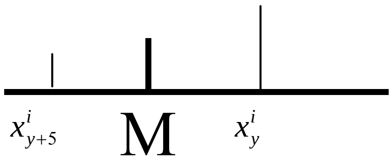
x^i_y *is the outcome indicator of the* i^{th} *State in the base year (y)*

x^i_{y+5} *is the outcome indicator of the* i^{th} *State after 5 years i.e in the year (y+5)*
M is the median value of the outcome indicators of all States in the base year (y)
ICi is the incentive coefficient of the i^{th} *State*
IVi is the incentive value or incentive percentage of the i^{th} *State*

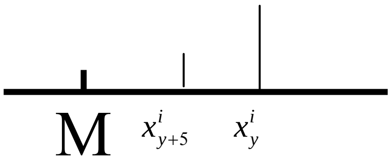
If $x_y^i \leq M$ *and* x_{y+5}^i <*M and* $x_{y+5}^i < x_y^i$, then *ICi=0*



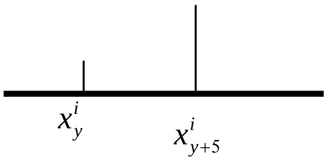
If x_y^i > M, and x_{y+5}^i <*M,* then *ICi=0*



If x_y^i > M, $x_{y+5}^i \geq M$ *but* $x_{y+5}^i < x_y^i$, then *ICi=1*



In all other cases i. e. $x_{y+5}^i > x_y^i$



ICi= [($x_{y+5}^i - x_y^i$ *)*100/* x_y^i *]*(* x_{y+5}^i*/M)*

Having arrived at the incentive coefficients for all States, the incentive value or incentive percentage is calculated as follows:

$$\mathrm{IV}^{\mathrm{i}} = \frac{IC^i}{\sum_i IC^i} * 100 \quad \textit{for } i = 1 \textit{ to } n \textit{ where } n \textit{ is the number of states}$$

5. Yet Another Alternative Formula (essentially a variant of formula two)

41. In formula two the improvement in performance is weighted by the mean percentile position of the State, duly corrected or adjusted for deterioration in performance between the initial and terminal years. In this variant of the formula, instead of using percentiles, the distance of the value of the performance indicator of a State from the minimum or lowest value of the performance indicators of all States is calculated as a percentage of the ‘range’ i.e. the distance of the highest performance indicator from that the lowest performance indicator. This is done both for the initial and terminal years and the mean of the two values for each State is treated as the incentive coefficient. (In this formulation, it is not necessary separately to adjust for deterioration in performance between the initial and terminal years).

42. In mathematical notation, it would be as under:

p_y^i is the performance value of i^{th} State in year y;

l_y is the lowest performance value of all States in year y;

h_y is the highest performance value of all States in year y;

then np_y^i (the normalised performance value of i[th] State in year y) is equal to $\left(p_y^i - l_y\right)*100/\left(h_y - l_y\right)$

Similarly, np_{y+5}^i (the normalised performance value of i[th] State in year y+5) is calculated

Then IC^i the incentive coefficient of i[th] State is $\left(np_{y+5}^i + np_y^i\right)/2$ and

$\mathrm{IV}^{\mathrm{i}} = \dfrac{IC^i}{\sum_i IC^i} * 100 \; for\ i = 1\ to\ n\ where\ n\ is\ the\ number\ of\ states$, IV^i being the incentive value of i[th] State

Note: In the case of some performance indicators there is an 'inverse' relationship as it were between the number denoting the performance level and the performance; for example, for indicators like MMR or IMR or percentage of population below the poverty line etc. the higher the number the poorer the performance and the lower the number the better the performance. In such cases, the above-proposed formulae do not undergo any change as such; however, the manner of applying the formulae or manner of calculation would need to be ***suitably logically adjusted*** to allow for this 'inverse' relationship.

6. Different Approach and Methodology

43. A different point of view has been expressed, which calls for a divergent approach and methodology.

44. Under the four alternative formulations proposed above, other things being equal, States at the same levels of initial and final performances (i.e. in the initial and terminal years) would have the same value in the incentive calculation regardless of their population size. This is iniquitous, according to this point of view. Therefore, an alternative approach and methodology is suggested.

45. Under this, the incentive would be determined by the percentage improvement in performance between the initial and terminal years weighted by the percentage of the population of the State to the total population of all States. This methodology rests on the premise that States with larger population would need greater effort to achieve the same level of performance. However, under this approach States with relatively higher levels of (initial) performance would not receive any credit for their superior levels of performance nor would they be 'compensated' for their 'inherent disadvantage' of comparatively restricted scope for incremental improvement in performance.

7. WTO – NAMA approach

46. A suggestion was (orally) received whether the methodology used in the WTO Non-Agricultural Market Access (NAMA) could be adapted for devising an incentive mechanism. This is perhaps inspired by a broad similarity in the two situations: in the WTO tariff negotiations the initial tariff profiles of countries differ just as States have different initial levels of achievement in their quality of expenditure and outcomes. That said it would be difficult to draw a parallel between the WTO NAMA negotiations and the situation relating to quality of expenditure and consequent outcomes in different states. Devising an incentive mechanism for States is much more complicated than devising a tariff formula. However, with a slightly differentiated approach, the tariff reduction formula could theoretically perhaps be adapted to this situation. Taking the initial performance of a State as given, a

benchmark could be set for the level of performance to be attained at the end of say five years and this set as a target to the State. The performance of the State could then be assessed at the end of five years in relation to the predetermined target and incentives related to the performance achieved in relation to the target. However, this may bristle with practical difficulties, not the least of which is the subjectivity in fixing targets for States.

8. Illustrative Calculations

"That is the way the cookie crumbles"

47. The different incentive formulae proposed above are functions of (i) the change in performance between the initial and terminal years of a State, and (ii) and the weight assigned to the State in relation to a predetermined benchmark. The first factor depends on the actual performance recorded by a State; and the second factor an objective weight determined by the performance of the State in relation to a benchmark based on the collective performance of all States. Neither of these factors has any inherent bias, political or otherwise. The performance achieved by a State is a given; it is immutable. As for the second factor, it has to be objective and be derived from criteria related to the relative performance of States.

48. If, therefore, any State or group of States appears to receive an *allegedly disproportionate* high incentive value it is purely due to (a) the individual performance of the State or group of States in question, and (b) a weight that depends in good measure on the relative and collective performance of other States. Once the principle of 'incentivising' States for good performance is accepted, to attempt to temper the result for political acceptability is to negate the very objective of the exercise.

49. A set of illustrative calculations based on the methodologies proposed above is presented as a separate annex. These calculations have been made on actual data on some indicators available for States and also on an assumed / simulated table given by the Finance Commission. In addition to the calculations based on each of these five formulae (four under methodology one, and one under the second methodology), calculations have also been made on what the incentive values would look like if only incremental performance were to be taken into account, *without weighting it in any manner*. Thus, the effects of the different formulae in terms of the weights applied can be seen. The coefficient of variation under each of these is also shown.

50. While the detailed calculations can be seen in the separate annex, the summarised results under each of the formulae applied on six sets of data are presented below. Two of the sets of data relate to education, two to IMR and two to poverty.

51. This table relates to gross enrolment ratio.

			Incentive Value %					
State	2001-02	2005-06	Performance Unweighted %	Alt 1	Alt 2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	82.47	86.63	1.01	0.38	0.41	0.77	2.58	2.03
Arunachal Pradesh	98.82	114.39	3.15	4.02	4.59	3.19	4.76	0.09
Assam	99.54	94.18	0.00	0.81	0.18	0.16	3.99	0.00
Bihar	59.69	67.84	2.73	0.21	0.09	1.64	0.36	6.02
Chhatisgarh	97.89	102.56	0.95	1.28	1.13	0.87	4.22	0.53
Goa	65.55	103.58	11.59	0.92	6.69	10.65	2.18	0.41
Gujarat	102.25	102.29	0.01	0.81	0.26	0.01	4.49	0.01
Haryana	72.53	77.79	1.45	0.23	0.29	1.00	1.59	0.81
Himachal Pradesh	91.02	108.48	3.83	0.96	4.16	3.69	4.02	0.62
Jammu & Kashmir	84.41	85.94	0.36	0.18	0.15	0.28	2.68	0.10
Jharkhand	68.63	83.09	4.21	0.51	1.00	3.10	1.55	3.01
Karnataka	97.53	97.87	0.07	0.83	0.21	0.06	4.01	0.10
Kerala	90.16	95.39	1.16	0.84	0.83	0.98	3.43	0.98
Madhya Pradesh	91.55	124.35	7.16	11.27	9.23	7.89	4.70	11.50
Maharashtra	101.5	107.91	1.26	1.73	1.80	1.21	4.67	3.25
Manipur	91.65	134.52	9.35	18.67	12.68	11.15	5.12	0.59
Meghalaya	94.26	134.81	8.60	17.35	12.54	10.27	5.29	0.53
Mizoram	105.21	148.83	8.28	21.88	15.19	10.93	6.57	0.20
Nagaland	89.72	78.08	0.00	0.00	0.00	0.00	2.70	0.00
Orissa	92.03	97.57	1.20	1.14	1.10	1.04	3.64	1.18
Punjab	72.55	73.54	0.27	0.04	0.06	0.18	1.42	0.18
Rajasthan	98.48	104.11	1.14	1.45	1.47	1.05	4.32	1.72
Sikkim	97.72	119.1	4.37	6.18	6.38	4.62	4.88	0.06
Tamil Nadu	95.73	114.89	4.00	4.98	5.29	4.07	4.58	6.61
Tripura	89.83	118.62	6.40	1.05	6.95	6.74	4.35	0.54
Uttar Pradesh	54.1	88.94	12.87	0.76	3.06	10.15	0.86	56.87
Uttaranchal	90.16	108.35	4.03	0.96	3.97	3.87	3.96	0.91
West Bengal	87.88	90.25	0.54	0.56	0.29	0.43	3.08	1.15
			100.00	100.00	100.00	100.00	100.00	100.00
Coeff.of variation			1.05	1.70	1.22	1.09	0.41	3.01

It will be seen that even going purely by performance, without attaching any weights under the different formulae, a major portion of the incentive would be claimed by a handful of States; just 5 States claiming more than 50%. Under methodology 2, one single State (where the weighting is by population of States, which is strictly not related to any performance criteria) would receive nearly 57% of the incentive, and the next highest State only 12%, while the top 3 States would claim almost 75%. This is because the factor of population is overwhelming. The coefficient of variation too under methodology 2 is the highest. Of the four other formulae, alternatives 3 and 4 give relatively smoother distributions, with the lowest coefficients of variation. Mizoram and Manipur that get 22% and 19% under formula 1 receive progressively less under the three other alternatives, while Kerala, which gets under 1% under the first three formulae gets close to 3 ½ % under formula 4.

52. The next table too relates to education, namely literacy figures. This is, however, based on simulated data given by the Finance Commission.

State	2001 Literacy	2015 Assumed	Performance Unweighted	Incentive Value % Alt1	Alt2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	60.5	68	4.94	2.30	3.19	4.67	2.47	7.19
Arunachal Pradesh	54.3	60	4.18	1.04	0.72	3.49	1.08	0.09
Assam	63.3	66	1.70	1.84	1.10	1.56	2.52	0.87
Bihar	47.0	56	7.63	1.03	0.18	5.94	0.00	12.16
Chattishgarh	64.7	67	1.42	2.26	1.16	1.32	2.75	0.57
Goa	82	84	0.97	3.68	2.09	1.14	6.08	0.03
Gujarat	69.1	74	2.82	4.02	3.89	2.91	3.87	2.75
Haryana	67.9	72	2.41	3.35	2.69	2.41	3.55	0.98
Himachal Pradesh	76.5	81	2.34	5.11	4.63	2.64	5.27	0.27
Jammu and Kashmir	55.5	63	5.38	1.52	1.62	4.72	1.50	1.04
Jharkhand	53.6	65	8.47	1.97	2.19	7.66	1.53	4.38
Karnataka	66.6	72	3.23	3.73	3.33	3.23	3.44	3.27
Kerala	90.9	93	0.92	4.31	2.10	1.19	7.81	0.56
Madhya Pradesh	63.7	68	2.69	2.30	2.20	2.54	2.76	3.12
Maharastra	76.9	82	2.64	5.70	5.45	3.01	5.40	4.91
Manipur	66.0	72	3.62	2.43	3.58	3.63	3.38	0.17
Meghalaya	62.6	66	2.16	1.91	1.21	1.99	2.45	0.10
Mizoram	88.8	95	2.78	8.95	6.34	3.68	7.83	0.05
Nagaland	66.6	76	5.62	6.73	7.25	5.94	3.85	0.21
Orissa	63.1	62	0.00	0.00	0.00	0.00	2.09	0.00
Punjab	69.7	76	3.60	5.12	5.57	3.81	4.13	1.68
Rajasthan	60.4	59	0.00	0.00	0.00	0.00	1.53	0.00
Sikkim	68.8	78	5.33	7.40	8.47	5.78	4.25	0.06
Tamil Nadu	73.5	79	2.98	5.39	5.51	3.28	4.79	3.56
Tripura	73.2	74	0.44	2.52	0.66	0.45	4.24	0.03
Uttar Pradesh	56.3	75	13.23	2.53	11.38	13.80	2.80	42.24
Uttaranchal	71.6	76	2.45	4.20	3.89	2.59	4.30	0.40
West Bengal	68.6	79	6.04	8.60	9.61	6.64	4.34	9.32
				100.00	100.00	100.00	100.00	100.00
Coeff.of variation			0.80	0.66	0.83	0.79	0.52	2.29

Here too, under methodology 2 because of the overwhelming factor of population one single State would receive 42%, while the top 3 States would get over 60% of the incentive value; the coefficient of variation too is the highest among all the four formulae. Mizoram, Kerala and Goa do much best under formula 4, which however has the least coefficient of variation.

53. The following two tables are based on two different sets of IMR data. Here, the performance indicators bear an ‘inverse’ relationship to performance, in that a higher figure indicates poorer performance and *vice versa*.

IMR			Incentive Value %					
State	2001	2006	Performance Unweighted %	Alt 1	Alt 2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	66	56	2.93	0.44	1.53	1.46	2.80	6.11
Arunachal Pradesh	44	40	1.76	1.83	2.16	1.22	4.96	0.05
Assam	78	67	2.73	0.25	0.81	1.13	1.47	2.00
Bihar	67	60	2.02	0.28	0.83	0.94	2.48	4.61
Goa	36	15	11.29	24.29	18.08	20.92	7.00	0.42
Gujarat	64	53	3.33	0.57	2.23	1.74	3.09	4.63
Haryana	69	57	3.37	0.43	1.38	1.64	2.58	1.95
Himachal Pradesh	64	50	4.23	0.60	3.15	2.35	3.29	0.71
Kashmir	45	52	0.00	0.57	0.17	0.10	4.12	0.00
Karnataka	58	48	3.34	0.62	2.73	1.93	3.73	4.84
Kerala	16	15	1.21	3.11	2.12	2.24	8.01	1.06
Madhya Pradesh	97	74	4.59	0.30	0.17	1.72	0.05	7.62
Maharashtra	49	35	5.53	6.07	7.21	4.39	5.03	14.72
Manipur	25	11	10.84	25.74	18.56	27.38	7.82	0.71
Meghalaya	52	53	0.00	0.57	0.17	0.10	3.70	0.00
Mizoram	23	25	0.00	0.57	0.17	0.10	7.00	0.00
Nagaland	25	20	3.87	7.63	6.20	5.38	7.23	0.21
Orissa	98	73	4.94	0.32	0.19	1.88	0.07	4.99
Punjab	54	44	3.58	0.66	3.20	2.26	4.19	2.39
Rajasthan	83	67	3.73	0.30	0.97	1.55	1.22	5.80
Sikkim	52	33	7.07	8.39	8.95	5.95	5.01	0.11
Tamil Nadu	53	37	5.84	5.74	6.31	4.39	4.70	9.98
Tripura	49	36	5.13	5.39	6.50	3.96	4.97	0.45
Uttar Pradesh	85	71	3.19	0.25	0.48	1.25	0.85	14.56
West Bengal	53	38	5.48	5.11	5.71	4.01	4.63	12.09
				100.00	100.00	100.00	100.00	100.00
Coeff. Of Variation			0.70	1.71	1.26	1.58	0.57	1.15

Here too, the lowest coefficient of variation is under alternative 4 of methodology one. Manipur which receives over 25% under formulas 1 and 3 gets only 8% under formula 4, while Mizoram which receives very low shares of under 1% under the first three formulae gets 7% under formula 4. Likewise, Goa which receives very high percentages of over 20% or close to it under the first three formulae gets only 7% under the fourth.

54. The next summary table is based on slightly different IMR data.

Infant Mortality-2 State	1994-98	2004	Incentive Value % Performance Unweighted %	Alt 1	Alt 2	Alt 3	Alt 4	Mthdly 2
Andhra	6	5	1.77	0.2	0.8	0.7	2.3	6.0
Pradesh Arunachal	63.	9	6.65	0.2	5.6	4.4	3.7	0.3
Pradesh Assa	69.	8	0.84	0.1	0.2	0.3	4.7	1.0
m Biha	57	6	2.75	0.2	0.9	1.1	8.8	10.2
r Chhattisg	8	6	4.34	0.3	1.4	6.8	9.5	74.0
arh Goa	3	0	9.04	16.5	13.2	16.6	6.3	0.5
Gujar	7	5	2.65	00.4	81.6	51.2	2.8	5.0
at Harya	3	6	0.00	0.0	4.1	0.0	2.7	0.0
na Himachal	34.	5	0.00	0.4	0.0	0.0	4.5	0.0
Pradesh Jammu &	46	4	4.12	0.3	2.7	2.1	3.0	0.8
Kashmir Jharkha	5	4	1.55	0.8	1.2	0.8	0.5	1.8
nd Karnata	4	4	0.96	0.7	0.8	0.5	3.6	2.2
ka Keral	2	9	4.18	2.8	6.6	8.9	9.7	0.0
a Madhya	6	2	1.36	0.1	0.0	0.4	0.1	3.7
Pradesh Maharasht	4	3	3.04	0.1	3.4	2.1	4.8	13.2
ra Manip	3	6	10.40	20.3	18.5	19.0	6.5	71.1
ur Meghala	7	5	6.58	50.4	71.7	63.1	0.4	2.6
ya Mizora	9	4	8.14	14.1	14.4	10.9	6.2	0.3
m Nagala	42.	9	9.97	18.1	13.4	15.0	6.0	0.8
nd Oriss	18	7	0.83	50.0	70.1	60.2	0.5	9.3
a Punja	5	4	3.52	0.3	2.0	2.0	4.6	3.8
b Rajasth	7	5	2.72	5.2	0.6	1.0	6.1	6.9
an Sikki	43.	3	4.53	5.3	5.5	4.6	5.1	0.1
m Tamil	94	4	2.44	5.0	2.5	4.5	0.3	6.8
Nadu Tripur	39.0	3	3.01	6.6	3.8	2.4	6.3	0.4
a Uttar	1 8	2	2.11	0.1	0.1	0.7	0.2	15.8
Pradesh Uttarakha	4	6	1.49	5.4	1.5	0.9	4.5	30.5
nd West	5	4	1.02	0.8	0.9	0.5	4.0	3.7
Bengal	9	6		100.0	100.0	100.0	100.0	100.0
Coeff. Of Variation			0.83	0 1.7 0	0 1.2 6	0 1.4 2	0 0.5 7	0 1.1 5

Once again it is alternative 4 that has the lowest coefficient of variation. Manipur and Nagaland, which receive 20% or close to it under formula 1 receive progressively less under the other three formulae and only about 6% under formula 4. Goa and Mizoram too see their share considerably reduced under formula 4.

55. The following two tables are on poverty indicators, which again have an 'inverse' relationship to performance, in that a lower figure indicates better performance and *vice versa*. These too are based on two different sets of data.

Poverty Indicators			Incentive Value %					
State	**1993-94**	**1999-00**	**Perfromance Unweighted**	**Alt 1**	**Alt 2**	**Alt 3**	**Alt 4**	**Mthdlgy 2**
Andhra Pradesh	22.19	15.77	3.53	3.74	4.17	2.06	5.68	7.54
Arunachal Pradesh	39.35	33.47	1.83	0.23	0.99	0.50	2.59	0.06
Assam	40.86	36.09	1.43	0.18	0.62	0.36	2.23	1.07
Bihar	54.96	42.60	2.75	0.14	0.61	0.59	0.40	6.41
Goa	14.92	4.40	8.61	13.85	11.65	18.03	7.33	0.33
Gujarat	24.21	14.07	5.12	5.76	6.04	3.35	5.65	7.29
Haryana	25.05	8.74	7.95	11.02	9.54	8.38	6.04	4.72
Himachal Pradesh	28.44	7.63	8.94	12.87	9.67	10.79	5.84	1.53
Jammu and Kashmir	25.17	3.48	10.53	17.38	13.31	27.87	6.50	2.99
Karnataka	33.16	20.04	4.83	3.96	4.32	2.22	4.33	7.18
Kerala	25.43	12.72	6.11	7.26	6.76	4.42	5.66	5.48
Madhya Pradesh	42.52	37.43	1.46	0.15	0.51	0.36	1.96	2.49
Maharashtra	36.86	25.02	3.92	0.28	2.85	1.44	3.56	10.69
Manipur	33.76	28.54	1.89	0.85	1.51	0.61	3.53	0.13
Meghalaya	37.92	33.87	1.30	0.23	0.81	0.35	2.69	0.08
Mizoram	25.66	19.47	2.95	2.59	2.94	1.39	5.05	0.07
Nagaland	37.92	32.67	1.69	0.24	1.10	0.48	2.79	0.09
Orissa	48.56	47.15	0.35	0.02	0.08	0.07	0.57	0.37
Punjab	11.77	6.16	5.82	8.90	7.95	8.71	7.45	3.98
Rajasthan	27.41	15.28	5.41	5.74	5.49	3.26	5.26	8.60
Sikkim	41.43	36.55	1.44	0.17	0.56	0.36	2.14	0.02
Tamil Nadu	35.03	21.12	4.85	3.71	3.97	2.12	4.07	8.49
Tripura	39.01	34.44	1.43	0.22	0.78	0.38	2.54	0.13
Uttar Pradesh	40.85	31.15	2.90	0.25	1.56	0.86	2.66	13.57
West Bengal	35.66	27.02	2.96	0.27	2.21	1.01	3.49	6.69
				100.00	100.00			
Coeff.of variation			0.69	1.28	0.96	1.64	0.49	0.99

Again, alternative 4 has the relatively smoothest distribution and the lowest coefficient of variation. The high values recorded by Goa, Haryana, Himachal Pradesh, and Jammu & Kashmir are progressively lower under the other alternatives, but show a sharp increase under alternative 3 except for Himachal Pradesh.

56. The second table on poverty is again based on a different data set.

Poverty 2 - FC Data			Incentive Value %					
State	1999-00	2004-05	Performance Unweighted	Alt 1	Alt 2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	15.77	11.10	4.51	15.23	7.66	5.54	5.12	14.21
Arunachal Pradesh	33.47	13.40	9.14	1.28	9.31	9.29	3.54	0.41
Assam	36.09	15.00	8.91	1.22	6.05	8.09	3.19	9.87
Bihar	42.60	32.50	3.61	0.50	0.35	1.51	1.05	12.45
Goa	4.40	12.00	0.00	0.87	0.18	0.08	5.91	0.00
Gujarat	14.07	12.50	1.70	5.74	2.80	1.85	5.12	3.58
Haryana	8.74	9.90	0.00	0.87	0.18	0.08	5.77	0.00
Himachal Pradesh	7.63	6.70	1.86	8.65	3.87	3.78	6.16	0.47
Jammu & Kashmir	3.48	4.20	0.00	0.87	0.18	0.08	6.71	0.00
Karnataka	20.04	17.40	2.01	4.37	2.14	1.57	4.20	4.40
Kerala	12.72	11.40	1.58	5.80	2.84	1.89	5.33	2.09
Madhya Pradesh	37.43	32.40	2.05	0.35	0.40	0.86	1.45	5.14
Maharashtra	25.02	25.20	0.00	0.00	0.00	0.00	3.08	0.00
Manipur	28.54	13.20	8.19	1.28	9.92	8.45	3.94	0.81
Meghalaya	33.87	14.10	8.90	1.25	8.19	8.59	3.45	0.85
Mizoram	19.47	9.50	7.80	28.56	13.61	11.19	4.99	0.29
Nagaland	32.67	14.50	8.48	1.24	7.81	7.96	3.50	0.70
Orissa	47.15	39.90	2.34	0.29	0.05	0.80	0.00	3.58
Punjab	6.16	5.20	2.38	11.63	5.18	6.22	6.41	2.40
Rajasthan	15.28	17.50	0.00	0.87	0.18	0.08	4.56	0.00
Sikkim	36.55	15.20	8.90	1.21	5.17	7.98	3.14	0.20
Tamil Nadu	21.12	17.80	2.40	4.83	2.21	1.83	4.08	6.19
Tripura	34.44	14.40	8.87	1.24	7.31	8.39	3.37	1.18
Uttar Pradesh	31.15	25.50	2.76	0.80	1.61	1.48	2.58	19.09
West Bengal	27.02	20.60	3.62	1.03	2.81	2.39	3.36	12.08
				100.00	100.00	100.00	100.00	100.00
Coeff.of variation			0.87	1.60	0.96	0.92	0.42	1.34

Once again, alternative 4 offers relatively the smoothest distribution with the lowest coefficient of variation. Andhra Pradesh, Mizoram, and Punjab which claim 15%, 29% and 12% respectively under formula 1 are all in the 5-6% range under formula 4.

57. As already stated above, alternatives 3 and 4 are essentially simpler variants of alternative 1 and 2

58. Once the principle of giving incentives to States based on relatively superior performance is accepted, and a formula devised based on: (a) relative incremental performance with reference to an initial year and a terminal year; and (b) objective criteria for weighting the performance, *the chosen weight having a close nexus to performance*, it would be invidious to attempt to temper the results to suit particular interests or political sensitivities. Certainly, one may choose a weight or set of weights that causes the least distortion and provides relatively the smoothest distribution but to vary or adjust the formula with a particular result in mind would be akin to defining a set of qualifying conditions to direct the award of a contract to a particular bidder or group of bidders.

59. Five formalae under two different approaches, four under the first approach and one under the second, have been presented above, and illustrative calculations have been made with reference to each of the formulae. While detailed calculations may be seen in a separate exclusive annex, the comparative summary results have been presented above for six different sets of data. The incentives received by some States vary

sharply according to the formula used. By and large, formulas 3 and 4 have the least coefficient of variation and the distributions obtained under these are relatively smoother, which is more so under formula 4. In formula 5 under the second approach the population factor has an overwhelming influence on the result, and in many cases completely dwarfing the effect of performance, which is the raison d'être for this exercise.

60. While smoothing the effects of incentive formulae may apparently have greater (political?) acceptability, the 'downside' is that it may blunt motivation for improved performance. If decidedly superior performance results only in marginal increase in incentive rewards in relation to others who may not have performed comparably, motivation could be dampened.

9. Data

61. Elsewhere in the report mention has been made about the need for credible and reliable data and their integrity. The most authentic source for financial data is the Comptroller & Auditor General and allied offices as also the Controller General of Accounts (for Central govt. data). But in this exercise one is more concerned with physical achievements, outputs and outcomes rather than financial data. One can think of no better sources than (i) the Planning Commission and its subject matter and sector divisions that are storehouses of diverse and voluminous data as they monitor and / or gather information on all important programmes in the Centre and States; and (ii) line ministries in the Centre that closely monitor programmes and schemes of relevance to them. Human development and other reports of States would also be good sources, though they may differ in quality and consistency from State to State, but most likely they would in any case feed into the data of the Planning Commission and line ministries.

62. There may be some credible private sources for data but in the ultimate analysis they too draw heavily on official sources. While private sources may be more credible in terms of their assessment of the effectiveness and efficiency of government programmes and their reach and impact, in regard to data they have to fall back on government sources.

Chapter 8. Conclusions & Recommendations

Quality of Expenditure

1. There is no single accepted model for transforming public service delivery, only responses to common trends and challenges. Results based management or whatever other monikers it goes by is a continuing search for the Holy Grail; it is a dynamic process which needs to be refined from time to time. 'The truth is we have a common desire to improve the (public) services we offer. But that is not really the issue. The issue is how we do it.' (Tony Blair)[77]

2. Looking at the sectors of rural development, health and education individually rather than as inter-related, mutually dependent and mutually reinforcing, might result in *missing the wood for the trees*. They are not water-tight compartments: rural development, subsuming rural incomes and poverty, is affected in no small measure by education and health outcomes; education outcomes are affected by income levels and income-earning considerations of families as also attainments in health indicators; and health outcomes are in turn influenced by education (including female literacy) and income levels, not forgetting access to safe drinking water and sanitation. Given this interplay of mutually dependent social sector factors, a 'silo approach' risks losing out on the synergies that could be realised.

3. The so-called 'flagship' schemes or programmes under rural development, health and education (namely, NREGS, NRHM and SSA just to mention one major programme from each sector) seek to combine or coalesce different schemes or programmes under their respective sectors into a few 'umbrella' schemes / programmes within their own sectors. But the inter-sectoral convergences are still probably being missed because of compartmentalised delivery of services.

Medium Term Expenditure Frameworks

4. ***Medium term expenditure frameworks*** (MTEF) link policy, plans and budgets over the medium term (3 to 4 years) combining the features of both a top-down approach (hard budget constraint) and a bottom-up estimation of the current and medium-term costs of programmes. (Craig and Porter, 2001). If integrated with outcome budgets, it would be a useful tool to provide a clear analytical link between inputs, outputs, and outcomes, ensure consistency of inter-sectoral expenditures, and maximise efficiency of public expenditure in reaching pre-determined outcomes.

5. Considering that we have a medium term focus in our five-year plans, it would be logical to formulate MTEFs linking expected budgeted outlays over say a (rolling) three year period to outlays and outcomes. Of course, there would be two material differences, however. First, the five year plans set out only plan allocations, while and MTEF would cover both plan and non-plan outlays. Second, the five year plans as the name implies cover a five year period, while the MTEFs would have a three year time-frame.

Outcome budgets

6. A ***revised format for outcome budgets*** be adopted on the lines suggested in Chapter 6.

7. ***Authenticity and reliability of data*** are critical to monitoring and evaluation, both as management and policy instruments. Obtaining periodic reports and supervisory field visits by officials from time to time alone are not sufficient to verify or validate data.

[77] Prime Minister's speech on Public Service Reform, June 2006 (PricewaterhouseCoopers 2007)

Mechanisms must be devised for random independent checks coupled with swift corrective action.

8. Often, cuts in expenditure result in contraction of allocations for ***non-salary related expenditures***. Outcome budgets should therefore indicate non-salary allocations for different programmes.

9. Currently, only outlays are shown in the format for outcome budgets under the heading outlays, further subdivided into non-plan budget, plan budget and complementary EBR. The (operational) staff component attributable to a programme is not shown, which is also an important input, and what is even more important how many of the staff are actually in place and how many vacant posts exist. Broad numbers of vacant and filled posts could be misleading unless vacancy is shown as a percentage of person-months of sanctioned staff.

10. The number of ***indicators*** should be modest, manageable and not too large; otherwise, it could lead to 'indicator creep' with the focus getting diffused. They should be SMART i.e ***S***pecific, ***M***easurable, ***A***ttainable, ***R***elevant, and ***T***rackable. Voluminous documents may detract from their utility as management tools and policy instruments, and in fact be counter-productive. Even pertinent facts and statistics buried in bulky documents may ill serve the purpose of informing the public, disseminating information, and achieving transparency.

Monitoring and Evaluation

11. A differentiated approach in regard to monitoring and evaluation of outputs and outcomes is called for, given that outputs are relatively more immediate as compared to outcomes, which are realised over the medium and long term.

12. Stakeholders should be associated in evaluations. Evaluations should invariably be independently carried out. Government could think of accrediting a panel of evaluators, by sector if need be, from which evaluators could be chosen by rotation or other means.

13. Outcomes assessment must be used to cut back or shelve programmes that don't deliver results, to merge those that have convergent or overlapping objectives and strengthen those that fulfil the desired objectives or outcomes. It should truly be a policy instrument for enhancing allocative efficiency. Outcome budgets should reflect the determinants of expenditure quality.

14. While setting of goals may be centralised, implementing agencies should be given sufficient operational flexibility.

Accrual Accounting

15. Many OECD countries have as part of results based budgeting adopted accrual accounting, which provides a more accurate cost of government programmes, apart from leading to greater transparency and efficiency in public spending. It is learnt that the Comptroller and Auditor General / Controller General of Accounts are already engaged in charting out a road map for accrual accounting. It is recommended that this be done expeditiously.

Benchmarking

16. Benchmarking performance, with or without prescribing minimum standards of service delivery, would give added impetus to results based budgeting.

Public Service / Service Delivery Agreements

17. Though many OECD countries have embraced public service agreements or service delivery agreements in a principal–agent relationship it might be a little ambitious for us to embark on PSAs or SDAs at this juncture.

Incentive Mechanisms

18. Performance related incentives to individual functionaries may be misconceived. It would be more logical to devise incentives for team or organisational effort, like for instance, carry forward of unspent balances (non-lapsing authorisations), which would dissuade year-end spurs or spikes in expenditures; flexibility in budgeting; retention of collected revenues; delegation for greater operational flexibility; and the like.

19. A major problem often commented upon and documented is the absence of teachers, doctors and paramedical staff at their posts. A generalised scheme of incentives (but aimed at individuals) could be considered. For example, preferential allotment of seats in post-graduate medical colleges for doctors serving a minimum of two or three years in rural areas as has been tried by some states (Andhra Pradesh and a few others). One could also consider scholarships and other incentives for paramedical staff for acquiring higher professional qualifications (nursing degrees for example).

20. In deference to the principle of subsidiarity, State level incentives by the finance commission could be linked to implementation of the 73rd and 74th Amendment of the Constitution. A ‘milestone’ approach could be considered whereby releases of incentives could be staggered linked to achievement of (annual) milestones.

Direct Transfers to Local Bodies / Implementing agencies

21. Direct transfers to local bodies or implementing agencies is gaining ground in many centrally sponsored schemes to accelerate release of funds, bypassing State governments. A major objection to this is that it dilutes accountability and State supervisory control. Besides, audit reports by CAG point to irregularities. Sufficient checks and balances need to be put in place so that accountability is not compromised and State supervisory role is not diminished.

Outcome Based Incentives to States

22. The Finance Commission would need to strike a balance to ensure that efficiency in public spending is not penalised in that States with superior performance are not disadvantaged even indirectly.

23. Outcome level indicators could be chosen in each of the three sectors of rural development, education and health. As mentioned earlier, six of the eight MDGs relate to these sectors, one to poverty reduction, two to education and three to health, which readily offer themselves and should have general acceptance across all States.

24. Since outcomes are manifest in the medium to long term, performance of States could be reckoned over five year periods. Having regard to the levels of achievement by States in each of these outcome indicators in a base year, a minimum base level of outcome achievement could be the minimum standard or benchmark; say, for example, the median value.

25. States would be awarded points based on their incremental performance over the base year in relation to their initial condition and a predetermined benchmark or standard.

26. The outcome based incentives to States would be based on a methodology predicated on the assumption that the higher (or better) the initial condition in relation to the benchmark, incremental improved performance would be that much more difficult to achieve and would therefore deserve to be suitably or appropriately rewarded.

27. The methodology is explained in detail in paragraphs 24 to 60 of Chapter 7. Alternative formulations and formulae are also discussed with illustrative calculations.

28. For ***data*** relating to physical achievements in terms of outputs and outcomes, one can think of no better sources than (i) the Planning Commission and its subject matter and

sector divisions that are storehouses of diverse and voluminous data as they monitor and / or gather information on all important programmes in the Centre and States; and (ii) line ministries in the Centre that closely monitor programmes and schemes of relevance to them.

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Table 1.1
Gross Enrolment Ratio
Alternative 1

State	2001-02	2005-06	Incentive Coefficient	Incentive Value (%)
Andhra Pradesh	82.47	86.63	47.19	0.381
Arunachal Pradesh	98.82	114.39	498.80	4.022
Assam	99.54	94.18	100.00	0.806
Bihar	59.69	67.84	25.80	0.208
Chhatisgarh	97.89	102.56	158.92	1.282
Goa	65.55	103.58	113.47	0.915
Gujarat	102.25	102.29	100.47	0.810
Haryana	72.53	77.79	28.05	0.226
Himachal Pradesh	91.02	108.48	118.84	0.958
Jammu & Kashmir	84.41	85.94	22.25	0.179
Jharkhand	68.63	83.09	63.83	0.515
Karnataka	97.53	97.87	102.51	0.827
Kerala	90.16	95.39	104.50	0.843
Madhya Pradesh	91.55	124.35	1397.73	11.271
Maharashtra	101.5	107.91	215.01	1.734
Manipur	91.65	134.52	2315.43	18.672
Meghalaya	94.26	134.81	2151.18	17.347
Mizoram	105.21	148.83	2713.59	21.882
Nagaland	89.72	78.08	0.00	0.000
Orissa	92.03	97.57	141.45	1.141
Punjab	72.55	73.54	5.28	0.043
Rajasthan	98.48	104.11	180.32	1.454
Sikkim	97.72	119.1	766.66	6.182
Tamil Nadu	95.73	114.89	617.55	4.980
Tripura	89.83	118.62	129.94	1.048
Uttar Pradesh	54.1	88.94	93.69	0.756
Uttaranchal	90.16	108.35	118.69	0.957
West Bengal	87.88	90.25	69.60	0.561

Source: www.indiastat.com

Table 1.2
Gross Enrolment Ratio
Alternative 2

State	2001-02	2005-06	Percentile Ini.Yr (%)	Percentile Ter.Yr (%)	Percentile Mean (%)	Incentive Coeff.	Incentive Value (%)
Andhra Pradesh	82.47	86.63	22.2	22.2	22.2	111.98	0.41
Arunachal Pradesh	98.82	114.39	85.1	74	79.55	1253.38	4.59
Assam	99.54	94.18	88.8	33.3	61.05	50.00	0.18
Bihar	59.69	67.84	3.7	0	1.85	25.26	0.09
Chhatisgarh	97.89	102.56	77.7	51.8	64.75	308.90	1.13
Goa	65.55	103.58	7.4	55.5	31.45	1824.63	6.69
Gujarat	102.25	102.29	96.2	48.1	72.15	72.15	0.26
Haryana	72.53	77.79	14.8	7.4	11.1	80.50	0.29
Himachal Pradesh	91.02	108.48	48.1	70.3	59.2	1135.61	4.16
Jammu & Kashmir	84.41	85.94	25.9	18.5	22.2	40.24	0.15
Jharkhand	68.63	83.09	11.1	14.8	12.95	272.85	1.00
Karnataka	97.53	97.87	70.3	44.4	57.35	57.35	0.21
Kerala	90.16	95.39	40.7	37	38.85	225.36	0.83
Madhya Pradesh	91.55	124.35	51.8	88.8	70.3	2518.67	9.23
Maharashtra	101.5	107.91	92.5	62.9	77.7	490.70	1.80
Manipur	91.65	134.52	55.5	92.5	74	3461.41	12.68
Meghalaya	94.26	134.81	62.9	96.2	79.55	3422.19	12.54
Mizoram	105.21	148.83	100	100	100	4145.99	15.19
Nagaland	89.72	78.08	33.3	11.1	22.2	0.00	0.00
Orissa	92.03	97.57	59.2	40.7	49.95	300.69	1.10
Punjab	72.55	73.54	18.5	3.7	11.1	15.15	0.06
Rajasthan	98.48	104.11	81.4	59.2	70.3	401.90	1.47
Sikkim	97.72	119.1	74	85.1	79.55	1740.46	6.38
Tamil Nadu	95.73	114.89	66.6	77.7	72.15	1444.06	5.29
Tripura	89.83	118.62	37	81.4	59.2	1897.33	6.95
Uttar Pradesh	54.1	88.94	0	25.9	12.95	833.97	3.06
Uttaranchal	90.16	108.35	40.7	66.6	53.65	1082.40	3.97
West Bengal	87.88	90.25	29.6	29.6	29.6	79.83	0.29

Source: www.indiastat.com

Table 1.3
Gross Enrolment Ratio
Alternative 3

State	2001-02	2005-06	Incentive Coeff.	Incentive Value %
Andhra Pradesh	82.47	86.63	4.79	0.77
Arunachal Pradesh	98.82	114.39	19.74	3.19
Assam	99.54	94.18	1.00	0.16
Bihar	59.69	67.84	10.15	1.64
Chhatisgarh	97.89	102.56	5.36	0.87
Goa	65.55	103.58	65.83	10.65
Gujarat	102.25	102.29	0.04	0.01
Haryana	72.53	77.79	6.18	1.00
Himachal Pradesh	91.02	108.48	22.80	3.69
Jammu & Kashmir	84.41	85.94	1.71	0.28
Jharkhand	68.63	83.09	19.18	3.10
Karnataka	97.53	97.87	0.37	0.06
Kerala	90.16	95.39	6.06	0.98
Madhya Pradesh	91.55	124.35	48.80	7.89
Maharashtra	101.5	107.91	7.47	1.21
Manipur	91.65	134.52	68.93	11.15
Meghalaya	94.26	134.81	63.53	10.27
Mizoram	105.21	148.83	67.60	10.93
Nagaland	89.72	78.08	0.00	0.00
Orissa	92.03	97.57	6.43	1.04
Punjab	72.55	73.54	1.10	0.18
Rajasthan	98.48	104.11	6.52	1.05
Sikkim	97.72	119.1	28.55	4.62
Tamil Nadu	95.73	114.89	25.19	4.07
Tripura	89.83	118.62	41.65	6.74
Uttar Pradesh	54.1	88.94	62.74	10.15
Uttaranchal	90.16	108.35	23.95	3.87
West Bengal	87.88	90.25	2.67	0.43

Source: www.indiastat.com

Table 1.4
Gross Enrolment Ratio
Alternative 4

State	2001-02	2005-06	Normalised Score Iy	Normalised Score Ty	Mean Normalised Score (IC)	Incentive Value %
Andhra Pradesh	82.47	86.63	55.51	23.20	39.35	2.58
Arunachal Pradesh	98.82	114.39	87.50	57.48	72.49	4.76
Assam	99.54	94.18	88.91	32.52	60.71	3.99
Bihar	59.69	67.84	10.94	0.00	5.47	0.36
Chhatisgarh	97.89	102.56	85.68	42.87	64.27	4.22
Goa	65.55	103.58	22.40	44.13	33.27	2.18
Gujarat	102.25	102.29	94.21	42.54	68.37	4.49
Haryana	72.53	77.79	36.06	12.29	24.17	1.59
Himachal Pradesh	91.02	108.48	72.24	50.18	61.21	4.02
Jammu & Kashmir	84.41	85.94	59.30	22.35	40.83	2.68
Jharkhand	68.63	83.09	28.43	18.83	23.63	1.55
Karnataka	97.53	97.87	84.97	37.08	61.03	4.01
Kerala	90.16	95.39	70.55	34.02	52.29	3.43
Madhya Pradesh	91.55	124.35	73.27	69.77	71.52	4.70
Maharashtra	101.5	107.91	92.74	49.48	71.11	4.67
Manipur	91.65	134.52	73.47	82.33	77.90	5.12
Meghalaya	94.26	134.81	78.58	82.69	80.63	5.29
Mizoram	105.21	148.83	100.00	100.00	100.00	6.57
Nagaland	89.72	78.08	69.69	12.64	41.17	2.70
Orissa	92.03	97.57	74.21	36.71	55.46	3.64
Punjab	72.55	73.54	36.10	7.04	21.57	1.42
Rajasthan	98.48	104.11	86.83	44.78	65.81	4.32
Sikkim	97.72	119.1	85.35	63.29	74.32	4.88
Tamil Nadu	95.73	114.89	81.45	58.09	69.77	4.58
Tripura	89.83	118.62	69.91	62.70	66.30	4.35
Uttar Pradesh	54.1	88.94	0.00	26.05	13.03	0.86
Uttaranchal	90.16	108.35	70.55	50.02	60.29	3.96
West Bengal	87.88	90.25	66.09	27.67	46.88	3.08

Source: www.indiastat.com

Table 1.5
Gross Enrolment Ratio
Methodology 2

State	2001-02	2005-06	Pop %	Improvement	Incentive Coeff.	Incentive Value %
Andhra Pradesh	82.47	86.63	7.49	5.04	37.80	2.03
Arunachal Pradesh	98.82	114.39	0.11	15.76	1.70	0.09
Assam	99.54	94.18	2.64	0.00	0.00	0.00
Bihar	59.69	67.84	8.20	13.65	111.98	6.02
Chattisgarh	97.89	102.56	2.06	4.77	9.82	0.53
Goa	65.55	103.58	0.13	58.02	7.72	0.41
Gujarat	102.25	102.29	5.01	0.04	0.20	0.01
Haryana	72.53	77.79	2.09	7.25	15.13	0.81
Himachal Pradesh	91.02	108.48	0.60	19.18	11.54	0.62
Jammu and Kashmir	84.41	85.94	1.00	1.81	1.81	0.10
Jharkhand	68.63	83.09	2.66	21.07	56.10	3.01
Karnataka	97.53	97.87	5.22	0.35	1.82	0.10
Kerala	90.16	95.39	3.15	5.80	18.28	0.98
Madhya Pradesh	91.55	124.35	5.98	35.83	214.08	11.50
Maharastra	101.5	107.91	9.57	6.32	60.46	3.25
Manipur	91.65	134.52	0.24	46.78	11.06	0.59
Meghalaya	94.26	134.81	0.23	43.02	9.82	0.53
Mizoram	105.21	148.83	0.09	41.46	3.66	0.20
Nagaland	89.72	78.08	0.20	0.00	0.00	0.00
Orissa	92.03	97.57	3.63	6.02	21.87	1.18
Punjab	72.55	73.54	2.40	1.36	3.28	0.18
Rajasthan	98.48	104.11	5.59	5.72	31.95	1.72
Sikkim	97.72	119.1	0.05	21.88	1.17	0.06
Tamil Nadu	95.73	114.89	6.15	20.01	123.01	6.61
Tripura	89.83	118.62	0.32	32.05	10.12	0.54
Uttar Pradesh	54.1	88.94	16.43	64.40	1058.19	56.87
Uttaranchal	90.16	108.35	0.84	20.18	16.93	0.91
West Bengal	87.88	90.25	7.94	2.70	21.41	1.15

Source: www.indiastat.com

Table 1.6
Gross Enrolment Ratio
Comparison of Incentive Values

State	2001-02	2005-06	Performance Unweighted %	Alt 1	Alt 2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	82.47	86.63	1.01	0.38	0.41	0.77	2.58	2.03
Arunachal Pradesh	98.82	114.39	3.15	4.02	4.59	3.19	4.76	0.09
Assam	99.54	94.18	0.00	0.81	0.18	0.16	3.99	0.00
Bihar	59.69	67.84	2.73	0.21	0.09	1.64	0.36	6.02
Chhatisgarh	97.89	102.56	0.95	1.28	1.13	0.87	4.22	0.53
Goa	65.55	103.58	11.59	0.92	6.69	10.65	2.18	0.41
Gujarat	102.25	102.29	0.01	0.81	0.26	0.01	4.49	0.01
Haryana	72.53	77.79	1.45	0.23	0.29	1.00	1.59	0.81
Himachal Pradesh	91.02	108.48	3.83	0.96	4.16	3.69	4.02	0.62
Jammu & Kashmir	84.41	85.94	0.36	0.18	0.15	0.28	2.68	0.10
Jharkhand	68.63	83.09	4.21	0.51	1.00	3.10	1.55	3.01
Karnataka	97.53	97.87	0.07	0.83	0.21	0.06	4.01	0.10
Kerala	90.16	95.39	1.16	0.84	0.83	0.98	3.43	0.98
Madhya Pradesh	91.55	124.35	7.16	11.27	9.23	7.89	4.70	11.50
Maharashtra	101.5	107.91	1.26	1.73	1.80	1.21	4.67	3.25
Manipur	91.65	134.52	9.35	18.67	12.68	11.15	5.12	0.59
Meghalaya	94.26	134.81	8.60	17.35	12.54	10.27	5.29	0.53
Mizoram	105.21	148.83	8.28	21.88	15.19	10.93	6.57	0.20
Nagaland	89.72	78.08	0.00	0.00	0.00	0.00	2.70	0.00
Orissa	92.03	97.57	1.20	1.14	1.10	1.04	3.64	1.18
Punjab	72.55	73.54	0.27	0.04	0.06	0.18	1.42	0.18
Rajasthan	98.48	104.11	1.14	1.45	1.47	1.05	4.32	1.72
Sikkim	97.72	119.1	4.37	6.18	6.38	4.62	4.88	0.06
Tamil Nadu	95.73	114.89	4.00	4.98	5.29	4.07	4.58	6.61
Tripura	89.83	118.62	6.40	1.05	6.95	6.74	4.35	0.54
Uttar Pradesh	54.1	88.94	12.87	0.76	3.06	10.15	0.86	56.87
Uttaranchal	90.16	108.35	4.03	0.96	3.97	3.87	3.96	0.91
West Bengal	87.88	90.25	0.54	0.56	0.29	0.43	3.08	1.15
			100.00	100.000	100.000	100.000		100.00
Coeff.of variation			***1.05***	***1.70***	***1.22***	***1.09***	***0.41***	***3.01***

Source: Computed and compiled by authors

Table 2.1
Infant Mortality Rate
Alternative 1

State	2001	2006	Incentive Coeff	Incentive Value (%)
Andhra Pradesh	66	56	76.92	0.44
Arunachal Pradesh	44	40	322.98	1.83
Assam	78	67	44.00	0.25
Bihar	67	60	50.00	0.28
Goa	36	15	4282.39	24.29
Gujarat	64	53	100.00	0.57
Haryana	69	57	75.00	0.43
Himachal Pradesh	64	50	105.66	0.60
Jammu and Kashmir	45	52	100.00	0.57
Karnataka	58	48	109.43	0.62
Kerala	16	15	548.11	3.11
Madhya Pradesh	97	74	52.27	0.30
Maharashtra	49	35	1070.35	6.07
Manipur	25	11	4537.74	25.74
Meghalaya	52	53	100.00	0.57
Mizoram	23	25	100.00	0.57
Nagaland	25	20	1345.28	7.63
Orissa	98	73	55.56	0.32
Punjab	54	44	116.98	0.66
Rajasthan	83	67	53.33	0.30
Sikkim	52	33	1478.81	8.39
Tamil Nadu	53	37	1011.36	5.74
Tripura	49	36	950.98	5.39
Uttar Pradesh	85	71	43.75	0.25
West Bengal	53	38	901.00	5.11
				100

Source: Economic Survey (various issues)

Table 2.2
Infant Mortality Rate
Alternative 2

State	2001	2006	Percentile Ini.Yr (%)	Percentile Ter.Yr (%)	Percentile Mean (%)	Incentive Coeff.	Incentive Value (%)
Andhra Pradesh	66	56	29.2	29.2	29.2	442.42	1.53
Arunachal Pradesh	44	40	79.2	58.4	68.8	625.45	2.16
Assam	78	67	16.7	16.7	16.7	235.51	0.81
Bihar	67	60	25	20.9	22.95	239.78	0.83
Goa	36	15	83.4	95.9	89.65	5229.58	18.08
Gujarat	64	53	37.5	37.5	37.5	644.53	2.23
Haryana	69	57	20.9	25	22.95	399.13	1.38
Himachal Pradesh	64	50	37.5	45.9	41.7	912.19	3.15
Jammu and Kashmir	45	52	75	41.7	58.35	50.00	0.17
Karnataka	58	48	41.7	50	45.85	790.52	2.73
Kerala	16	15	100	95.9	97.95	612.19	2.12
Madhya Pradesh	97	74	4.2	0	2.1	49.79	0.17
Maharashtra	49	35	70.9	75	72.95	2084.29	7.21
Manipur	25	11	91.7	100	95.85	5367.60	18.56
Meghalaya	52	53	62.5	37.5	50	50.00	0.17
Mizoram	23	25	95.9	83.4	89.65	50.00	0.17
Nagaland	25	20	91.7	87.5	89.6	1792.00	6.20
Orissa	98	73	0	4.2	2.1	53.57	0.19
Punjab	54	44	45.9	54.2	50.05	926.85	3.20
Rajasthan	83	67	12.5	16.7	14.6	281.45	0.97
Sikkim	52	33	62.5	79.2	70.85	2588.75	8.95
Tamil Nadu	53	37	54.2	66.7	60.45	1824.91	6.31
Tripura	49	36	70.9	70.9	70.9	1881.02	6.50
Uttar Pradesh	85	71	8.4	8.4	8.4	138.35	0.48
West Bengal	53	38	54.2	62.5	58.35	1651.42	5.71

Source: Economic Survey (various issues)

Table 2.3
Infant Mortality Rate
Alternative 3

State	2001	2006	Incentive Coeff.	Incentive Value %
Andhra Pradesh	66	56	14.34	1.46
Arunachal Pradesh	44	40	12.05	1.22
Assam	78	67	11.16	1.13
Bihar	67	60	9.23	0.94
Goa	36	15	206.11	20.92
Gujarat	64	53	17.19	1.74
Haryana	69	57	16.17	1.64
Himachal Pradesh	64	50	23.19	2.35
Jammu and Kashmir	45	52	1.00	0.10
Karnataka	58	48	19.04	1.93
Kerala	16	15	22.08	2.24
Madhya Pradesh	97	74	16.98	1.72
Maharashtra	49	35	43.27	4.39
Manipur	25	11	269.82	27.38
Meghalaya	52	53	1.00	0.10
Mizoram	23	25	1.00	0.10
Nagaland	25	20	53.00	5.38
Orissa	98	73	18.52	1.88
Punjab	54	44	22.31	2.26
Rajasthan	83	67	15.25	1.55
Sikkim	52	33	58.68	5.95
Tamil Nadu	53	37	43.24	4.39
Tripura	49	36	39.06	3.96
Uttar Pradesh	85	71	12.29	1.25
West Bengal	53	38	39.47	4.01

Source: Economic Survey (various issues)

Table 2.4
Infant Mortality Rate
Alternative 4

State	2001	2006	Normalised Score Iy	Normalised Score Ty	Mean Normalised Score (IC)	Incentive Value %
Andhra Pradesh	66	56	39.02	28.57	33.80	2.80
Arunachal Pradesh	44	40	65.85	53.97	59.91	4.96
Assam	78	67	24.39	11.11	17.75	1.47
Bihar	67	60	37.80	22.22	30.01	2.48
Goa	36	15	75.61	93.65	84.63	7.00
Gujarat	64	53	41.46	33.33	37.40	3.09
Haryana	69	57	35.37	26.98	31.17	2.58
Himachal Pradesh	64	50	41.46	38.10	39.78	3.29
Jammu and Kashmir	45	52	64.63	34.92	49.78	4.12
Karnataka	58	48	48.78	41.27	45.03	3.73
Kerala	16	15	100.00	93.65	96.83	8.01
Madhya Pradesh	97	74	1.22	0.00	0.61	0.05
Maharashtra	49	35	59.76	61.90	60.83	5.03
Manipur	25	11	89.02	100.00	94.51	7.82
Meghalaya	52	53	56.10	33.33	44.72	3.70
Mizoram	23	25	91.46	77.78	84.62	7.00
Nagaland	25	20	89.02	85.71	87.37	7.23
Orissa	98	73	0.00	1.59	0.79	0.07
Punjab	54	44	53.66	47.62	50.64	4.19
Rajasthan	83	67	18.29	11.11	14.70	1.22
Sikkim	52	33	56.10	65.08	60.59	5.01
Tamil Nadu	53	37	54.88	58.73	56.80	4.70
Tripura	49	36	59.76	60.32	60.04	4.97
Uttar Pradesh	85	71	15.85	4.76	10.31	0.85
West Bengal	53	38	54.88	57.14	56.01	4.63

Source: Economic Survey (various issues)

Table 2.5
Infant Mortality Rate
Methodology 2

State	2001	2006	Pop %	Improvement	Incentive Coeff.	Incentive Value %
Andhra Pradesh	66	56	7.49	15.15	113.54	6.11
Arunachal Pradesh	44	40	0.11	9.09	0.98	0.05
Assam	78	67	2.64	14.10	37.17	2.00
Bihar	67	60	8.20	10.45	85.68	4.61
Goa	36	15	0.13	58.33	7.76	0.42
Gujarat	64	53	5.01	17.19	86.05	4.63
Haryana	69	57	2.09	17.39	36.28	1.95
Himachal Pradesh	64	50	0.60	21.88	13.16	0.71
Jammu and Kashmir	45	52	1.00	0.00	0.00	0.00
Karnataka	58	48	5.22	17.24	89.97	4.84
Kerala	16	15	3.15	6.25	19.69	1.06
Madhya Pradesh	97	74	5.98	23.71	141.68	7.62
Maharashtra	49	35	9.57	28.57	273.55	14.72
Manipur	25	11	0.24	56.00	13.24	0.71
Meghalaya	52	53	0.23	0.00	0.00	0.00
Mizoram	23	25	0.09	0.00	0.00	0.00
Nagaland	25	20	0.20	20.00	3.94	0.21
Orissa	98	73	3.63	25.51	92.66	4.99
Punjab	54	44	2.40	18.52	44.51	2.39
Rajasthan	83	67	5.59	19.28	107.73	5.80
Sikkim	52	33	0.05	36.54	1.95	0.11
Tamil Nadu	53	37	6.15	30.19	185.54	9.98
Tripura	49	36	0.32	26.53	8.38	0.45
Uttar Pradesh	85	71	16.43	16.47	270.64	14.56
West Bengal	53	38	7.94	28.30	224.67	12.09
					1858.78	100.00

Source: Economic Survey (various issues)

Table 2.6
Infant Mortality Rate
Comparison of Incentive Values

State	2001	2006	Performance Unweighted %	Alt 1	Alt 2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	66	56	2.93	0.44	1.53	1.46	2.80	6.11
Arunachal Pradesh	44	40	1.76	1.83	2.16	1.22	4.96	0.05
Assam	78	67	2.73	0.25	0.81	1.13	1.47	2.00
Bihar	67	60	2.02	0.28	0.83	0.94	2.48	4.61
Goa	36	15	11.29	24.29	18.08	20.92	7.00	0.42
Gujarat	64	53	3.33	0.57	2.23	1.74	3.09	4.63
Haryana	69	57	3.37	0.43	1.38	1.64	2.58	1.95
Himachal Pradesh	64	50	4.23	0.60	3.15	2.35	3.29	0.71
Jammu and Kashmir	45	52	0.00	0.57	0.17	0.10	4.12	0.00
Karnataka	58	48	3.34	0.62	2.73	1.93	3.73	4.84
Kerala	16	15	1.21	3.11	2.12	2.24	8.01	1.06
Madhya Pradesh	97	74	4.59	0.30	0.17	1.72	0.05	7.62
Maharashtra	49	35	5.53	6.07	7.21	4.39	5.03	14.72
Manipur	25	11	10.84	25.74	18.56	27.38	7.82	0.71
Meghalaya	52	53	0.00	0.57	0.17	0.10	3.70	0.00
Mizoram	23	25	0.00	0.57	0.17	0.10	7.00	0.00
Nagaland	25	20	3.87	7.63	6.20	5.38	7.23	0.21
Orissa	98	73	4.94	0.32	0.19	1.88	0.07	4.99
Punjab	54	44	3.58	0.66	3.20	2.26	4.19	2.39
Rajasthan	83	67	3.73	0.30	0.97	1.55	1.22	5.80
Sikkim	52	33	7.07	8.39	8.95	5.95	5.01	0.11
Tamil Nadu	53	37	5.84	5.74	6.31	4.39	4.70	9.98
Tripura	49	36	5.13	5.39	6.50	3.96	4.97	0.45
Uttar Pradesh	85	71	3.19	0.25	0.48	1.25	0.85	14.56
West Bengal	53	38	5.48	5.11	5.71	4.01	4.63	12.09
				100.00	100.00			
Coeff. Of Variation			0.70	1.71	1.26	1.58	0.57	1.15

Source: Economic Survey (various issues)

Table 3.1
Infant Mortality
Alternative 1

State	1994-98	2004	Incentive Coeff	Incentive Value (%)
Andhra Pradesh	66	59	66.67	0.28
Arunachal Pradesh	63.1	38	131.53	0.56
Assam	69.5	66	25.00	0.11
Bihar	73	61	68.57	0.29
Chhattisgarh	81	60	82.35	0.35
Goa	37	17	3849.70	16.40
Gujarat	63	53	104.50	0.45
Haryana	57	61	0.00	0.00
Himachal Pradesh	34.4	51	100.00	0.43
Jammu & Kashmir	65	49	111.71	0.48
Jharkhand	54	49	208.44	0.89
Karnataka	52	49	167.57	0.71
Kerala	16	12	2059.46	8.77
Madhya Pradesh	86	79	22.95	0.10
Maharashtra	44	36	738.82	3.15
Manipur	37	14	4748.16	20.23
Meghalaya	89	54	102.70	0.44
Mizoram	37	19	3299.42	14.06
Nagaland	42.1	17	4235.80	18.05
Orissa	81	77	15.69	0.07
Punjab	57	45	118.92	0.51
Rajasthan	80	67	53.06	0.23
Sikkim	43.9	32	1247.78	5.32
Tamil Nadu	48	41	481.01	2.05
Tripura	39.01	32	860.88	3.67
Uttar Pradesh	87	76	34.92	0.15
Uttarakhand	45	41	332.23	1.42
West Bengal	49	46	204.80	0.87
				100.00

Source: Thirteenth Finance Commission

Table 3.2
Infant Mortality-2
Alternative 2

State	1994-98	2004	Percentile Ini.Yr (%)	Percentile Ter.Yr (%)	Percentile Mean (%)	Incentive Coeff.	Incentive Value (%)
Andhra Pradesh	66	59	29.7	29.7	29.7	315.00	0.84
Arunachal Pradesh	63.1	38	37.1	70.4	53.75	2138.07	5.67
Assam	69.5	66	26	14.9	20.45	102.99	0.27
Bihar	73	61	22.3	22.3	22.3	366.58	0.97
Chhattisgarh	81	60	14.9	26	20.45	530.19	1.41
Goa	37	17	92.6	92.6	92.6	5005.41	13.28
Gujarat	63	53	40.8	37.1	38.95	618.25	1.64
Haryana	57	61	48.2	22.3	35.25	0.00	0.00
Himachal Pradesh	34.4	51	96.3	40.8	68.55	50.00	0.13
Jammu & Kashmir	65	49	33.4	51.9	42.65	1049.85	2.78
Jharkhand	54	49	51.9	51.9	51.9	480.56	1.27
Karnataka	52	49	55.6	51.9	53.75	310.10	0.82
Kerala	16	12	100	100	100	2500.00	6.63
Madhya Pradesh	86	79	7.5	0	3.75	30.52	0.08
Maharashtra	44	36	70.4	74.1	72.25	1313.64	3.48
Manipur	37	14	92.6	96.3	94.45	5871.22	15.57
Meghalaya	89	54	0	33.4	16.7	656.74	1.74
Mizoram	37	19	92.6	85.2	88.9	4324.86	11.47
Nagaland	42.1	17	77.8	92.6	85.2	5079.62	13.47
Orissa	81	77	14.9	3.8	9.35	46.17	0.12
Punjab	57	45	48.2	59.3	53.75	1131.58	3.00
Rajasthan	80	67	18.6	11.2	14.9	242.13	0.64
Sikkim	43.9	32	74.1	81.5	77.8	2108.93	5.59
Tamil Nadu	48	41	63	66.7	64.85	945.73	2.51
Tripura	39.01	32	81.5	81.5	81.5	1464.53	3.88
Uttar Pradesh	87	76	3.8	7.5	5.65	71.44	0.19
Uttarakhand	45	41	66.7	66.7	66.7	592.89	1.57
West Bengal	49	46	59.3	55.6	57.45	351.73	0.93
							100

Source: Thirteenth Finance Commission

Table 3.3
Infant Mortality-2
Alternative 3

State	1994-98	2004	Incentive Coeff.	Incentive Value %
Andhra Pradesh	66	59	9.98	0.77
Arunachal Pradesh	63.1	38	58.10	4.49
Assam	69.5	66	4.23	0.33
Bihar	73	61	14.96	1.16
Chhattisgarh	81	60	23.98	1.86
Goa	37	17	176.47	13.65
Gujarat	63	53	16.62	1.29
Haryana	57	61	0.00	0.00
Himachal Pradesh	34.4	51	1.00	0.08
Jammu & Kashmir	65	49	27.88	2.16
Jharkhand	54	49	10.49	0.81
Karnataka	52	49	6.53	0.51
Kerala	16	12	115.63	8.94
Madhya Pradesh	86	79	5.72	0.44
Maharashtra	44	36	28.03	2.17
Manipur	37	14	246.43	19.06
Meghalaya	89	54	40.42	3.13
Mizoram	37	19	142.11	10.99
Nagaland	42.1	17	194.64	15.06
Orissa	81	77	3.56	0.28
Punjab	57	45	25.96	2.01
Rajasthan	80	67	13.46	1.04
Sikkim	43.9	32	47.01	3.64
Tamil Nadu	48	41	19.74	1.53
Tripura	39.01	32	31.17	2.41
Uttar Pradesh	87	76	9.23	0.71
Uttarakhand	45	41	12.03	0.93
West Bengal	49	46	7.39	0.57
				100.00

Source: Thirteenth Finance Commission

Table 3.4
Infant Mortality-2
Alternative 4

State	1994-98	2004	Normalised Score Iy	Normalised Score Ty	Mean Normalised Score (IC)	Incentive Value %
Andhra Pradesh	66	59	31.51	29.85	30.68	2.37
Arunachal Pradesh	63.1	38	35.48	61.19	48.34	3.74
Assam	69.5	66	26.71	19.40	23.06	1.78
Bihar	73	61	21.92	26.87	24.39	1.89
Chhattisgarh	81	60	10.96	28.36	19.66	1.52
Goa	37	17	71.23	92.54	81.89	6.33
Gujarat	63	53	35.62	38.81	37.21	2.88
Haryana	57	61	43.84	26.87	35.35	2.73
Himachal Pradesh	34.4	51	74.79	41.79	58.29	4.51
Jammu & Kashmir	65	49	32.88	44.78	38.83	3.00
Jharkhand	54	49	47.95	44.78	46.36	3.58
Karnataka	52	49	50.68	44.78	47.73	3.69
Kerala	16	12	100.00	100.00	100.00	7.73
Madhya Pradesh	86	79	4.11	0.00	2.05	0.16
Maharashtra	44	36	61.64	64.18	62.91	4.86
Manipur	37	14	71.23	97.01	84.12	6.50
Meghalaya	89	54	0.00	37.31	18.66	1.44
Mizoram	37	19	71.23	89.55	80.39	6.21
Nagaland	42.1	17	64.25	92.54	78.39	6.06
Orissa	81	77	10.96	2.99	6.97	0.54
Punjab	57	45	43.84	50.75	47.29	3.66
Rajasthan	80	67	12.33	17.91	15.12	1.17
Sikkim	43.9	32	61.78	70.15	65.97	5.10
Tamil Nadu	48	41	56.16	56.72	56.44	4.36
Tripura	39.01	32	68.48	70.15	69.31	5.36
Uttar Pradesh	87	76	2.74	4.48	3.61	0.28
Uttarakhand	45	41	60.27	56.72	58.50	4.52
West Bengal	49	46	54.79	49.25	52.02	4.02

Source: Thirteenth Finance Commission

Table 3.5
Infant Mortality-2
Methodology 2

State	1994-98	2004	Pop %	Improvement	Incentive Coeff	Incentive Value (%)
Andhra Pradesh	66	59	7.49	10.61	79.48	6.06
Arunachal Pradesh	63.1	38	0.11	39.78	4.29	0.33
Assam	69.5	66	2.64	5.04	13.27	1.01
Bihar	73	61	8.20	16.44	134.82	10.27
Chhattisgarh	81	60	2.06	25.93	53.35	4.07
Goa	37	17	0.13	54.05	7.19	0.55
Gujarat	63	53	5.01	15.87	79.47	6.06
Haryana	57	61	2.09	0.00	0.00	0.00
Himachal Pradesh	34.4	51	0.60	0.00	0.00	0.00
Jammu & Kashmir	65	49	1.00	24.62	24.53	1.87
Jharkhand	54	49	2.66	9.26	24.66	1.88
Karnataka	52	49	5.22	5.77	30.11	2.29
Kerala	16	12	3.15	25.00	78.76	6.00
Madhya Pradesh	86	79	5.98	8.14	48.64	3.71
Maharashtra	44	36	9.57	18.18	174.07	13.27
Manipur	37	14	0.24	62.16	14.69	1.12
Meghalaya	89	54	0.23	39.33	8.97	0.68
Mizoram	37	19	0.09	48.65	4.29	0.33
Nagaland	42.1	17	0.20	59.62	11.73	0.89
Orissa	81	77	3.63	4.94	17.94	1.37
Punjab	57	45	2.40	21.05	50.60	3.86
Rajasthan	80	67	5.59	16.25	90.81	6.92
Sikkim	43.9	32	0.05	27.11	1.45	0.11
Tamil Nadu	48	41	6.15	14.58	89.63	6.83
Tripura	39.01	32	0.32	17.97	5.67	0.43
Uttar Pradesh	87	76	16.43	12.64	207.76	15.83
Uttarakhand	45	41	0.84	8.89	7.46	0.57
West Bengal	49	46	7.94	6.12	48.60	3.70
					1312.25	

Source: Thirteenth Finance Commission

Table 3.6
Infant Mortality-2
Comparison of Incentive Values

State	1994-98	2004	Performance Unweighted %	Alt 1	Alt 2	Alt 3	Alt 4	Mthdly 2
Andhra Pradesh	66	59	1.77	0.29	0.84	0.77	2.37	6.06
Arunachal Pradesh	63.1	38	6.65	0.29	5.67	4.49	3.74	0.33
Assam	69.5	66	0.84	0.11	0.27	0.33	1.78	1.01
Bihar	73	61	2.75	0.29	0.97	1.16	1.89	10.27
Chhattisgarh	81	60	4.34	0.35	1.41	1.86	1.52	4.07
Goa	37	17	9.04	16.50	13.28	13.65	6.33	0.55
Gujarat	63	53	2.65	0.41	1.64	1.29	2.88	6.06
Haryana	57	61	0.00	0.00	0.13	0.00	2.73	0.00
Himachal Pradesh	34.4	51	0.00	0.43	0.00	0.08	4.51	0.00
Jammu & Kashmir	65	49	4.12	0.38	2.78	2.16	3.00	1.87
Jharkhand	54	49	1.55	0.89	1.27	0.81	3.58	1.88
Karnataka	52	49	0.96	0.72	0.82	0.51	3.69	2.29
Kerala	16	12	4.18	8.83	6.63	8.94	7.73	6.00
Madhya Pradesh	86	79	1.36	0.10	0.08	0.44	0.16	3.71
Maharashtra	44	36	3.04	3.17	3.48	2.17	4.86	13.27
Manipur	37	14	10.40	20.35	15.57	19.06	6.50	1.12
Meghalaya	89	54	6.58	0.42	1.74	3.13	1.44	0.68
Mizoram	37	19	8.14	14.14	11.47	10.99	6.21	0.33
Nagaland	42.1	17	9.97	18.15	13.47	15.06	6.06	0.89
Orissa	81	77	0.83	0.07	0.12	0.28	0.54	1.37
Punjab	57	45	3.52	0.35	3.00	2.01	3.66	3.86
Rajasthan	80	67	2.72	0.23	0.64	1.04	1.17	6.92
Sikkim	43.9	32	4.53	5.35	5.59	3.64	5.10	0.11
Tamil Nadu	48	41	2.44	2.06	2.51	1.53	4.36	6.83
Tripura	39.01	32	3.01	3.69	3.88	2.41	5.36	0.43
Uttar Pradesh	87	76	2.11	0.15	0.19	0.71	0.28	15.83
Uttarakhand	45	41	1.49	1.42	1.57	0.93	4.52	0.57
West Bengal	49	46	1.02	0.88	0.93	0.57	4.02	3.70
				100.00	100.00			100.00
Coeff. Of Variation			0.83	1.70	1.26	1.42	0.57	1.15

Table 4.1
Poverty
Alternative 1

State	1993-94	1999-00	Incentive Coeff	Incentive Value (%)
Andhra Pradesh	22.19	15.77	1690.72	3.74
Arunachal Pradesh	39.35	33.47	104.45	0.23
Assam	40.86	36.09	81.82	0.18
Bihar	54.96	42.6	62.02	0.14
Goa	14.92	4.4	6265.29	13.85
Gujarat	24.21	14.07	2606.08	5.76
Haryana	25.05	8.74	4986.49	11.02
Himachal Pradesh	28.44	7.63	5823.38	12.87
Jammu and Kashmir	25.17	3.48	7861.32	17.38
Karnataka	33.16	20.04	1793.09	3.96
Kerala	25.43	12.72	3283.16	7.26
Madhya Pradesh	42.52	37.43	67.96	0.15
Maharashtra	36.86	25.02	128.58	0.28
Manipur	33.76	28.54	386.47	0.85
Meghalaya	37.92	33.87	103.31	0.23
Mizoram	25.66	19.47	1171.53	2.59
Nagaland	37.92	32.67	106.74	0.24
Orissa	48.56	47.15	10.42	0.02
Punjab	11.77	6.16	4028.20	8.90
Rajasthan	27.41	15.28	2595.05	5.74
Sikkim	41.43	36.55	76.25	0.17
Tamil Nadu	35.03	21.12	1676.79	3.71
Tripura	39.01	34.44	101.68	0.22
Uttar Pradesh	40.85	31.15	111.08	0.25
West Bengal	35.66	27.02	122.87	0.27
				100.00
Median	35.03			

Table 4.2
Poverty
Alternative 2

State	1993-94	1999-00	Percentile Ini.Yr (%)	Percentile Ter.Yr (%)	Percentile Mean (%)	Incentive Coeff.	Incentive Value (%)
Andhra Pradesh	22.19	15.77	91.7	73.4	82.55	2388.3	4.17
Arunachal Pradesh	39.35	33.47	25	51.2	38.1	569.3	0.99
Assam	40.86	36.09	16.7	44.5	30.6	357.2	0.62
Bihar	54.96	42.6	0	31.2	15.6	350.8	0.61
Goa	14.92	4.4	95.9	93.4	94.65	6673.7	11.65
Gujarat	24.21	14.07	87.5	77.8	82.65	3461.7	6.04
Haryana	25.05	8.74	83.4	84.5	83.95	5466.0	9.54
Himachal Pradesh	28.44	7.63	62.5	88.9	75.7	5539.1	9.67
Jammu and Kashmir	25.17	3.48	79.2	97.8	88.5	7626.4	13.31
Karnataka	33.16	20.04	58.4	66.7	62.55	2474.8	4.32
Kerala	25.43	12.72	75	80	77.5	3873.5	6.76
Madhya Pradesh	42.52	37.43	8.4	40	24.2	289.7	0.51
Maharashtra	36.86	25.02	41.7	60	50.85	1633.4	2.85
Manipur	33.76	28.54	54.2	57.8	56	865.9	1.51
Meghalaya	37.92	33.87	37.5	48.9	43.2	461.4	0.81
Mizoram	25.66	19.47	70.9	68.9	69.9	1686.2	2.94
Nagaland	37.92	32.67	37.5	53.4	45.45	629.3	1.10
Orissa	48.56	47.15	4.2	28.9	16.55	48.1	0.08
Punjab	11.77	6.16	100	91.2	95.6	4556.6	7.95
Rajasthan	27.41	15.28	66.7	75.6	71.15	3148.7	5.49
Sikkim	41.43	36.55	12.5	42.3	27.4	322.7	0.56
Tamil Nadu	35.03	21.12	50	64.5	57.25	2273.3	3.97
Tripura	39.01	34.44	29.2	46.7	37.95	444.6	0.78
Uttar Pradesh	40.85	31.15	20.9	54.4	37.65	894.0	1.56
West Bengal	35.66	27.02	45.9	58.8	52.35	1268.4	2.21
							100.00

Table 4.3
Poverty
Alternative 3

State	**1993-94**	**1999-00**	Incentive Coeff.	Incentive Value %
Andhra Pradesh	22.19	15.77	64.27	2.06
Arunachal Pradesh	39.35	33.47	15.64	0.50
Assam	40.86	36.09	11.33	0.36
Bihar	54.96	42.6	18.49	0.59
Goa	14.92	4.4	561.35	18.03
Gujarat	24.21	14.07	104.28	3.35
Haryana	25.05	8.74	260.96	8.38
Himachal Pradesh	28.44	7.63	335.94	10.79
Jammu and Kashmir	25.17	3.48	867.44	27.87
Karnataka	33.16	20.04	69.16	2.22
Kerala	25.43	12.72	137.64	4.42
Madhya Pradesh	42.52	37.43	11.20	0.36
Maharashtra	36.86	25.02	44.97	1.44
Manipur	33.76	28.54	18.98	0.61
Meghalaya	37.92	33.87	11.05	0.35
Mizoram	25.66	19.47	43.40	1.39
Nagaland	37.92	32.67	14.85	0.48
Orissa	48.56	47.15	2.16	0.07
Punjab	11.77	6.16	271.05	8.71
Rajasthan	27.41	15.28	101.45	3.26
Sikkim	41.43	36.55	11.29	0.36
Tamil Nadu	35.03	21.12	65.86	2.12
Tripura	39.01	34.44	11.92	0.38
Uttar Pradesh	40.85	31.15	26.70	0.86
West Bengal	35.66	27.02	31.41	1.01

Table 4.4
Poverty
Alternative 4

State	1993-94	1999-00	Normalised Score Iy	Normalised Score Ty	Mean Normalised Score (IC)	Incentive Value %
Andhra Pradesh	22.19	15.77	75.87	71.86	73.87	5.68
Arunachal Pradesh	39.35	33.47	36.14	31.33	33.73	2.59
Assam	40.86	36.09	32.65	25.33	28.99	2.23
Bihar	54.96	42.6	0.00	10.42	5.21	0.40
Goa	14.92	4.4	92.71	97.89	95.30	7.33
Gujarat	24.21	14.07	71.20	75.75	73.47	5.65
Haryana	25.05	8.74	69.25	87.96	78.60	6.04
Himachal Pradesh	28.44	7.63	61.40	90.50	75.95	5.84
Jammu and Kashmir	25.17	3.48	68.97	100.00	84.49	6.50
Karnataka	33.16	20.04	50.47	62.08	56.28	4.33
Kerala	25.43	12.72	68.37	78.84	73.61	5.66
Madhya Pradesh	42.52	37.43	28.80	22.26	25.53	1.96
Maharashtra	36.86	25.02	41.91	50.68	46.29	3.56
Manipur	33.76	28.54	49.09	42.62	45.85	3.53
Meghalaya	37.92	33.87	39.45	30.41	34.93	2.69
Mizoram	25.66	19.47	67.84	63.38	65.61	5.05
Nagaland	37.92	32.67	39.45	33.16	36.31	2.79
Orissa	48.56	47.15	14.82	0.00	7.41	0.57
Punjab	11.77	6.16	100.00	93.86	96.93	7.45
Rajasthan	27.41	15.28	63.79	72.98	68.38	5.26
Sikkim	41.43	36.55	31.33	24.27	27.80	2.14
Tamil Nadu	35.03	21.12	46.14	59.61	52.88	4.07
Tripura	39.01	34.44	36.93	29.10	33.02	2.54
Uttar Pradesh	40.85	31.15	32.67	36.64	34.65	2.66
West Bengal	35.66	27.02	44.69	46.10	45.39	3.49

Table 4.5
Poverty
Alternative 5

State	1993-94	1999-00	Pop %	Improvement	Incentive Coeff.	Incentive Value %
Andhra Pradesh	22.19	15.77	7.49	28.93	216.80	7.54
Arunachal Pradesh	39.35	33.47	0.11	14.94	1.61	0.06
Assam	40.86	36.09	2.64	11.67	30.77	1.07
Bihar	54.96	42.6	8.20	22.49	184.44	6.41
Goa	14.92	4.4	0.13	70.51	9.38	0.33
Gujarat	24.21	14.07	5.01	41.88	209.70	7.29
Haryana	25.05	8.74	2.09	65.11	135.84	4.72
Himachal Pradesh	28.44	7.63	0.60	73.17	44.00	1.53
Jammu and Kashmir	25.17	3.48	1.00	86.17	85.87	2.99
Karnataka	33.16	20.04	5.22	39.57	206.47	7.18
Kerala	25.43	12.72	3.15	49.98	157.47	5.48
Madhya Pradesh	42.52	37.43	5.98	11.97	71.53	2.49
Maharashtra	36.86	25.02	9.57	32.12	307.53	10.69
Manipur	33.76	28.54	0.24	15.46	3.65	0.13
Meghalaya	37.92	33.87	0.23	10.68	2.44	0.08
Mizoram	25.66	19.47	0.09	24.12	2.13	0.07
Nagaland	37.92	32.67	0.20	13.84	2.72	0.09
Orissa	48.56	47.15	3.63	2.90	10.55	0.37
Punjab	11.77	6.16	2.40	47.66	114.56	3.98
Rajasthan	27.41	15.28	5.59	44.25	247.30	8.60
Sikkim	41.43	36.55	0.05	11.78	0.63	0.02
Tamil Nadu	35.03	21.12	6.15	39.71	244.06	8.49
Tripura	39.01	34.44	0.32	11.71	3.70	0.13
Uttar Pradesh	40.85	31.15	16.43	23.75	390.18	13.57
West Bengal	35.66	27.02	7.94	24.23	192.34	6.69
					2875.67	100.00

Table 4.6
Poverty
Comparison of Incentive Values

State	1993-94	1999-00	Performance Unweighted	Alt 1	Alt 2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	22.19	15.77	3.53	3.74	4.17	2.06	5.68	7.54
Arunachal Pradesh	39.35	33.47	1.83	0.23	0.99	0.50	2.59	0.06
Assam	40.86	36.09	1.43	0.18	0.62	0.36	2.23	1.07
Bihar	54.96	42.60	2.75	0.14	0.61	0.59	0.40	6.41
Goa	14.92	4.40	8.61	13.85	11.65	18.03	7.33	0.33
Gujarat	24.21	14.07	5.12	5.76	6.04	3.35	5.65	7.29
Haryana	25.05	8.74	7.95	11.02	9.54	8.38	6.04	4.72
Himachal Pradesh	28.44	7.63	8.94	12.87	9.67	10.79	5.84	1.53
Jammu and Kashmir	25.17	3.48	10.53	17.38	13.31	27.87	6.50	2.99
Karnataka	33.16	20.04	4.83	3.96	4.32	2.22	4.33	7.18
Kerala	25.43	12.72	6.11	7.26	6.76	4.42	5.66	5.48
Madhya Pradesh	42.52	37.43	1.46	0.15	0.51	0.36	1.96	2.49
Maharashtra	36.86	25.02	3.92	0.28	2.85	1.44	3.56	10.69
Manipur	33.76	28.54	1.89	0.85	1.51	0.61	3.53	0.13
Meghalaya	37.92	33.87	1.30	0.23	0.81	0.35	2.69	0.08
Mizoram	25.66	19.47	2.95	2.59	2.94	1.39	5.05	0.07
Nagaland	37.92	32.67	1.69	0.24	1.10	0.48	2.79	0.09
Orissa	48.56	47.15	0.35	0.02	0.08	0.07	0.57	0.37
Punjab	11.77	6.16	5.82	8.90	7.95	8.71	7.45	3.98
Rajasthan	27.41	15.28	5.41	5.74	5.49	3.26	5.26	8.60
Sikkim	41.43	36.55	1.44	0.17	0.56	0.36	2.14	0.02
Tamil Nadu	35.03	21.12	4.85	3.71	3.97	2.12	4.07	8.49
Tripura	39.01	34.44	1.43	0.22	0.78	0.38	2.54	0.13
Uttar Pradesh	40.85	31.15	2.90	0.25	1.56	0.86	2.66	13.57
West Bengal	35.66	27.02	2.96	0.27	2.21	1.01	3.49	6.69
				100.00	100.00			
Coeff.of variation			0.69	1.28	0.96	1.64	0.49	0.99

Table 5.1
Poverty 2 FC Data
Alternative 1

State	1999-00	2004-05	Incentive Coeff	Incentive Value (%)
Andhra Pradesh	15.77	11.1	1747.54	15.23
Arunachal Pradesh	33.47	13.4	146.44	1.28
Assam	36.09	15	140.05	1.22
Bihar	42.6	32.5	57.45	0.50
Goa	4.4	12	100.00	0.87
Gujarat	14.07	12.5	658.37	5.74
Haryana	8.74	9.9	100.00	0.87
Himachal Pradesh	7.63	6.7	992.48	8.65
Jammu & Kashmir	3.48	4.2	100.00	0.87
Karnataka	20.04	17.4	501.21	4.37
Kerala	12.72	11.4	664.91	5.80
Madhya Pradesh	37.43	32.4	40.53	0.35
Maharashtra	25.02	25.2	0.00	0.00
Manipur	28.54	13.2	147.24	1.28
Meghalaya	33.87	14.1	143.65	1.25
Mizoram	19.47	9.5	3276.39	28.56
Nagaland	32.67	14.5	142.05	1.24
Orissa	47.15	39.9	32.76	0.29
Punjab	6.16	5.2	1334.54	11.63

Rajasthan	15.28	17.5	100.00	0.87
Sikkim	36.55	15.2	139.25	1.21
Tamil Nadu	21.12	17.8	553.62	4.83
Tripura	34.44	14.4	142.45	1.24
Uttar Pradesh	31.15	25.5	92.17	0.80
West Bengal	27.02	20.6	117.67	1.03
				100

Source: Thirteenth Finance Commission

Table 5.2
Poverty 2 FC Data
Alternative 2

State	1999-00	2004-05	Percentile Ini.Yr (%)	Percentile Ter.Yr (%)	Percentile Mean (%)	Incentive Coeff.	Incentive Value (%)
Andhra Pradesh	15.77	11.10	66.70	79.20	72.95	2160.28	7.66
Arunachal Pradesh	33.47	13.40	29.20	58.40	43.80	2626.43	9.31
Assam	36.09	15.00	16.70	41.70	29.20	1706.37	6.05
Bihar	42.60	32.50	4.20	4.20	4.20	99.58	0.35
Goa	4.40	12.00	95.90	70.90	83.40	50.00	0.18
Gujarat	14.07	12.50	75.00	66.70	70.85	790.58	2.80
Haryana	8.74	9.90	83.40	83.40	83.40	50.00	0.18
Himachal Pradesh	7.63	6.70	87.50	91.70	89.60	1092.11	3.87
Jammu & Kashmir	3.48	4.20	100.00	100.00	100.00	50.00	0.18
Karnataka	20.04	17.40	58.40	33.40	45.90	604.67	2.14
Kerala	12.72	11.40	79.20	75.00	77.10	800.09	2.84
Madhya Pradesh	37.43	32.40	8.40	8.40	8.40	112.88	0.40
Maharashtra	25.02	25.20	50.00	16.70	33.35	0.00	0.00
Manipur	28.54	13.20	41.70	62.50	52.10	2800.33	9.92
Meghalaya	33.87	14.10	25.00	54.20	39.60	2311.46	8.19
Mizoram	19.47	9.50	62.50	87.50	75.00	3840.52	13.61
Nagaland	32.67	14.50	33.40	45.90	39.65	2205.21	7.81
Orissa	47.15	39.90	0.00	0.00	1.00	15.38	0.05
Punjab	6.16	5.20	91.70	95.90	93.80	1461.82	5.18
Rajasthan	15.28	17.50	70.90	29.20	50.05	50.00	0.18
Sikkim	36.55	15.20	12.50	37.50	25.00	1460.33	5.17
Tamil Nadu	21.12	17.80	54.20	25.00	39.60	622.50	2.21

Tripura	34.44	14.40	20.90	50.00	35.45	2062.77	7.31
Uttar Pradesh	31.15	25.50	37.50	12.50	25.00	453.45	1.61
West Bengal	27.02	20.60	45.90	20.90	33.40	793.59	2.81
							100

Source: Thirteenth Finance Commission

Table 5.3
Poverty 2 FC Data
Alternative 3

State	**1999-00**	**2004-05**	Incentive Coeff.	Incentive Value %
Andhra Pradesh	15.77	11.10	66.75	5.54
Arunachal Pradesh	33.47	13.40	111.96	9.29
Assam	36.09	15.00	97.47	8.09
Bihar	42.60	32.50	18.25	1.51
Goa	4.40	12.00	1.00	0.08
Gujarat	14.07	12.50	22.33	1.85
Haryana	8.74	9.90	1.00	0.08
Himachal Pradesh	7.63	6.70	45.52	3.78
Jammu & Kashmir	3.48	4.20	1.00	0.08
Karnataka	20.04	17.40	18.94	1.57
Kerala	12.72	11.40	22.78	1.89
Madhya Pradesh	37.43	32.40	10.38	0.86
Maharashtra	25.02	25.20	0.00	0.00
Manipur	28.54	13.20	101.88	8.45
Meghalaya	33.87	14.10	103.58	8.59
Mizoram	19.47	9.50	134.86	11.19
Nagaland	32.67	14.50	95.97	7.96
Orissa	47.15	39.90	9.64	0.80
Punjab	6.16	5.20	74.99	6.22
Rajasthan	15.28	17.50	1.00	0.08
Sikkim	36.55	15.20	96.15	7.98
Tamil Nadu	21.12	17.80	22.10	1.83

Tripura	34.44	14.40	101.10	8.39
Uttar Pradesh	31.15	25.50	17.80	1.48
West Bengal	27.02	20.60	28.86	2.39

Source: Thirteenth Finance Commission

Table 5.4
Poverty 2 FC Data
Alternative 4

State	1999-00	2004-05	Normalised Score Iy	Normalised Score Ty	Mean Normalised Score (IC)	Incentive Value %
Andhra Pradesh	15.77	11.1	71.86	80.67	76.26	5.12
Arunachal Pradesh	33.47	13.4	31.33	74.23	52.78	3.54
Assam	36.09	15	25.33	69.75	47.54	3.19
Bihar	42.6	32.5	10.42	20.73	15.57	1.05
Goa	4.4	12	97.89	78.15	88.02	5.91
Gujarat	14.07	12.5	75.75	76.75	76.25	5.12
Haryana	8.74	9.9	87.96	84.03	85.99	5.77
Himachal Pradesh	7.63	6.7	90.50	93.00	91.75	6.16
Jammu & Kashmir	3.48	4.2	100.00	100.00	100.00	6.71
Karnataka	20.04	17.4	62.08	63.03	62.55	4.20
Kerala	12.72	11.4	78.84	79.83	79.34	5.33
Madhya Pradesh	37.43	32.4	22.26	21.01	21.63	1.45
Maharashtra	25.02	25.2	50.68	41.18	45.93	3.08
Manipur	28.54	13.2	42.62	74.79	58.70	3.94
Meghalaya	33.87	14.1	30.41	72.27	51.34	3.45
Mizoram	19.47	9.5	63.38	85.15	74.27	4.99
Nagaland	32.67	14.5	33.16	71.15	52.15	3.50
Orissa	47.15	39.9	0.00	0.00	0.00	0.00
Punjab	6.16	5.2	93.86	97.20	95.53	6.41
Rajasthan	15.28	17.5	72.98	62.75	67.86	4.56

Sikkim	36.55	15.2	24.27	69.19	46.73	3.14
Tamil Nadu	21.12	17.8	59.61	61.90	60.76	4.08
Tripura	34.44	14.4	29.10	71.43	50.27	3.37
Uttar Pradesh	31.15	25.5	36.64	40.34	38.49	2.58
West Bengal	27.02	20.6	46.10	54.06	50.08	3.36

Source: Thirteenth Finance Commission

Table 5.5
Poverty 2 FC Data
Methodology 2

State	1999-00	2004-05	Pop %	Improvement	Incentive Coeff.	Incentive Value %
Andhra Pradesh	15.77	11.1	7.49	29.61	221.91	14.21
Arunachal Pradesh	33.47	13.4	0.11	59.96	6.47	0.41
Assam	36.09	15	2.64	58.44	154.04	9.87
Bihar	42.6	32.5	8.20	23.71	194.44	12.45
Goa	4.4	12	0.13	0.00	0.00	0.00
Gujarat	14.07	12.5	5.01	11.16	55.87	3.58
Haryana	8.74	9.9	2.09	0.00	0.00	0.00
Himachal Pradesh	7.63	6.7	0.60	12.19	7.33	0.47
Jammu & Kashmir	3.48	4.2	1.00	0.00	0.00	0.00
Karnataka	20.04	17.4	5.22	13.17	68.74	4.40
Kerala	12.72	11.4	3.15	10.38	32.69	2.09
Madhya Pradesh	37.43	32.4	5.98	13.44	80.30	5.14
Maharashtra	25.02	25.2	9.57	0.00	0.00	0.00
Manipur	28.54	13.2	0.24	53.75	12.70	0.81
Meghalaya	33.87	14.1	0.23	58.37	13.32	0.85
Mizoram	19.47	9.5	0.09	51.21	4.52	0.29
Nagaland	32.67	14.5	0.20	55.62	10.94	0.70
Orissa	47.15	39.9	3.63	15.38	55.85	3.58
Punjab	6.16	5.2	2.40	15.58	37.46	2.40
Rajasthan	15.28	17.5	5.59	0.00	0.00	0.00
Sikkim	36.55	15.2	0.05	58.41	3.12	0.20

Tamil Nadu	21.12	17.8	6.15	15.72	96.62	6.19
Tripura	34.44	14.4	0.32	58.19	18.37	1.18
Uttar Pradesh	31.15	25.5	16.43	18.14	298.04	19.09
West Bengal	27.02	20.6	7.94	23.76	188.61	12.08
					1561.37	100.00

Source: Thirteenth Finance Commission

Table 5.6
Poverty 2 FC Data
Comparison of Incentive Values

State	1999-00	2004-05	Performance Unweighted	Alt 1	Alt 2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	15.77	11.10	4.51	15.23	7.66	5.54	5.12	14.21
Arunachal Pradesh	33.47	13.40	9.14	1.28	9.31	9.29	3.54	0.41
Assam	36.09	15.00	8.91	1.22	6.05	8.09	3.19	9.87
Bihar	42.60	32.50	3.61	0.50	0.35	1.51	1.05	12.45
Goa	4.40	12.00	0.00	0.87	0.18	0.08	5.91	0.00
Gujarat	14.07	12.50	1.70	5.74	2.80	1.85	5.12	3.58
Haryana	8.74	9.90	0.00	0.87	0.18	0.08	5.77	0.00
Himachal Pradesh	7.63	6.70	1.86	8.65	3.87	3.78	6.16	0.47
Jammu & Kashmir	3.48	4.20	0.00	0.87	0.18	0.08	6.71	0.00
Karnataka	20.04	17.40	2.01	4.37	2.14	1.57	4.20	4.40
Kerala	12.72	11.40	1.58	5.80	2.84	1.89	5.33	2.09
Madhya Pradesh	37.43	32.40	2.05	0.35	0.40	0.86	1.45	5.14
Maharashtra	25.02	25.20	0.00	0.00	0.00	0.00	3.08	0.00
Manipur	28.54	13.20	8.19	1.28	9.92	8.45	3.94	0.81
Meghalaya	33.87	14.10	8.90	1.25	8.19	8.59	3.45	0.85
Mizoram	19.47	9.50	7.80	28.56	13.61	11.19	4.99	0.29
Nagaland	32.67	14.50	8.48	1.24	7.81	7.96	3.50	0.70
Orissa	47.15	39.90	2.34	0.29	0.05	0.80	0.00	3.58
Punjab	6.16	5.20	2.38	11.63	5.18	6.22	6.41	2.40

Rajasthan	15.28	17.50	0.00	0.87	0.18	0.08	4.56	0.00
Sikkim	36.55	15.20	8.90	1.21	5.17	7.98	3.14	0.20
Tamil Nadu	21.12	17.80	2.40	4.83	2.21	1.83	4.08	6.19
Tripura	34.44	14.40	8.87	1.24	7.31	8.39	3.37	1.18
Uttar Pradesh	31.15	25.50	2.76	0.80	1.61	1.48	2.58	19.09
West Bengal	27.02	20.60	3.62	1.03	2.81	2.39	3.36	12.08
				100.00	100.00			
Coeff.of variation			0.87	1.60	0.96	0.92	0.42	1.34

Source: Thirteenth Finance Commission

Table 6.1
Literacy
Alternative 1

State	2001 Literacy	2015 Assumed	Incentive Coeff	Incentive Value (%)
Andhra Pradesh	60.5	68	102.1	2.30
Arunachal Pradesh	54.3	60	46.3	1.04
Assam	63.3	66	81.8	1.84
Bihar	47.0	56	45.9	1.03
Chattishgarh	64.7	67	100.6	2.26
Goa	82	84	163.7	3.68
Gujarat	69.1	74	178.8	4.02
Haryana	67.9	72	149.0	3.35
Himachal Pradesh	76.5	81	227.2	5.11
Jammu and Kashmir	55.5	63	67.6	1.52
Jharkhand	53.6	65	87.7	1.97
Karnataka	66.6	72	165.7	3.73
Kerala	90.9	93	191.6	4.31
Madhya Pradesh	63.7	68	102.1	2.30
Maharastra	76.9	82	253.4	5.70

Manipur	66.0	72	108.1	2.43
Meghalaya	62.6	66	85.0	1.91
Mizoram	88.8	95	397.7	8.95
Nagaland	66.6	76	299.2	6.73
Orissa	63.1	62	0.0	0.00
Punjab	69.7	76	227.6	5.12
Rajasthan	60.4	59	0.0	0.00
Sikkim	68.8	78	328.9	7.40
Tamil Nadu	73.5	79	239.3	5.39
Tripura	73.2	74	112.1	2.52
Uttar Pradesh	56.3	75	112.6	2.53
Uttaranchal	71.6	76	186.7	4.20
West Bengal	68.6	79	382.3	8.60
				100.00
Median	66.6			

Source: Thirteenth Finance Commission

Table 6.2
Literacy
Alternative 2

State	2001 Literacy	2015 Assumed	Percentile Ini.Yr (%)	Percentile Ter.Yr (%)	Percentile Mean (%)	Incentive Coeff.	Incentive Value (%)
Andhra Pradesh	60.5	68	22	33	28	344.0	3.19
Arunachal Pradesh	54.3	60	7	7	7	77.7	0.72
Assam	63.3	66	33	22	28	118.4	1.10
Bihar	47.0	56	1	1	1	19.1	0.18
Chattishgarh	64.7	67	41	30	35	125.0	1.16
Goa	82	84	93	93	93	225.6	2.09
Gujarat	69.1	74	67	52	59	419.8	3.89
Haryana	67.9	72	56	41	48	290.4	2.69
Himachal Pradesh	76.5	81	85	85	85	500.6	4.63
Jammu and Kashmir	55.5	63	11	15	13	175.0	1.62
Jharkhand	53.6	65	4	19	11	236.1	2.19
Karnataka	66.6	72	48	41	44	360.0	3.33
Kerala	90.9	93	100	96	98	226.6	2.10
Madhya Pradesh	63.7	68	37	33	35	237.3	2.20
Maharastra	76.9	82	89	89	89	588.9	5.45

Manipur	66.0	72	44	41	43	386.8	3.58
Meghalaya	62.6	66	26	22	24	130.6	1.21
Mizoram	88.8	95	96	100	98	684.9	6.34
Nagaland	66.6	76	48	63	56	783.3	7.25
Orissa	63.1	62	30	11	20	0.0	0.00
Punjab	69.7	76	70	63	67	602.0	5.57
Rajasthan	60.4	59	19	4	11	0.0	0.00
Sikkim	68.8	78	63	74	68	915.3	8.47
Tamil Nadu	73.5	79	81	78	80	595.3	5.51
Tripura	73.2	74	78	52	65	70.8	0.66
Uttar Pradesh	56.3	75	15	59	37	1229.0	11.38
Uttaranchal	71.6	76	74	63	68	420.6	3.89
West Bengal	68.6	79	59	78	68	1037.7	9.61

Source: Thirteenth Finance Commission

Table 6.3
Literacy
Alternative 3

State	**2001 Literacy**	**2015 Assumed**	Incentive Coeff.	Incentive Value %
Andhra Pradesh	60.5	68	12.66	4.67
Arunachal Pradesh	54.3	60	9.46	3.49
Assam	63.3	66	4.23	1.56
Bihar	47.0	56	16.10	5.94
Chattishgarh	64.7	67	3.58	1.32
Goa	82	84	3.08	1.14
Gujarat	69.1	74	7.88	2.91
Haryana	67.9	72	6.53	2.41
Himachal Pradesh	76.5	81	7.15	2.64
Jammu and Kashmir	55.5	63	12.78	4.72
Jharkhand	53.6	65	20.76	7.66
Karnataka	66.6	72	8.77	3.23
Kerala	90.9	93	3.23	1.19
Madhya Pradesh	63.7	68	6.89	2.54
Maharastra	76.9	82	8.17	3.01

Manipur	66.0	72	9.83	3.63
Meghalaya	62.6	66	5.38	1.99
Mizoram	88.8	95	9.96	3.68
Nagaland	66.6	76	16.11	5.94
Orissa	63.1	62	0.00	0.00
Punjab	69.7	76	10.31	3.81
Rajasthan	60.4	59	0.00	0.00
Sikkim	68.8	78	15.66	5.78
Tamil Nadu	73.5	79	8.88	3.28
Tripura	73.2	74	1.21	0.45
Uttar Pradesh	56.3	75	37.40	13.80
Uttaranchal	71.6	76	7.01	2.59
West Bengal	68.6	79	17.98	6.64
Median	66.6			

Source: Thirteenth Finance Commission

Table 6.4
Literacy
Alternative 4

State	2001 Literacy	2015 Assumed	Normalised Score Iy	Normalised Score Ty	Mean Normalised Score (IC)	Incentive Value %
Andhra Pradesh	60.5	68	30.75	30.77	30.76	2.47
Arunachal Pradesh	54.3	60	16.63	10.26	13.44	1.08
Assam	63.3	66	37.13	25.64	31.39	2.52
Bihar	47.0	56	0.00	0.00	0.00	0.00
Chattishgarh	64.7	67	40.32	28.21	34.26	2.75
Goa	82	84	79.73	71.79	75.76	6.08
Gujarat	69.1	74	50.34	46.15	48.25	3.87
Haryana	67.9	72	47.61	41.03	44.32	3.55
Himachal Pradesh	76.5	81	67.20	64.10	65.65	5.27
Jammu and Kashmir	55.5	63	19.36	17.95	18.66	1.50
Jharkhand	53.6	65	15.03	23.08	19.06	1.53
Karnataka	66.6	72	44.65	41.03	42.84	3.44
Kerala	90.9	93	100.00	94.87	97.44	7.81
Madhya Pradesh	63.7	68	38.04	30.77	34.41	2.76

Maharastra	76.9	82	68.11	66.67	67.39	5.40
Manipur	66.0	72	43.28	41.03	42.15	3.38
Meghalaya	62.6	66	35.54	25.64	30.59	2.45
Mizoram	88.8	95	95.22	100.00	97.61	7.83
Nagaland	66.6	76	44.65	51.28	47.96	3.85
Orissa	63.1	62	36.67	15.38	26.03	2.09
Punjab	69.7	76	51.71	51.28	51.50	4.13
Rajasthan	60.4	59	30.52	7.69	19.11	1.53
Sikkim	68.8	78	49.66	56.41	53.03	4.25
Tamil Nadu	73.5	79	60.36	58.97	59.67	4.79
Tripura	73.2	74	59.68	46.15	52.92	4.24
Uttar Pradesh	56.3	75	21.18	48.72	34.95	2.80
Uttaranchal	71.6	76	56.04	51.28	53.66	4.30
West Bengal	68.6	79	49.20	58.97	54.09	4.34

Source: Thirteenth Finance Commission

Table 6.5
Literacy
Methodology 2

No	State	2001 Literacy	2015 Assumed	Pop %	Improvement as ratio	Incentive Coeff	Incentive Value %	
1	Andhra Pradesh	60.5	68	7.49	0.12	0.93	7.19	0.0255
2	Arunachal Pradesh	54.3	60	0.11	0.10	0.01	0.09	0.0096
3	Assam	63.3	66	2.64	0.04	0.11	0.87	0.0170
4	Bihar	47.0	56	8.20	0.19	1.57	12.16	0.0095
5	Chattishgarh	64.7	67	2.06	0.04	0.07	0.57	0.0251
6	Goa	82	84	0.13	0.02	0.00	0.03	0.0295
7	Gujarat	69.1	74	5.01	0.07	0.36	2.75	0.0316
8	Haryana	67.9	72	2.09	0.06	0.13	0.98	0.0275
9	Himachal Pradesh	76.5	81	0.60	0.06	0.04	0.27	0.0383
10	Jammu and Kashmir	55.5	63	1.00	0.14	0.13	1.04	0.0140
11	Jharkhand	53.6	65	2.66	0.21	0.57	4.38	0.0182
12	Karnataka	66.6	72	5.22	0.08	0.42	3.27	0.0298

13	Kerala	90.9	93	3.15	0.02	0.07	0.56	0.0334
14	Madhya Pradesh	63.7	68	5.98	0.07	0.40	3.12	0.0307
15	Maharastra	76.9	82	9.57	0.07	0.63	4.91	0.0419
16	Manipur	66.0	72	0.24	0.09	0.02	0.17	0.2074
17	Meghalaya	62.6	66	0.23	0.05	0.01	0.10	0.0176
18	Mizoram	88.8	95	0.09	0.07	0.01	0.05	0.0619
19	Nagaland	66.6	76	0.20	0.14	0.03	0.21	0.0482
20	Orrisa	63.1	62	3.63	-0.02	0.00	0.00	0.0000
21	Punjab	69.7	76	2.40	0.09	0.22	1.68	0.0384
22	Rajasthan	60.4	59	5.59	-0.02	0.00	0.00	0.0000
23	Sikkim	68.8	78	0.05	0.13	0.01	0.06	0.0523
24	Tamil Nadu	73.5	79	6.15	0.07	0.46	3.56	0.0400
25	Tripura	73.2	74	0.32	0.01	0.00	0.03	0.0224
26	Uttar Pradesh	56.3	75	16.43	0.33	5.46	42.24	0.0376
27	Uttaranchal	71.6	76	0.84	0.06	0.05	0.40	0.0327
28	West Bengal	68.6	79	7.94	0.15	1.20	9.32	0.0597
	Median	66.6	73			12.92	100.00	1

Source: Thirteenth Finance Commission

Table 6.6
Literacy
Comparison of Incentive Values

State	2001 Literacy	2015 Assumed	Performance Unweighted	Alt1	Alt2	Alt 3	Alt 4	Mthdlgy 2
Andhra Pradesh	60.5	68	4.94	2.30	3.19	4.67	2.47	7.19
Arunachal Pradesh	54.3	60	4.18	1.04	0.72	3.49	1.08	0.09
Assam	63.3	66	1.70	1.84	1.10	1.56	2.52	0.87
Bihar	47.0	56	7.63	1.03	0.18	5.94	0.00	12.16
Chattishgarh	64.7	67	1.42	2.26	1.16	1.32	2.75	0.57
Goa	82	84	0.97	3.68	2.09	1.14	6.08	0.03
Gujarat	69.1	74	2.82	4.02	3.89	2.91	3.87	2.75
Haryana	67.9	72	2.41	3.35	2.69	2.41	3.55	0.98
Himachal Pradesh	76.5	81	2.34	5.11	4.63	2.64	5.27	0.27
Jammu and Kashmir	55.5	63	5.38	1.52	1.62	4.72	1.50	1.04
Jharkhand	53.6	65	8.47	1.97	2.19	7.66	1.53	4.38

Karnataka	66.6	72	3.23	3.73	3.33	3.23	3.44	3.27
Kerala	90.9	93	0.92	4.31	2.10	1.19	7.81	0.56
Madhya Pradesh	63.7	68	2.69	2.30	2.20	2.54	2.76	3.12
Maharastra	76.9	82	2.64	5.70	5.45	3.01	5.40	4.91
Manipur	66.0	72	3.62	2.43	3.58	3.63	3.38	0.17
Meghalaya	62.6	66	2.16	1.91	1.21	1.99	2.45	0.10
Mizoram	88.8	95	2.78	8.95	6.34	3.68	7.83	0.05
Nagaland	66.6	76	5.62	6.73	7.25	5.94	3.85	0.21
Orissa	63.1	62	0.00	0.00	0.00	0.00	2.09	0.00
Punjab	69.7	76	3.60	5.12	5.57	3.81	4.13	1.68
Rajasthan	60.4	59	0.00	0.00	0.00	0.00	1.53	0.00
Sikkim	68.8	78	5.33	7.40	8.47	5.78	4.25	0.06
Tamil Nadu	73.5	79	2.98	5.39	5.51	3.28	4.79	3.56
Tripura	73.2	74	0.44	2.52	0.66	0.45	4.24	0.03
Uttar Pradesh	56.3	75	13.23	2.53	11.38	13.80	2.80	42.24
Uttaranchal	71.6	76	2.45	4.20	3.89	2.59	4.30	0.40
West Bengal	68.6	79	6.04	8.60	9.61	6.64	4.34	9.32
				100.00	100.00			100.00
Coeff.of variation			0.80	0.66	0.83	0.79	0.52	2.29

Source: Thirteenth Finance Commission

Appendices to the Final Report of the study on

Quality of Public Expenditure.

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Appendix A ***Background Note for Workshop***

Discussion Paper

The terms of reference of Thirteenth Finance Commission enjoin it to have regard, among other considerations, to the need to improve the quality of public expenditure to obtain better outputs and outcomes. In this context, the Finance Commission has entrusted a study to the Administrative Staff College of India (ASCI). The study is to cover rural development, education, and health (in the Centre and States).

I. Quality of Expenditure

Two factors principally determine the quality of expenditure: effectiveness and efficiency. Effectiveness is the relationship between the resources deployed (inputs) and the attainment of one's final objective or the intended impact of a programme. On the other hand, efficiency is a measure of the amount of inputs used to produce a given output or outcome; the lower the amount of inputs employed to produce a given result the higher is the efficiency; in other words, one strives for greater efficiency by attempting to maximise the output for a given amount of inputs or minimise the input for a given output or outcome or to put it differently to achieve the best possible performance using as few inputs as possible. Effectiveness and efficiency of public expenditure cannot be gauged unless they are related to productivity with reference to monitorable indicators of outputs and outcomes.

Traditionally, budgets are focused on inputs (money, men and material) rather than on what the expenditure produces. They do not offer any meaningful information on the cost of achieving policy objectives. Public expenditure decisions should be based on comparison of costs vis-à-vis the benefits expected to result from the expenditure. Little information on the costs and benefits of expenditure is available for making informed decisions relating to policy objectives and priorities. Generally, budgets also suffer from lack of transparency since it is not obvious what services will be provided with the money included in the budget.

Budgets are driven by an 'incremenatalist' approach where the concern is more with whether the increases in expenditure are affordable. Generally, the approach is one of 'incrementalism'; the concern is more about whether the increases in expenditure are affordable. Further, though priorities may change over time existing expenditure commitments being entrenched, and pre-emptive in nature, yield little space to new initiatives. Another drawback in the traditional system is that managers are more concerned with compliance of rules than with achievement of results. In other words, the accountability is more with reference to processes rather than with results.

'The key feature of the traditional model is that the control of human and financial resources is concentrated at the centre while operational responsibility for delivering services is located in spending organisations…The general direction of reform is that spending agencies are given greater flexibility in using resources in exchange for being held responsible for results.' [1]

[1] National Economic and Social Council, Dublin, 2002; *Achieving Quality Outcomes*: *The Management of Public Expenditure*; December 2002

Many inter-related factors impinge on the quality of expenditure like planning (including allocative efficiency and appropriate design of projects or programmes / schemes), execution, governance, and accountability, each of which in turn comprises cross-cutting, inter-related

Figure 1: Factors Affecting Quality of Expenditure

Source: ASCI - Narayan Valluri

elements. (See Figure 1)

Another factor that would impinge on the quality of expenditure and delivery of services is the provision made for non-salary expenditures. This is even more relevant for social service sectors, like education and health, where the bulk of expenditure is on salaries and any squeeze on budgetary allocations induced by resource constraints inevitably falls on non-salary expenditures, with inevitable consequences on service delivery. 'A key issue …is the growing salary burden facing governments, crowding out non-salary spending. In the health sector, for instance, salary spending ranges from 60 percent in some states to over 90% in others.' (Chand[2] 2006, p.18)

A related issue in this context is provision for maintenance expenditures, which are often neglected because of the *dubious* distinction between plan and non-plan expenditures.

While the inter-related factors impinging on quality of expenditure can be discussed at length (in the workshop) attention is drawn below to some overarching considerations.

[2] Chand, Vikram K., 2006, *Reinventing Public Service Delivery In India-Selected Case Studies*-Edited By Vikram K. Chand; The World Bank; Sage Publications

A. Planning:

A *sine qua non* for effectiveness and efficiency of public expenditure is proper planning and design of programmes.

The first question therefore is to formulate and design programmes keeping in mind the role of government. In this context, it would be pertinent to recall the observations of the Eleventh Finance Commission (Box 1)

Box 1: Rethinking the Role of Government

Expenditure restructuring would call for a rethinking on the role of governments itself. In general, governments may have to withdraw from a number of areas and strengthen their role in selected sectors in the overall context of economic reforms. Goods and services may be defined over a wide range from pure public goods at one extreme to pure private goods at the other. In the intermediate space, there may be goods that are basically private in nature but with different degrees of externality. Whereas public goods have to be provided by governments, in the remaining sectors the government sector should have a limited role. Even in the context of public goods, a distinction may be made between private production of public goods financed by public authorities, as compared to public production of public goods. In other words, supply and production need to be distinguished. Where the public authority is responsible for supply, it need not necessarily get into the act of production. Government needs to enter only in those areas where due to large externalities, private sector participation, by itself, would lead to sub-optimal supply.
[Para 3.59 Report of the Eleventh Finance Commission]

Second, government programmes have a tendency to perpetuate and to proliferate. As former US president Ronald Reagan once famously remarked the closest thing to immortality on earth is a government programme. There is need therefore periodically to review the relevance and content of government programmes, to see which if any programmes have outlived their utility or relevance. (Box 2)

"There is nothing closer to immortality on the face of this Earth than a Government program once started." *Former US President Ronald Reagan*

Box 2:Mortal Bureaucracy

Mortal Bureaucracy
"Mortal Bureaucracy does not propose to eliminate any particular program: it merely requires that each federal program will be subject to a speedy death after 7 years. For every 7 year period thereafter, a given program will come up for review/ratification. Practically speaking, only those programs that have widespread support will continue; the rest will die."
Extract from: Mortal Bureaucracy: A Libertarian Approach to Reengineering Government by Paul Hager

Often, multiple government programmes have similar objectives. A review could also facilitate coalescing of programmes with similar objectives, which would lead to improved allocative efficiency. What poorer reflection of allocative efficiency can there be than the admission in the Appraisal of the Tenth Five-year Plan that more irrigation potential may have been lost because of neglect of repairs and maintenance than new irrigation potential created[3]. Allocative efficiency can also be compromised when matching counter-part funds (either budgetary or institutional credit) are not forthcoming. Further, inadequate allocation of funds could lead to longer gestation periods of projects with avoidable consequences

[3] Paragraph 1.20-2 Appraisal of the Tenth Plan

of time and cost-overruns, not to speak o f diminished economic and social returns.

In this context, it is also pertinent to recall an observation on Centrally Sponsored Schemes (CSS) in the Eleventh Five Year Plan that 'most of them exist as silos planned and implemented as stand-alone schemes with little horizontal convergence or vertical integration, resulting in multiple sub-sectoral district plans, unrelated to each other.'

Other factors that would need to be borne in mind while designing and formulating programmes are: cost-effectiveness and value for money, and competition and choice by sharing space with the private sector.

B. Execution

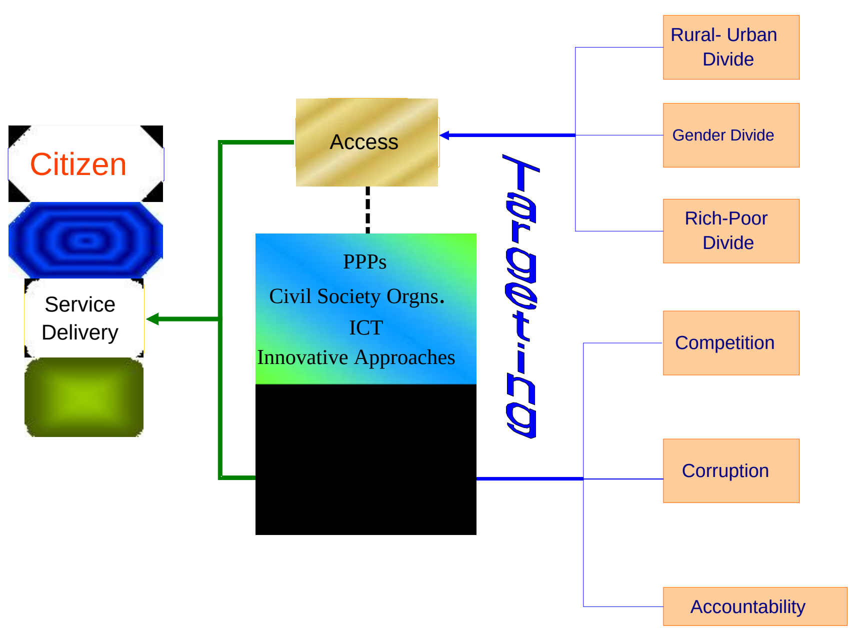
Execution of programmes comprises two major elements: service delivery; and, monitoring and evaluation (M & E).

Many factors affect service delivery, which can be grouped under two broad headings: access and quality, each of which in turn depends on several factors. Access involves issues of rural-urban divide, gender divide, and rich-poor divide; and quality is dependent on competition, corruption and accountability. Cross-cutting factors like involvement of the private sector (public private partnerships -PPPs), engagement of civil society, e-governance, innovative approaches, and improved targeting could also influence and improve both access and quality.

1. Service Delivery

The two important factors that have a bearing on service delivery are access and quality. And quality is shaped by competition, corruption and accountability. (Figure 2)

Figure 2 : Service Delivery



Source: ASCI - Narayan Valluri

Involvement of the private sector could take the shape of public-private-partnerships, which could help leverage, the resources of government.

a) Leveraging Government Expenditure- Public Private Participation (PPP)

Public private partnerships (PPPs) have developed in part because of paucity of financial resources in the public sector. PPPs have demonstrated the ability to harness financial resources and operating efficiencies inherent to the private sector. (European[4] commission, 2003)

Public private partnerships and / or privatisation does not necessarily mean or involve selling off government assets. Areas or activities best performed by the private sector should be left to them. Working together with the private sector (PPPs) can take many forms. Many public services are monopolies or near monopolies; engagement of the private sector can lead to competition and more cost-effective solutions or services. International interest in public private partnerships is generally attributable to three main drivers namely: investment in infrastructure; greater efficiency in the use of resources; and generating commercial value from public sector assets.

The four principal roles of PPPs are:

- to provide additional capital;
- to provide alternative management and implementation skills;
- to provide value added to the consumer and the public at large; and
- to provide better identification of needs and optimal use of resources. (European Commission 2003)
- PPPs can take many forms. (Box 3)

Box 3: Some Examples of PPPs

- Service Contracts
- Operation and management contracts
- Leasing
- Build Operate Transfer (BOT)
- Design-Build-Finance-Operate (DBFO)
- Build Own Operate (BOO)
- Divestiture
- Complete
- Partial

Though PPPs may have many advantages the schemes may be complex to design, implement and manage. Public Private Partnerships may, therefore, call for a change in the role of the public sector from that of a service provider to manager or monitor of private contractors. Guaranteeing and enhancing public benefit from PPPs will depend to a large degree on effective management and monitoring systems, as also developing capacity in the public sector to design and formulate PPPs, and negotiating them. They need not necessarily be the only or preferred option; they should be considered *only if*: it can be demonstrated that they will achieve additional value compared with other approaches; there is an effective implementation structure; and the objectives of all parties can be met within the partnership. (European Commission, 2003)

There is no gainsaying the fact that competition and choice spur improvement in the quality of service. Use of technology for simplifying the delivery of service like e-governance offers dividends too. Reform without re-engineering the processes through which services are delivered may not yield the desired results. Failure to give operational autonomy to service providers may detract from the effectiveness and quality of service. Stakeholder involvement too is essential to successful service delivery. Further, no reform is likely to succeed without administrative and political will. And, finally, if corruption and apathy are to be countered strong accountability mechanisms should be in place.

[4] European Commission, 2003; *Guidelines for Successful Public Private Partnerships*

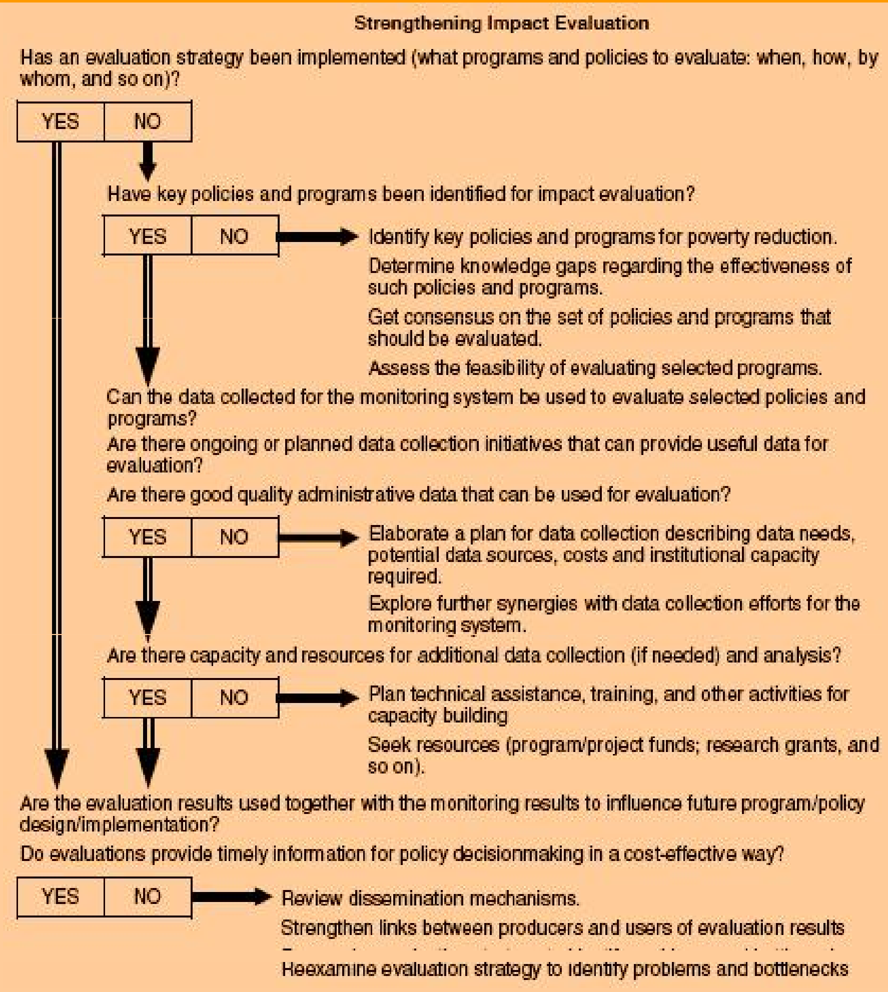
2. Monitoring and Evaluation

> "Evaluation quality depends on an approach that balances timeliness, usefulness, methodological purity, client requirement and cost."
>
> *-Robert Lahey, Centre of Excellence for Evaluation, Canada*

Monitoring is a continuous process while evaluation occurs from time to time. Need for formal evaluation increases as resources become scarcer and identification of priorities becomes more important. The Eleventh Five-Year Plan says that emphasis would be laid on effective monitoring of outcome at all levels. Recognising the importance of monitoring, the Five-Year Plan notes that while monitoring is an internal activity of programme management, evaluation assesses the appropriateness of design and implementation of ongoing projects and programmes, which can be done either internally or independently or concurrently along with an external agency. The Five-year Plan points out that absence of baseline data for many schemes / programmes could be a serious bottleneck in measuring the performance indicators of outcomes and impacts; hence, the importance of appropriate identification of process and outcome indicators, not to mention follow-up action on results of monitoring and evaluation. This may call for changes in procedures of various government departments.

Periodic evaluation of some programmes, both at the Centre and in States, is carried out. One needs to examine what the impact of such evaluations is and whether any methodological changes are needed. (See Box 4). A participatory approach to evaluation of outputs and outcomes would better serve the interests of accountability and contribute to improved interventions by government.

Box 4: Impact of Evaluations



Source: Figure 3.3, World Bank, 2002, '*Chapter 3: Monitoring and Evaluation*', *in PRSP Sourcebook*, World Bank, Washington, D.C.

Monitoring and measurement of indicators is only as good as the reliability of the underlying data and faithfulness and integrity of reporting systems.

'Finance departments in many states lack the capacity to engage with line departments on setting and monitoring performance targets.' (Chand 2006, p.19) [5]

C. Governance

Two major factors affecting the quality of governance are functioning institutions and transparency. Better governance has an impact on the delivery of services and outcomes. A finding of relevance to this study is that of RajKumar and Swaroop, who observe that public health spending lowers child and infant mortality rates in countries with good governance;

[5] Chand, Vikram K., 2006, *Reinventing Public Service Delivery In India-Selected Case Studies*-Edited By Vikram K. Chand; The World Bank; Sage Publications,

further, as countries improve their governance, public spending on primary education becomes effective in increasing primary education attainment.[6]

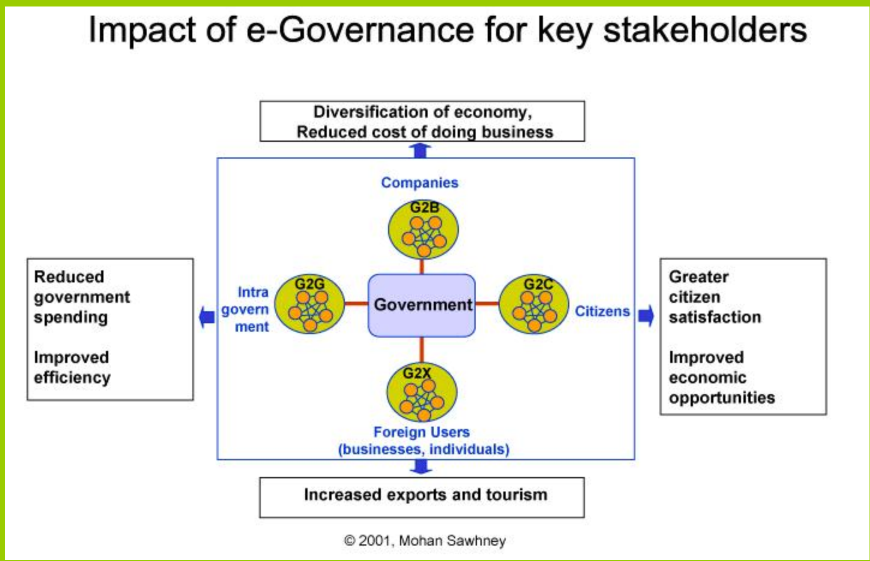
1. E-governance

Technological developments, with increasing spread of ICT, provide an important plank for better governance through e-governance. The Eleventh Five Year Plan recognises the importance of e-governance when it says that 27 major areas were adopted to assist, improve delivery of services and digitisation of information. Of immediate relevance to this study is the mention that initiatives on participatory governance were introduced under the NREGA and NRHM (apart from other measures).

The Eleventh Five-year Plan talks of citizens-centric governance, creation of a common platform/program delivery through unique ID(UID), and issue of smartcards with memory partitioned into distinct modules representing different entitlement groups[7]

E-governance can have multi-dimensional impact on various stakeholders or players in the economy, ranging from citizens (G2C) to companies or businesses (G2B) to intra-governmental operations (G2G) and the wider economy (G2X). (Figure 3)

Figure 3: Impact of e-governance on Key Stakeholders



(Source: Mohan Sawhney, Kellog School of Management, 2001)

A study of 18 community telecentre projects in India, which use information and communications technology for poverty alleviation and good governance, was undertaken to identify the conditions under which rural ICT projects for poverty alleviation can be scaled up for

[6] Rajkumar, A.S. & Swaroop, Vinaya; 2002; *Public Spending and Outcomes: Does Governance Matter?* World Bank Policy Research Working Paper No. 2840

[7] Paragraphs 10.46 and 10.51 of the Eleventh Five Year Plan

wider implementation. The evaluation was done with reference to (i) project design (ii) community participation (iii) project outcomes, and (iv) contextual political economy. The central finding was that the extent to which the recipient community accepts the project in its day-to-day life would determine how successfully the project could be scaled up. Community acceptance in turn depends on the quality of the project staff with whom the community interacts. Therefore, higher priority needs to be given to the selection, training, support and development of the project staff if the rural ICT projects for poverty alleviation are to be eventually scaled up for wider implementation. [8] (Harris & Rajora, 2006)

2. Principle of Subsidiarity

In a tacit endorsement of the principle of subsidiarity (Box 5), the Eleventh Five Year Plan concedes that: 'Local governments are in a better position to appreciate problems holistically and come out with cross-sectoral solutions…As local governments are closer to the people, they are capable of identifying local priorities and entering into partnership with communities for the management of assets and facilities.' [9] Further, it adds (in what again is of topical relevance for this study) that the centrally sponsored schemes (CSS) which, among others, lend themselves to effective grass roots level planning are: poverty reduction programmes like the SGSY, SGRY, National Rural Employment Guarantee Scheme (NREGS) and human development schemes like SSA, Mid-day Meals, Literacy, Rural Health Mission, ICDS. [10]

Box 5: Principle of Subsidiarity

"The principle of subsidiarity must become the guiding principle in the governance. This would imply doing things at the level at which they can be best done. Thus as much of legislative, executive and administrative actions must be decentralised as possible. No decisions must be taken at levels higher than the level at which they ought to be appropriately taken. Decentralisation of powers and functions must be adjudged on the basis of this criterion. "

(Source: Dr. Madhav Godbole, Report of the One Man Committee on Good Governance) July 2001

D. Accountability

Accountability in public sector has two dimensions: At the macro level, where the national or state governments can be held responsible through elections, legislative answerability, public audit; etc. and at the micro level, i.e. at the local level, which is the point of delivery of public services. Hence, a two-pronged approach is necessary: of strengthening existing (institutional) macro level mechanisms; and devising effective tools for accountability at the micro level. [11] (Paul, 1995)

'The general weakness of accountability mechanisms is a barrier to improving services across the board. Bureaucratic complexity and procedures make it difficult for ordinary citizens to navigate the system for their benefit. The lack of transparency and secrecy that shrouds government operations and programmes provides fertile ground for corruption and exploitation.' (Chand 2006, p.19) [12]

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8 Harris R. & Rajora R., 2006; *Empowering the poor. Information and communications technology for governance and poverty reduction: a study of rural development projects in India;* Asia-Pacifiic Development Information Program , 2006

9 Paragraph 10.13 Eleventh Five Year Plan

10 Paragraph 10.15 Eleventh Five Year Plan

11 Paul, Samuel ,1995 *Strengthening Public Accountability - New Approaches and Mechanisms*; Public Affairs Centre, Bangalore

12 Chand, Vikram K., 2006, *Reinventing Public Service Delivery In India-Selected Case Studies*-Edited By Vikram K. Chand; The World Bank; Sage Publications

Access to information is central to any strategy aimed at empowering the public or clients vis-à-vis service providers. Information as a tool to enforce accountability is well illustrated in the cases of Delhi and Rajasthan. Citizens' charters may help inform customers of their rights and entitlements, but may not by themselves result in better service unless based on stakeholder consultation and lay down a minimum service standards and procedures for redress of grievances. (Chand, 2006)

Accountability can be enhanced by appropriate stakeholder involvement at different levels and feedback about the effectiveness and efficiency of programmes through report cards and surveys, right to information and social audit. Examples exist of how individual and civil society organisations (including NGOs) have brought about increased accountability, but the challenge lies in scaling up and institutionalising these isolated endeavours.

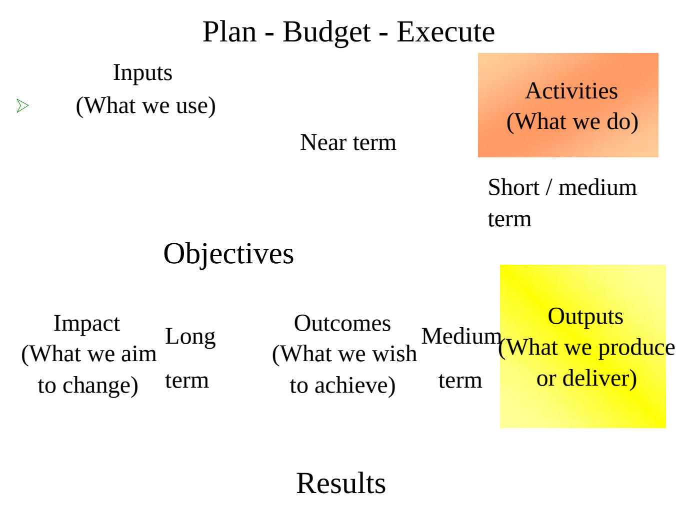
II. Results-Oriented Budgets

Increasingly, governments around the world are recognising and realising the importance of the quality of expenditure. It is not enough merely to 'throw' money at a problem but moneys should be spent effectively and efficiently. Effectiveness implies that the objectives of programmes are met or fulfilled, while efficiency demands that one receives value for money in terms of cost-effectiveness. Thus, there is a shift in focus from the role of government to how effectively and efficiently this role is being performed.

The relationship between the resources used by government for delivery of its services aimed at the objectives it seeks to achieve is neatly encapsulated in the following diagram (Figure 4). Governments use inputs or resources (financial, manpower, etc.) to engage in activities intended to produce outputs (goods and services) to achieve certain outcomes or produce a desired impact. Five 'whats' summarise the flow:

- What resources (financial, manpower and other) we use (inputs)
- What we do (activities)—in the near term
- What (good and services) we produce or deliver (outputs) —in the short / medium term
- What we wish to achieve (outcomes) —in the medium term
- What we aim to change (impact) —in the long term

Figure 4: Inputs - Outputs- Outcomes - Impact



Source: ASCI - Narayan Valluri

III. Outcome Budgeting

The roots of Outcome Budgeting in India lie in the 2005-06 budget speech of the Finance Minister where he observed:

> "The Prime Minister has repeatedly emphasized the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, together with the Planning Commission, we shall put in place a mechanism to measure the development outcomes of all major programmes."[13]

Accordingly, outcome budgeting in India commenced from the following year in the Govt. of India and a few states have adopted it too. The outcome budgets of the ministries in GoI and the departments in the states that have adopted it are supplementary documents brought out in addition to the normal budget. They follow a standard format based on the guidelines issued by the Controller General of Accounts.

In the ultimate analysis, a budget is only an annual statement of estimated receipts and expenditure, indicating the outlays for different programmes. It is only an instrument for allocating outlays and a management tool for managing expenditure in relation to the estimated revenues. And by extension an outcomes budget also sets out the intended outputs and outcomes from the allocated expenditures thus refining or enlarging the functionality of the management

13 Paragraph 100 of Finance Minister's 2005-06 budget speech.

tool. But a tool is not an end in itself and is only as good as how well it is designed or shaped and how well it is used.

Indicators for outputs and outcomes should be appropriately chosen if outcome budgets are to be used purposefully.

1. Choosing Indicators

Choice of appropriate indicators may present practical difficulties in that there may be no ideal performance indicator. Perhaps, the guiding principle should be that indicators provide managers with the information they need to perform their jobs efficiently and effectively. In a set of criteria developed by Price Waterhouse for good performance measures for US government agencies (*Who Will Bell the Cat?* A *Guide To Performance Management in Government, 1993*), the underlying principles were that the indicator should be: (Box 6)

Box 6: Characteristics of Indicators

objectivity linked - ie directly related to clearly stated objectives;

Responsibility linked - ie matched to specific organisational units that are responsible for, and capable of, taking action to improve performance;

Organisationally acceptable - valued by all levels in the organisation, used as a measurement tool, and viewed as being "owned" by those accountable for performance;

Comprehensive - inclusive of all aspects of programme performance, for example, measuring quantity but not quality provides incentives to produce quickly, but not well;

Credible - based on accurate and reliable data sources and methods, not open to manipulation or distortion;

Cost-effective—acceptable in terms of costs to collect and process;

Compatible - integrated with existing Information Systems;

Comparable with other data - useful and making comparisons; for example performance can be compared from the data period, with peers, to targets, etc;

Easy to interpret - presented graphically and accompanied by commentary.

These general principles could inform the choice of indicators. To borrow from ITAD (*Monitoring and the Use of Indicators,* EC Report, 1996) a popular acronym for remembering the characteristics of good indictors is SMART:

S - Specific

M - Measurable

A - Attainable

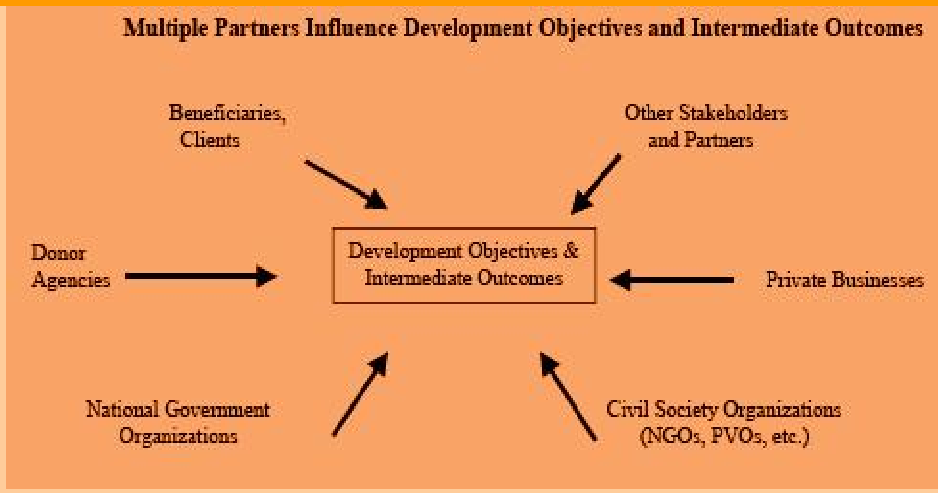
R - Relevant

T - Trackable

Another issue in the choice of indicators is that of quantitative indicators versus qualitative indicators. Quantitative indicators can be objectively or independently verifiable numbers or ratios, whereas qualitative indicators are subjective descriptions or categories. Whether to choose quantitative or qualitative indicators would depend on the nature of the project or programme. Service delivery sectors like education, health and so on are more amenable to quantitative indicators whereas assessment of performance in certain areas like democracy, governance, policy reform, etc. can by their very nature be only subjective or qualitative.

For meaningful development objectives and indicators of outputs and outcomes to emerge there should be interaction between different stakeholders. (Box 7)

Box 7: Involvement of Stakeholders



Source: Box 26: from The Development Assistance Committee (DAC) Working Party on Aid Evaluation; Results Based Management in the Development Cooperation Agencies: A Review of Experience - Background Report November 2001)

Where appropriate or possible, indicators should be disaggregated by gender, geographic area, and social group (scheduled castes, scheduled tribes and so forth).

Indicators could be input indicators, process indicators, output indicators or outcome indicators depending on what is sought to be measured. Besides, indicators are sometimes used as proxies of a general trend. For example, improvements in national literacy rates could be taken as evidence of realization o f the right to education. Likewise, indicators such as hospital beds per 100,000 people, percentage of governmental expenditure on the national healthcare system, and number of doctors per hospital could be treated as measures of provision of healthcare resources, but none of these indicators actually measures the denial of access to healthcare services. Further, there may be trade-offs between the different types of indicators. 'Those that achieve global coverage tend to have a higher level of abstraction and may not provide the kind of differentiation required for policy analysis or policy decision-making.'[14]

Apart from identifying appropriate indicators for outputs and outcomes and monitoring them, evaluation of performance against benchmarks and pre-determined standards could be considered.

It also needs to be recalled that the initiative to a results oriented budget approach (in India) is not entirely new. Performance budgets were introduced in the Govt. of India and in some states. With the move to outcome budgeting in GoI, performance budgets have now been discontinued, one suspects because of 'desuetude', assuming they were ever actually used in performance monitoring and evaluation, and feeding back into project / programme formulation and planning. One should, therefore, guard against outcome budgets becoming routine production of additional documents scantily if ever used for assessing the results of public spending.

[14] Dr. Todd Landman, Map-Making and Analysis of the Main International Initiatives on Developing Indicators on Democracy and Good Governance; University of Essex, Human Rights Centre 2005 , p.6

IV. Approach of Finance Commissions vis-à-vis Expenditure Efficiency

Though considerations of equity predominated in the distribution of revenues recommended by earlier finance commissions, latterly recent finance commissions have also introduced criteria of efficiency while framing their recommendations. However, efficiency criteria adopted so far have related to raising of revenue and fiscal correction rather than to effectiveness and efficiency of public expenditures and to quality of service delivery.[15]

Contributing to improved fiscal management is within the remit of the finance commission; and, an essential component of fiscal management is improving the quality of public expenditures. While transfers linked to efficient management of resources may no doubt prod states to greater efficiency in the use of scarce resources, the greater challenge lies in identifying systemic changes that need to be brought about. More so, since States differ in their resource endowments, revenue capacity, institutional mechanisms and support, administrative capabilities, and other factors including governance issues which impact on service delivery.

V. Expectations from the Workshop

The purpose of this workshop is primarily to elicit your views as practitioners who grapple with issues of expenditure management and service delivery, and to discuss the following and allied issues (with particular reference to the rural development, health and education sectors):

- Measures to improve the quality of expenditures to meet their underlying objectives;
- Indicators which would better reflect the intended outputs and outcomes of programmes and bring about a more purposeful results-oriented approach to public spending;
- What benchmarks and standards would be appropriate;
- What monitoring and evaluation mechanisms currently exist and how these can be improved upon;
- What incentives should be incorporated to encourage and reward performance, at two levels: at the level of finance commissions to reward better performing states (or penalise poorly performing ones) and at the levels of government (central and state) in relation to individual entities or individuals; and
- Whether the design of outcome budgets could be improved upon in the light of the foregoing.

[15] Issues of equity have largely influenced the thinking of finance commissions in their horizontal distribution of states' share in the sharing of taxes. It is only recent finance commissions that have given some weightage (token some would say) to efficiency factors. But here again efficiency has been reckoned with reference to performance in raising of revenues and in fiscal correction as reflected in reduction of revenue and fiscal deficits. No doubt, expenditure is implicit in reduction of revenue and fiscal deficits. In fact, revenue and fiscal deficits could be reduced by cutting back on productive expenditures thus diminishing the quality of expenditure rather than enhancing it. Efficiency and quality of expenditure has not so far entered significantly into finance commission transfers.

Appendix B *<u>Summary Report of Workshop</u>*

Following the opening remarks by Dr. S. K Rao, the Director-General of ASCI, Mr. Narayan Valluri, the Project Leader, provided a brief outline of the project and what was expected from the workshop. To enable focused discussions on the topic, the workshop was divided into three sessions.

The first session dealt with the subject of Improving the Quality of Expenditure (with particular reference to Rural Development, Education and Health) - access, service delivery accountability and other issues. This session was chaired by Mr. R. Rajamani, IAS (Retd), formerly Director General, CAPART and also Secretary to GOI, Ministry of Environment and Forests.

The second session dealt with issues relating to Outcome Budgets, Choice of Indicators, Monitoring and Evaluation Mechanisms and their use as policy instrument. Mr. S.M. Kumar, Additional Controller General of Accounts, Ministry of Finance, chaired the session.

The final session dealt with Incentive Mechanisms. Mr. I.V. Subba Rao, I.A.S., Principal Secretary and Chief Electoral Officer, A.P. Secretariat (formerly Principal Secretary Health and also Principal Secretary Education, Govt of AP) chaired this session.

Before the start of the first session Mr. V. Bhaskar, IAS, Secretary to the Thirteenth Finance Commission, gave a brief background to the commissioning of the study and what the Commission expected out of it.

The salient points of discussion and views of participants in the workshop are as follows:

General

- Discussions on quality of public expenditure should cover the three main areas of policy, regulation and service delivery.
- Social sectors cannot be dealt with in isolation. All the three sectors - health, education and rural development - are interrelated. The gender dimension is important, as the impact of programmes is often not gender neutral.

Service Delivery

- A problem that is often encountered is that the poor may have access to services, but their quality is not necessarily good.
- In budgeting/internal allocations of expenditure, a large amount of money is spent on salaries and not enough room is made for other non-salary items that fill critical gaps (e.g. school libraries, maintenance of infrastructure, medicines, etc).
- There might be value in introducing fiscal incentives, linked to outcomes, to institutions providing service delivery as a means of ensuring better service delivery.
- In regard to devolution of funds, it was emphasized that we need to work towards strengthening institutions and systems. It was felt that, in every scheme, the person at the last post needs to be trusted: he/she should be vested with a certain amount of autonomy, as he/she represents the face of the government to the citizen.
- There should be a greater flow of information from the top to the bottom and vice versa.

Data

- Often, many problems related to the implementation of public schemes can be traced to issues related to validation of and access to data, its quality, and the monitoring of information.
- There is concern that the State data cannot often be used with confidence, as analysis of such data has revealed anomalies, with examples cited in discussion. For example, in Andhra Pradesh the number of persons covered by BPL cards issued under the PDS scheme is more than the number of people in the State! In many tribal belts, there is no access to many services, as they have not been included in the BPL list. Therefore, there needs to be a method of verifying the data, especially data relating to prospective beneficiaries.
- As the National Sample Survey is not involved in collecting state level data, thought may be given to involving independent institutions at the state level to collect such data.

Policy and Regulation

- The legal frameworks in place to tackle problems related to service delivery needs discussion.
- It was suggested that one method of redressal could be through community participation, such as in the Rogi Kalyan Samiti.
- To improve service delivery, could authority be given to transfer funds from one budget head to another? While this may provide flexibility needed to improve outcomes, it may not be feasible, as tracing the source and use of funds will become difficult. It may therefore be better to consider alternate mechanisms like activity based budgeting or providing for more autonomy to the local governments.
- The quality of expenditure is often affected by the lags in the use of funds under various schemes, at a given point of time. Also, if funds are allocated close to the final quarter, they may remain largely unutilized.

Indicators

- The importance of various indicators in the allocation of monies or in judging the effectiveness of expenditures was discussed. Points in the discussion include:
    - The amount spent by each state on social sectors as a percentage of GSDP may be used as an input indicator.
    - A conservative estimate shows that out of the amounts released under various schemes, at least Rs. 1000 cr remains in the banking system at any given point of time. One of the indicators for deciding if the money is being properly utilized on various schemes is to see the amount of interest, which has been earned by various schemes. If the interest is more than a cut-off point, then a large part of the resources is not being utilized.
    - In health, the Maternal Mortality Rate and the Infant Mortality Rate are good indicators, if the data is robust.
    - Progress achieved in attaining the MDG goals could also be good indicators.
    - Passing out rate of students disaggregated for gender could be used as an indicator for development. (7^{th}, 10^{th} and 12^{th} Finance Commissions).
    - Sex Ratio: there is serious concern at the declining female to male ratio in some parts of India. Given this, can the sex ratio be used as an indicator, in such a way that the states with improving female to male ratio in population are rewarded?
    - The ratio of girls in schools could be a useful indicator.
    - The ratio of the amount of money spent on salaries versus the amount spent on buildings and other infrastructure could be an indicator.
    - The migration of people from small towns to cities.

- The number of self help groups linked to banks could be a useful indicator.
- Another is the number of bank accounts in rural areas.

Recommendations

- Even while keeping the goals to be achieved constant, certain amount of flexibility in the administrative and fiscal structure should be provided for.
- Changing the mindset of the States could be achieved through medium term budgets that are result based, and built on sector-wise plans. A rolling budget based on performance, could include quantitative indicators: for example, in the health, education sectors. The aim could be to provide equitable access to quality education or health. In this, both equity and access are quantitative indicators and hence can be measurable.
- Departments of Statistics in States need to be strengthened.
- Corruption cannot be tackled by penalizing a single individual. A system needs to be devised in such a way that it becomes difficult for people to be corrupt.
- Independent social audits could be an important means of making sure that the programmes are running well. The Finance Commission may earmark some funds for building up the capacities of independent institutions that can undertake such social audits on a regular basis.
- Web portals could be effective ways of managing funds. This requires the material to be posted to be concise and reliable.
- Corrective action needs to be taken wherever necessary; the Planning Commission should regularly evaluate whether such corrective action is taken or not.
- Best practices in achieving outcomes - and thereby improving the quality of public expenditure - need to be identified, studied and then replicated

The following individuals participated in the workshop:

Smt. Ganga Murthy,
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Ministry of Health and Family Welfare,
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Dr. Shantha Sinha,
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Shri. S.M Kumar,
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P. Rambabu
(G.S) Pratham - A Mumbai Education Initiative.

Dr. L. Reddappa,
Faculty Member,
Council For Social Development,
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Shri. Nagendra Rao,
Faculty Member,
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Participants from ASCI.

Dr. S.K. Rao,
Director General.

Mr. Narayan Valluri, IAS (Retd)
Advisor.

Dr. Hemnath Rao,
Professor, CPSRD

Dr. Usha Vyasulu Reddy,
Professor.

Dr. Anand Akundy,
Associate Professor.

Prof. V.S Chary,
Professor.

Ms. Ashita Allamraju,
Associate Professor.

Dr. Yamini Atmavilas,
Assistant Professor.

Mr. Harish Jagannath,
Assistant Professor.

Ms. Navika Harshe,
Research Associate

ASCI, Hyderabad, December 2008

Appendix C ***Summary of Results Oriented Budgeting in Selected OECD Countries***

	Outputs and Outcomes	Ex-ante Accountability	Ex post accountability	Future plans
ralia	Ministers approve outcomes (which are developed by agencies in conjunction with relevant minister and then endorsed by Minister of Finance) and relevant outputs.	Outcomes are identified in Appropriation Bills and Annual Portfolio Budget Statements.	Annual Reports state the extent to which planned performance has been achieved using indicators of efficiency and effectiveness.	Full implementat complete.
ada	1994 Programme Review instituted outcome focused management. Agenda not based on pathological view of bureaucracy.	Department submit annual Reports on Plans and Priorities to Parliament. These contain Key Results Commitments for a three year period.	Departmental Performance reports are tabled in Parliament together with an annual overview, *Managing for Results*.	Difficulties in co outcomes are bei by federal gover Canada continue transition from a reporting to a mo based approach
ce	Reform in 2001 to reorientate to outcome oriented budgeting.	Programmes, broken down into missions, will require parliamentary approval	Missions will be linked to performance indicators	Full implementat anticipated until
n	Performance evaluation system created in 2001 involving the creation of intended goals and measurable targets.	Specified outcomes and outputs are published.	Ministries have substantial discretion in defining performance evaluation systems.	Ministries curren strengthening the
erlands	1997-98 saw a limited shift from an output system to an outcome system with effectiveness targets set in budgets. Full scale implementation introduced in 1999.	First outcome based budget presented to Parliament in 2001. These include 'policy paragraphs' which link policies to the means to achieve then and allocated resources.	Emphasis on policy evaluation research on a selected basis to demonstrate policy effectiveness.	Introduction of a budgeting in 200

	Outputs and Outcomes	Ex-ante Accountability	Ex post accountability	Future plans
Zealand	1980s budgetary reform based on controllable outputs rather than uncontrollable outcomes. Uses contractual model.	Outcome targets are set out in *Key Government Goals*. These are translated into departmental output focused *Key Priorities* for which Chief Executives are held accountable	Ministers link outputs to outcomes. Limited requirements to evaluate existing programmes.	Work continues outcome targets performance mea into budgeting.
den	Sweden's decentralised government lacks strategic capacity to uses performance budgeting.	Ministries specify desired results including a review of how the work of the agency relates the government's desired outcomes, specification of operational objectives and targets together with reporting procedures.	Budget documents rarely set forth the concrete measures by which agency performance will be assessed. National Audit Office has a 'strong' system of performance auditing.	Considering ado accruals budgeti
ed gdom	1998 reforms saw large departments making Public Service Agreements (PSAs) with HM Treasury covering aims, aspirations and outcome targets. Resource budgeting introduced in 2000.	Departments publish Service Delivery Agreements (SDAs) which include output sand process targets based on outcomes set out in PSAs. Strengthened role for HM Treasury in oversight of the system and target setting.	Treasury monitors outcomes quarterly with scrutiny by relevant Cabinet Committee. Prime Minister's Delivery Unit monitors progress with reports to the PM.	Extending this ap agencies and loc Number of targe substantially red
ed States of rica	Performance management framework introduced in 1993. Outcome goals set out in six-year *Strategic Plans*.	Agencies define output goals to achieve outcome goals. Annual Performance Plans set out annual outcome and output goals.	Agencies are held accountable for Strategic and Annual plans through Annual Performance Reports. These are scrutinised by the President, Congress and the Office for Management and Budgeting.	Executive and C to make better li programme perf resources.

Sources: numerous, especially Kristensen *et al*, 2002

Appendix D *Government Performance and Results Act, 1993 (US)*

One Hundred Third Congress

of the

United States of America

Begun and held at the City of Washington on Tuesday, the fifth day of January, one thousand nine hundred and ninety-three.

An Act

To provide for the establishment of strategic planning and performance measurement in the Federal Government, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Government Performance and Results Act of 1993".

SECTION 2. FINDINGS AND PURPOSES.

(a) Findings.-The Congress finds that

(1) waste and inefficiency in Federal programs undermine the confidence of the American people in the Government and reduces the Federal Government's ability to address adequately vital public needs;

(2) Federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance; and

(3) congressional policymaking, spending decisions and program oversight are seriously handicapped by insufficient attention to program performance and results.

(b) Purposes.-The purposes of this Act are to

(1) improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results;

(2) initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress;

(3) improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction;

(4) help Federal managers improve service delivery, by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality;

(5) improve congressional decisionmaking by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending; and

(6) improve internal management of the Federal Government.

SECTION 3. STRATEGIC PLANNING.

Chapter 3 of title 5, United States Code, is amended by adding after section 305 the following new section:

"Sec. 306. Strategic plans

"(a) No later than September 30, 1997, the head of each agency shall submit to the Director of the Office of Management and Budget and to the Congress a strategic plan for program activities. Such plan shall contain

"(1) a comprehensive mission statement covering the major functions and operations of the agency;

"(2) general goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the agency;

"(3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives;

"(4) a description of how the performance goals included in the plan required by section 1115(a) of title 31 shall be related to the general goals and objectives in the strategic plan;

"(5) an identification of those key factors external to the agency and beyond its control that could significantly affect the achievement of the general goals and objectives; and

"(6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations.

"(b) The strategic plan shall cover a period of not less than five years forward from the fiscal year in which it is submitted, and shall be updated and revised at least every three years.

"(c) The performance plan required by section 1115 of title 31 shall be consistent with the agency's strategic plan. A performance plan may not be submitted for a fiscal year not covered by a current strategic plan under this section.

"(d) When developing a strategic plan, the agency shall consult with the Congress, and shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan.

"(e) The functions and activities of this section shall be considered to be inherently Governmental functions. The drafting of strategic plans under this section shall be performed only by Federal employees.
"(f) For purposes of this section the term 'agency' means an Executive agency defined under section 105, but does not include the Central Intelligence Agency, the General Accounting Office, the Panama Canal Commission, the United States Postal Service, and the Postal Rate Commission.".

SECTION 4. ANNUAL PERFORMANCE PLANS AND REPORTS.

(a) Budget Contents and Submission to Congress.-Section 1105(a) of title 31, United States Code, is amended by adding at the end thereof the following new paragraph:

"(29) beginning with fiscal year 1999, a Federal Government performance plan for the overall budget as provided for under section 1115.".

(b) Performance Plans and Reports.-Chapter 11 of title 31, United States Code, is amended by adding after section 1114 the following new sections:

"Sec. 1115. Performance plans

"(a) In carrying out the provisions of section 1105(a)(29), the Director of the Office of Management and Budget shall require each agency to prepare an annual performance plan covering each program activity set forth in the budget of such agency. Such plan shall

"(1) establish performance goals to define the level of performance to be achieved by a program activity;

"(2) express such goals in an objective, quantifiable, and measurable form unless authorized to be in an alternative form under subsection (b);

"(3) briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals;

"(4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity;

"(5) provide a basis for comparing actual program results with the established performance goals; and

"(6) describe the means to be used to verify and validate measured values.

"(b) If an agency, in consultation with the Director of the Office of Management and Budget, determines that it is not feasible to express the performance goals for a particular program activity in an objective, quantifiable, and measurable form, the Director of the Office of Management and Budget may authorize an alternative form. Such alternative form shall

"(1) include separate descriptive statements of

"(A)(i) a minimally effective program, and

"(ii) a successful program, or "(B) such alternative as authorized by the Director of the Office of Management and Budget,

with sufficient precision and in such terms that would allow for an accurate, independent determination of whether the program activity's performance meets the criteria of the description; or

"(2) state why it is infeasible or impractical to express a performance goal in any form for the program activity.

"(c) For the purpose of complying with this section, an agency may aggregate, disaggregate, or consolidate program activities, except that any aggregation or consolidation may not omit or minimize the significance of any program activity constituting a major function or operation for the agency.

"(d) An agency may submit with its annual performance plan an appendix covering any portion of the plan that

"(1) is specifically authorized under criteria established by an Executive order to be kept secret in the interest of national defense or foreign policy; and

"(2) is properly classified pursuant to such Executive order.

"(e) The functions and activities of this section shall be considered to be inherently Governmental functions. The drafting of performance plans under this section shall be performed only by Federal employees.

"(f) For purposes of this section and sections 1116 through 1119, and sections 9703 and 9704 the term

"(1) 'agency' has the same meaning as such term is defined under section 306(f) of title 5;

"(2) 'outcome measure' means an assessment of the results of a program activity compared to its intended purpose;

"(3) 'output measure' means the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner;

"(4) 'performance goal' means a target level of performance expressed as a tangible, measurable objective, against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate;

"(5) 'performance indicator' means a particular value or characteristic used to measure output or outcome;

"(6) 'program activity' means a specific activity or project as listed in the program and financing schedules of the annual budget of the United States Government; and

"(7) 'program evaluation' means an assessment, through objective measurement and systematic analysis, of the manner and extent to which Federal programs achieve intended objectives.
"Sec. 1116. Program performance reports

"(a) No later than March 31, 2000, and no later than March 31 of each year thereafter, the head of each agency shall prepare and submit to the President and the Congress, a report on program performance for the previous fiscal year.

"(b)(1) Each program performance report shall set forth the performance indicators established in the agency performance plan under section 1115, along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year.

"(2) If performance goals are specified in an alternative form under section 1115(b), the results of such program shall be described in relation to such specifications, including whether the performance failed to meet the criteria of a minimally effective or successful program.

"(c) The report for fiscal year 2000 shall include actual results for the preceding fiscal year, the report for fiscal year 2001 shall include actual results for the two preceding fiscal years, and the report for fiscal year 2002 and all subsequent reports shall include actual results for the three preceding fiscal years.

"(d) Each report shall

"(1) review the success of achieving the performance goals of the fiscal year;

"(2) evaluate the performance plan for the current fiscal year relative to the performance achieved toward the performance goals in the fiscal year covered by the report;

"(3) explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity under section 1115(b)(1)(A)(ii) or a corresponding level of achievement if another alternative form is used)

"(A) why the goal was not met;

"(B) those plans and schedules for achieving the established performance goal; and

"(C) if the performance goal is impractical or infeasible, why that is the case and what action is recommended;

"(4) describe the use and assess the effectiveness in achieving performance goals of any waiver under section 9703 of this title; and

"(5) include the summary findings of those program evaluations completed during the fiscal year covered by the report.

"(e) An agency head may include all program performance information required annually under this section in an annual financial statement required under section 3515 if any such statement is submitted to the Congress no later than March 31 of the applicable fiscal year.
"(f) The functions and activities of this section shall be considered to be inherently Governmental functions. The drafting of program performance reports under this section shall be performed only by Federal employees.

"Sec. 1117. Exemption

"The Director of the Office of Management and Budget may exempt from the requirements of sections 1115 and 1116 of this title and section 306 of title 5, any agency with annual outlays of $20,000,000 or less.".

SECTION 5. MANAGERIAL ACCOUNTABILITY AND FLEXIBILITY.

(a) Managerial Accountability and Flexibility.-Chapter 97 of title 31, United States Code, is amended by adding after section 9702, the following new section:

"Sec. 9703. Managerial accountability and flexibility

"(a) Beginning with fiscal year 1999, the performance plans required under section 1115 may include proposals to waive administrative procedural requirements and controls, including specification of personnel staffing levels, limitations on compensation or remuneration, and prohibitions or restrictions on funding transfers among budget object classification 20 and subclassifications 11, 12, 31, and 32 of each annual budget submitted under section 1105, in return for specific individual or organization accountability to achieve a performance goal. In preparing and submitting the performance plan under section 1105(a)(29), the Director of the Office of Management and Budget shall review and may approve any proposed waivers. A waiver shall take effect at the beginning of the fiscal year for which the waiver is approved.

"(b) Any such proposal under subsection (a) shall describe the anticipated effects on performance resulting from greater managerial or organizational flexibility, discretion, and authority, and shall quantify the expected improvements in performance resulting from any waiver. The expected improvements shall be compared to current actual performance, and to the projected level of performance that would be achieved independent of any waiver.

"(c) Any proposal waiving limitations on compensation or remuneration shall precisely express the monetary change in compensation or remuneration amounts, such as bonuses or awards, that shall result from meeting, exceeding, or failing to meet performance goals.

"(d) Any proposed waiver of procedural requirements or controls imposed by an agency (other than the proposing agency or the Office of Management and Budget) may not be included in a performance plan unless it is endorsed by the agency that established the requirement, and the endorsement included in the proposing agency's performance plan.

"(e) A waiver shall be in effect for one or two years as specified by the Director of the Office of Management and Budget in approving the waiver. A waiver may be renewed for a subsequent year. After a waiver has been in effect for three consecutive years, the performance plan prepared under section 1115 may propose that a waiver, other than a waiver of limitations on compensation or remuneration, be made permanent.
"(f) For purposes of this section, the definitions under section 1115(f) shall apply.".

SECTION 6. PILOT PROJECTS.

(a) Performance Plans and Reports.-Chapter 11 of title 31, United States Code, is amended by inserting after section 1117 (as added by section 4 of this Act) the following new section:

"Sec. 1118. Pilot projects for performance goals

"(a) The Director of the Office of Management and Budget, after consultation with the head of each agency, shall designate not less than ten agencies as pilot projects in performance measurement for fiscal years 1994, 1995, and 1996. The selected agencies shall reflect a representative range of Government functions and capabilities in measuring and reporting program performance.

"(b) Pilot projects in the designated agencies shall undertake the preparation of performance plans under section 1115, and program performance reports under section 1116, other than section 1116(c), for one or more of the major functions and operations of the agency. A strategic plan shall be used when preparing agency performance plans during one or more years of the pilot period.

"(c) No later than May 1, 1997, the Director of the Office of Management and Budget shall submit a report to the President and to the Congress which shall

"(1) assess the benefits, costs, and usefulness of the plans and reports prepared by the pilot agencies in meeting the purposes of the Government Performance and Results Act of 1993;

"(2) identify any significant difficulties experienced by the pilot agencies in preparing plans and reports; and

"(3) set forth any recommended changes in the requirements of the provisions of Government Performance and Results Act of 1993, section 306 of title 5, sections 1105, 1115, 1116, 1117, 1119 and 9703 of this title, and this section.".

(b) Managerial Accountability and Flexibility.-Chapter 97 of title 31, United States Code, is amended by inserting after section 9703 (as added by section 5 of this Act) the following new section:

"Sec. 9704. Pilot projects for managerial accountability and flexibility

"(a) The Director of the Office of Management and Budget shall designate not less than five agencies as pilot projects in managerial accountability and flexibility for fiscal years 1995 and 1996. Such agencies shall be selected from those designated as pilot projects under section 1118 and shall reflect a representative range of Government functions and capabilities in measuring and reporting program performance.

"(b) Pilot projects in the designated agencies shall include proposed waivers in accordance with section 9703 for one or more of the major functions and operations of the agency.
"(c) The Director of the Office of Management and Budget shall include in the report to the President and to the Congress required under section 1118(c)

"(1) an assessment of the benefits, costs, and usefulness of increasing managerial and organizational flexibility, discretion, and authority in exchange for improved performance through a waiver; and

"(2) an identification of any significant difficulties experienced by the pilot agencies in preparing proposed waivers.

"(d) For purposes of this section the definitions under section 1115(f) shall apply.".

(c) Performance Budgeting.-Chapter 11 of title 31, United States Code, is amended by inserting after section 1118 (as added by section 6 of this Act) the following new section:

"Sec. 1119. Pilot projects for performance budgeting

"(a) The Director of the Office of Management and Budget, after consultation with the head of each agency shall designate not less than five agencies as pilot projects in performance budgeting for fiscal years 1998 and 1999. At least three of the agencies shall be selected from those designated as pilot projects under section 1118, and shall also reflect a representative range of Government functions and capabilities in measuring and reporting program performance.

"(b) Pilot projects in the designated agencies shall cover the preparation of performance budgets. Such budgets shall present, for one or more of the major functions and operations of the agency, the varying levels of performance, including outcome-related performance, that would result from different budgeted amounts.

"(c) The Director of the Office of Management and Budget shall include, as an alternative budget presentation in the budget submitted under section 1105 for fiscal year 1999, the performance budgets of the designated agencies for this fiscal year.

"(d) No later than March 31, 2001, the Director of the Office of Management and Budget shall transmit a report to the President and to the Congress on the performance budgeting pilot projects which shall

"(1) assess the feasibility and advisability of including a performance budget as part of the annual budget submitted under section 1105;

"(2) describe any difficulties encountered by the pilot agencies in preparing a performance budget;

"(3) recommend whether legislation requiring performance budgets should be proposed and the general provisions of any legislation; and

"(4) set forth any recommended changes in the other requirements of the Government Performance and Results Act of 1993, section 306 of title 5, sections 1105, 1115, 1116, 1117, and 9703 of this title, and this section.
"(e) After receipt of the report required under subsection (d), the Congress may specify that a performance budget be submitted as part of the annual budget submitted under section 1105.".

SECTION 7. UNITED STATES POSTAL SERVICE.

Part III of title 39, United States Code, is amended by adding at the end thereof the

following new chapter:

"CHAPTER 28-STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

"Sec.

"2801. Definitions.

"2802. Strategic plans.

"2803. Performance plans.

"2804. Program performance reports.

"2805. Inherently Governmental functions.

"Sec. 2801. Definitions

"For purposes of this chapter the term-

"(1) 'outcome measure' refers to an assessment of the results of a program activity compared to its intended purpose;

"(2) 'output measure' refers to the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner;

"(3) 'performance goal' means a target level of performance expressed as a tangible, measurable objective, against which actual achievement shall be compared, including a goal expressed as a quantitative standard, value, or rate;

"(4) 'performance indicator' refers to a particular value or characteristic used to measure output or outcome;

"(5) 'program activity' means a specific activity related to the mission of the Postal Service; and

"(6) 'program evaluation' means an assessment, through objective measurement and systematic analysis, of the manner and extent to which Postal Service programs achieve intended objectives.

"Sec. 2802. Strategic plans

"(a) No later than September 30, 1997, the Postal Service shall submit to the President and the Congress a strategic plan for its program activities. Such plan shall contain"(1) a comprehensive mission statement covering the major functions and operations of the Postal Service;

"(2) general goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the Postal Service;

"(3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills and technology, and the human, capital, information, and other resources required to meet those goals and objectives;

"(4) a description of how the performance goals included in the plan required under section 2803 shall be related to the general goals and objectives in the strategic plan;

"(5) an identification of those key factors external to the Postal Service and beyond its control that could significantly affect the achievement of the general goals and objectives; and

"(6) a description of the program evaluations used in establishing or revising general goals and objectives, with a schedule for future program evaluations.

"(b) The strategic plan shall cover a period of not less than five years forward from the fiscal year in which it is submitted, and shall be updated and revised at least every three years.

"(c) The performance plan required under section 2803 shall be consistent with the Postal Service's strategic plan. A performance plan may not be submitted for a fiscal year not covered by a current strategic plan under this section.

"(d) When developing a strategic plan, the Postal Service shall solicit and consider the views and suggestions of those entities potentially affected by or interested in such a plan, and shall advise the Congress of the contents of the plan.

"Sec. 2803. Performance plans

"(a) The Postal Service shall prepare an annual performance plan covering each program activity set forth in the Postal Service budget, which shall be included in the comprehensive statement presented under section 2401(g) of this title. Such plan shall

"(1) establish performance goals to define the level of performance to be achieved by a program activity;

"(2) express such goals in an objective, quantifiable, and measurable form unless an alternative form is used under subsection (b);

"(3) briefly describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet the performance goals;

"(4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity; "(5) provide a basis for comparing actual program results with the established performance goals; and

"(6) describe the means to be used to verify and validate measured values.

"(b) If the Postal Service determines that it is not feasible to express the performance goals for a particular program activity in an objective, quantifiable, and measurable form, the Postal Service may use an alternative form. Such alternative form shall

"(1) include separate descriptive statements of

"(A) a minimally effective program, and

"(B) a successful program,

with sufficient precision and in such terms that would allow for an accurate, independent determination of whether the program activity's performance meets the criteria of either description; or

"(2) state why it is infeasible or impractical to express a performance goal in any form for the program activity.

"(c) In preparing a comprehensive and informative plan under this section, the Postal Service may aggregate, disaggregate, or consolidate program activities, except that any aggregation or consolidation may not omit or minimize the significance of any program activity constituting a major function or operation.

"(d) The Postal Service may prepare a non-public annex to its plan covering program activities or parts of program activities relating to

"(1) the avoidance of interference with criminal prosecution; or

"(2) matters otherwise exempt from public disclosure under section 410(c) of this title.

"Sec. 2804. Program performance reports

"(a) The Postal Service shall prepare a report on program performance for each fiscal year, which shall be included in the annual comprehensive statement presented under section 2401(g) of this title.

"(b)(1) The program performance report shall set forth the performance indicators established in the Postal Service performance plan, along with the actual program performance achieved compared with the performance goals expressed in the plan for that fiscal year.

"(2) If performance goals are specified by descriptive statements of a minimally effective program activity and a successful program activity, the results of such program shall be described in relationship to those categories, including whether the performance failed to meet the criteria of either category.
"(c) The report for fiscal year 2000 shall include actual results for the preceding fiscal year, the report for fiscal year 2001 shall include actual results for the two preceding fiscal years, and the report for fiscal year 2002 and all subsequent reports shall include actual results for the three preceding fiscal years.

"(d) Each report shall

"(1) review the success of achieving the performance goals of the fiscal year;

"(2) evaluate the performance plan for the current fiscal year relative to the performance achieved towards the performance goals in the fiscal year covered by the report;

"(3) explain and describe, where a performance goal has not been met (including when a program activity's performance is determined not to have met the criteria of a successful program activity under section 2803(b)(2))

"(A) why the goal was not met;

"(B) those plans and schedules for achieving the established performance goal; and

"(C) if the performance goal is impractical or infeasible, why that is the case and what action is recommended; and

"(4) include the summary findings of those program evaluations completed during the fiscal year covered by the report.

"Sec. 2805. Inherently Governmental functions

"The functions and activities of this chapter shall be considered to be inherently Governmental functions. The drafting of strategic plans, performance plans, and program performance reports under this section shall be performed only by employees of the Postal Service.".

SECTION 8. CONGRESSIONAL OVERSIGHT AND LEGISLATION.

(a) In General.-Nothing in this Act shall be construed as limiting the ability of Congress to establish, amend, suspend, or annul a performance goal. Any such action shall have the effect of superseding that goal in the plan submitted under section 1105(a)(29) of title 31, United States Code.

(b) GAO Report.-No later than June 1, 1997, the Comptroller General of the United States shall report to Congress on the implementation of this Act, including the prospects for compliance by Federal agencies beyond those participating as pilot projects under sections 1118 and 9704 of title 31, United States Code.

SECTION 9. TRAINING.

The Office of Personnel Management shall, in consultation with the Director of the Office of Management and Budget and the Comptroller General of the United States, develop a strategic planning and performance measurement training component for its management training program and otherwise provide managers with an orientation on the development and use of strategic planning and program performance measurement.

SECTION 10. APPLICATION OF ACT.

No provision or amendment made by this Act may be construed as

(1) creating any right, privilege, benefit, or entitlement for any person who is not an officer or employee of the United States acting in such capacity, and no person who is not an officer or employee of the United States acting in such capacity shall have standing to file any civil action in a court of the United States to enforce any provision or amendment made by this Act; or

(2) superseding any statutory requirement, including any requirement under section 553 of title 5, United States Code.

SECTION 11. TECHNICAL AND CONFORMING AMENDMENTS.

(a) Amendment to Title 5, United States Code.-The table of sections for chapter 3 of title 5, United States Code, is amended by adding after the item relating to section 305 the following:

"306. Strategic plans.".

(b) Amendments to Title 31, United States Code.

(1) Amendment to chapter 11.-The table of sections for chapter 11 of title 31, United States Code, is amended by adding after the item relating to section 1114 the following:

"1115. Performance plans.
"1116. Program performance reports.
"1117. Exemptions.
"1118. Pilot projects for performance goals.
"1119. Pilot projects for performance budgeting.".

(2) Amendment to chapter 97.-The table of sections for chapter 97 of title 31, United States Code, is amended by adding after the item relating to section 9702 the following:

"9703. Managerial accountability and flexibility.

"9704. Pilot projects for managerial accountability and flexibility.".

(c) Amendment to Title 39, United States Code.-The table of chapters for part III of title 39, United States Code, is amended by adding at the end thereof the following new item:

"28. Strategic planning and performance management 2801".

Speaker of the House of Representatives.

Vice President of the United States and President of the Senate.

Appendix E ***Salient Features of National Rural Employment Guarantee Act***

NREGA: Salient Features of the Act

The National Rural Employment Guarantee Act (NREGA) was enacted to reinforce the commitment towards livelihood security in rural areas. The Act was notified on 7th September 2005. The significance of NREGA lies in the fact that it creates a rightbased framework for wage employment programmes and makes the Government legally accountable for providing employment to those who ask for it.

Objective

The objective of the Act is to create durable assets and strengthen the livelihood resource base of the rural poor. The choice of works suggested in the Act address causes of chronic poverty like drought, deforestation, soil erosion etc so that the process of employment generation is on a sustainable basis.

Some salient features of the Act are:

1. Right based Framework

- Adult members of a rural household who are willing to do unskilled manual work may apply for registration to the local Gram Panchayat, in writing, or orally
- Job Card guarantees right to work

2. Time bound Guarantee

- Guarantee of providing employment within 15 days of written application for work or date of employment sought whichever is later
- If employment is not provided within 15 days, daily unemployment allowance, in cash has to be paid. Liability of payment of unemployment allowance is of the States

3. Decentralized Planning

- The shelf of projects has to be prepared by Gram Sabha.
- At least 50% of works have to be allotted to Gram Panchayats for execution.
- Principal role of Panchayat Raj Institutions [PRIs] in planning, monitoring and implementation.

4. Employment and Wage Payment

- Work provided within 5 km radius of the village or else extra wages of 10% are payable.
- Wages are to be paid according to the Minimum Wages Act.
- Payment of wage through Bank and Post Office Accounts.
- Disbursement of wages has to be done on weekly basis and not beyond a fortnight.

5. Women empowerment

- At least one-third of beneficiaries should be women.
- Work site facilities include Crèche, drinking water, first aid and shade provided at worksites

6. Transparency & Accountability

- Proactive Disclosure
  - Key information in local language at GP level
  - Muster rolls to be read out Gram Panchayat Office.
  - Web-enabled MIS www . nrega .nic.in

- Social Audits
  - Scrutinizing & verifying authenticity all records and procedures of a programme, & expenditure incurred
  - The Implementing agency /Gram Panchayat must provide all necessary documents
  - Should be both concurrent (of live works) and Post completion
  - Social Audit by Gram Sabha of all works in a Gram Panchayat
  - PO and DPC to facilitate through resource support: planning, training, ensuring access to records, follow -up

- Monitoring Mechanisms
  - Monitors for internal and external monitoring must be identified & trained at the State/ District and Block levels
  - 100% verification of works at the Block level, 10 % at the District and 2% at the State level has to be ensured.
  - Local vigilance and monitoring committees to be set up and trained
  - Data Analysis and timely remedial measures
  - Follow up on feed back

- Grievance Redressal Mechanism
  - Grievance Redressal Mechanism set up at each level
  - Complaints Register maintained at GP and block level
  - PO responsible for disposing complaints within 15 days at Block level
  - DPC must review on Monthly basis at District level
  - Toll free Help Line

7. Funding

The Central Government bears the costs on the following items

- The entire cost of wages of unskilled manual workers.
- 75% of the cost of material and wages of skilled and semi-skilled workers.
- Some administrative expenses

The State Governments bear the costs on the following items:

- 25% of the cost of material and wages of skilled and semi-skilled workers.
- Other administrative costs
- Unemployment Allowance payable in case the state government cannot provide wage employment on time.

8. Planning of Works

- Planning of works to allocate employment within guaranteed time

9. Permissible Works

- Works selected from the list of permissible works under Schedule I of the Act include:

    - Water Conservation
    - Drought Proofing (including plantation and afforestation)
    - Flood Protection
    - Land Development
    - Minor Irrigation, horticulture and land development on the
    - Land of SC/ST/ -BPL/IAY and Land reform beneficiaries
    - Rural connectivity
    - Labour Intensive Works

- 60:40 ratio between wages and materials to be maintained.
- Contractors and machinery are prohibited.

10. Decentralised, Participatory Process: PRIs principal role

- Gram Sabhas initiate planning process & recommend works
- Gram Panchayat consolidate recommendations of Gram Sabha into Village Development Plans & forwards to Intermediate Panchayat level
- Intermediate Panchayat: Programme Officer consolidates Gram Panchayat Plans into Block Plans with addition of works for approval of Intermediate Panchayat
- District Panchayat: District Programme Coordinator consolidates Block Proposals and proposals received from other implementing agencies for inclusion in the shelf of projects to be approved by the District Panchayat
- Lists of approved works displayed in Gram Panchayat

11. Planning: Process and Execution

There is no fixed percentage allocation of works but at least 50percent of the works have to be allotted to Gram Panchayats.

Other Implementing Agencies include:

- Other Panchayati Raj Institutions (PRIs)- Block Panchayat, District Panchayat
- Line departments (PWD, Forest Dept.), NGOs, SHGs

- Contractors and machinery are prohibited

Role of other Implementation Agencies is to provide technical support for estimation, measurement and supervision

- Work will still be executed by Job Card holders
- Muster Rolls will be maintained by the executing agency
- Execution of Work :Implementing Agencies
- Demand for Work & Acknowledgement

12. Employment and Unemployment Allowance

- Employment within 15 days of work application or date from which employment is sought, which ever is later
- If applicant does not report for work no unemployment allowance payable
- Can reapply
- Employment within 5 km radius of village (10% of the wage rate as extra wages paid if distance more than 5 km)
- Intimation of work provided has to be sent in writing & through public notice at the Village Panchayat office

Payment of Unemployment Allowance

- If employment is not provided within 15 days, daily unemployment allowance, in cash has to be paid.
- States will pay the Unemployment Allowance at their own cost

13. Wage Payment

- Statutory minimum wage for agricultural labourers in the state, unless the Central Government "notifies" a minimum wage not less than Rs. 60/day
- Wages paid weekly, or in any case not later than a fortnight
- Wages paid through Post/ Bank accounts of wage earners, but may be paid in cash and in front of the community.
- Joint account of adult households registered should be opened
- Wages paid must be entered in the Job Cards

14. Worksite Management

Mandatory Worksite Facilities

- Drinking water
- Shade
- Medical aid
- Creche if more than five children below age 6 are present

These facilities are to be provided by the implementing agency

At the worksite

- Citizen Information Boards with details of works, persondays, funds
- Only job card holders allowed to work
- Minors should not be employed
- Muster Roll to be available at the worksite
- No machinery allowed
- Supervision of the worksite: by Mate or Gram Rozgar Sahayek or any other

15. Review & Reports

- Regular Review

  Once a Fortnight on a fixed day at Block by PO with Gram Rozgar Sahayak

  Once a month on a fixed day at District by DPC with POs

  Once a month on a fixed day at State with DPCs

  Objective:Collect and discuss information on NREGA & problem solving

- Monthly Progress Reports on Employment demanded and provided, Persondays generated and Financial status Works

- Online MIS Reports

16. Building Awareness: Information, Education and Communication (IEC) Key Target Groups:

- Local work force engaged in manual labour
- Poor rural households
- SC/ST/women/ minorities
- Remote habitations
- Preparation of IEC Plan and Communication material

Information Dissemination :One day orientation of all Sarpanches, Introductory Gram Sabhas, Rozgar Diwas, media (electronic, print), local cultural forms- puppetry, folk theater and music, Citizen Information Board

17. Outcome Assessment

- Every Gram Panchayat must give a certificate that it has convened a Gram Sabha in each village and acquainted the local community with NREGA provisions
- Concurrent assessment of the effectiveness of IEC activities must be done and any deficiencies that come to light, must be removed

Appendix F *Millennium Development Goals*

Goal 1: Eradicate Extreme Hunger and Poverty

Target 1. Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day

Indicators
1. Proportion of population below $1 (1993 PPP) per day (World Bank) **a***
2. Poverty gap ratio [incidence x depth of poverty] (World Bank)
3. Share of poorest quintile in national consumption (World Bank)

Target 2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Indicators
4. Prevalence of underweight children under five years of age (UNICEF-WHO)
5. Proportion of population below minimum level of dietary energy consumption (FAO)

Goal 2: Achieve Universal Primary Education

Target 3. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Indicators
6. Net enrolment ratio in primary education (UNESCO)
7. Proportion of pupils starting grade 1 who reach grade 5 (UNESCO) **b***
8. Literacy rate of 15-24 year-olds (UNESCO)

Goal 3: Promote Gender Equality and Empower Women

Target 4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015

Indicators
9. Ratio of girls to boys in primary, secondary and tertiary education (UNESCO)
10. Ratio of literate women to men, 15-24 years old (UNESCO)
11. Share of women in wage employment in the non-agricultural sector (ILO)
12. Proportion of seats held by women in national parliament (IPU)

Goal 4: Reduce Child Mortality

Target 5. Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

Indicators
13. Under-five mortality rate (UNICEF-WHO)
14. Infant mortality rate (UNICEF-WHO)
15. Proportion of 1 year-old children immunized against measles (UNICEF-WHO)

Goal 5: Improve Maternal Health

Target 6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Indicators
16. Maternal mortality ratio (UNICEF-WHO)
17. Proportion of births attended by skilled health personnel (UNICEF-WHO)

Goal 6: Combat HIV/AIDS, Malaria and other diseases

Target 7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Indicators
18. HIV prevalence among pregnant women aged 15-24 years (UNAIDS-WHO-UNICEF)
19. Condom use rate of the contraceptive prevalence rate (UN Population Division) c*
19a. Condom use at last high-risk sex (UNICEF-WHO)
19b. Percentage of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS (UNICEF-WHO) d*
19c. Contraceptive prevalence rate (UN Population Division)
20. Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years (UNICEF-UNAIDS-WHO)

Target 8. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

Indicators
21. Prevalence and death rates associated with malaria (WHO)
22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures (UNICEF-WHO) e*
23. Prevalence and death rates associated with tuberculosis (WHO)
24. Proportion of tuberculosis cases detected and cured under DOTS (internationally recommended TB control strategy) (WHO)

Goal 7: Ensure Environmental Sustainability

Target 9. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources

Indicators
25. Proportion of land area covered by forest (FAO)
26. Ratio of area protected to maintain biological diversity to surface area (UNEP-WCMC)
27. Energy use (kg oil equivalent) per $1 GDP (PPP) (IEA, World Bank)
28. Carbon dioxide emissions per capita (UNFCCC, UNSD) and consumption of ozone-depleting CFCs (ODP tons) (UNEP-Ozone Secretariat)
29. Proportion of population using solid fuels (WHO)

Target 10. Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

Indicators
30. Proportion of population with sustainable access to an improved water source, urban and rural (UNICEF-WHO)
31. Proportion of population with access to improved sanitation, urban and rural (UNICEF-WHO)

Target 11. Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers

Indicators
32. Proportion of households with access to secure tenure (UN-HABITAT)

Goal 8: Develop a Global Partnership for Development

Target 12. Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction?both nationally and internationally)

Target 13. Address the special needs of the Least Developed Countries (includes tariff- and quota-free access for Least Developed Countries? exports, enhanced program of debt relief for heavily indebted poor countries [HIPCs] and cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction)

Target 14. Address the special needs of landlocked developing countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)

Target 15. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

Indicators
Official development assistance (ODA)
33. Net ODA, total and to LDCs, as percentage of OECD/Development Assistance Committee (DAC) donors' gross national income (GNI)(OECD)
34. Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) (OECD)
35. Proportion of bilateral ODA of OECD/DAC donors that is untied (OECD)
36. ODA received in landlocked developing countries as a proportion of their GNIs (OECD)
37. ODA received in small island developing States as proportion of their GNIs (OECD)

Market access
38. Proportion of total developed country imports (by value and excluding arms) from developing countries and from LDCs, admitted free of duty (UNCTAD, WTO, WB)
39. Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries (UNCTAD, WTO, WB)
40. Agricultural support estimate for OECD countries as percentage of their GDP (OECD)
41. Proportion of ODA provided to help build trade capacity (OECD, WTO)
Debt sustainability
42. Total number of countries that have reached their Heavily Indebted Poor Countries Initiative (HIPC) decision points and number that have reached their HIPC completion points (cumulative) (IMF - World Bank)
43. Debt relief committed under HIPC initiative (IMF-World Bank)
44. Debt service as a percentage of exports of goods and services (IMF-World Bank)

Some of the indicators listed below are monitored separately for the least developed countries, Africa, landlocked developing countries, and small island developing states

Target 16. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

Indicators
45. Unemployment rate of young people aged 15-24 years, each sex and total (ILO) **f***

Target 17. In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

Indicators
46. Proportion of population with access to affordable essential drugs on a sustainable basis (WHO)

Target 18. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologie

Indicators
47. Telephone lines and cellular subscribers per 100 population (ITU)
48. Personal computers in use per 100 population and Internet users per 100 population (ITU)

(Source: http://www.unmillenniumproject.org/goals/gti.htm -accessed on 8 Nov.2008)

Appendix G *Education Development Index*

Calculation of Education Development Index (EDI) developed by National University for Educational Planning and Administration (NUEPA)

The EDI has been developed keeping in mind four broad parameters—access, infrastructure, teacher related indicators and outcomes. The index takes into account 22 variables. These variables include:

- **Access**—percentage of habitations not served, availability of schools per 1000 population.
- **Infrastructure**—average student-classroom ratio, school with student-classroom ratio greater than 60, school without drinking water facilities, schools with separate toilets for boys and girls as required.
- **Teachers—**percentage of female teachers, pupil-teacher ratio, school with pupil-teacher ratio greater than 60, single-teacher schools-in schools with more than 15 students, percentage of schools with less than three or less teachers, teachers without professional qualification and
- **Outcome**: gross enrolment ratio overall, scheduled castes: gross enrolment ratio, schedule tribes: gross enrolment ratio, gender parity index enrolment: repetition rate, drop-out rate, ratio of exit class over Class I enrolment-primary stage only, percentage of passed children to total enrolment, percentage of appeared children, passing with 60 per cent and above marks.

(Source: Rajya Sabha Unstarred Question No 654 (answered on November 26, 2007)

Education for All Development Index (EDI) (by UNESCO)

The EFA Development Index (EDI) is a composite using four of the six EFA goals, selected on the basis of data availability. The goals are:

- Universal primary education (UPE)
- Adult literacy
- Quality of education
- Gender

One indicator is used as a proxy measure for each of the four EFA goals, and each those EDI components is assigned equal weight in the overall index in accordance with the principle of considering each goal as being of equal importance.

The EDI value for a particular country is thus the arithmetic mean of the observed values for each component. Since these components are all expressed as percentages, the EDI value can vary from 0 to 100% or, when expressed as a ratio, from 0 to 1. The higher the EDI value, the closer the country is to achieving Education For All as a whole.

Indicators as proxy measures of EDI components

The following proxies have been used in compiling the index:

- Universal primary education: the indicator selected to measure progress towards this goal is the total primary net enrolment ratio (NER), which reflects the percentage of primary-school-age children who are enrolled in either primary or secondary school. Its value varies from 0 to 100%. Therefore, a NER of 100% means that all eligible children are enrolled in school.

- Adult literacy: Goal 4 proposes achieving 'a 50% improvement in levels of adult literacy by 2015'. Although existing data on literacy are not entirely satisfactory, the adult literacy rate is used here as a proxy to measure progress.

- Quality of education: The survival rate to Grade 5 was selected for as being the best available proxy for assessing the quality component of EDI, as comparable data are available for a large number of countries.

- Gender: the fourth EDI component is the gender-specific EFA index, the GEI, which is itself simple average of the three gender parity indexes (GPI) for primary education, secondary education and adult literacy, with each being weighted equally. Therefore it encompasses the two sub-goals of the original EFA goal: gender parity (achieving equal participation of girls and boys in primary and secondary education) and gender equality (ensuring that educational equality exists between boys and girls).

(Source: UNESCO)